

## Economy This Week (05th Feb to 11th Feb 2022)

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#### 1. Monetary Policy Review (TH 11/2/22)

- Announcements
  - MPC has kept the rates unchanged
  - Continue with accommodative stance as long as necessary to revive and sustain growth
  - Also ensure that the inflation remains within the target
  - CPI has been higher compared to the level it was during the previous meeting and core inflation has remained elevated
  - The limit on the e-RUPI digital voucher will be increased from ₹ 10000 to ₹ 1 lakh and multiple usage of the vouchers would be allowed
  - FPI investment limit under VRR increased from ₹ 1.5 lakh Cr to ₹ 2.5 lakh Cr
  - Limit for Trade Receivable Discounting System (TReDS) settlement would be increased to ₹ 3 Cr

#### 2. Centre to form FPOs with small farmers (TH 6/2/22)

- Union govt is promoting mobilisation of small farmers to form the Farmer Producer Organisation (FPOs) and make them influential market forces and improve their incomes by developing agriculture value chain
- Govt is also promoting natural farming, digital agriculture which will help in saving the farming community from the impact of the climate change
- ICRISAT – International Crops Research Institute for the Semi-Arid Tropics – is celebrating its 50th anniversary

#### 3. FM to discuss ATFs inclusion in GST regime (TH 7/2/22)

- Govt would be taking up inclusion of ATF under GST to the GST council
- The high global fuel prices are becoming a concern – prices are hovering at around \$90 per barrel
- The aviation sector is affected by pandemic and with the demand being very low, the higher prices may further dent their revenues

**4. RBI, NBFCs in early talks to open credit card biz (BS 7/2/22)**

- RBI and shadow banks are in talks to explore possibility of allowing the latter to issue credit cards on standalone basis
- So far the NBFCs are allowed to issue co-branded credit cards with banks
- There are 120 mn formally employed people in India without a credit card. The startups and Fintech companies are making a beeline to issue digital loans to these and 44% of the Fintech funding in 2020 has gone to digital lending startups
- Digital credit cards and lines of credit should be allowed to operate without license to further improve financial inclusion
- As of November 2021, there are 67 mn credit cards and 550 mn customers have credit bureau histories
- A joint report by NITI Aayog and Mastercard last year has made a case for NBFCs entry into credit card business
  - NBFCs account for overall 20 to 30% credit given in the system but NBFCs are constrained from credit card market on account of high access barriers

**5. Grants to discoms based on action plan progress (IE 8/2/22)**

- All the states are on board for the centre's ₹ 3.03 lakh Cr discom reform scheme
- The discoms from most of the states/UTs have submitted the reform plans under the Revamped Distribution Sector Scheme (RDSS) and govt is likely to sanction all the plans that are in accordance with the scheme guidelines
- Under RDSS
  - Reduce the AT&C losses to 12-15%
  - Reduce the gap between ARR and ACS to zero by FY25
  - Has provided the flexibility of deciding on the plans to the states
  - The states will have to submit their performance report every year to get the grants (earlier the performance data came with a lag of two years). The states are given the grants only when they meet the targets
  - Timely revision of tariffs, payment of dues by state departments to discom are some of the preconditions
- These targets are largely the same as under UDAY (launched in 2016)
- Under UDAY
  - The AT&C losses fell from 23.7% in FY16 to 20.9% in FY20
  - The average gap between ACS and ARR fell to ₹ 0.3 per unit from ₹ 0.48 per unit
  - Inadequate revision in tariffs by state discoms
  - Inadequate payments to the discoms for the power used by the state departments and subsidies are some of the issues
- ICRA has estimated losses of ₹ 90000 Cr for the discom sector in FY21

**6. Continuation of EPCG scheme under review (ET 7/2/22)**

- Export Promotion of Capital Goods (EPCG) scheme was launched in 1990s and the govt is reviewing the scheme to find whether it is inconsistent with the WTO
  - Under the scheme import of capital goods for pre-production, production and post production is allowed at zero duty
  - However there is an export obligation – six times of duty, taxes and cess saved within six years
  - Almost 95000 authorisations have been issued between 2015-21
- There are also viewpoints that the scheme is not supporting the development of capital goods in domestic market and hence should be discontinued

#### **7. India seeks to add to its solar cell, module manufacturing (LM 8/2/22)**

- Govt wants to create an additional domestic solar equipment manufacturing capacity of 25 GW each for solar cells and modules, and 10 GW of wafers by April 2023
- India currently has capacity of 3 GW of solar cells and 15 GW for modules
- This plan comes after govt allocating an additional ₹ 19500 Cr under PLI in the recent budget
  - Earlier the govt allocated ₹ 4500 Cr for manufacturing PV modules
  - New allocation will be for solar modules
- The govt has plans to impose basic customs duty of 40% on modules and 25% on solar cell imports from 1st April
- Polysilicon is the building block for solar PV manufacturing from which ingots are cast. Wafers cut from ingots are then used to make solar cells, after which modules are assembled.
  - Globally manufacturing of polysilicon, wafer and ingot has been dominated by China

#### **8. India's debt to gdp ratio better than US (TH 9/2/22)**

- Finance secretary has hit out at global rating agencies comments about India having very high debt and lack of clarity on fiscal consolidation
  - India has limited fiscal space to respond to shocks with the debt to ratio hitting around 90% of GDP (highest in countries with BBB rating)
  - The budget has offered less clarity on medium term fiscal outlook and few details on how the fiscal deficit target of 4.5% of GDP can be met by 2025-26
- The argument of the govt is that
  - India has one of the best debt-to-gdp ratios when compared to high rated countries
  - India's ratio is lower than that of USA, Japan and other highly rated countries
  - Rating agencies adopt double standards between emerging and non-emerging countries