

Economy This Week (30th Jan to 5th Feb 2021)

TABLE OF CONTENTS

1. [Rupee appreciation and impact on exports \(FE 30/1/21\)](#)
2. [New AQR won't throw up surprises \(LM 1/2/21\)](#)
3. [EESL in talks to states for supply of smart meters \(LM 1/2/21\)](#)
4. [Centrally funded plans face the axe \(LM 3/2/21\)](#)
5. [Green bonds rush shows global appetite for infra \(BS 3/2/21\)](#)
6. [PSBs in turmoil after mega merger \(BS 4/2/21\)](#)
7. [Farm exports defy overall trend \(IE 5/2/21\)](#)
8. [China is still largest source of imports \(TH 31/1/21\)](#)

1. Rupee appreciation and impact on exports (FE 30/1/21)

- RBI has recently rebased the Real Effective Exchange Rate (REER).
 - Expanded the basket of currencies from 36 to 40.
 - Base year changed from 2004-05 to 2015-16 (GDP grew by 8%, inflation was at a reasonable rate of 4.9%, CAD was just 1.1% of GDP.)
- With rupee appreciation Indian exports will be losing out in the international market, this forces RBI to keep buying out the dollars from the forex market to keep the rupee value.
- Many experts have pointed out that India needs to promote exports in order to grow. It has been pointed out that between 2003-08 the exports have grown by 17.8% whereas the domestic consumption has grown by 7.2%. It is the former which has driven the investment in the economy.
- Hence it is to be ensured that the rupee is valued correctly.
- However, in addition to this, another thing to consider is the cost of production in India. It has been seen that cost of production for mobile phones is 9.4% to 12.5% more expensive in India compared to Vietnam.

- With MEIS withdrawn, it is not clear how this will be compensated for. Though the govt has announced Production Linked Incentive (PLI) scheme, the incentives under this are limited to some sectors.

2. New AQR won't throw up surprises (LM 1/2/21)

- New Asset Quality Review (AQR) as suggested by the Economic Survey is expected to have a minimum impact on the portfolio of banks unlike it had in 2015.
- The last AQR had found that banks had unevenly classified the loans exposures to the same borrower.
- Earlier there were many restructuring schemes, which led to banks postponing the recognition of the loans but now the systems are recognising the [NPAs](#).
- Some experts also believe that the implementation of IBC has increased credit discipline among the borrowers.

3. EESL in talks to states for supply of smart meters (LM 1/2/21)

- Energy Efficiency Services Limited (EESL) is in talks with many states to supply 10 million smart meters.
- India is implementing the world's largest electricity smart metering programme.
- Smart meter architecture:
 - Minimises human intervention in metering, billing and collection process.
 - Helps in reducing electricity thefts by identifying the loss pockets (important as the discoms have been increasingly incurring losses).

4. Centrally funded plans face the axe (LM 3/2/21)

- Based on the recommendation of the 15th FC, a third of 131 odd centrally sponsored schemes (CSS) worth ₹ 3.8 tn will be discontinued.
- Schemes that have outlived their importance would be discontinued and those with low outlay would be consolidated to make them more effective.
- In such schemes, states need to contribute 40% (it is 10% in the case of northeastern states).
- As per the 15th FC:

- 15 of the 30 umbrella CSSs account for 90% of the total allocation under CSS.
- Many of these have sub-schemes with very small allocations.
- A threshold amount of annual allocation/appropriation should be fixed, below which the funding for CSS may be stopped.

5. Green bonds rush shows global appetite for infra (BS 3/2/21)

- Foreign investors have shown interest in the green bond issuance, indicating a ready stream of investments in roads, ports and other infrastructure.
- This follows the announcement of the govt to provide higher investment under capital expenditure.
- Continuum Wind Energy offered green bonds worth \$560 mn, the issue was closed the same day it was opened.
- Bonds are rated BB+ by [Fitch Ratings](#) and Ba2 by Moody's, which make them below investment grade.

6. PSBs in turmoil after mega merger (BS 4/2/21)

- From 1st April 2020, ten PSBs were merged into 4 taking the total number of PSBs to 12.
- Parliamentary Standing Committee on Finance has stated in a report that the merger of state-owned banks has led to a turmoil as these don't have the necessary talent for specialised functions like risk management and new financial technologies.
- Govt in the recently concluded budget has stated that four strategic sectors including banking will have a bare minimum presence and govt companies in the remaining sectors (non-strategic) will be privatised.
- The panel also said that the govt should also clarify the functioning of the Bank Board Bureau (BBB) and the BBB should assist PSBs in acquiring and retaining such specialised talent.
- The committee also raised concerns over lower valuations of these PSBs in the market. It also means that the banks will find it difficult to raise equity capital in the market.
- Committee noted that the PSBs do not appear to have differentiated strategies that will enable them to compete effectively.

- Apart from the mergers, the Department of Financial Services (DFS) should also prepare a plan to strengthen the PSBs and improve their competitiveness.
- All of this also means that if the NPAs in the account books increase, govt will have to provide higher capital infusion.

7. Farm exports defy overall trend (IE 5/2/21)

- India's merchandise exports for the period from April to December has come down by 15.5% YoY (Year on Year), the farm exports have grown by 9.8% during the same period.
- This is on account of:
 - Agri production being relatively unaffected by the pandemic induced lockdown
 - A steep surge in global commodity prices
 - Increasing stabilisation of demand
 - Many economies are getting unlocked by respective countries
 - Restoration of supply chains
- Some of the major suppliers/exporters to the international market have been affected by dry weather (countries - Argentina, Brazil, Ukraine, Thailand, Vietnam, Russia, etc.).
- India, on the other hand, has experienced good monsoons in 2019 and 2020.
- As per the data published by the Commerce Ministry:
 - Exports of all goods and services from April to December 2020 stood at \$201.3 bn (was \$238.27 bn a year earlier).
 - Agri exports rose from \$26.34 bn to \$28.91 bn.
 - In the same time period, the agri imports have shrunk by 5.5%, taking the agri trade surplus to \$13.07 bn from \$9.57 bn.

8. China is still largest source of imports (TH 31/1/21)

- Two-way trade reached \$87.6 bn in 2020 and the trade deficit has reduced to a five year low of \$45.8 bn. Though the imports have declined by 10.8% last year, China still remains the biggest source of imports for India.
- China even now is the largest source for India's imports, especially of critical imports, such as mobile phone components, pharmaceutical ingredients, etc. In many cases, if Chinese imports

are affected then the production of the goods would be affected in sectors such as pharmaceuticals, mobile phones, etc.

- Govt is looking into multiple strategies to address this.
 - Multi-pronged scheme:
 - Production Linked Incentive Scheme (PLI) to boost domestic manufacturing
 - India has been searching for alternatives to China through Free Trade Agreements (FTAs)
 - The focus here is not to be obsessed with China but to develop resilient supply chains.
-

