Economy This Week
(20th Mar to 26th Mar 2021)

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1. Public finance, Pvt sector at taper tantrum risk (BS 22/3/21)

- The macroeconomic parameters such as forex reserves are in a better position in India today compared to what they were back in 2013 but the public finances are in a much worse shape.
- The corporate debt is also very high and the public debt at 89.3% of India's nominal GDP, is at an all-time high and is the third-largest behind Argentina and Brazil.
- The borrowing cost for the govt has come down but now a larger portion of the tax revenues are being used to pay the interest or debts service payments than in the past and this is despite the fall in interest rates in recent years (borrowing cost for the govt's has fallen by 220 bps since 2013).
    - As per recent budget documents, the interest payments will consume 51.5% of the centre's tax revenues in FY21 and will increase to 52.4% in FY22 (this was 42.2% in 2013).
- There is a general tendency that when the yields and interest rates in the US increase, the interest rates in India also see an increase (quantum varies) and this year the govt has proposed a borrowing of ₹ 12 lakh Cr and the yields in US bonds have been rising recently.
    - Yields on 10 year US treasuries has increased by 120 bps since the lows in July 2020.
- Higher borrowing costs would further increase the costs of debt servicing and this will force the govt to raise tax rates of cut expenditure.

- Higher bonds yields will also make the borrowing costlier for corporates and households
  - The interest rates have declined post-pandemic and have helped the corporates borrow at a lower cost.
  - The rate of interest on loans such as house loans have come down with bond yields in India increase then these gains would simply be washed away.

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2. Transfer NPAs to bad bank at book value – panel (BS 22/3/21)

- A parliamentary panel has recommended that assets of the bank must be transferred to the proposed bad bank at book value.
- This is because the longer the time that these assets are kept in the balance sheets of the banks, their value will keep eroding.
- The bad bank (owned by both public and private sector banks) will be reducing the time and avoiding the delays in resolving soured loans through consolidated decision making.
- The budget this year has announced an asset management company and asset reconstruction company led by banks to address the issue of stressed assets/debt.
- This would be helping in managing and disposing of the assets to alternate investment funds
- The panel has asked RBI to clearly define every step of the process so that there is no ambiguity and discretion exercised by the banks.

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3. Delays in WTO ruling casts a shadow on FTP (FE 22/3/21)

- The earlier Foreign Trade Policy (FTP 2015-20) has already been extended by the govt and is in the process of making a new one.
- With the delays in WTO (World Trade Organization) regarding some of the critical issues, the new FTP could be further delayed.
- US has challenged some of the key export programmes of earlier FTP on the ground of being inconsistent with the global trade rules at WTO, India has appealed against the ruling of Dispute body and since the

Appellate body has remained dysfunctional, there has been no further changes. Unless the rulings are given by WTO, govt will be in dilemma over the inclusion of such programmes in the new FTP.

- US has alleged that Indian companies on an annual basis receive benefits to the tune of $7 bn from these programmes.
- The programmes that have been challenged include Merchandise Export Incentive Scheme (MEIS), Special Economic Zone (SEZ), Export Oriented Units (EOUs) etc
- India has already replaced MEIS with RoDTEP, others are still being implemented
- If the appellate body upholds the panel's ruling then India will have to scrap or restructure these schemes within a mutually agreed upon time (with the US) which is often a year
- According to special and differential provisions under WTO's agreement on Subsidies and Countervailing Measures, whenever a member country's per capita gross national income crosses $1000 for three consecutive years (at 1990 exchange rate), it has to withdraw its export subsidies and India's per capita GNI has been over $1000 since 2013. However, India has argued that it needs a period of eight years which was granted for others in such cases to withdraw the export subsidies.

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4. UP develops India's first FPO portal (FE 22/3/21)

- UP has become the first state to launch an FPO portal – UPFPO Shakti Portal
- It has been developed by the Department of Agriculture with the help of Bill and Melinda Gates Foundation (BMGF)
- It's is aimed at benefiting the farmers at the grass-root level
- It will be bringing farmers, producer groups, traders and the department of agriculture and other allied sectors of the state govt on the same platform
- This will enable
    - The framers to expand their market base, reduce dependency on Mandis and facilitate national and transboundary trade
    - Portal will also provide quicker resolution of disputes
    - Enable marketing, provide financial linkages and focused scheme support

- Farmers will also get sufficient information on specific subjects around one's village/block/district or state, which will be delivered through texts, emails or audio/video in a language that one understands

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5. Refund penal interest on EMIs (TH 24/3/21)

- Supreme Court of India has directed the banks to refund compound interest, interest on interest or penal interest collected on EMI for loans during the period of moratorium 1st march to 31st august last year
- Such an amount collected should be given as credit/adjusted in the next instalment of the loan account
- The penal interest is collected from loan defaulters and when the central banker itself has provided a loan moratorium, what was the logic of imposing interest on interest
- The judgement has also allowed the lenders to declare the accounts of borrowers as NPAs in case of non-payment
- The Supreme Court of India has also ruled that the govt scheme to restrict the waiver of interest to loans up to ₹ 2 Cr as irrational. The categories of loans covered under this were MSME, education, housing, consumer durables, credit card, auto, personal and consumption categories
- It also declined to extend the moratorium till December 2020.

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6. States drag their feet on farm loan waivers (BL 25/3/21)

- Various states governments have announced loan waivers but have dragged their feet in terms of implementation.
- The loan waivers are announced during election cycles and do not address any long term issues in agriculture.
- The central govt had announced loan waivers in 1990 and 2008 which were announced prior to the parliamentary elections and 8 out of 10 waivers since 2014 announced by the state govt have been in the election cycles.
- However, after announcing these states do not expedite the implementation and farmers fail to get immediate relief.

- The instances of loan waivers by the state governments have increased post 2014. 10 states have announced loan waiver aggregating ₹ 2.4 lakh Cr since 2014-15, which is significantly higher than the ₹ 10000 Cr and ₹ 52500 Cr announced by centre in 1990 and 2008 respectively.
- As the loan waivers don't materialise, the farmers take more loans due to crop failures, drought and natural disasters.
- The total expenditure of all the states has increased post 2017-18 and this has put pressure on the CapEx of the state governments and deferment of the payment to the banks will also increase the NPAs(Non-Performing Assets).

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7. Parliamentary panel – define unfair trade practice (TH 25/3/21)

- A Parliamentary panel has asked the govt to clearly define what is unfair trade practice and spell out the practical legal remedy to tackle the issue.
- The concern is that many of the e-commerce companies are practising predatory pricing and this way wipes out the competition but the situation will be detrimental to the consumers in the long run.
- It has recommended fixing delivery charges for the e-commerce companies.
- As per the panel report, the new e-commerce enterprises offer many benefits, also there are concerns such as unfair trade practices, violation of privacy and issues of unattended grievances.
- The panel has also added that from a legal standpoint it is difficult to prove the allegations of predatory pricing.
- The panel has also recommended that consumer affairs ministry should define drip pricing (final cost of the product goes up due to additional charges) and provide for protecting consumers against this by including penal provisions for the violation.

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8. IBC will be back in full force from today (BL 25/3/21)

- With the economy slowly moving towards normalcy, the govt has allowed the suspension of IBC (Insolvency and Bankruptcy Code) to lapse. It was suspended till March 24th 2021 (was put on hold for a period of 1 year from March 24th 2020 – initially for 6 months and extended twice for 3 more months).

- With this the govt has indicated that the time is up for the creditors to get the recovery in case of non-payment through IBC (either through resolution or liquidation).
- With the IBC back the govt is also working towards a pre-pack insolvency mechanism which will require certain legislative changes. The indications are that the pre-pack will be first made available for the MSMEs.
- With this the number of cases filed is expected to increase hence there is a need for infrastructure to clear the newly filed and backlog cases.

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9. Relief for MFs – SEBI eases norms on perpetual bonds (BL 23/3/21)

- SEBI (Securities and Exchange Board of India)has allowed the mutual funds to meet its norms on the valuation of perpetual bonds in a time-bound manner with the life span of bonds increasing over the years.
- In the FY-22 the AT1 bonds will be valued at 10 years or the call date mentioned in the bond. From April to September 2022, it will be valid at 20 years and from October 2022 to March 2023 it will have a lifespan of 30 years and finally, from April 2023 it will have a lifespan of 100 years.
- All the Basel Tier 2 bonds will be valid at the contractual maturity.
- If the issuer does not exercise the call option then the valuation and calculation shall be done considering the maturity period of 100 years from the date of issuance.
