Economy This Week (02nd Apr to 08th Apr 2022)

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1. Green FD (BS 2/4/22)

- Many banks are offering green FDs – HDFC, Union Bank, IndusInd bank, DBS Bank etc
- Many lenders want to fund and promote businesses that score high on sustainability, environment friendly and accountable at large to the society
- The funds mobilised through Green FDs are utilised towards initiatives that contribute to environment conservation and other ESG initiatives
- Interest rates of green FDs are similar to those offered by normal FDs
- As such the deposits in the banks are safe option to invest and there is also a deposit insurance of up to ₹ 5 lakh in case they are issued by the banks (will not be applicable if issued by an NBFC)

2. Centre may add riders to third of ₹ 1 tn loans to states (FE 5/4/22)

- In the budget for FY23, centre has announced a ₹ 1 tn loan support to the states to ensure capex
- Centre may attach certain conditions to release of part of 50 year interest free loans to state governments
- The announcement was done as the compensation period under GST will be over after June 2022
- Centre has also announced the borrowing limit i.e. fiscal deficit of 4% of GSDP for FY23
- Around 65-70% of the assistance will be provided to them for the projects identified by them and remaining will be linked to specific reforms and conditions and other fiscal achievements
    - For FY22, 50 bps borrowing ceiling was linked to meeting capex target and another 50% for states to improve their power distribution firms
    - For FY23 the states are allowed to borrow up to 4% of their GSDP, 0.5% will be tied to boosting power discoms' health
- The funds allocated to the states will be in proportion of their share of central taxes as per the award of the 15th FC

- Centre has asked the states to be ready with the projects as the funds will be transferred against the individual projects and not as a lump sum amount

3. India- Australia trade agreement (BS 2/4/22)

- India and Australia will be signing an enhanced partnership agreement to boost trade and investment ties
- Under this
    - Australia will be providing 100% market access for all the Indian goods exports over a period of five years
    - From the first day of the implementation, 95% of the goods will get lower duty
    - All labour intensive sector exports such as from apparel, footwear, jewellery will get zero duty access from the first day
    - Most of the goods exported from Australia will attract a duty of 5%
    - India will also get liberalised norms to export services from 100 sub sectors
    - India will be lowering duty on 70% of goods
    - Sensitive sectors such as dairy will not be covered under the agreement
    - Other items such as iron ore, most medical devices, agriculture products (wheat, sugar, bajra) will not be getting any duty concession
    - There will also be a safeguard mechanism in case there is a massive surge in imports
- Benefits
    - Australia is looking for trading partners after facing export restrictions from China
    - This is second such comprehensive agreement signed by India this year also and will also help in neutralising certain disadvantages that it has compared to neighbouring countries especially in labour intensive sectors
        - Bangladesh has FTA with Australia and had an advantage in labour intensive exports

4. RBIs fiscal conundrum (LM 4/4/22)

- The govt may meet its fiscal deficit target for the FY22 and it will be for the first time in the last six years
- From FY17 to FY21, in each of the fiscal, the actual fiscal deficit has been higher than the budgeted fiscal deficit
- Government finances bulk of its borrowings by issuing the bonds in the market, this leaves lesser money for others in the market pushing up the interest rates. This is referred as crowding out
- However the RBI has pushed the money supply in the market controlling the interest rates (lowering) which has helped the government to borrow at lower rate of interest
- The central banks around the world would be hiking the interest rates forcing the outflow of foreign investments. This outflow will lead to rupee depreciation and lead to inflation rates. To control the slide of the rupee, RBI buys rupees and sells dollars, this will reduce the money supply and increase the interest rates, which is bad news for the govt which has budgeted a fiscal deficit of 6.4% of GDP (₹ 16.61 lakh Cr)

5. Economic cost of food grains (BL 4/4/22)

- There are concerns over food security because of the war between Russia and Ukraine. However in case of India there are no signals of the stress regarding the food security issue
- The norm for buffer stocks has been at 40 MT since 2015-16 but the stocks in the godowns have been consistently high
- The FCI incurs a huge expenditure for storing such huge quantity of food grains so there are questions being raised over this
- FCI procures food grains for surplus states and moves those to deficit states and distributes them at prices decided by the govt and in the process takes subsidy from the govt. It is not involved in any commercial venture. It also raises loans from the market to manage the operational costs
- The economic cost of food grains for FCI is around 40% higher than procurement price
- Holding huge buffer stocks
    - Locking up of precious money – the value of buffer stocks held by the govt on 1st July 2020 was ₹ 1.89 lakh Cr
    - Negative environmental externalities including depletion of water resources in north western parts of India
    - There is a surplus production in cereals so there is no need for policies to address scarcities
- The farmers are unable to fetch better returns as there is no sufficient infrastructure such as cold warehousing and food processing. Rather than subsidising buffer stocks, the govt should use those funds to promote the infrastructure
- Warehousing
    - FCI claims that it has sufficient warehousing capacity but is increasingly becoming dependent on private warehouses (FCI takes them on rent)

6. Zero coupon bonds : infra debt funds, NBFCs get nod (BL 8/4/22)

- The income tax department has amended rules to allow the infrastructure debt funds and NBFCs to issue zero coupon bonds (ZCBs)
    - ZCBs can be issued under section 8 B of the IT rules
    - The period of the bonds not less than 10 years and not more than 20 years
    - The fund should have an investment grade rating from at least two credit rating agencies
    - Bonds will be listed on stock exchanges
- This will help the companies mobilise resources in a tax efficient manner
- Infrastructure debt funds, infrastructure company and public sector companies are allowed to issue zero coupon bonds apart from rupee denominated bonds or foreign currency bonds
- Zero Coupon Bonds (ZCBs)
    - Are issued at discount and are redeemed at par
    - There is no interest payment on this
    - Are for people who wish to invest and get a lump sum after maturity
    - Need not be worried about market trends and likes the comfort of invest and forget strategy

- Investors in ZCBs may face interest rate risk if sold prior to the date of maturity (its value is inversely related to the rise in interest rates)

7. RBI to allow SCBs open digital banking units (BL 8/4/22)

- RBI has permitted scheduled commercial banks (SCBs) with past digital banking experience to open digital banking units in tier 1 to tier 6 centres
- This is to promote digital financial services and financial inclusion
- Govt in the budget for FY23 had announced opening 75 DBUs in 75 districts to commemorate the 75th year of independence
- However these guidelines are not applicable for regional rural banks, payment banks and local area banks
- DBU
    - Is a specialised fixed point business unit/hub housing certain minimum digital infrastructure for delivering digital banking products and services
    - Under this it will provide the self-service and assisted mode
    - DBUs will be treated as Banking Outlets (BOs)
    - Each of the DBU will provide certain minimum digital banking products and services
    - The products provided should be on both the sides – assets and liabilities of the balance sheet
        - Liability products – account opening, digital kit for customers (mobile and internet banking, debit and credit cards, mass transit system cards) and digital kit for merchants (UPI QR Code, BHIM Aadhaar, POS etc)
        - Asset side – DBUs will have to enable making applications for on boarding of customer for identified retail, MSME or schematic loans and identified government sponsored schemes
        - DBUs will allow cash withdrawal and cash deposit only through ATMs; passbook printing / statement generation; internet banking kiosk; transfer of funds and updating of KYC / other personal details
        - Each of the banks choose suitable smart equipment such as interactive teller machines, interactive bankers, service terminals, teller and cash recyclers, interactive digital walls, video call and conferencing facilities etc

8. Cap on RRBs Priority Loan Portfolio sale may be eased (ET 8/4/22)

- At present RBI has prescribed a target of 75% of ANBC of an RRB for lending under priority sector. In case of commercial banks it is pegged at 40%
- RBI could relax the cap on sale of priority sector loan portfolios by RRBs
- RRBs after crossing the 75% limit will be selling their priority loan portfolios through PSL certificates
- RBI is expected to remove this cap and may start selling the PSLCs after RRB has reached 40% limit
- RRBs have around 90% of their portfolio under PSL where the interest rates are very low and this affects their profitability