

Economy This Week (4th Dec to 10th Dec 2021)

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1. RBI likely to continue moving towards monetary policy normalization (BL 6/12/21)

- RBI is likely to take further steps towards monetary policy normalization which may include increasing the reverse repo rate.
- However, the [monetary policy committee \(MPC\)](#) is expected to continue with an accommodative stance.
- The reverse repo rate is 3.35% and has been reduced thrice in the calendar year 2020 to encourage the banks to lend more during the covid outbreak.

2. Monetary policy (TH 9/12/21)

- Concerns related to recovery
 - New variant of covid
 - Spillover from shifts of monetary policies by major global banks
 - Stubborn inflation
 - Headwinds from the elevated energy and commodity prices
- **Policy**
 - Has continued with an accommodative stance
 - Repo rate - 4%
 - MSF - 4.25%
 - Reverse repo rate - 3.35%
- Economic recovery is not strong enough to self-sustain and be durable.
- UPI

- The facility will be extended to feature phones (is available only on smartphones).
- This would:
 - Deepen the digital payments
 - Make them more inclusive
 - Ease transactions for consumers
 - Increase participation of retail customers

3. Paytm bank granted status upgrade (TH 10/12/21)

- Paytm Bank has been given the status of scheduled [payments bank](#) by RBI.
- With this, it can now participate in government and companies' requests for proposals, primary auctions, fixed rate and variable rate reverse repos, marginal standing facility, etc.
- It will also be eligible to be a partner in government-run financial inclusion schemes.

4. Govt makes largest payout for slashing oil bond dues (BL 7/12/21)

- The central govt has made a payment of around ₹ 20000 Cr towards oil bond dues and interest.
- The tax revenues collected by govt has helped it in making such payment.
- This will be reducing the interest outgo on oil bonds in the coming years.
- The concern however is that these bonds were issued when the interest rates were high in the market (the interest rate ranges between 6.35% and 8.4%).
- The liabilities because of these securities have increased significantly between 2005-06 and 2008-09 and this was done by the govt to keep the fuel prices low in the retail market.
- As per the information, oil bonds worth ₹ 1.3 tn are outstanding till March 31 and after paying two tranches of ₹ 5000 Cr each it has come down to ₹ 1.2 lakh Cr. Govt intends to make another payment of ₹ 31150 Cr towards this in November 2023 and top with an interest of ₹ 9195.96 Cr taking the total outgo for the year to ₹ 40345.96 Cr in 2024-25.
- This is the first time after FY15 where govt has made payments towards reducing the debt and so far the govt kept on making payments towards the interest, and the outstanding value of bonds largely remained unchanged.

5. RBI weighs Priority Sector Loans for EVs (ET 7/12/21)

- RBI is considering the proposal from [NITI Aayog](#) to categorize loans given to purchase EVs under the Priority Sector Lending (PSL).

- If done this would ensure that the loans for these vehicles will be given at lower interest rates (thereby reducing the cost of finance) and provide access to credit to more people/borrowers, this may lead to a rise in demand.
- Currently, loans for [Electric Vehicles](#) are given under the auto retail category.
- The lenders are concerned about the risks in the segment which is still in a nascent stage.
- Apart from this, higher demand for EVs will be good in terms of reducing emissions and controlling pollution.

6. Norms soon for spraying fertilizers via drones (BL 8/12/21)

- The central govt is soon expected to come out with norms relating to applying fertilizers using drone technology.
- India is aiming to emulate the method which is used by farmers in Europe and Israel. In some countries, drones are being used for foliar applications. The basal dose has to be applied manually but the subsequent application can be done using drones.
 - The fertilizers are applied to the roots of the plants.
 - However, there is a rising preference for nano-urea and liquid fertilizers and Unmanned Aerial Systems (UAS) can be used for such applications.
- This is expected to reduce consumption, save on subsidy and improve soil health.
- Govt is preparing the protocols for the usage of drones in pesticide management and similar guidelines will have to evolve in the case of fertilizers also.
- A drone can spray pesticide on nearly 2.5-acre area during a 15-minute flight.

7. Prospects brightens for home solar rooftop system (BL 8/12/21)

- Govt has set an installation target of 4 GW for residential rooftop solar by December 2022. Govt has announced a 20 to 40% capital subsidy with a total budget of ₹ 6600 Cr.
- As of June 2021, the residential rooftop capacity accounted for just 2.9% of total solar capacity and 17% of rooftop solar capacity.
- Only about 0.4% of urban homes have installed rooftop solar systems and total residential rooftop solar capacity has been estimated at 1292 MW.
- Until June 2020, the annual installation has remained stagnant at 100 to 200 MW.
- The residential rooftop solar market is expected to pick up pace in the coming days because of -
 - Improvement in affordability
 - Financial viability
 - Consumer awareness

- The entry of large players such as Tata Power, Mahindra is expected to catalyse the market
- Better policy implementation
- Issues/hurdles:
 - Consumer inhibition and low awareness about technical, financial and operational aspects of installations
 - With increased reliability on the grid power, solar is not considered to be an essential purchase
 - Urban households do not wish to make long term cost commitment
 - All the urban households do not have access to rooftop rights
 - Currently after accounting for 40% capital subsidy, cost of the system comes to about ₹ 53000/kWp and it increases with the rise in module cost, import duties and GST which are acting as dampeners.

8. India a poor, very unequal country with affluent elite (BS 8/12/21)

- The World Inequality Report 2022 published by World Inequality Lab (France) has observed that:
 - The top 1% of the population in India owns more than one-fifth (22%) of the total income, the top 10% owns 57% and the bottom half earns just 13.1% (however the 2018 report for the year 2014 had reported around the same numbers for India which means the income distribution has not changed much).
 - The economic liberalization and reforms adopted by the govt have benefitted the top 1%.
 - The average national income of the Indian adult population is 7400 euros or ₹ 204200 on a PPP basis. The report has noted that the average national income masks the inequalities.
 - The income gap between the top 10% and bottom 50% in India is one to 22 in 2021 (in the case of BRICS countries this is much wider in the case of South Africa - one to 63 - and one to 29 in Brazil).
 - The report has noted that India is one of the most unequal countries in the world.
 - Wealth
 - Inequality further widens
 - The bottom 50% of the households own almost nothing
 - The middle class is also relatively poor owning 29.5% of the total wealth
 - The top 10% owns 65% and the top 1% owns 33% of the wealth
 - Gender inequality
 - The female labour income share is 18% (Avg for Asia is 21% - excluding China)
 - One of the lowest
 - However, compared to 1990, there has been an increase by 8 percentage points

9. India dethrones Brazil as number one supplier to Arab nations (BS 8/12/21)

- India has surpassed Brazil as the top food exporter to the league of Arab states (22 members) for the first time in 15 years.
- For Brazil, the Arab group is an important trade partner but because of the pandemic which has rattled the supply chains, the distance between both became an impediment.
 - The ships from Brazil took around 30 days earlier and this increased to 60 days during the pandemic.
 - India's strategic location allowed it to ship fruits, vegetables, sugar, grains, meat, etc. in as little as a week.
- Brazil accounted for 8.15% of agribusiness products imported by this group whereas India accounted for 8.25%.

10. FDI in food processing sector (FE 4/12/21)

- The FDI in the food processing sector has declined 54% to ₹ 2934 Cr in 2020-21 compared to the previous year (₹ 6414 Cr in 2019-20).
 - In the food processing sector, 100% [FDI](#) through automatic route is allowed.
 - The share of FDI in the food processing sector is only 1.5% of the total FDI inflows.
 - The sector needs investment from both domestic as well as foreign sources.
 - Govt is implementing the scheme - PMKSY - [Pradhan Mantri Kisan Sampada Yojana](#) - since 2016-17 for overall growth and development of the sector.
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