

## Economy This Week (12th Mar to 18th Mar 2022)

**Video link:** <https://youtu.be/4SZmltrBxjk>

### TABLE OF CONTENTS

1. [NPCI to launch UPI Lite \(BL 18/3/22\)](#)
2. [FED lifts rates to curb inflation \(ie 17/3/22\)](#)
3. [Microfinance firms can set interest rate - RBI \(BL 15/3/22\)](#)
4. [US to strip Russia of permanent normal trade status \(IE 12/3/22\)](#)
5. [Govt to fast track roll out of direct transfer system \(FE 13/3/22\)](#)
6. [WPI series with 2017-18 as base year on cards \(BS 14/3/22\)](#)
7. [Inflation basket stuck in VCR, cassette era \(LM 14/3/22\)](#)
8. [Govt to cut bank recap outlay for FY22 \(FE 16/3/22\)](#)

### 1. NPCI to launch UPI Lite (BL 18/3/22)

- NPCI is set to launch UPI Lite which will enable small value transactions in offline mode
  - It will provide on device wallet functionality
  - User will have to enable the option to use UPI Lite
  - Upper limit of UPI Lite will be ₹ 200 and total limit for UPI Lite Wallet will be ₹ 2000 at any point of time
  - Replenishment of the funds can happen only in online mode with Additional Factor Authentication (AFA) or using UPI AutoPay
  - The transactions under UPI Lite will be offered without AFA or UPI PIN
- Nearly half of the transactions are low ticket payments and this is expected to enable small value transactions in offline mode
  - About 75% of the total volume of retail transactions in India (including cash) are below ₹ 100
  - About 50% of the total UPI transactions have a transactions value of up to ₹ 200
- At present this will be near offline but will require a smartphone
- In the first phase of implementation it will process transactions in near offline mode - debit offline and credit online and in later stages it will process both debit and credit transactions in offline mode

### 2. FED lifts rates to curb inflation (ie 17/3/22)

- Federal Reserve has increased/raised interest rates by a quarter of percentage point and has laid out plans to push the borrowing costs to restrictive levels by next year as there are concerns over the rising inflation rate
- This is the first increase since 2018
- It has laid out plans to increase the rates by quarter percentage points in the next six meetings remaining this year to take the target funds rate to 1.75% to 2%
  - By the end of next year, it is projected to reach 2.8%

### 3. Microfinance firms can set interest rate - RBI (BL 15/3/22)

- The MFIs (Micro Finance Institutions) must ensure that the loans are collateral free and are not linked with any lien on the borrowers deposit account
- RBI has come out with harmonized regulatory framework - Regulatory Framework for Microfinance Loans, Directions 2022 - for regulated lenders - SCBs, SFBs, NBFC-MFIs, NBFC-Investment and Credit Companies
- The outflows have been capped at 50% of the monthly household income (payment includes both principal and interest)
- Each RE (Regulated Entities) has to provide a loan card to the borrower incorporating information which adequately identifies the borrower and offers a simple fact sheet on pricing and all other terms and conditions attached to the loan

#### **4. US to strip Russia of permanent normal trade status (IE 12/3/22)**

- US has announced that it will be joining other EU and other allies in stripping Russia of permanent normal trade relations and would take other steps to isolate Russia
- This will allow the countries to raise tariffs on Russian goods and there are other measures being taken which would deny Russia the ability to borrow from multilateral institutions such as IMF and World Bank
- US will be banning imports to the tune of \$1 bn from Russia and is also planning to bar luxury item exports from US to Russia

#### **5. Govt to fast track roll out of direct transfer system (FE 13/3/22)**

- Centre has started work on roll out of Direct benefit Transfer (DBT) system to contain rising fertiliser subsidy bill
  - The subsidy expenditure under this head remained sticky whereas other subsidy expenditures - fuels - has experienced a steep decline
- The Ukraine war has put additional pressure on global commodity prices and this is expected to lead to rise in fertiliser subsidy (ICRA has estimated this to be 50% higher than the budget estimates of ₹ 1 lakh Cr)
- Options being considered
  - Allowing the 14.6 Cr beneficiaries to purchase the fertilisers at market prices and then transferring the subsidy amount into their Aadhaar linked bank accounts
    - The subsidy amount would be determined on per acre basis without any cap on landholding
  - Supplying the fertiliser at subsidised prices or depositing the subsidy into the bank account subject to land holding limit
    - Farmer having land above the threshold limit will be denied subsidy on the additional land above the limit

#### **6. WPI series with 2017-18 as base year on cards (BS 14/3/22)**

- Govt is in advanced stages of finalising the new Wholesale Price Index (WPI) series

- It aims to capture of the structural changes that are taking place in the economy
- The new base year will be 2017-18 (current base year is 2011-12; this was the seventh revision of WPI and implemented from 2017 onwards)
  - The commodities basket will be updated and weightage changed
- WPI measures price movements in commodities for bulk buy by traders

### **7. Inflation basket stuck in VCR, cassette era (LM 14/3/22)**

- Govt closely monitors the price of 299 items to gauge the change in retail inflation
- However there are certain items within this basket which are not used by the households on day to day basis, which raises questions over the reliability of the CPI data
  - Prices of cassettes and CDs
  - Cable TV connection
  - VCD/DVD for hire
  - Tape recorder
  - Nokia mobile phone prices are being collected as a proxy for rise in smartphone prices (Nokia was a market leader a decade ago and today has a market share of less than 2%)
- At least around 10 to 12% of the items are defunct and inclusion of these in the inflation calculation cannot be justified
- The inflation basket was supposed to be updated with consumer expenditure survey 2017-18, however the govt junked the survey in 2019 citing data quality issues

### **8. Govt to cut bank recap outlay for FY22 (FE 16/3/22)**

- Govt may not need to capitalise any of the PSBs in the current fiscal except the Punjab and Sind Bank and this is likely to save ₹ 10400 Cr (out of the budget estimates of ₹ 15000 Cr)
- The govt has not budgeted any amount for capitalisation of the banks in the next financial year
- PSBs has recorded profits and many of them have been able to raise capital from the market in the last two years
- The Central Bank of India is the only bank under PCA (Prompt Corrective Action) and some analysts were expecting further capitalisation by the govt. However the finance of this bank has improved and it may not require capital from the govt