

Economy This Week (27th Feb to 5th Mar 2021)

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1. Economy records 0.4% growth in third quarter (TH 27/2/21)

- The Indian economy returned to positive growth terrain recording a growth of 0.4% in the third quarter.
- The NSO has estimated a contraction of 8% for the full fiscal.
- The GDP has shrunk by 24.4% and 7.3% (as per revised data) in the first two quarters of the current fiscal.
- Agriculture grew at a 3.9% rise in GVA even in the third quarter (after registering a growth of 3.3% and 3% in the first two quarters). The manufacturing and services resurged after two bad quarters.
- The govt has stated that this is a reflection of the strengthening of V-shaped recovery.
- For the full fiscal, NSO expects only two sectors to register positive growth in GVA - agriculture (3%); electricity, gas, water and other utilities (1.8%).
- Overall, GVA is expected to contract 6.5% in the year led by an 18% dip in trade, hotels and other services; construction is estimated to decline by 10.3% and mining and manufacturing by 9%.
- In Q3, manufacturing, construction and financial, real estate and professional services staged a return to growth for the first time in the year after two bad quarters.
- The resurgence of manufacturing and construction would help in driving the growth up in FY22.
- The service sector which contributes the majority to GDP and GVA, and also pushes up the consumption has done remarkably well in the third quarter. The service sector GVA for the first quarter was a negative 21.4% and for Q3 was a negligible 1% contraction.

2. To cut subsidy bill NITI paper wants lower coverage (IE 28/2/21)

- NITI paper has recommended reducing the coverage under the [NFSA 2013](#) to 60% and 40% for rural and urban respectively so that govt will have savings of ₹ 47229 Cr.
- Currently, under NFSA, 75% of the rural population and 50% of the urban population is covered and at all India level, 67% of the population is covered.
- The think tank has also recommended updating the population level which is currently based on the 2011 census.
- Under NFSA, each Antyodaya Anna Yojana household i.e. approx 2.37 Cr households or 9.01 Cr beneficiaries as on 1st Jan 2021, are entitled to 35 kgs of food grains per month, while the priority households are entitled to 5 kgs per person per month.
- If the population level is changed from the census of 2011 to 2020, then the coverage at 75-50 will increase the beneficiaries from 81.35 Cr to 89.52 Cr but if the coverage ratio is reduced to 60-40 then even with the new population, the total number of beneficiaries would be 71.62 Cr.

3. PSBs eye ₹ 70000 Cr corpus for farm fund (LM 1/3/21)

- The farm sector loans account for a large percentage of [NPAs](#) in the banking sector.
 - SBI - 15.85% of the total credit disbursal
 - As per the RBI report, for FY21 the agriculture NPAs stood at 15% of the total NPAs. The report also has shown that NPAs in the agri sector in PSBs have increased from 13.1% in March 2019 to 17.3% at the end of March 2020, whereas in the private sector, there has been a decline from 8.1% to 7.9% in the same time period.
- Some of the PSBs have started discussions with the central govt to set up a credit guarantee fund to cover the defaults by the farmers; with this, the lending to the farm sector is set to become less risky.
- The banks have asked the govt to provide an initial corpus of ₹ 70000 Cr over a period of three years which will be structured on the lines of the Credit Guarantee Fund for Small and Micro Enterprises (CGTMSE).
 - CGTMSE makes good on losses incurred by the lenders up to 85% of the outstanding amount in the event of default.
- If set up, it will be covering the entire Kisan Credit Card (KCC) scheme loans exposures of the banks, which will be a big relief for the banks.
 - KCC is mainly availed by the small and marginal farmers and assuming if 10% of these are stressed then the estimated amount to address this will be around ₹ 60000 to ₹ 70000 Cr.
 - At the end of March 2020, the total loans under this stood at ₹ 7.09 tn (around 40% of the total agri loans of the banks).

- Govt currently provided 2% interest subvention and 3% Prompt Repayment Initiative (PRI) on short term loans up to ₹ 3 lakh.
- With the fund set up, the banks will be encouraged to lend more to the agri sector.
- In 2019-20, the ground level credit to the agri sector was ₹ 13.68 lakh Cr (8.8% higher compared to the previous fiscal).
- This fund will also reduce the necessity of the state govts announcing loans waivers, rather they can participate in the fund.

4. G20 seeks fresh SDR issue (LM 1/3/21)

- Special Drawing Rights (SDR)
 - Is an international reserve asset created by IMF comprising Dollar, Yen, Euro, Sterling and Yuan.
 - Are allocated to member countries in proportion to their quota.
 - One SDR is currently valued at \$1.44.
- The International Monetary Fund (IMF) may issue fresh Special Drawing Rights (SDRs) to member countries.
- India has been opposed to this move and the previous administration in the USA had the same stance, now with the new administration in the USA, the stance has changed.
- This has been a proposal of G20 and this is expected to help the poor countries fight the economic fallout of the coronavirus outbreak, boosting liquidity in these countries. This fresh issue will help the least developed countries facing a foreign exchange crisis, following a very steep decline in the per capita income.
- The US is the largest shareholder in the multilateral organisation, with 16.52% voting power (has a unique veto power in IMF) and a supermajority vote for major policy decisions requires 85% of votes. India has a voting right of 2.6%.
- Why India opposed?
 - Poor countries may use this to repay the debt to China, the largest bilateral creditor, which will shield it from exposures from debt restructuring.
 - Pakistan may leverage the funding recourse to continue with asymmetric warfare.
- The majority of the SDRs will go to countries such as the US, China, EU, Japan as these are issued based on the proportion of their shareholding in IMF and poor countries will be receiving a small portion of SDRs.

5. LPG cylinder prices go up again (TH 2/3/21)

- The cooking gas cylinder prices have been increased again by the OMCs.

- The 14.2 kg cylinder prices have been increased by ₹ 25 each. It is the second such rise in the last five days.
- In the last couple of months, the prices have been increased by ₹ 225.
- The pricing of LPG is determined by the international prices of propane and butane and the exchange rate (rupee to dollar).
- The subsidy component is transferred to the bank account of the beneficiaries but is applicable only to the first 12 cylinders purchased in a year, the subsidy varies across the country and has remained unchanged with changes in the prices.
- The prices of 19 kgs commercial cylinders were also increased.

6. WB plans \$100 mn guarantee scheme for solar rooftop projects (LM 2/3/21)

- The World Bank has been associated with India's renewable energy programme and in 2016 had launched a \$625 mn lending programme with SBI for rooftop solar units for the commercial, industrial and institutional sectors.
- The [World Bank](#) plans to introduce a \$100 mn credit guarantee scheme to boost India's rooftop solar programme.
- The govt has been promoting rooftop solar in its renewable energy target, but it has failed to gain any traction. India so far has added 4 GW of solar rooftop against the target of 40 GW.
- The scheme will allow MSMEs to avail of concessional debt financing to take up the solar rooftops.
- This is expected to be implemented along with the SBI and the MSME Ministry.
- This will help those MSME units which generally do not meet the criteria set by the lenders (banks and financial institutions), these units' financials have become worse with the pandemic.

7. Iran's rupee reserves drop (TH 5/3/21)

- India earlier used to buy oil from Iran and made payments in rupees, these were used by Iran to buy critical imports such as agricultural commodities from India.
- As the US had imposed sanctions, Iran was unable to trade using US dollars.
- After the waiver from US sanctions expired in 2019, India has stopped buying oil from Iran.
- These rupee reserves were with UCO and IDBI Bank, which were two lenders authorised to facilitate rupee trade.
- Tehran has continued to purchase goods from India using the rupee reserves but with no oil being bought these rupee reserves are depleting.
- With this, the Indian merchants have almost stopped taking new export contracts with Iranian buyers.

8. India launches vessel tracking system - Sagar Manthan (BL 3/3/21)

- India has launched a real-time vessel tracking system - Sagar Manthan - Mercantile Marine Domain Awareness Centre (MMDAC).
- It is to help fishermen and seafarers in times of need and it can also track foreign vessels which are within 1000 kms of India's coastline.
- It will be operated by DG Shipping.
- The system will be shared with Sri Lanka, Maldives.
- Govt is aiming to operationalise 23 waterways by 2030.

9. Fuel prices to drop if they are brought under GST (TH 5/3/21)

- As per an SBI research report, once the fuels (petrol and diesel) are brought under GST -
 - The all India level prices of both could fall to ₹ 75 and ₹ 68 respectively.
 - Lead to a loss of ₹ 1 lakh Cr annually (0.4% of GDP in FY22).
 - The FM stated that both centre and states needed to discuss the fuel prices as it is an important source of revenue for both.
 - SBI research has concluded these prices assuming -
 - The GST rate applicable will be 28%.
 - Cess of ₹ 30 and ₹ 20 per litre on petrol and diesel respectively (shared equally between centre and states).
 - Crude oil prices are \$60 a barrel.
 - Exchange rate at ₹ 73 per dollar.
 - There would be a rise in consumption of 10% and 15% respectively if fuel prices are reduced.
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