Economy This Week (31st Jul to 6th Aug 2021)

TABLE OF CONTENTS

1. SEBI urges peers to rethink bond market curbs (TH 1/8/21)
2. FTP aims for exports of $1 tn by FY26 (FE 2/8/21)
3. Insolvency code has strayed from intent (TH 4/8/21)
4. Skills mission underperforms on training, placement goals (LM 4/8/21)
5. RBI may deploy LTRR to mop up excess liquidity (BL 6/8/21)
6. States must raise non-tax revenues (BL 6/8/21)

1. SEBI urges peers to rethink bond market curbs (TH 1/8/21)

- Capital market regulator SEBI has called for free flow of funds from banks, pension funds, insurance funds, etc. into the corporate bond market and for this it has urged the regulators PFRDA, IRDA, RBI to ease the investment curbs that are imposed on the institutions. This will ensure that the funds will flow at a quicker pace into the market.
- This is required as the banks are unable to provide the required long term capital.
- There are multiple players in the market but the number of participants in each investor class has remained limited due to current norms, constraining the available pool of liquidity.
  - The permission for pension funds to invest up to 5% of their corpus in the Infrastructure Investment Trusts is unlikely to work.
  - PFRDA mandates that these trusts are to have AA or equivalent credit rating for sponsors and are required a rating from two rating agencies, but these infra projects usually have a rating of BB or lower in the initial stages.
  - The Centre had announced setting up Credit Guarantee Enhancement Corporation (CGE) in the union budget of 2019 but it is yet to take off.
  - Central bank caps the partial credit guarantee provided by the banks to 20% of the issue size (it means to have 50% guarantee three banks will have to come together, which is needed to move from BBB to AA+ rating) and it's difficult to get three banks to provide for a single project.
  - These corporate bonds cannot be used as collateral under LAF.

2. FTP aims for exports of $1 tn by FY26 (FE 2/8/21)

- India aims to more than double its exports to $1 tn by FY26 under the new FTP.

- To reach the target, exports will have to grow at a CAGR of 15% until FY26 as against the 5% in five years through FY20 (in 5 years before the pandemic).
- India had an annual exports target of $900 bn under the current policy but managed to peak at $538 bn in FY19. However, the officials cite the following which could help in achieving this target:
  - Increasing commodity prices
  - Revival of external demand
  - Acceleration in the domestic manufacturing due to PLI and targets set under it
- However, the govt needs to address the structural issues such as:
  - High cost of logistics
  - Refund taxes on inputs consumed in exports on time
  - Firm up free trade agreements with key markets early
- The next FTP is expected to come into force from 1st October.
- The policy is being implemented in the aftermath of the pandemic, which would be restricting the amount of resources available for the promotion of exports.
- The govt may revamp the SEIS (Service Exports from India Scheme) to cover more exporters, especially the MSMEs. Under the scheme, the government provides exporters duty credit scrip at 5 to 7% of the net foreign exchange earned.
- The RoDTEP scheme will also be a part of this policy.
- Elements from the national logistics policy which is being worked out will also be part of the FTP, it aims to reduce the cost of logistics from 13% of GDP to 8% of GDP.

3. Insolvency code has strayed from intent (TH 4/8/21)

- Parliament standing committee has asked the govt to redesign the IBC and has raised several issues:
  - Low recovery rates
  - Long delays in the resolution process
  - The high number of vacancies in the NCLTs (NCLT is working without a president and is short of 34 members out of a sanctioned strength of 62).
- In many cases, the haircuts by the creditors have been to the tune of 95% and 71% of the cases pending with NCLT have crossed more than 180 days.
- The code so far has been amended six times since its introduction in 2016 and these changes may have altered or digressed from the basic design of the statute.
- The fundamental aim of the bill was to secure the creditor’s rights so as to reduce the borrowing costs with the reduction of risks.
- It has also suggested a benchmark be put in place for the quantum of haircuts to be taken by the creditors.

- It also raised concerns over fresh graduates being appointed as Resolution Professionals (RPs).

Also read: Insolvency and Bankruptcy Code

4. Skills mission underperforms on training, placement goals (LM 4/8/21)

- Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
  - Started its first edition in 2015-16
  - 2.0 was launched in 2016-20
  - 3.0 was launched in late 2020-21, has been revised for 2021-22
  - Is implemented through the skill training partners affiliated with the National Skill Development Corporation (NSDC)
- The Yojana has two components:
  - Short term training (STT)
    - Focuses on training, certification and placement
  - Recognition of Prior Learning (RPL)
    - Orientation and certification based on their existing talent base
    - It does not have a placement component
  - Performance
    - Has trained 6.5 mn people against a target of 7.6 mn in the short term training category.
    - Of these only 5.25 mn trained people have been certified and just 2.3 mn have been placed between 2015 and 10th July 2021.
    - However, the target under RPL was 5.58 mn against which the achievement is 6.39 mn (the number of people certified has been lower at 5.2 mn).
  - The achievement has fallen way below the target of 70% placement set by the govt.
    - 45% of those certified and 35% of those trained were placed.
- The performance of various states is below the national average indicating weakness in the skill training ecosystem (at least on the STT front). In addition, it also is a reflection of the poor employment market in the past few years.

Read more on Pradhan Mantri Kaushal Vikas Yojana (PMKVY) in the link.

5. RBI may deploy LTRR to mop up excess liquidity (BL 6/8/21)

- RBI is considering conducting Long Term Variable Rate Reverse Repo (LTRR) auctions.
- This is expected to normalise the impact of ultra-accommodative policy.

- This is being done to absorb liquidity for a longer duration from the banking system.
- There is a surplus situation in the banking sector, muted credit demand and retail inflation being sticky.
- LTRR is one of the tools to manage durable liquidity under the revised liquidity management framework and has a tenure of 14 days.
- But the banks are wary about using this tool as they will have to borrow from other areas such as repo if they lock in the money under LTRR and there is a sudden rise in the demand.

6. States must raise non-tax revenues (BL 6/8/21)

- The covid crisis has stretched the states' revenues.
    - The GST revenues and cess collections have been affected.
- The imminent end of GST compensation in July 2022 has forced the states to look into other revenue options (non-tax revenues).
    - These revenues for the states stand at 10% of the states' total revenue and are not insignificant.
- The tax revenue charged on income earned by individuals is a direct tax and on the value of goods and services is an indirect tax. Non-tax revenue is charged against the services provided by the govt. It is also charged on the loans advanced by the centre for various purposes.
- The three main administrative non-tax receipts accounting for about 80% of the states' non-tax receipts are:
    - General services
    - Social services
    - Economic services
- States must focus on meeting the cost of public services through proper pricing as these are merit goods (education, health) and have positive externality, and subsidisation in case of these services to a certain extent is justified but the extent of subsidisation and its pattern need to be examined.
- One of the reasons for the situation of States' own tax revenues is that they have not been able to create a credible state finance commission.
    - To be set up under Art. 243.
    - The finance commissions (FC) are to recommend the measures to augment the consolidated funds of the states to supplement the resources of local governments on the basis of recommendations made by the state finance commissions (SFC).
        - SFCs are not permanent bodies, hence a lot of time and resources are required and there is generally a delay in submitting their reports.
    - As per the 15th FC, most of the state governments have not constituted the SFCs in time and did not give due importance to strengthening this critical constitutional mechanism.

This has prevented the states from having a systematic view of their revenue position and recommendations for resource mobilisation.

- Hence the state governments should provide all the needed support for the SFCs.