Economy This Week (23rd Oct to 29th Oct 2021)

TABLE OF CONTENTS

1. Scale based regulations for the NBFCs from October 2022 (BS 23/10/21)

- NBFCs are classified into four layers starting from October 1, 2022. This has been done to increase oversight on the sector.
- The four-layer classification will be based on their size, activity, perceived risk, etc.
    - The lowest layer will be the base layer.
        - Will comprise of non-deposit taking NBFCs with asset size of up to ₹ 1000 Cr.
        - P2P, account aggregators, etc. will be covered under this.
    - This will be followed by the middle, upper and top layers.
    - Middle layer
        - Deposit-taking NBFCs irrespective of asset size, non-deposit taking NBFCs with asset size of over ₹ 1000 Cr or more, Housing Finance Companies, etc. will be covered under this.
    - Upper layer
        - NBFCs requiring higher regulatory requirements (it will be based on a set of parameters and scoring methodology).
        - The top 10 NBFCs in terms of asset size will always be in this layer irrespective of any other factor.
        - NBFCs will have to have a CET-1 of at least 9%.
    - For now, the top layer might be left empty.
- The government-owned NBFCs will be placed in the base or middle layer.
- RBI has revised norms for classifying the loans into NPAs - if the payment is overdue for more than 90 days then it will be classified as NPA.

2. P2P lending machine firing on all cylinders (ET 24/10/21)

- There are about 20 P2P players in India with a loan book of around ₹ 5000 Cr.
- These are regulated by RBI and under this, the platform will connect lenders with borrowers.
- In recent days the lending activity on this has increased as -
    - Banks and institutional lending have been affected because of the pandemic (banks are hesitating in giving loans to retain borrowers with lower credit scores).
    - The investors are unable to earn higher returns from bank deposits and debt instruments (the returns are averaging around 3 to 7% per annum).
- For lenders giving loans through P2P is helping in the diversification of their investments.

3. RBI extends Basel 3 capital framework to AIFIs (BL 23/10/21)

- RBI has announced the extension of Basel 3 guidelines to All India Financial Institutions (AIFIs) such as:
    - Export Import Bank of India (EXIM Bank)
    - National Bank for Agriculture and Rural Development (NABARD)
    - National Housing Bank (NHB)
    - Small Industries Development Bank of India (SIDBI)
- Basel 3
    - Mainly seeks to raise the quality and level of capital to ensure that financial entities are better able to absorb losses.
    - Increase the risk coverage of capital framework, introduce leverage ratios, raise the standards for public disclosures, etc.
- The extension has been done
    - With faster growth in the economy, AIFIs are becoming important as they provide either direct or indirect credit access to economic sectors.
- The AIFIs will implement all the three pillars under Basel 3:
    - Pillar 1 - covers capital, risk coverage and containing leverage
    - Pillar 2 - covers risk management and supervision
    - Pillar 3 - covers market discipline
- RBI wants the AIFIs to:
    - Achieve a minimum capital of 9% and capital conservation buffer of 2.5%, taking the total capital to 11.5% by 1st April 2022.
    - For NHB the accounting year is from July to June, hence the guidelines will commence on 1st July 2022.

4. Govt may raise over ₹ 10000 Cr via Bharat Bond ETF by December (BL 25/10/21)

- The central govt is likely to issue the next tranche of the Bharat Bond ETF by December.
- Through the issue, it expects to raise over ₹ 10000 Cr which will be used for financing the growth plans of CPSEs (in its debut issue in 2019 it had raised about ₹ 12400 Cr).
- Bharat Bond ETF is an exchange-traded fund that invests in the debt of public sector companies.
- This ETF currently invests in AAA-rated bonds of public sector enterprises.
- The second tranche was issued in 2020 and the upcoming will be the third tranche of Bharat bond issuance.
- In the first tranche, it offered maturity periods of 3 and 10 years and in the second tranche, 5 and 12 years.
- Edelweiss Asset Management is the fund manager.

5. Delays in infra projects (BL 26/10/21)

- In 1670 central infrastructure projects, the delays have led to time and cost overruns to the extent of ₹ 4.3 lakh Cr. The original cost of these projects was estimated at ₹ 21.66 lakh Cr and the current cost comes at ₹ 26 lakh Cr.
- In this regard, the central govt has sent an advisory to all the ministries and concerned departments to reduce the delays.
- As per a flash report of MoSPI, one out of every five infra projects has a delay of over five years.
- These 1670 projects are in 25 sectors.
- The implementation of PM Gati Shakti is expected to expedite the implementation of these projects.
- Reasons for the delay - the report has listed 15 reasons for the delay.
    - Law and order problems
    - Lockdowns in these states
    - Delays in land acquisition
    - Obtaining forest/environment clearance
    - Inadequate manpower
    - Lack of coordination between various ministries, departments, state governments and local bodies

6. DoT exempts non-telecom items from AGR calculation (ET 26/10/21)

- The Department of Telecommunications (DoT) has removed a host of non-telecom income items such as property rent, dividend and interest from the calculation of AGR.
- This will become applicable from 1st October and will reduce the burden of future payment obligations for the telecom service providers.
- As per the formula all the non-telecom related revenues are deducted/removed from total revenues (or Gross Revenues - GR) to arrive at Applicable Gross Revenues (ApGR).
- Using ApGR, the AGR would be arrived at.
- The license fee and spectrum usage charges (SUC, has been abolished on further purchase of airwaves from auctions) are paid based on the AGR.

7. REITs and InvITs set to get liquidity boost (ET 26/10/21)

- RBI has allowed foreign portfolio investors to invest in the debt securities issued by the Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs).
    - RBI has amended the Foreign Exchange Management (Debt Instruments) Regulations 2021 to allow this.
    - The announcement was done in the budget for 2019.
- This is expected to provide access to patient capital and liquidity to the new asset class.
- This route is expected to allow the REITs/InVITs to raise debt at competitive rates from foreign investors and also lead to wider participation by institutional investors.

8. Govt aims to privatise 13 airports by march (ET 26/10/21)

- The govt aims to complete the process of privatisation in 13 airports owned by the Airports Authority of India (AAI) by end of this fiscal (this follows 6 airports awarded earlier in 2019).
    - The objective of the govt is to liberalise the sector with the privatisation of profit-making airports.
    - AAI's mandate will be expanded to develop new airports in areas where the private sector would not be interested to venture.
- In the case of these airports, the privatisation will be through PPP and bidding will be conducted.
- The model to be followed will be per passenger revenue model (has been used in earlier bids).
- The airports will be provided to the private sector operators for a period of 50 years.
- AAI has decided to club seven small airports with six bigger ones.
- As part of the National Monetisation Plan, govt has plans to award 25 airports in the next 4 years (including these 13).

9. FTAs need to be reworked (BL 29/10/21)

- India has opened up its economy post-1990s and there has been competition amongst the global companies to enter into the Indian economy.
- There have been multiple FTAs post the opening up of the economy signed by India.
    - FTA in principle will lead both the countries into agreeing to reduce or eliminate tariffs and trade barriers which will provide benefits to each other.
    - In Asia, India has the highest number of FTAs in implementation and under negotiation.
    - India is negotiating multiple types of FTAs and is seeking to fast track the negotiations with the USA, UK, Australia, etc.
    - However, there is a need for the govt to rebalance the trade strategies, as its experience in the majority of FTAs has not been encouraging (except with SAFTA).
        - India's exports have been boosted with SAFTA, in the case of other FTAs, it has been more beneficial for the other trading partners (with South Korea, ASEAN, etc.).
        - In the case of Japan, the bilateral trade has declined or stagnated after the first year of implementation and there has been a substantial rise in the trade deficit.
        - The overall evaluation shows that India has underperformed, with imports being much higher than exports.
        - In certain cases, the domestic manufacturers have been affected, as it has made the imports cheaper.
        - Why exporters from India are unable to leverage FTAs?
            - Complex rules of origin
            - Lack of information on FTAs
            - Higher compliance costs
            - Administrative delays
    - Hence there is a need for the govt to be careful while negotiating these FTAs.
        - Many sectors wherein India is negotiating are fragile compared to the other countries.

10. Sambhav - National Level Awareness Programme

- Organized by MoMSME.
- The mass outreach program will be a one-month long initiative under the Ministry of MSME in which students from different colleges/ITIs from all parts of the country will be encouraged by 130 field offices of the Ministry to take up entrepreneurship.
- During the campaign, the college students will be made aware of the various schemes being implemented by the Ministry of MSME through Audio/Video film presentations.