# Economy This Week (10th Jul to 16th Jul 2021)

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## 1. RBI asks banks to stop using LIBOR, MIFOR (BS 9/7/21)

- Though SOFR (Secured Overnight Financing Rate) and SONIA (Sterling Overnight Interbank Average) are two popular alternatives to the LIBOR, these are nowhere near as popular as the LIBOR.
- LIBOR had to be scrapped after a scam to fix it was unearthed many years ago.
- Almost all the banks that deal with foreign exchanges are ready to transition to ARR (Alternative Reference Rate) but have yet to decide on which.
- Indian banks are unlikely to take a lead on this and are rather expected to follow international practices.
- MIFOR (Mumbai Interbank Forward Outright Rate) is published by FBIL (Financial Benchmarks India Pvt Ltd).

## 2. Promoting competition in the American Economy - Executive Order (IE 11/7/21)

- The US President signed an executive order aimed at cracking down on the big tech companies and fostering competition (other sectors included are travel, healthcare and agriculture).
- The order includes 72 actions and suggestions for multiple federal agencies.
    - It flags the issue of tech companies collecting a massive amount of personal information.
    - Acquiring fledgling competitors.
    - Holding competitive advantage against small businesses and corporate consolidation.
- What action is proposed?

  - Set of new rules to be issued by the FTC on data collection
  - Increased scrutiny of fresh mergers in the technology sector
  - Scrutiny of anti-competitive moves in internet marketplaces
- India
  - CCI has launched multiple antitrust investigations against tech giants - Google, Amazon.

### 3. Revised wage rate index likely next month (ET 12/7/21)

- Govt is likely to revive the wage index and also change its base year to 2019 from 1965.
- This will capture the impact of inflation on wages and also form the basis for determining the statutory national floor-level minimum wages.
- The current minimum wage in India is at ₹ 178 per day and is not binding on the states.
- The wage rate under the index is the sum of basic wage and dearness allowance (for those who receive both) and for others, it will be the consolidated amount of earnings.

### 4. PLI scheme evokes mixed response (IE 12/7/21)

- The PLI scheme has evoked a good response in mobile phones, electronic components manufacturing, IT hardware manufacturing and communications networking but has been struggling in other sectors.
  - Sectors such as automobiles, textiles, medical devices, etc. are finding it hard to find enough participants.
- This is because -
  - The companies are not eligible to invest i.e. they do not meet the qualification criteria.
    - Govt had called for applications to fill in 28 slots in the medical devices segment. Out of the applicants (28 applications received), 15 were not eligible, prompting the govt to call the applications for a second round.
  - They feel that the returns are low compared to the investments made.
  - In addition to this, the import of medical devices attracts lower tariffs which makes these cheaper in the domestic market.
  - Players in the steel sector feel that the time period of 5 years is too less to set up new units and start production or even to expand the old units. This sector is capital intensive and they would need at least 10 years to take care of the initial gestation period.

### 5. Govt bonds for household folks at last (LM 14/7/21)

- So far only the US and Brazil have done this.
- Indians abroad are allowed to invest provided they do not violate the foreign exchange rules.
- Conceptually this idea is good.
    - Indian savers have been concerned about lower/negative returns that they have been earning from the bank deposits.
    - The govt is in need of funds.
    - It is always safer to invest in the govt bonds as the risk of default is very low.
    - If these are used as investments by the households, then the group of investors in govt securities would increase and reduce the burden for the govt in relying only on the market.
    - This is also expected to ease the pressure on the yields in the market.

## 6. KUSUM wilts under poor planning (BS 14/7/21)

- Govt launched PM-KUSUM (PM - Kisan Urja Suraksha Evam Utthaan Mahabhiyan) in 2018. The objective was -
    - To reduce the use of diesel in the farming sector and promote solar pumps.
    - The discoms were to purchase excess solar energy which would also be an additional source of revenue for the farmers.
    - Reduce the burden on the discoms as they supply subsidised electricity to the agriculture sector.
- The nodal agency was MNRE (Ministry of New and Renewable Energy).
- The initial outlay was ₹ 1.4 tn and the govt would provide budgetary support of ₹ 48000 Cr over 10 years.
- At this time states such as Gujarat, Maharashtra were already implementing their own schemes for installing solar pumps and were reluctant to merge their scheme with the central scheme.
- In 2018, MNRE decided to bring in IREDA to raise the funds required, which went nowhere.
- In the same month (July 2019), MNRE issued an order targeting a solar capacity of over 25 GW under PM-KUSUM with the financial support of ₹ 34422 Cr.
- In 2020, govt removed the obligation on the discoms to buy solar power from the farmers.
- The govt again has repackaged this scheme as a part of the reform programme for the state-owned discoms.

## 7. Centre takes control of district mineral funds (FE 15/7/21)

- Govt passed Mines and Minerals Development and Regulation (Amendment) Act 2015 and as a result, the states were mandated to set up DMFs (District Mineral Foundation Fund) in all the districts for the interest of the persons affected by mining-related operations.
    - The composition and function of the DMF would be as prescribed by the state govt.
    - Provided that the central govt may give directions to the states regarding the composition and utilisation of the fund.
- The fund was set up in 2015-16 and over ₹ 49400 Cr have been contributed so far under this.
    - 60% of the funds will have to be utilised for high priority areas such as the supply of drinking water, education, etc.
    - 40% is for other priority areas such as cowshed development, physical infra, energy, etc.
- The funds are accrued because the companies (mining leaseholders) will have to mandatorily make contributions (as a defined percentage of royalty) in addition to the royalty paid to the state govt.
    - 30% of the royalty granted before 12th January 2015
    - 10% of the royalty granted on or after 12th January 2015
- The funds are supposed to be used for the welfare of those affected by the mining operations, tribals being the primary intended beneficiaries - **PM Khanij Kshetra Kalyan Yojana**.
- The central govt has taken complete control of the district mineral foundation (DMF) funds, negating the powers of the states which have the right to sanction or approve any expenditure out of the funds.
    - As per the recent order, no sanction or approval of any of the expenditure out of the fund of the DMF shall be done at the state level by the govt.
- Govt has stated that this move was done as it has been seen that in the case of some of the states, the funds have been transferred into consolidated funds of the states or state-level funds or CM Relief Funds, which defeats the very purpose of the funds.
    - This was evident when last year the funds under this were asked to be listed by the development of healthcare infra.
    - The DMF funds are set at the district level and transfer of these to the state funds violates Section 9B of the Act.
- DMF fund collections in states:
    - Odisha
    - Chhattisgarh
    - Jharkhand
    - Rajasthan
    - Madhya Pradesh

## 8. External benchmark system improves monetary transmission (FE 16/7/21)

- RBI has asked all the banks to link their lending rates in case of loans provided for MSEs, floating rate personal loans to external benchmarks from 1st October 2019.
- The external benchmarking in deposit and lending rates has helped in monetary policy transmission.
- The share of outstanding loans linked to external benchmarking has increased from 2.4% in September 2019 to 28.5% in March 2021.
- The external benchmarking has incentivised the banks to adjust their term as well as savings deposit rates as the lending rates frequently are changing. This has helped the banks in protecting their interest margins and has broadened the scope of transmission across sectors that are not even linked with external benchmarking.
- The credit growth has declined and the banks are having surplus cash, this has led to banks lowering their deposit rates. This decline has helped the banks to reduce their MCLR and subsequently lending rates.

### 9. Maadhyam - to facilitate quick online regulatory approvals (LM 15/7/21)

- Govt will be launching the National Single Window System (NSWS) for regulatory clearances. This initiative is named 'Maadhyam'.
- This will help domestic and global investors to get more than 560 types of regulatory approvals online across 28+ central ministries/departments and across 14 states.
    - Permission to start fuel retail business
    - Get a permanent export license
    - Set up unit in SEZ
    - Register a copyright
    - Start power exchange
    - Obtain a license to start a private security agency
- The applicant has to first fill the Know Your Approval (KYA), wherein he has to answer questions related to the business and then apply for the approvals.
- The applicant can track the application status in real-time.
- The portal is also integrated with the states' single window systems.
- The system will also help in educating the investors on what approvals are needed.

### 10. RBI bars MasterCard from issuing new cards in data row (LM 15/7/21)

- RBI has barred Mastercard from acquiring new customers because of non-compliance over local data storage norms (this comes after RBI earlier barred American Express and Diners Club from onboarding new customers for the same reason).

- Beginning 22nd July, it will not be allowed to onboard new credit, debit or prepaid card customers.
- This order will not affect the existing customers.
- In 2018 -
    - The central bank had given a six-month deadline for all the system providers to store their payments data solely in India.
    - They were required to report compliance to RBI.
- Many of the entities had opposed this move and stated that they are used to sending the information outside India as the processing was done in a centralised manner. RBI clarified that the data has to be stored locally, the processing can be done overseas but it has to be deleted within 24 hrs.
- This was implemented as the law enforcement agencies faced issues in getting the data from such entities for investigation purposes.

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