

## Economy

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### 1. In favor of cash

- Easiest and cheapest for low value transactions, till technological developments reduce price of going digital
- Acts as a natural check against inflationary govt policies. Example: if negative interest rates allowed, people simply encash their deposits. Negative rates can threaten the banking system.
- Presence of cash allows people to withdraw their cash from banks. So, possibility of bank-runs disciplines banks and govts
- Negative interest rates (or penalty on deposits) can be charged without the fear of people withdrawing cash. Presence of cash removes that possibility

### 2. Food wastage

- Behavior + lack of effective distribution and legal mechanism
- FAO: 1/3 of food produced for human consumption is wasted each year
- Cannot tackle hunger without tackling wastage
- Loss of inputs like water and oil used in food production
- Energy spent over wasted food leads to carbon dioxide emissions
- Decaying rice produces methane
- Many countries have legislation. France has banned supermarkets from destroying unsold food
- India Food Banking Network promoting collaborative consumption. Involve citizens

### 3. Indian Agriculture

#### Problems

- Low scale and productivity. **Water productivity** even lower (Punjab has 0.22 kg of rice/cubic metre of water, but highest land productivity. agri takes 80% of all water in country)
- 67% households have farms less than 1 acre
- Stagnant yields from 1990s
- NSS SAS surgery: non farm income made up 40% , but access highly skewed
- Less than 50% land access to irrigation
- Rising investment in machinery, seed, fertiliser, fuel not meet by meagre savings
- Plus expenditure on health, education and social ceremonies
- Non institutional credit rising faster than institutional credit
- High variability in agricultural prices due to fluctuations in world market
- Policy variability across states
- Lack of cold storage to hold back stocks and get better returns
- Poor HRD, hospitals, schools in rural areas
- Poor infra- road, railway, sanitation and drinking water
- Feminization of agri as men migrating out to non agri jobs
- Reduction in subsidies and public stockholding as per WTO norms
- Climate change
- Stock limits imposed by essential commodities act leads to subdued demand
- Rising MSPs leading to glut in production or high inflation, hurting either farmer or consumer.
- Construction jobs absorbed many rural people during 2005-12. Not happening anymore.

- Price support system gives wrong signals to farmers leading to over production. Also, system not geared up for scaling up procurement when production rises.
- Acc to **OECD-ICRIER report**: pro-consumer bias in agri policies. So, PSE (Producer Support Estimates) negative for most years
- In last 2 decades, **3 lakh farmers** killed themselves-55% in 2015 due to indebtedness-NCRB
- Gulati: **j** (-)14% of gross farm receipts between 2000-2017. Indian farmers have been implicitly taxed through restrictive market and trade policies - in-built consumer bias

### **Dealing with Climate change**

- Set up multidisciplinary monsoon management centre in each drought prone district.
- Animal husbandry camps for saving cattle
- Special provisions to enable women to manage food security during distress
- Move from per crop productivity to high per day crop productivity

### **Problems with loan waiver**

- Covers only a tiny fraction of farmers. Those who used own savings or borrowed from non institutional sources out of the scheme
- About half of institutional borrowing for non farm purpose. So only partial relief
- Excludes agri laborers
- Erodes credit culture and discipline
- Huge exclusion and inclusion errors as shown by CAG
- Development expenditure gets diverted. UP spends 8000 crore on capital expenditure. But Loan waiver would cost 36000 crore. That amount could have been spent in better irrigation network and farm infrastructure
- Multiplier effects on the economy from a huge fiscal burden

### **Counter view**

- Farmers are most disciplined in their loan repayments. NPAs in agri 8%, but industry 21% in September 2018
- Agri NPAs rose after 2015 mainly due to agrarian distress and demonetisation
- Loan waivers shrink access to formal loans to farmers because banks become extra cautious. They view farmers as not being creditworthy
- Firms have received loan waivers through 'debt restructuring' and 'one-time settlements'. Unfair that farmers cannot access loan waivers

**Karnataka** has successfully conducted loan waivers after full digitisation of land records and matching them with banks' information

### **Way Forward**


- Need to improve repayment capacity of farmers and stabilising their income
- Identify vulnerable farmers and give them financial relief
- Move some cultivators out of agri as farm Size small.
- Improve tech
- Increase irrigation (**Telangana** setting up world's biggest irrigation project: Kaleshwaram Lift Irrigation Scheme: water for crops, industry and cities like Hyderabad, will use underground tunnel, fishing industry and tourism promotion)
- Crop diversification (Farmers growing exotic vegetables like Broccoli, as assured market, high price, low investments)
- Public investment in agri (as suggested by committee on Doubling Farmers Income)
- Remove restrictions on marketing of farm produce. E NAM a good initiative
- Go for agri reforms and labour reforms to absorb non agri labour
- Make in India
- Need a rights based approach, where state guarantees certain rights to the farmers
- National Food Security Mission, integrated scheme for oilseeds,pulses,oilpalm and maize

- Crop insurance. PM Fasal Bima Yojana (**problems:** not for tenant farmers, only 20% farmers know about it., Not for women farmers)
- JAM for DBT and PDS, UBI
- MNREGA
- NRHM, National Skill Development Mission
- **Ramesh chand committee recommendation:**(2015) hike MSP by 50%.
- **Agri futures.** Started in 2003 but very restrictive. Follow China model. Start with non sensitive crops like cotton, spices and oilseeds . Later, go to rice, wheat etc.
- Use MSPs only to procure when there is a glut in the market. And release food stocks when there is a Shortage or inflation
- Focus on infrastructure creation to absorb construction jobs
- **Move out, move up** approach: some farmers to move to city so that productivity of the remaining rises, remaining should invest in higher value addition.
- Focus on **income support**, not price support: Provide payments of Rs. 4000/ha like **Telangana (Rythu Bandhu)**. (Benefits: get capital to buy inputs and not rush to moneylender, problems: even big landlords getting it, leaves out tenant cultivators making up 40% of total peasants). **Odisha** introducing **KALIA** scheme: Lump sum transfer irrespective of land holding size to peasants, cultivators, sharecroppers and landless labourers.
- Move from a system of '**managing shortages**' to '**handling surpluses**'- by cutting out middlemen, procurement of surpluses, direct payments etc.

**Money matters** MSP for paddy hiked by Rs. 200

**The government has increased the Minimum Support Price so that farmers will get 50% more than their 'production costs'**

The government considers 'A2+FL' as production cost  
*where A2 = actual paid out cost on seeds, irrigation, etc., and FL= unpaid family labour*



But some experts and activists want comprehensive cost (C2) to be considered for MSP  
*Where C2 = A2 + FL+ rentals or interest foregone on owned land and fixed capital*

**MSP based on C2 cost will be far higher than the proposed figure**

Crop	Govt. MSP in ₹/quintal (A2+FL+50%)	C2+50% In ₹/quintal	Gap in ₹/ quintal
Paddy	1,750	2,340	-590
Cotton	5,150	6,771	-1,621

**SOURCE: CACP**

#### Why Govt. using A2+FL and not C2?

- C2 includes the opportunity cost of land from imputed rent. So, it is an income to the farmer. No point in providing price support over and above this income
- Current MSP has 10-53% margin over C2, so MSPs provide average 50% return above C2 even now
- If C2 used, then 50-100% increase in crop prices: private trade will not have any incentive to operate.
- Onus of procurement will fall solely on govt. Massive subsidy required
- Domestic prices will be much higher than global prices, discouraging exports
- Little incentive for efficiency and crop diversification

## **Criticisms on recent MSP hike**

- Rice stocks already 70% more than requirement for PDS and strategic buffer. Will lead to greater procurement by govt. overflowing of godowns
- MSPs till now decided based on demand-supply, world prices, inter-crop price parities, terms of trade between agri-industry etc. But now, it will be simply decided on the basis of costs
- Will lead to inefficient production of water-intensive crops like paddy, sugarcane + overproduction
- New MSPs way above market prices, can lead to price cutting by private sector in response to overproduction. If CCI or Nafed unable to buy excess stocks, will lead to more discontent
- Govt cannot procure more than 25% of production of kharif crops except cotton and paddy, as it doesn't have robust procurement system for other crops
- Will make global rise exports uncompetitive, leading to further domestic accumulation

## **Way Forward**

- Follow Telangana model of income support and let market do its job
- scrap Essential Comm Act 1955, end export restrictions

## **MS Swaminathan Committee recommendations**

- C2+50% MSP. C2 is the weighted average cost of production calculated by CACP
- Shift to Evergreen Revolution - increase productivity without ecological harm
- Integrated pest and water management
- Compulsory rainwater harvesting
- Fodder and legume crops on rotation
- Special Agricultural Zones capable of sustaining 2-3 crops on Rotation

## **Good Scope for Organic Farming (according to Swaminathan)**

- Farmers must possess animals for manure
- Capacity to control pests and diseases
- Crop Rotation
- Success of Organic farms in puducherry started by Sri aurobindo ashram

## **Govt announces Sugarcane support scheme**

- Minimum pricing
- Increased molasses and ethanol production
- Rs. 7000 cr package

## **Benefits**

- Create buffer stocks
- prevent prices from pricing
- Allow mills to pay arrears to farmers of 22000 crore
- Encourage ethanol production

## **Problems**

- Traders benefit the most as stock limits set under Essential Commodities Act 1955 prevent mills from selling surplus
- Low prices for mills and will not cover mill costs of Rs. 35 per kg.
- Maha given higher quota but UP has higher production
- Mills struggling to pay existing FRP due to falling prices

## **Steps recently taken**

- FRP kept constant
- Buffer stock created to prevent prices falling. Centre will bear interest and storage costs

## Way Forward

- Implement Rangarajan Formula- pay farmers 70% of total revenues of mills from sale of sugar and primary byproducts (molasses, bagasse) as cane price
- A transparent pricing formula
- Freedom of farmers to sell to any mills

## Green Revolution-Krishonnati Yojana: 11 schemes

- Mission for Integrated Devt. of Horticulture
- NFSM: Increase production of rice, wheat, pulses, coarse grains and comm. crops
- national Mission on Sustainable Agri
- Submission on Agri Extension
- Submission on seeds and planting material
- Submission on agri mechanization
- Submission on Plant Protection and Plant Quarantine
- Integrated Scheme on Agri Census, economics and statistics
- Integrated scheme on agri cooperation
- Integrated scheme on agri marketing
- NeGP

## Ways to improve agri (Can use for all answers)

- Get markets right: Reform domestic market regulations (ECA, APMC), competitive national market, upgrade market infra, review restrictive export policies
- To protect consumers, switch to income support of vulnerable sections through DBT. Can start with cities and surplus states
- Contain input subsidies and channelise savings towards higher investments in R&D, extension, rural infra for agri-value chains, irrigation and water management to cope with climate change
- Since agri is a state subject, greater coordination between centre and states and across ministries (Agri, Drinking Water and Sanitation, Rural Dev). More holistic approach towards agri reforms

## Govt. schemes on agriculture

- **MSP** hike
- **e-NAM, GrAMs**- 22000 rural haats will be linked electronically to e-NAM with money from Agri Market Infrastructure Fund
- **SAMPADA**- food processing industries, mega food parks, cold chain infra, backward and forward linkages
- **Operation Greens**- develop marketing infra to stabilise prices of TOP
- **Interest Subvention Scheme** on short term crop loans upto 3 lakh at 7% pa, Kisan Credit Card
- Model Agricultural **Land Leasing Act 2016** to reform and protect tenant cultivators
- **Krishi SInchai Yojana**- irrigation and water-use efficiency
- **Fasal Bima Yojana**- insurance cover for natural calamities, pests, etc
- **District Contingency Plans** to enable farmers deal with climate change, Krishi Vigyan Kendras also providing training and information
- **Paramparagat Krishi Vikas Yojana**- Organic farming, special focus on NE . Sikkim first organic state
- **Integrated farming**: Mission for Integrated Devt of Horticulture, Bee Keeping Devt Centres, National Bamboo Mission, Focus on poultry, dairy etc through RKVY
- **Mera Gaon, Mera Gaurav**- agri scientists in groups of 4 each to adopt 5 villages for demonstration of new tech, skill and information exchange
- Installation of **solar pumps** and selling excess power to DISCOMS

## PM Kisan SAMPADA Yojana

It is a comprehensive package which will result in creation of modern infrastructure with efficient supply chain management from farm gate to retail outlet. It will not only provide a big boost to the growth of food processing sector in the country but also help in providing better returns to farmers and is a big step towards doubling of farmers income, creating huge employment opportunities especially in the rural areas, reducing wastage of agricultural produce, increasing the processing level and enhancing the export of the processed foods.

The following schemes will be implemented under PM Kisan SAMPADA Yojana :

- Mega Food Parks
- Integrated Cold Chain and Value Addition Infrastructure
- Creation / Expansion of Food Processing & Preservation Capacities
- Infrastructure for Agro-processing Clusters
- Creation of Backward and Forward Linkages
- Food Safety and Quality Assurance Infrastructure
- Human Resources and Institutions

### Supporting Farmers:

- In 2016-17, output of arhar nearly doubled. Prices fell by 20%
- One contributing factor of continued decline in prices in 2017-18 is high level of imports during 2016-17
- Price deficiency scheme may compensate the farmers
- However, market prices may continue to fall as the supply exceeds the 'normal demand'
- Nearly all the produce may become eligible for "deficiency payments" in theory as the prices in general would have fallen for all the producers.
- An alternative is the limited procurement scheme. Govt will procure the "excess" leaving the normal production level to clear the market at a remunerative price.
- Procurement will continue until market price rises to touch MSP

### Problems faced by women farmers

- 35% of agri workers women - NSSO 2011-12
- But access to land, markets, technology skewed in favour of men
- Unequal intra-household allocation of resources
- Climate change putting additional burden on women
- Women main gatherers of forest products and firewood.
- Govt programmes focus on male farmers

### Way Forward

- Secure land rights and inheritance
- Financial services like affordable credit
- Access to technology
- Participation in public life, especially at the village level
- Incorporate SDG 14,15 and 5 together.

### Govt announces Policy to double agri exports

- Objectives of the policy - doubling farmers' income, to diversify the export basket and destinations, and to boost high-value and value-added exports, with a focus on perishables.
- Promote the export of "novel, indigenous, organic, ethnic, traditional and non-traditional" products
- provide an institutional mechanism for market access, tackling barriers, and dealing with sanitary and phytosanitary issues

- Centre will work with the State governments to create clusters that can focus on particular crops

#### **4. Difference present demonetization and 1978**

- 1978- people could exchange over the counter only if no bank account. 2016- anyone could exchange notes up to a limit which was closely monitored
- 1978-only RBI and SBI allowed to exchange notes. 2016- many banks, NBFCs also included
- 1978- no transaction with demonetized notes allowed immediately. 2016- demonetized notes could be used in hospitals, petrol pumps, etc up to a particular date.
- Media and social media played more important role in dissemination of info now
- 1978- people given just 6 days to exchange. 2016- 51 days

#### **Failure of demo**

- Only 1% money did not return to the banking system.

#### **5. Purchase of HPCL by ONGC (true for other PSU mergers also)**

##### **Benefits**

- Larger entity. Can be a major player in world market
- Vertically integrated company benefits from economies of scale
- Absorb oil price shocks better
- Contribute 30000 crore to the exchequer

##### **Problems**

- Air India and Indian Airlines merger failed
- ONGCs recent acquisitions have been too expensive according to CAG
- HPCL has much more efficient work culture
- ONGC performance poor in the last few years

#### **6. Food Security**

- Multidimensional process involving production, distribution, consumer choice, adequate intake of macro and micro nutrients
- NFSA 2013 still focuses on revamping PDS which is redundant

##### **Short term prescriptions**

- Diet diversity. More colorful plate means more nutrients
- Local and cultural food habits given priority
- Decentralization of planning and governance
- Infra
- Updating food component of PLB. Come up with a healthy eating index
- Use digital solutions like JAM and DBT
- Deal with obesity
- Improve food safety
- Move to dashboard approach and evidence based policy

#### **7. Issues on e-commerce negotiations in RCEP and WTO**

- By agreeing to free global flow of data, countries would lose sovereignty over their digital and cyber security policies
- Data is useful when turned into Digital Intelligence
- Whoever controls it, controls everything

- Concentrates strongly around a few centers. Eg uber has worldwide Intel on transportation network. General electric has operating system for Industrial internet
- India needs to move away from present IT model which is seeing job losses and towards digital Intel
- Need to develop domestic digital strengths . Digital India right step
- Greater access Chinese goods will have to Indian market

### **Benefits from RCEP**

- Greater choice to consumers at lower costs and better quality, especially manufactured and electronics goods
- Access to ASEAN market
- India has comparative advantage in services
- Boost to Act East Policy

### **Concerns**

- Flooding of Chinese goods. India has asked for strict "Rules of Origin" marking on all goods so that they don't come through a third country
- IPR issues over data exclusivity and patent term extensions- as wanted by Japan, Korea
- Indian domestic and electronic manufacturing losing out to more competitive ASEAN countries
- Issues over e-commerce, data and investment facilitation
- Entry of dairy industry of Australia and NZ
- Not much progress in services, as most nations have tough immigration laws
- Geopolitical and security concerns with China

### **Should India leave RCEP**

- Will lose first mover advantage
- Give up chance to frame rules and investment standards according to its own needs.

### **8. National IPR Policy 2016 (First IPR Policy)**

9. Finance Minister Arun Jaitley released India's National Intellectual Property Rights (IPR) Policy recently. The Policy which is in compliance with WTO's (World Trade Organisation) agreement on TRIPS (Trade Related aspects of IPRs), aims to sustain entrepreneurship and boost Prime Minister Narendra Modi's pet scheme 'Make in India.' **Here are the highlights:**

>> The Policy aims to push IPRs as a marketable financial asset, promote innovation and entrepreneurship, while protecting public interest.

>>The plan will be reviewed every five years in consultation with stakeholders.

>> In order to have strong and effective IPR laws, steps would be taken — including review of existing IP laws — to update and improve them or to remove anomalies and inconsistencies.

>>The policy is entirely compliant with the WTO's agreement on TRIPS.



>>Special thrust on awareness generation and effective enforcement of IPRs, besides encouragement of IP commercialisation through various incentives.

>> India will engage constructively in the negotiation of international treaties and agreements in consultation with stakeholders. The government will examine accession to some multilateral treaties which are in India's interest, and become a signatory to those treaties which India has de facto implemented to enable it to participate in their decision making process, the policy said.

>> It suggests making the department of industrial policy and promotion (DIPP) the nodal agency for all IPR issues. Copyrights related issues will also come under DIPP's ambit from that of the Human Resource Development (HRD) Ministry.

>> Trademark offices have been modernised, and the aim is to reduce the time taken for examination and registration to just 1 month by 2017. The government has already hired around 100 new examiners for trademarks. Examination time for trademarks has been reduced from 13 months to 8 months, with the new target being to bring the time down to one month by March 2017.

>> Films, music, industrial drawings will be all covered by copyright.

>> The Policy also seeks to facilitate domestic IPR filings, for the entire value chain from IPR generation to commercialisation. It aims to promote research and development through tax benefits.

>> Proposal to create an effective loan guarantee scheme to encourage start-ups.

>> It also says "India will continue to utilise the legislative space and flexibilities available in international treaties and the TRIPS Agreement." These flexibilities include the sovereign right of countries to use provisions such as Section 3(d) and CLs for ensuring the availability of essential and life-saving drugs at affordable prices.

>> The policy left the country's patent laws intact and specifically did not open up Section 3(d) of the Patents Act, which sets the standard for what is considered an invention in India, for reinterpretation.

>>On compulsory licensing (CL), India has issued only CL for a cancer drug. Mr. Jaitley said, "We rarely exercise this power." The statement assumes significance as developed countries, including the US, have raised concerns over India issuing the CL. As per the WTO norms, a CL can be invoked by a government allowing a company to produce a patented product without the consent of the patent owner in public interest. Under the Indian Patents Act, a CL can be issued for a drug if the medicine is deemed unaffordable, among other conditions, and the government grants permission to qualified generic drug makers to manufacture it.

>> The IPR policy favoured the government considering financial support for a limited period on sale and export of products based on IPRs generated from public-funded research.

## 9. Benefits of GST

- Example of cooperative federalism
- Create single national market. Costs of transportation will come down
- No cascading
- Self policing through input tax credit. Unique mechanism of **matching tax invoices of buyer and supplier.**
- Harmonizing tax laws
- No direct interaction with tax authority except through online GSTN portal. Only during auditing it inspection is there possibility of interaction
- Widening tax base
- Fall in prices of essentials. **Anti profiteering clause** to pass on lower prices to consumers (counter: companies can use greater savings for investments). National anti profiteering authority
- Development of IT infra using GSTN - Digital India boost
- Help consumption States like MP,UP,Bihar and poverty alleviation and fiscal growth
- Ease of doing business will attract FDI
- Zero rating of exports and SEZs. Will make exports competitive
- Various modes of payment available to tax payer. Credit, debit, national electronics Fund transfer
- Inflation unlikely as most goods still have same effective tax rates as before
- Many capital goods in 12-18% tax brackets from higher rates before. So cost of capital investment comes down

## Concerns with GST

- Effective tax rates for some goods especially services will go up. Services earlier 14-15%. Now, it is in 18% slab
- Inflation in other countries like Japan when GST introduced
- Compliance costs of producers might go up initially as they switch to GSTN
- Training of both state and central officers
- Tax rate on hybrid electric vehicles same as petrol vehicles. Not good for FAME India scheme
- Two features in any tax system- **simplicity and transparency**

But with multiple rates and removal of credits for housing, both simplicity and transparency ignored.

## Problems with multiple taxes

- Scope for evasion
- Higher compliance cost
- Cascading, as tax in one stage levied on selling price that contains tax levied in previous stage

GST should not be used as a tool for social justice. That job should be left to direct taxes

## **GSTN**

- IT backbone for GST
- Section 25 not for profit company
- 24.5% each for Centre and States . 51% divided between 5 private financial institutions. So govt has strategic control
- Managed Service Provider is Infosys for next 5 yrs
- Single interface for all tax payers in the country
- Registration of taxpayers
- Filing of returns
- Payment of taxes
- Matching and accounting for Centre and States
- Matching invoices
- Idea is to reduce compliance costs

## **Possible problems with federal fiscal relations**

- States losing taxation autonomy
- Might not be able to fund loan waivers, 7th Pay Commission etc with tax revenue. Have to resort to borrowing
- States like TN won't be able to introduce welfare schemes unique to their states without adequate revenue
- Power of taxation now vests with GST Council rather than parliament
- Centre now has access to direct taxes and half of indirect taxes
- But exemptions should help
- Can follow Australian model

## **Problems with GST implementation**

- Too many cesses
- Multiple tax slabs
- Cumbersome form fill up
- Problems with matching invoice
- Problems with input tax credit
- Composition scheme not available for inter-state trade. So, those small businesses near state borders unable to expand
- Problems with Advance Ruling Authorities giving contradictory statements across states

**GST returns non-filers grow faster than tax base**

- Too low turnover
- Others registering in GST only due to insistence of larger clients
- Some daunted by the filing process
- Systematically evading tax in the hope that they are too small for the taxman to notice.

**Update: CBIC** has developed **risk parameters** selecting taxpayers who will be audited from August 31

## **Benefits of GST (CEA article June 20, 2018 and others later)**

- Revenues rising by 11.9% over pre-GST times. tax buoyancy 1.2, high by historical standards. More revenue gains expected as e-way bill and automated verification of credit claims introduced (Sushil Modi). Earlier, state VAT and service taxes had buoyancy < 1
- True compensation requirements minimal after states receive their share of GST and cess. Actual amount 5000 crore. **Revenue shortfall is just 13% now.** From 16% earlier. Most **NE states have become surplus states**
- GST boosting revenues of consuming and poorer states like WB, Rajasthan, MP. But share of manufacturing states falling only slightly.
- Tax-final consumption expenditure also grew from 10.3% before GST to 11.9%
- Revenue per month at around 1 lakh crore, compared to 70000 crore under previous regime in 2015-16
- State check posts have disappeared
- e-Way Bill has improved compliance and reduced costs by enabling inter-state goods movement on the strength of a single declaration, instead of 4-5 earlier
- No inflation, due to excellent work by NAPA

## **Explaining High Buoyancy**

- GST integrates the entire value chain, reducing possibilities of evasion
- Transitional credits are slowly being extinguished away

## **Way Forward**

- Improve compliance of Composition scheme by introducing Reverse Charge Mechanism
- Introduction of new GST annual return form and matching of invoices
- Expand base to include petroleum and real estate and electricity

- Greater coordination between CBDT and CBIC

## **Initial Challenges in GST implementation**

- Massive disruptions, alongwith glitches in GSTN
- Decelerating growth rates of economy(falling to 5.7%)
- Large GST rate reductions
- Less than-desired compliance. Need for audit by investigative agencies
- Delayed settlement of IGST claims across states, as GSTR2 form put on hold. So, states like Bihar losing out on revenue

### **Authority for Advance Ruling**

Mechanism set up to bring clarity on tax issues where there is ambiguity in law

#### **Problems**

- State AARs give opposite views
- Officials passing the orders are from the tax dept. So, opinion in favour of the dept

#### **Way Forward**

- Inclusion of judicial member for more objectivity in decision making
- Set up National AAR or create one under GST Council

### **Changes in response**

- 4 rounds of rate cuts/rationalisation
- suspension of GSTR 2,3 returns
- rules changed to provide incentives to small firms
- Deferment of reverse charge mechanism
- GST Council planning to introduce RFID tags for e-way bills

### **Exemptions**

- Alcohol for human consumption
- Crude, natural gas, petrol, diesel ,ATF for time being
- Real estate
- Above 3 make 45% of indirect tax revenue for states
- Tax by local bodies
- Precious metals and rough stones taxes differently at 3%, 0.25,% resp.
- Businesses with turnover below 20 lac (10 for Special category states) need not register. Exempt from paying GST
- Composition scheme: pay summarized returns quarterly for traders, services, restaurants. Turnover should be below 75 lac.

## **10. Problems with Insolvency and Bankruptcy Code**

- Enough loopholes to close down businesses rather than help entrepreneurs
- Existing company management loses all control upon Insolvency application before NCLT. All control to interim resolution professional who has just 30 days to put together info
- Fails to define resolution applicant

- Unquestionable authority to creditors. No defence for debtor (violates SC judgement in Maneka Gandhi case) or discretion to adjudicating authority
- No qualification for Insolvency professional. Allows any person to access company proprietary info
- Prohibits withdrawal of application. So no chance of mediation or conciliation
- Violates article 19 the right to carry any professional or business
- New ordinance prevents existing defaulters from bidding the stressed assets. This can lead to low prices and recovery of assets by creditors as many bidders out of the process. **(Objective:** allowing a promoter to bid without restriction would mean countenancing a situation where an owner, having driven a firm into insolvency, is now able to purchase it back at a discount. This can lead to a situation of moral hazard )
- Advisory Committees in IBBI chaired by top corporates who themselves have many NPAs against their names.
- There are very few players in the corporate sector who have the capacity to raise capital and buy assets even at 35 or 15 percent of their valuation
- Bidding process in the steel sector has seen only 2 big domestic players and key global players who are eyeing assets that are likely to be taken over at throwaway prices
- In the steel sector, only 2 large corporate players seem to be the beneficiaries of stressed assets.
- Near monopolies will be created in the steel sector, a fatal blow to competition
- Appeals in NCLAT and SC likely, thereby delaying the process
- Already, 30% of insolvency cases exceeded time limit of 270 days
- Lack of enough number of NCLT benches
- Recovery rates poor due to pro-cyclical nature. Current slowdown affecting recovery. Stands at 41%. Better than SARFAESI (33%). Higher recovery rates for steel due to higher global steel prices.

### **New ordinance (June 2018)**

- Homebuyers made creditors, just like banks. So homebuyers can also initiate insolvency proceedings
- Promoter and guarantor of MSME can continue to bid for insolvency proceedings provided he is not wilful defaulter.
- Winding up cases to be transferred to NCLT
- Related party in relation to individual running the firm would be barred from bidding
- Voting share reduced to 66% in CoC for extending proceedings from 180 to 270 days and appointment of RP
- Company can file insolvency proceedings if it seeks shareholders approval
- Tenure of Interim RP till appointment of RP. Earlier fixed tenure of 30 days

### **Benefits**

- IBC can recover 50% dues from the 12 large cases : Credit Suisse report

- Bhushan Steel acquired for 36,400 crore. Total claims were 56000
- Economic Survey: Strict time limits for adjudication has made CIRP quick. Judiciary disposing of cases quickly and decisively
- Recent NCLT ruling on allowing ArcelorMittal to bid for Essar Steel at Rs. 42000 crore with a haircut of just 15% important (March 2019)- clarified who can bid for the assets (original owners bid Rs. 54000 crore but still disqualified), time limits of bidding and place of operational creditors, etc
- IBC resolution yields higher recovery for steel companies. 53% recovered. Haircut 47%. For other sectors, haircut as high as 69%

## **11. Coal Imperialism**

- Developed countries forcing developing countries to move away from coal to renewables without taking into account their own historical contribution to GHG emissions
- CEA Subramanian wants India to use coal more as lower tariffs on renewables due to implicit subsidies.

## **12. Observations by Economic Survey**

- Growth on the downside 6.75-7.5%. 96% of growth due to consumption growth
- Deflationary cycle due to good monsoons, falling crude prices
- Rupee appreciating. Exports becoming uncompetitive while large capital inflow
- Fiscal tightening by states due to UDAY, loan waiver, GST implementation

## **Way Forward**

- Increase savings and investment ratios to 30%
- Lower interest rates
- Sterilize capital inflow
- Increase capital expenditures by states
- Structural reforms in agriculture rather than loan waiver
- Ease of doing business
- Infrastructure especially road, power, telecom
- Insolvency resolution to deal with twin balance sheet problem

## **13. Concerns with public stockholding of food grains in WTO**

- No limit on public stockholding for food security (part of green box)
- But if stockholding done through administered prices (MSP) above 1986-88 reference, then considered distorting. Limit is 10% of total value of

production

- Peace clause (agreed at Nairobi 2015): if India crosses 10% limit, then also no country can challenge till permanent solution agreed at Buenos Aires 2017.
- Providing food to the point through PDS completely allowed by WTO

#### 14. Jobless Growth

- Recently 'Champions of Change' programme held in NITI where CEOs were called to find solutions to six areas including make in India, doubling farmers income by 2022, smart cities, financial sector etc. Idea is to create jobs
- CMIE BSE survey: employment declined by 3.3 million in Januray-April 2018. Highest in a decade
- Need to move away from present model of "take, make, dispose". Does not create jobs as firms going for automation and not ecologically sustainable
- Need to move towards Gandhi concept of circular economy-"take, make, reuse, recycle". So create jobs around the factory rather than inside. Eg create jobs in car repairing, refuelling etc instead of jobs in car manufacturing, as it is more labour intensive
- Recent study by SBI (Jan 2018) : move to **payroll reporting** for better job reporting based on EPFO contributions, rather than Labour Bureaus surveys (Ghosh and Ghosh). According to them: 10 million jobs created in FY18. But possible that many jobs became formal due to demo and GST, instead of creation of new jobs (**Update:** EPFO, ESIC, NPS subscribers grew by 10, 22, 20.2% in May 2018)
- Encourage labour intensive industry in states with high fertility rates
- **Recent CII report:** 3.32 lakh net jobs created by MSMEs in last 4 years- 14% higher than 2014 base. Telangana, MH, GJ top creators

#### Paradox of Job Growth

- CSO survey: Payroll Reporting in India: An Employment Perspective-April 2018. Claims 4.1 million formal sector jobs added during Sept 2017-April 2018
- Formal jobs defined as those which provide at least one govt. financed social security benefit: EPF, NPS, ESIC.

#### Problems with the survey

- Since a formal sector worker legitimately can access more than one social security scheme, this can lead to double counting



- Evasion of EPF by employers is widespread. In last few years, govt. has incentivised employers to enrol workers in EPF. So, this may just reflect this, rather than creation of any new employment.
- Conceptual problem: Suppose factory empt rises from 19 to 20 workers. So, employer forced to enrol all workers under EPF. This will be recorded as 20 additional workers. But new job created = 1
- Focus on formal sector only. But we don't know the impact of demo and GST on agri and non-farm informal sector that has 85% of workforce

### **Other employment surveys in India**

- NSSO EUS every five years. Last carried out in 2011-12. Now replaced by annual Period Labour Force Survey and a time use survey
- Labour Bureau carries out a similar survey

### **Recent findings by CMIE (February 2019)**

- Labour participation rate (LFPR) during Jan-Oct 2016 at 47%. World average 66%. One of the lowest in the world
- Immediately after demonetisation, LFPR fell to 45%- so about 13 million moved out of labour markets. This ironically lowered the unemployment rate.
- Most of those who left the market were the unemployed
- Mostly borne by women- female LFPR fell from 15.5% to 11.9% . For men, it fell from 74.5% to 72.4%
- GST also impacted

### **Why employment question has been neglected?**

- Voters do not exert enough pressure on political parties. They privilege non-economic factors (caste, religion, dignity, nationalism) over economic factors like joblessness. Poor do not see unemployment as a systematic problem
- Lack of state capacity. In Make in India, only 4 of the 25 sectors are labour intensive (like leather, construction, textiles and garments)
- Possibility of rent-extraction from the big companies that finance political parties. Politicians can get back lots more from capital intensive projects rather than lab intensive as investments required are comparatively lower in the former

### **Ways to focus on Formal Jobs**

- Rationalise- cut down ministries, filings and compliances
- Simplifies- One labour code and universal enterprise number
- Digitise- Shifting to API

- Skill development and apprenticeship- We need 1.5 crore apprentices (similar to 2.7% of German WF)- Merge the Regional Directorates of Apprenticeship Training (RDAT) and Board of Apprenticeship Training (BOAT)
- Financialisation- making it easier to access funds, ensuring 270 day deadline in IBC maintained. Credit to GDP ratio at 50% currently should reach 100%
- Make labour a state subject and go for decentralisation to foster competitive federalism. Create accountability and capabilities in city governance.

Of **6.3 crore enterprises in India, only 12 lakh GST registrants**, 10 lakh PF payers, 19500 companies with paid up capital of over 10 crores- shows the extent of informalisation.

#### **Recent Paper by Mehrotra and Parida, as a critique to Bhandari and Dubey (BD)**

- Main point of difference is due to the use of Usual Principal Status (UPS) and Usual Principal and Subsidiary Status (UPSS) [30-182 days] by MP, but not by BD
- MP use a population growth rate of 1.04% (accounting for fall in fertility), but BD use 1.7% (which is very high)

Formally concluded that the total employment in India declined between 2011-12 and 2017-18. This is the first time such a decline has been recorded in independent India's history. Fell by 9 million.

But BD study by PMEAC finds total employment grew from 433 million in 2011-12 to 457 million in 2017-18.

#### **Issue over UPS and UPSS**

- UPS- primary employment, UPSS- can take up some minor employment for less than 6 months a year
- Acc to BD- only Primary employment should be considered. Not subsidiary, as most of this is done by household enterprises and most of that is unpaid.

#### **15. Power Sector in India**

- Move from Power for All to Power for All 24x7 and later to Quality Power and Green Power
- 41% of installed capacity in private sector
- Nearly 44% power generation from coal. Coal most viable as of now due to low cost, abundant reserves. But Indian coal has high ash and low sulphur. Not good quality. So imports risen
- Problems of PM, SO<sub>2</sub>, NO<sub>x</sub> from thermal power
- Low nuclear power capacity 2%
- Lack of clean cooking fuel in rural households

- T&D losses high in poor states
- TERI's MARKAL model can show impact of INDC on climate change
- Global average per capita electricity consumption is 3030 kWh. But India's 805. India's target is 5000 by 2050.
- Lack of single power market. **Multiple rates for multiple uses in Bihar and Rajasthan.** Increases scope of corruption.
- Total number of critical plants (less than 5-7 days of coal supply) and super-critical (<3-4 days) increased in Jan-May 2018

## Problems with old thermal plants

- Requires FGD to reduce pollution emissions- raising costs by 35-40 paisa per unit
- Do not conform to new environmental norms
- Inflexible and cannot change their output in tandem with 175 GW RE generations, which are variable in nature
- New cost-efficient, less polluting, super-critical power plants not able to supply power as discoms are stuck with outdated PPAs with older plants
- Positive: Covered most of their depreciation and loan payments- so, lower fixed costs

## Issues in rural electrification

- Setting up infra
- Providing connectivity to households
- Adequate supply of quality power
- At affordable rates
- Clean and sustainable power

## Concerns with nuclear power

- Radiation can damage human, animal and agri health
- Where to dispose nuclear waste
- Can it withstand floods and earthquakes
- Whether nuclear power is economic
- What happens if fissile material falls in terror hands. **Convention on Physical Protection of Nuclear Material** came into force in 2016

## Problems with Jaitapur Plant

- Costlier than solar power. Rs. 15 per unit versus Rs. 2.5 per unit under solar power
- High capital costs and rapid capacity expansion can lead to power sector NPAs. Because NPCIL is govt owned, the debts have to be written off by the taxpayer itself.
- Safety problems in the European Pressurised Reactor (EPR), as found by French Nuclear Regulator

- Flawed nuclear liability law where liability finally borne by NPCIL and GOI can create moral hazard for Areva- which can have no incentive to maintain safety standards

### **Advantages of nuclear power**

- Radiation levels much lower than AERB permissible levels (1000) and national background radiation (2400)
- Low carbon footprint
- High energy density and fuel can be reused through Closed Fuel Cycle
- Can provide sustainable energy solution
- Nuclear power Tariff per kWh lower than coal based. Eg Narora 249 rs but Dadri coal plant 500 rs
- Need to change perception on nuclear power
- Cabinet nod for 10 pressurised heavy water reactors. Working with Russia for kudankulam, operationalization of Japan nuclear agreement

### **Problems with rooftop solar power**

- Of 100 GW solar power target, 60GW from large plants and 40 from rooftop
- But only 3% of target achieved in rooftop segment based on Bloomberg New Energy Finance report.
- DISCOMS not willing to buy surplus power
- Competitive bidding favours only large plants with economies of scale
- For individual households, subsidised electricity from DISCOMS still cheaper
- Lack of information available to households: People want face-to-face discussions, but most info available on websites
- Need to introduce Generation Based Incentive and 'net metering' policy for consumers to sell their excess rooftop solar power.
- Need RWAs and electricity linesmen to disseminate info on rooftop solar power

### **Current problems with solar power (2018)**

- High import tariffs to encourage domestic industry. But raises costs of solar power suppliers.
- GST implementation problems. Pre gst no tax on solar panels. But now, 5% tax
- Possibility of DISCOMS cancelling PPAs. Has happened in UP
- Falling power tariffs. So, suppliers work with wafer-thin margins, discouraging investments.
- Till now, only 69 GW of installed solar capacity. Target is 175 by 2022.
- DG Trade Remedies plans to impose 25% safeguard duty: Will help domestic manufacturers, but raise costs of existing projects

using imported parts

### Current problems with wind power

- Setting up windmills very costly
- Can have an adverse biodiversity impact due to sound of turbines, bird hits and transmission lines, especially in western ghats
- **Only 8 states** where it is economically viable- MH, RJ, GJ, KN, TN, AP, TN, MP. But too many plants can reduce the market size. Instead, this power needs to be sold to deficit states.
- Earlier **Feed-in-Tariffs** were used as payments by states to power developers. But with Centre's push towards RE target of 75 GW of wind power, auctions carried out that lowered tariffs to Rs. 2.44 per unit. While this reduced profitability, most states wanted to revise their FITs in response to falling tariffs.

RE push facing hurdles from delayed setting up of transmission lines by PGCIL and CEA, while SECL conducts power bids. Most RE power suppliers in uncertainty over when they can supply power

## 'FY20 wind capacity addition likely to rise 3.5-4.0 GW'

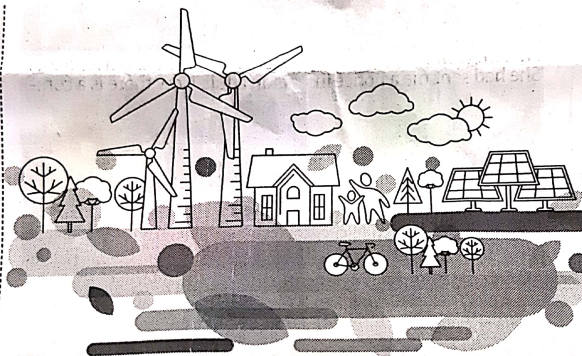
Wind energy generation capacity addition is likely to improve to 3.5-4.0 GW this fiscal, w/while land acquisition and transmission connectivity challenges will remain crucial, rating agency Icra said

### MEASURES TAKEN BY GOVT TOWARDS RESOLVING ISSUES FACED BY DEVELOPERS

- Facilitation charge to state governments providing support for land acquisition
- Investments towards augmenting inter-state transmission infrastructure

### FACTORS LEADING TO RISE IN AVERAGE BID TARIFF

- Higher implementation risks in projects awarded so far
- Lower competition with bids being under-subscribed
- Financing challenges



>12 GW

Overall wind power capacity awarded by central nodal agencies and state distribution utilities since February 2017

1.6 GW

Wind power capacity added in FY2019, owing to delays in execution caused by land acquisition issues and securing transmission connectivity

<₹ 3/unit  
Tariff discovered in recent wind power auctions

₹ 2.64/unit  
Average bid tariff in calendar year 2018, as against Rs 3.01 per unit in calendar year 2017

₹ 2.85/unit  
Average bid tariff in five months of calendar year 2019

### Unconventional Gas Source

- Coal bed methane
- Coal mine methane
- Shale Gas
- Tight Gas

Most of these are found in sedimentary rocks in coal deposits trapped in the porous but impermeable rocks. US largest producer. China has the largest reserves. **India:** Combat basin, KG basin, Carvery valley, upper Assam

### Reasons for development in shale Gas

- Developments in hydraulic fracturing (fracking)
- Tech advances in horizontal drilling
- Rise in natural gas prices in market

## Concerns

- Large amount of water needed for fracking
- Chemicals and gases leaked can contaminate groundwater
- Earthquake risks

## Way Forward

- Clean energy cess on coal
- Shift to solar and wind power. Implement National Offshore Wind Energy Policy
- Prototype fast breeder reactor at Kalpakkam
- Digital Management system (DMS), GIS mapping, SCADA for reducing T&D losses
- Demand side Management including NMEEE and UJALA LED scheme (LED bulbs distributed by EESL)
- Street Lighting National Programme. Dark Sky Initiative. To reduce light pollution and improve efficiency of Street lights
- PAT under NMEEE. Mandates intensive industrial plants to reduce their energy consumption over a 5 year cycle
- Agricultural DSM where EESL distributes energy efficient pump sets to farmers
- PM Ujjwala Yojana to increase reach of LPG connections to rural BPL households
- **National Tariff Policy** introduced mini grids as an option to provide power to unelectrified villages and concerns for regulation of private power sector. **Recent amendments:** solar renewable purchase obligation raised to 8% by March 2022, bundling of renewable power, waiving off inter-state transmission charges for solar and wind power
- **Rural Electrification Policy** 2005 changed definition of electrified villages. Target was 100% electrification by 2009 and quality power by 2012
- DDUGJY subsumes RGGVY, separation of agro feeder and strengthening T&D infra, Power for All by 2019
- UDAY scheme for financial turnaround of state DISCOMS
- National Solar Mission under NAPCC : achieve 100 GW solar power by 2022 using Generation Based Incentive (GBI) and Viability Gap Funding
- **SRISTI** (For rooftop solar power) and **KUSUM** (For harnessing solar power in agri)
- **Renewable Purchase Obligations**
- FAME India scheme for electric vehicles
- R&D in renewables

## 16. Water

- When pollution load exceeds the assimilation capacity of water, it causes degradation of the resources. Need to be factored in the national income accounting to account for the environmental debt of the economy

- India's water use efficiency lower than even sub Saharan Africa. World Development Report
- 1/3 districts suffer from drought. Recently water tankers in rail transferred water to Latur in Maha
- India gets 1100 mm of rainfall annually, mostly within 100 hours. Israel gets only 400mm
- Water availability below 1000 cubic metre per capita per year taken as water scarcity
- Per Ha investment highest in AP, Maha, Guj and subsidy highest in JK, HP. Lowest investment and subsidy in Raj and odisha
- 80% of irrigated area under tube wells . Rest under canals
- Marginal efficiency of capital dropped to negative in many states in 1990-99 period. Improved thereafter
- 

### **Immediate steps**

- Form drought mitigation Committees in villages
- Arrange livestock camps
- Implement right to food
- Create water conservation structures. Eg johad in Raj , keres in KN . Unique dyke system in Raj called Chauka for capturing rainwater, temple tanks, bamboo drips in Meghalaya
- Artificial groundwater recharge
- Raising awareness among farmers and people
- Project Kakatiya by telangana govt through revival of traditional tanks and lakes

### **Agriculture**

- Water resistant crops
- Micro irrigation
- Land and water management practices
- Laser levelling
- System of Rice Intensification (SRI) : growing Rice in 8-12 days when rainfall is high . High productivity
- Going organic

### **Industry**

- Water efficiency
- Life cycle analysis: check the amount of water consumed in various stages of the products life cycle from cradle to grave. Get Cradle to Cradle certification
- Supply chain water management
- Water offset through water conservation and efficiency investments

### **Interlinking of rivers**

- GOI formed National Water Development Agency to study feasibility of interlinking. Autonomous org under water resource ministry
- **Based on National Perspective Plan**
- 3 interlinking river projects studied
- Ganga-Brahmaputra-cauvery link or Himalayan river development
- Interlinking of peninsular rivers
- Divert west flowing rivers of western states to east to KN, TN etc
- Special Committee on Interlinking of Rivers submitted progress report on feasibility of 3 interlinkage: Ken-Betwa, Damanganga-Pinjal, Par-Tapi-Narmada

## **Problems faced by Ken-Betwa**

- Land acquisition costs due to forest land acquiring after Panna Reserve is inundated
- Issue of water sharing between UP and MP during Rabi season

## **Benefits of interlinking**

- Transfer surplus water to deficient basins
- Helps in flood control, irrigation and drinking water supply
- Infrastructure creation and employment boost

## **Possible problems**

- Ecology of every river is unique, can affect biodiversity
- Large-scale displacement due to dams and canals, affecting livelihoods and agri
- Financial costs escalating. in 2001, it was 5.6 lakh crore
- Rainfall patterns changing due to climate change. So, surplus basins now might become deficit later

## **Flood control**

- Need to move from flood prevention to flood governance
- Participatory management of embankments through Committees . Build and forget model not worked . Committees can charge toll on usage and grow plantations for revenue in the safe zone.
- Periodic inspection by flood control department
- Rashtriya Barh Aayog set up in 1976 to review flood protection measures
- National commission on water resources 1999 said storage dams and embankments necessary- but these are **ad-hoc measures**
- Damodar Valley and other dams have helped but now siltation a major problem
- **Integrated Flood management** ( refer Insights secure November 6, 2018)
- Brahmaputra Study Centre in GU set up to study floods and suggest control measures
- Can try **Flood-plain zoning**- Depending on vulnerabilities, you ban certain activities- farming, construction etc- Done in **US**
- Odisha comes up with a **flood atlas**



# Clear picture

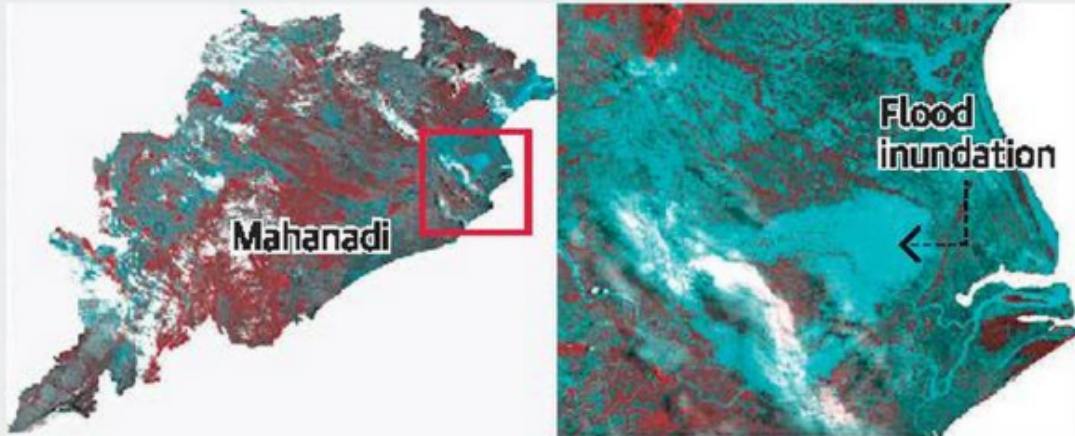
The atlas will help the authorities in several ways

■ To systematically plan flood control measures

■ To control developmental activities on floodplains

■ To carry out relief and rescue operations

■ To plan relief shelters and health centres



A satellite image of the flooding in Odisha ■ ISRO

## Water-shed development

- Under PMKSY, undertaken by DoLR
- Within the site of the project, a ridge is identified and structures like check dams, percolation dams, ponds and channels from ridge to valley
- Implemented in convergence with MGNREGA

## Benefits

- Increase in water table
- Better fodder availability

## Problems

- Delays in implementation
- Governance problems affecting sustainability: When water availability rises, farmers start growing water intensive crops like sugarcane and the water table falls again. Need capacity building of local gov for community management of these resources

## Possible problems with larger-scale river transformation

- River drainage to sea can fall affecting salinity and ability to regulate climate
- Dredging reduces sediments which absorb pollutants
- Underwater noise can affect sonars of gangetic dolphin
- Spread of invasive species like piranha
- **Way Forward:** interdisciplinary research, less water intensive crops and preventing large dams on remaining free flowing rivers.

## 17. Reasons for growth slowdown to 5.7%

- Demonetization
- Destocking before gst
- Fall in private investment (as per Rangarajan). GFCF fell from 34% to 27% between 2011-12- to 2016-17. Since public investment has been steady at 7.5% of GDP . Although FDI inflow highest at 60\$ billion , much investment gone into acquiring old projects rather than Greenfield projects

## Way Forward

- Reforms like gst, bankruptcy code, labour laws
- Improve twin balance sheet problem
- Revive stalled projects:low hanging fruit

## 18. Knowledge based economy(human capital)

- Need to develop knowledge ecosystem- building institutions for information gathering, research and planning
- Allowing movement of personnel between university and industry
- More autonomy in hiring and firing to public institutions
- Ensuring grants properly used

## 19. Steps to make in India and generate export jobs

- Promote manufacturing of products world buys most: bulk drugs, organic chemicals, engineering,electronics and telecom. Give tax breaks and rope in **anchor firms** (firms which kick-start global operations using their value chains and networks and also persuade others to join )
- Invest in global value chain (GVC) ready trade infra. Eg automate ports ,online processing of clearances
- Improve product quality. Get mutual recognition agreements (MRA) with labs of other countries
- Reduce cost differentials. Eg higher real effective exchange rate
- Protect interests of exporters in foreign markets. Appoint trade experts and representatives in Indian missions to take up regulatory issues
- Promote retail exports like handicraft,jewellery
- Open large product exhibition centres cum markets . Yiwu market in China

## 20. Steps for job creation

- Need industrial and trade policy to prevent inverted duty structure (where import duties on intermediates is higher than on final goods) leading to surge in imports of final goods and harming domestic manufacturing. No

inverted duty on automobile. That's why it has flourished. Need to remove duty on electronics

- Special packages for labour intensive sector . Eg textiles,leather,food processing
- Cluster development of msme
- Align urban development with infra and manufacturing. Use AMRUT mission
- Place skilling centres near job centres to allow for better placements
- Public investments in health, especially preventive care which the market doesn't
- Investments in education, police and judiciary

### **Demographic profile of the job market**

- Educated unemployed
- Unskilled underemployed in agri who want to migrate out of agri
- Educated women looking for jobs

### **21. How to recapitalize banks**

- Government can sell stake in PSBs
- Introduce recapitalization bonds. Govt borrows from banks by issuing bonds and uses the proceeds to bail lenders out. Attractive to banks as banks are flush with deposits but credit demand is weak. This is where govt steps in with such bonds

### **22. PMUY (read only highlighted text)**

were at 4.4 per cent in 2016-17, as per cent in 2015-16, (-) 0.2 per cent in 2014-15. As per the second Advance Estimates of production of foodgrains released by Ministry of Agriculture & Farmers Welfare on 15<sup>th</sup> February 2017, production of total foodgrains during 2016-17 is estimated at 271.98 million tonnes compared to 251.57 million tonnes in 2015-16 (Final) and 252.02 million tonnes in 2014-15.

#### Industrial Sector

As per the Second Advance Estimates of National Income 2016-17 released by CSO on 28<sup>th</sup> February 2017, the growth rates in Gross Value

Added (GVA) of the manufacturing sector were 5.8 per cent in 2016-17, 8.2 per cent in 2015-16 and 6.9 per cent in 2014-15. The growth in the GVA from 'manufacturing' sector was 7.7 per cent in 2016-17 as compared to growth of 10.6 per cent in 2015-16 and 7.5 per cent in 2014-15.

The index for eight core industries (comprising crude oil, natural gas, petroleum refinery products, coal, electricity, cement, steel, and fertilizers) registered 4.8 per cent growth in 2016-17 (April-January) as compared to 3.4 per cent in 2015-16 and 4.5 per cent in 2014-15.

November, 2016 was 5688 km and total length of highways constructed up to November, 2016 was 4021 km as against 6029 km in 2015-16 and 4410 km in 2014-15.

In view of all the aforesaid achievements of Indian Economy in different sectors and rolling-out of the historic Indirect Tax reform i.e. Goods and Services Tax (GST) from 1<sup>st</sup> July, 2017, one can easily conclude that the Indian Economy is going to make much higher achievements in the coming years.

(E-mail: dprfinance@gmail.com)

### Towards Cleaner Cooking Fuel

Pradhan Mantri Ujjwala Yojana was launched by the Prime Minister on May 1st, 2016 in Ballia, Uttar Pradesh to safeguard the health of women and children by providing them with a clean cooking fuel – LPG, so that they do not have to compromise their health in smoky kitchens or wander in unsafe areas collecting firewood. Under this scheme, 5 Cr LPG connections were to be provided to BPL families with a support of Rs.1600 per connection within 3 years. Ensuring women's empowerment, especially in rural India, the connections is issued in the name of women of the households. Rs. 8000 Cr. was allocated towards the implementation of the scheme. Identification of the BPL families is done through Socio Economic Caste Census Data. An adult woman member of BPL family identified through Socio-Economic Caste Census (SECC) data is given a deposit free LPG connection with financial assistance of Rs. 1600/- per connection by Government of India.

PMUY was expected to result in an additional employment of around 1 Lakh and provide business opportunity of at least Rs. 10,000 Cr. over the 3 Years of the programme to the Indian Industry. Launch of this scheme will also provide a great boost to the 'Make in India' campaign as all the manufacturers of cylinders, gas stoves, regulators, and gas hose are domestic. 14 States/UTs having LPG coverage less than the national average, hilly states of J&K, Uttarakhand, Himachal Pradesh and all North-East States were identified as priority states for implementing the scheme.

The top five States with maximum connections are UP (46 lakh), West Bengal (19 lakh), Bihar (19 lakh), Madhya Pradesh (17 lakh) and Rajasthan (14 lakh). These States constitutes nearly 75 per cent of the total connections released. The households belonging to SC/ST constitute large chunk of beneficiaries with 35 per cent of the connections being released to them. India is home to more than 24 Crore households out of which about 10 Crore households are still deprived of LPG as cooking fuel and have to rely on firewood, coal, dung – cakes etc. as primary source of cooking.



- LPG Penetration gone up from 56% to 80% between 2014-2018.

- PMUY focus on value that LPG generates rather than cost. eg: through reduced drudgery and gains in health
- Peer Learning Programme: LPG Panchayat helping more people to appreciate advantage of clean fuel

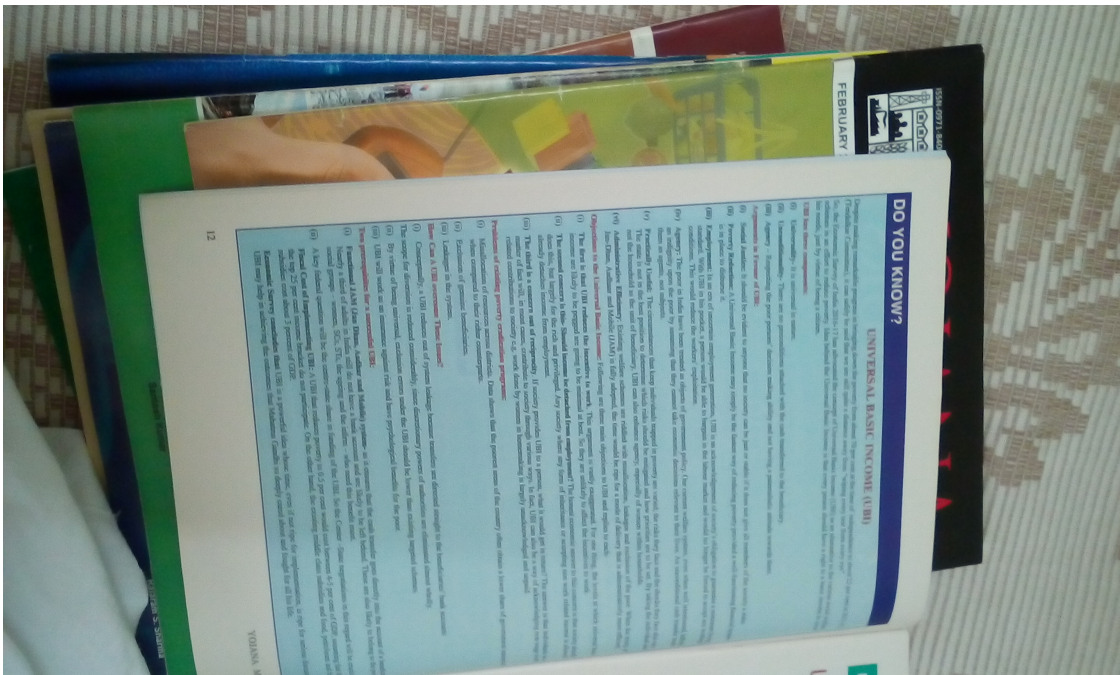
### 23. SWIFT portal

- Single window interface for facilitating trade
- Allows importers to file a common integrated declaration on ICEGATE
- Reduces the number of declarations from 6 to 3. (FSSAI, Animal quarantine, drug controller, wildlife control bureau)

### 24. Budget motto

- Transform , energise and clean India (TEC)

### 25. UBI



### How to make it work in India?

- Must be universal: Even Ambanis must get it- as a matter of right, just as they get security which they can afford
- Cut down on other wasteful subsidies like fertiliser subsidy
- Increase taxes on rich, tax reforms, land reforms to increase revenues
- Use technology like JAM to transfer money
- Link it to a transparent price index
- Deal with the issue of allocating to children and adults
- Talk with states. They must be taken on board- some form of revenue sharing is needed between centre and states

- Pilots have been carried out in Delhi and MP with positive results

## **Minimum Basic Income**

- Needs to be supplemented with basic public services like health and education
- Direct income transfers to some groups: landless labourers, agri workers and small farmers suffering from multi-dimensional poverty
- Income support of Rs. 15000 makes up more than a third of the average consumption of the poorest 25%
- Directed at bank accounts of women beneficiaries
- Use SECC 2011 to identify households. Small farmers- using Agriculture Census 2015-16
- Cost needs to be shared with states.

## **Advantages**

- Can improve nutrient intake of poor, enrolment in schools and attendance
- Will not discourage beneficiaries from seeking work as income support is not too large
- Income receipts come in handy as **interest-free working** capital for several categories of beneficiaries
- Reduce income inequalities
- Increase demand and promote activities in rural areas

## **Better policies than UBI**

- Focus on building state capacity beginning with implementation of 2nd ARC
- Strengthen middle level institutions, enterprises and workers
- Focus on **Universal Basic Capital**- people own the wealth through collective enterprises. eg: AMUL, SEWA, Grameen. Provide citizens a dividend on that capital

## **26. Changes in budget this year**

- Rail budget merged (also need to implement **rakesh mohan** Committees rec)
- Advancing budget by a month( 1. Can begin tax proposals from the beginning of the fin year, 2. No need for vote on account, 3. Govt depts get 12 months instead of 9 months to spend budget)
- Plan and non plan expenditure merged
- Consolidated outcome budget
- Strengthening district planning Committees which are constitutional under PRIs

## 27. Recent steps in textiles

- India handmade bazaar: online portal to provide direct market access to handloom weavers and artisans
- E dhaga: app to allow handloom weavers to track and order yarn
- Bunkar mitra: helpline for handloom weavers 7 days a week
- India handloom brand : marketing and branding
- Mega handloom clusters: skill upgradation, specialise in specific skills, design inputs, location specific clusters
- Amended tech upgradation scheme
- Technology mission on technical textiles , and mini mission on centres of excellence (SASMIRA, NITRA, ATIRA)
- **Scheme for integrated textile parks:** provide the industry with world class infra to set up textile units to be implemented by SPV where all units in the park will have equity
- Evolution of COUTURE from Kolhapuri sandals under project ENTERPRISE of CSIR

## Jute industry

- Jute packaging materials act: mandatory packaging in jute materials for certain commodities specified by govt
- ICARE providing certified seeds at subsidised rate, seed drills, nail weeders and better tech and popularising such tech
- Life insurance scheme for workers

## 28. Digigaon

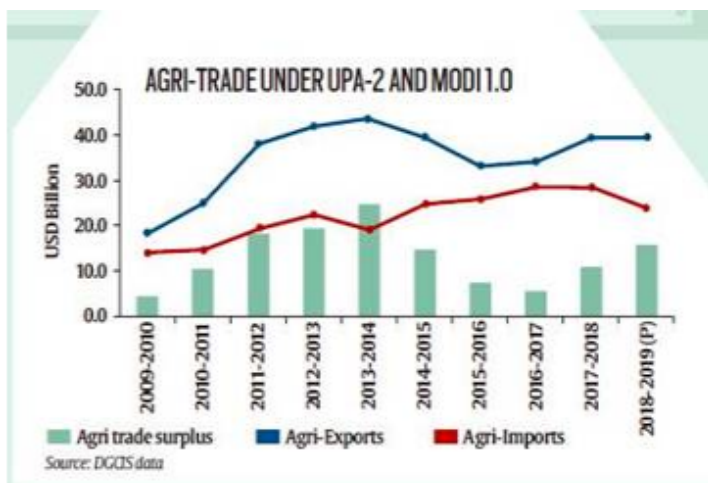
- Under digital India
- To provide telemedicine and education and skills through digital tech

## 29. Types of legal tender

- Limited : can refuse to accept payments beyond a point. Eg coins
- Unlimited: cannot refuse. Eg currency

## 30. Agri exports

- Fell by 2/3 to 8 billion dollars by 2016-17 from 2014
- Due to falling global prices
- Rising imports of oilseeds and pulses
- Restrictive export policies



## Way Forward

- Build global value chains in commodities with comparative advantage, like cereals, oilseeds, pulses, meat
- Connect export markets directly with Farmer Producer Organization (FPO)
- Improve sanitary and phytosanitary quality
- Stable and reliable export policy with no bans or high minimum export price.
- **Liberalise factor markets.** Eg highly regulated land lease markets have kept land holdings small and created informal tenancies that cannot mobilise large investments.

## 31. Impact of demonetization

- First cashless village Dhasai going back to cash due to poor connection, high transaction charge, fear
- Agri prices showing upward stickiness due to a) government policy of containing inflation, including RBI MPC and b) demonetization as land and input prices have crashed.
- Low cash-GDP need not mean low corruption. Japan has the ratio at 18.6%. India at 9%. Nigeria 1.53%.
- Possibly aggravated income inequality (Gaiha)
- Number of filers increased but tax-GDP ratio almost same.
- Currency in circulation now 10% above pre-demon levels
- Formalization will not yield black income as informal sector hardly produces black income as income is below tax threshold

## Positive claims

- Increase in digital transactions
- Expansion in tax base
- Creation of paper trails that make it difficult to generate black incomes



### **32. Will recapitalization work?}**

#### **Yes**

- IBC has failed to recover loans
- Banks need capital to be able to lend. Otherwise economy dampens

#### **No**

- Reward to defaulters
- Using public savings to finance recap
- Have done such things in the past, but only temporary solution

### **Way Forward**

- Implement Narasimhan Committee recommendations 1991 and 1998
- Fixed tenure for top bank management
- Salary structure linked to performance
- Lateral entry at ED/MD level
- Fix accountability by removing senior management for underperformance
- Improve regulatory framework
- Banks need to talk to each other when joint lending
- Independent statutory auditors
- Action against promoters who siphon off funds . AIBEA wants wilful default to be made a criminal offence
- Have a **US style online platform to sell bad loans** for better price discovery.

### **33. Socialist calculation debate**

- Debate between the believers in socialist planning and non believers
- Oscar Lange was a believer
- Hayek was against it. No private property under socialism and information requirements massive

### **34. Problems faced by MSMEs**

- Lack of credit
- Infra gaps
- Obsolete tech
- Lack of skilled labour
- Lack of market access
- Competition with MNCs
- Competition with China
- Quality certification
- Rigid labour laws. Need separate labour laws for MSMEs

## Schemes by govt

- Credit Guarantee Fund, in partnership with SIDBI
- ZED scheme
- Technology Centres
- PM Employment Generation Programme.
- Public procurement policy 2012 for MSMEs. 4% from SC/ST
- National SC/ST hub
- Credit Linked capital subsidy scheme.
- Udyog AADHAAR Memorandum.
- MUDRA
- National institute of MSMEs
- Bar Code for MSMEs
- Market Assistance Scheme and MATU

## Benefits of MSMEs (OECD 2017)

- Promote inclusive and sustainable growth
- Employment creation
- Sustainable industrialization
- Foster innovation
- Reduce inequalities

# Poised for growth?

Senior Minister Nitin Gadkari, who has been given the portfolio of Micro, Small and Medium Enterprises (MSME), said recently that the Ministry would identify goods being imported by India and evaluate those that could be manufactured locally by MSMEs. This could possibly give a boost to the sector. Meanwhile, here's a snapshot of the arena. By **Varun B. Krishnan**

## MORE RURAL ENTERPRISES

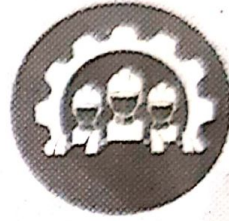
There are over six crore MSMEs in the country, as per the MSME Ministry's 2017-18 report. Of these, micro enterprises comprise the highest percentage. Rural enterprises are higher in percentage than urban



Sector	Rural	Urban	Total (in lakh units)
Micro	324.09	306.43	630.52
Small	0.78	2.53	3.31
Medium	0.01	0.04	0.05
Total	324.88	309	633.88
Share (%)	51	49	100

## EMPLOYMENT SKEW

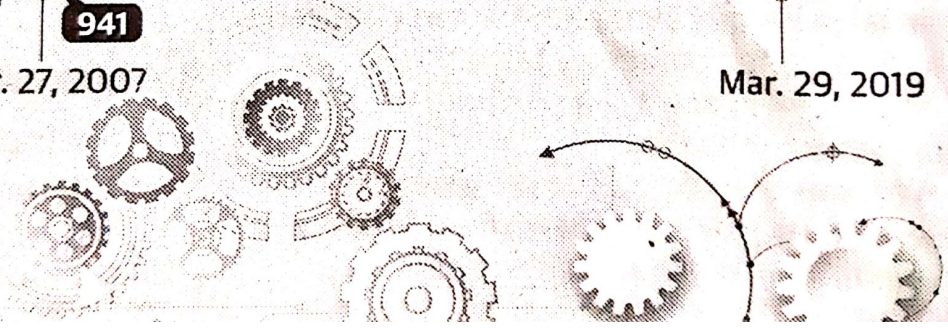
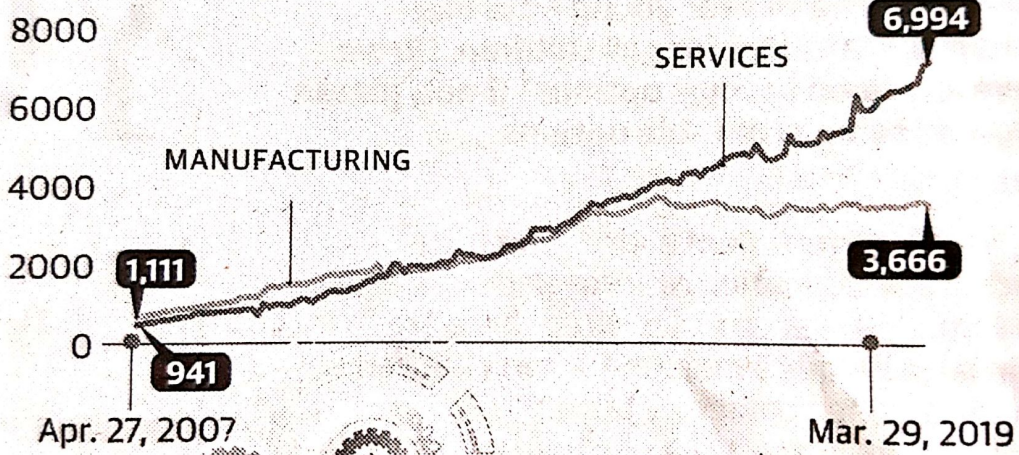
Though the number of rural enterprises is higher, urban MSMEs employ about 23% more people than rural ones. MSMEs employ about 11 crore people across the country



Sector	Rural	Urban	Total (in lakh nos.)
Micro	489.3	586.88	1076.19
Small	7.88	24.06	31.95
Medium	0.6	1.16	1.75
Total	497.78	612.1	1109.89
Share (%)	45	55	100

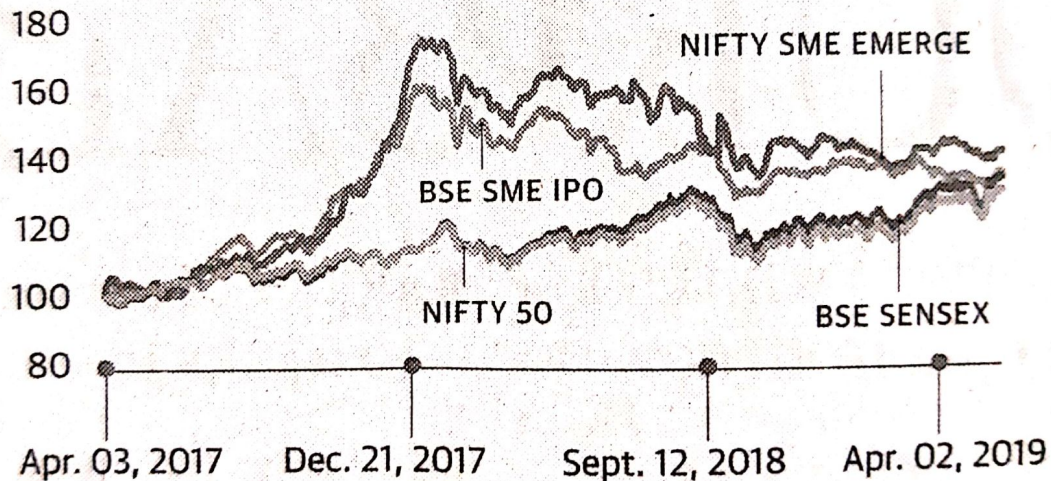
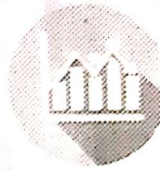
## MORE CREDIT FROM BANKS

Bank credit to MSMEs has grown at a CAGR of 15% in the last decade, with the growth more accentuated in the services sector, which accounts for over 60% of the total bank credit disbursed to this sector



## INDEX WATCH

After reaching a high in January, the NIFTY SME Emerge and BSE SME IPO\* slowed down in subsequent months, but have picked up between May 15 and May 30, possibly buoyed by the Lok Sabha exit poll results and the results of the election



\*Indices comprising select SMEs

## Constraints in MSME financing

### Supply side

- Financial Repression. So less funds available.
- In priority sector lending, 18% goes to agriculture. No such sub target for MSMEs
- Banks usually lend for short term. Only specialized institutions like IDBI, SIDBI lend long term.
- Basel III norms put extra pressure on banks
- Very difficult for banks to recover assets in case of default

### Demand side

- Most of them informal with unlimited liability .
- Medium segment within MSMEs more robust. But India suffers from missing middle

## Recommendations of UK Sinha Committee

- Create a Distressed Asset Fund of corpus Rs 5000 cr and Fund of Funds of Rs. 10000 cr to support VC/PE firms investing in

## MSME

- DAF structured to assist units in clusters where a change- like a ban in plastics- in external envt has let to MSMEs turning into NPAs
- Raise limits for collateral free lending to MSMEs and SHGs to Rs 20 lakh
- Look into portability of MSME loans
- Group policies for death and accident cover for MSMEs- stress in 30/35% of MSME accounts is due to payment delays and catastrophe/calamities like death
- Cash-flow based lending on the back of publicly available digital infrastructure like GSTN or India Stack
- Integrating the GeM platform with Treads to boost liquidity to MSMEs

### **35. Problems with India's GI tag**

- Insists on documentary evidence for assigning GI
- But most tribal and local stuff passed on orally. Eg: Judima, a local rice wine of Dimasas in Assam
- Since GI protection is sui generis, India can modify this law and still not violate TRIPS
- Article 23 of TRIPS gives extra preference to wines and spirits. Point of contention for developing countries

### **36. Will government policy spur startups?**

- Yes, as seen with Israel from 1990. But Israel focused on few specific areas and its leaders were leaders and technocrats
- No, as US has the largest number of startups in silicon valley without any startup policy
- India has many schemes but these are manned by bureaucrats. Need to learn from Israel

### **Startup Scenario in India**

- 10000 Startups in India, 43% in techbased ventures. eg: Flipkart, Ola, PayTM, BYJU's
- US giants like Apple,FB, Google acting as anchor companies by providing capital, expertise and market access
- No dearth of talent: 2nd largest number of STEM graduates at 2.6 million, IITs, NITs, etc
- Smaller towns and villages emerging as startuo centres
- Finance bottleneck overcome by: MUDRA, Sidbi's Fund of Funds for Startups with corpus of 10000 cr

- Govt. relaxing procurement norms, capital gains tax exemptions, etc. Refer to Startup India details.
- Private trusts like Tata Trusts providing VC finance

### **Way Forward**

- Tier 2,3 cities made National Startup Hubs
- Build industry-academia interface
- Technologists and entrepreneurs can be roped in from Silicon Valley

### **37. Bit Coin bubble**

- Bit Coin value reached \$10000 (December 2017)
- Supporters argue that it is a currency of the future. Stateless nature and block chain tech adding to its appeal
- Critics argue it is a bubble like the 17th Century Tulip Bubble. There is no underlying asset . So, how is the value going up
- Morgan Stanley: acceptance of bit coin virtually zero

### **Way Forward**

- Can use block chain tech for other beneficial purposes
- Need greater regulation
- Central Banks of developed countries need to tighten monetary policy so that yields rise.

### **38. Rising inequality in India**

- 1980s: top 1% captured 6% of total income. Now, 22% . In 2000s, it was 15%
- Inequality and growth need not grow hand in hand. Eg China
- India needs to invest in health and education to reduce inequality
- Need progressive taxation.
- Non-economic inequality (health, education access) affecting economic inequality.
- Crab tree: rising inequality due to crony capitalism
- Bhalla disagrees: most important survey is IHDS 2004/5-2011/12. Although Gini has risen, adjusted for prices, this rise is insignificant. IMF study finds 6 points rise in Gini for India, but 4-5 for Australia and Taiwan . Not much

### **39. Brain drain**

- Indian parents willing to spend up to ₹55 lakh to send children abroad
- Indians 2nd largest in number after China (2.5 vs 8 lakh)
- But other countries also get a large foreign student inflow. In India, the number is actually falling

- 24% increase in foreign outflow from India 2013-16. Outpaced all other countries.
- **Pros:** Exchange of knowledge, ideas
- **Cons:** Loss of dollars, not good for demographic dividend if they do not return.
- **Way Forward:** improve quality of domestic education

#### 41. Indian patent system

- As per Indian patents act 1970 ( WTO compliant after amendment in 2005)
- Must satisfy 3 criteria for getting patents: novelty, non obviousness, industrial use
- Section 3d prevents evergreening of patents
- Was challenged by Novartis in SC, against its use in the Glivec case. But SC upheld the section 3d
- It has allowed the Indian Patents Office to filter good patents from the bad, at low administrative and financial burden

#### 42. Indian banking system

##### History of reforms

- 1969- nationalization
- 1974- priority sector lending introduced
- 1980- another round of nationalization
- 1991 - Narasimhan Committee for lowering SLR, CTR
- 1998- 2nd Narasimhan Committee
- 2012-. FSLRC
- 2014- Nayak Committee to review Governance of Boards of Banks

##### Present problems

- Inefficiencies
- High NPAs. According to YV Reddy, govt responsible for PSBs as these are ultimately funded by tax payers money. Fitch has lowered ratings of SBI and BoB to bb+ and bb respectively.
- Credit to GDP ratio only 50.2 % in 2015, much lower than 140 of China
- Cyber security threats
- Slowest deposit growth in last 5 decades (6.7%) (**Reasons:** 1. Interest rates falling and diminishing returns. People switching to NBFCs, equities), 2. NPA news discouraging depositors)
- Banks refusal to switch over to MCLR for base rate borrowers anticipating 40000 crore loss, affecting the transmission mechanism. MCLR 8.25%, base rate 8.7%



## Problems of falling deposit growth

- Reduces credit growth, affecting investments
- Banks stop buying govt. securities beyond SLR (19.5%), affecting govt's borrowing activities
- Increases difficulty for banks to deal with NPAs

## Bank deposit growth rise, credit offtake stagnant

The growth in deposits of commercial banks accelerated as of May 24, 2019, while credit offtake remained stagnant, according to the Reserve Bank of India data

<b>10.1%</b> growth in deposits of commercial banks as of May 24, 2019, up from 8.1% last year	<b>14.2%</b> growth in currency with public to Rs 21,17,340 crore as of May 24, 2019
<b>12.7%</b> growth in bank credit as against 12.8% last year	<b>\$421.86</b> billion forex reserves as of May 31, 2019

### OUTSTANDING AS ON MAY 24, 2019 (₹ CRORE)

	TOTAL	CHANGE*
Aggregate deposits	124,98,550	11,45,720
Demand deposits	13,13,190	143,310
Time deposits	111,85,350	10,02,410
Borrowings	357,530	-9,550
Bank Credit	96,22,590	10,84,930
Food Credit	65,720	12,810
Non-food credit	95,56,870	10,72,120

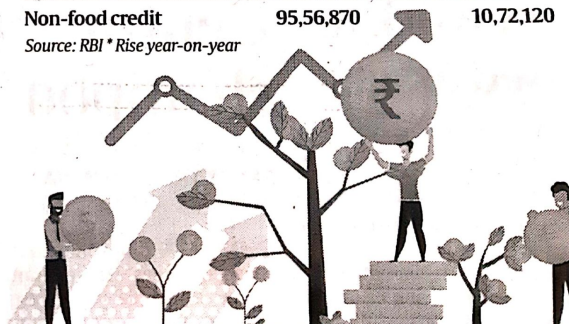
Source: RBI \* Rise year-on-year

**\$22.95 billion**  
is the value of gold reserves with RBI, up \$1.76 bn in 2019

**DEPOSITS UP:** Outstanding bank deposits have gone up by Rs 11,45,720 crore on a year-on-year basis to Rs 124,98,550 crore even as most of the banks refused to go for

deeper cut in interest rates

**CREDIT OFFTAKE STEADY:** Total credit offtake outstandings rose to Rs 96,22,590 crore in May 2019



## Way Forward

- Improving governance and strengthening institutions. Eg corporate governance reforms, Prudential supervision, Indradhanush plan, greater accountability, separation of MD and CEO, IBC
- Development of corporate bond markets
- Making the sector competitive: allow entry of private players, disruptive technology, on-tap banking license, using JAM Trinity, infrastructure financing
- **Also** need: project monitoring, accounting and auditing reforms
- Possibility of Bad Bank or PARA (set up under Section 3 of SARFAESI Act), as mooted by CEA. It will take over bad loans from PSBs and try to recover as much value as possible while the PSBs can focus on core-banking operations. (1. Should be transparent, 2. Hold NPAs till economy recovers and prices pick up, 3. Managerial staff outsourced for efficiency [Swedish model])

## Steps by Govt

- SARFAESI Act, DRTs

- 5:25, S4A schemes of RBI, Asset Quality Review
- IBCs, BBB, CRILC
- Mission Indradhanush, 2.11 I CR bank recapitalization
- Jan Dhan for fin inclusion, Bank Correspondents, BHIM, UPI, MUDRA, SHG- Bank Linkage programme of NABARD
- Cert-Fin and appointment of Chief Info Security Officer, Cyber swachta Kendra, IT Act 2000
- New NPA norms for MSMEs: 180 days instead of 90 days will reverse 15000 crore in banking system and free balance sheets
- Sunil Mehta Committee has recommended setting up a PARA
- Leading PSBs and pvt sector banks put in place Inter-creditor Agreement: to deal with insolvency resolution and loan recovery for accounts outside IBC framework

## Banks agree on an Inter-Creditor Agreement (ICA)

- Based on recommendation of Sunil Mehta Committee

**The pact:** ICA is an agreement among banks that have dues from a borrower in stress. The pact mandates the lead bank to formulate a resolution plan that will be executed in a time-bound manner

**Applicability:** All corporate loans above ₹50 crore

**Binding condition:** If 66%, or two-third, of the lenders in terms of aggregate exposure approve, then the pact is binding on all the lenders

**Exit option:** Dissenting lenders will have an exit route, either selling their exposure at a discount or buying exposure of the other lenders at a premium

**Who Is In?** 24 banks, including SBI, Bank of India and Corporation Bank have already signed up. A majority of the lenders are expected to follow suit by the end of the week. Some NBFCs may also come on board



**Target date:** The framework is expected to be operational by the end of this month

### Benefits of ICA

- Get rid of holdout problem: objections of few lenders preventing a settlement for majority of lenders
- Improvement on the JLF

### Potential problems

- Time-bound resolution obligation can force banks to engage in quick-fire sale of assets
- Lenders may not find the appropriate buyer willing to purchase stressed assets

### **Why a 'bad bank' may have problems**

- New bank would need a lot of capital support, as NPAs make up rs. 10 lakh crore
- Time consuming in setting up a new institution
- Problems of ownership structure as CEA wants RBI to provide majority share capital. This might discourage private ownership.
- PARA would have access to the same tools to address/recover loans as ordinary banks
- Officials in PARA might still have scrutiny by CAG, CCC

### **Why ARCs not performing properly?**

- RBI tweaked rules as ARCs pricing assets unrealistically and banks dressing their balance-sheets
- RBI mandated higher upfront payment (15:85 instead of 5:95) to banks reducing ARCs internal rate of return to single digits

### **Steps by govt to promote ARCs**

- Budget: Sponsor of ARC can hold upto 100%, easing of cap on single ownership
- 100% FDI in ARCs
- SEBI allowed listing of Security Receipts (SR) of ARCs

### **ARC Financing**

- Equity injection by govt
- Special loans from RBI
- AMC Bonds
- Public offering of shares

### **3 conditions for successful ARC**

- Clear distinction between good and bad loans (clarity in definition)
- Economy needs to bounce bank to high growth
- Preventive measures to ensure every new loan does not become NPA

### **Way Forward**

- Amend PCA 1988 to shield bankers from investigative witch hunts
- Back bankers to take demonstrable action against willful defaulters
- Remove problems from IBC

- Changes in corporate governance practices in banks
- Proper implementation of Code of Bank's Commitment to Customers and Code of Bank's Commitment to MSEs developed by **Banking Codes and Standards Board of India** (RBI, IBA and Banks' collaboration)

## Review of Banking Sector 2018

- NPA circular by RBI- a single day's default forces banks to classify it as NPA. Forced industry to immediately pay off loans
- ILFS default led to drying up of credit to NBFCs
- Spat between centre and RBI

## New RBI Circular (June 7, 2019)

### Old order changeth

■ Lenders to undertake prima facie review of borrower account within 30 days of default

■ All lenders to enter into inter-creditor pact for implementing resolution plan

■ Resolution plan to be implemented within 180 days from end of review period



■ Disincentive for banks if they delay implementing viable resolution plan

■ Lenders may choose to initiate legal proceedings for insolvency or recovery

- ICA decision binding if 75% by value and 60% number of lenders agree
- Needs to be implemented within 180 days from the end of the review period
- Review to start immediately for loans above Rs. 2000 crore, from Jan 1, 2020 for loans between 1500-2000 crore.
- If plan not implemented within 180 days, banks to make additional provision of 20%. For 365 days, it is another 15%.
- Additional provisions to be reversed if resolution pursued under IBC
- SDR, CDR etc debt recast schemes withdrawn
- Circular applies to NBFCs, Small finance banks and other FIs.

## Benefits

- By making ICA mandatory, lenders must speak in one voice
- Freedom to explore all options before referring a default to IBC
- RBI can still initiate insolvency processes under Section 35AA of Banking Regulation Act, 1949
- As Rs. 1500-2000 crore loan resolutions start from Dec 2019, significant time given to small and medium firms

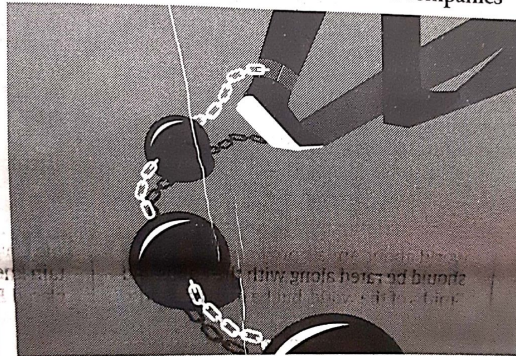
# 'New NPA norms offer banks, borrowers a breather'

**BALANCE BETWEEN TIGHT TIMELINES & EXTREME DELAYS:** The new framework "strikes a fine balance between tight regulatory timelines mandated previously for resolving stressed assets, and inordinate delays that occurred in the past when resolving and provisioning for such assets", it added

**FORMULATION OF STRATEGY:** The change in timelines for implementation of the resolution plans, including the 30-day review period, will help lenders formulate their strategies, the agency said

**IMPROVED REALISATIONS:** It pointed out that doing away with mandatory referral to the Insolvency and Bankruptcy Code (IBC) can lead to

Crisil and Bank of America-Merrill Lynch termed the new non-performing assets (NPAs) resolution framework issued by RBI as "balanced" as it provides a big breather to both banks and stressed companies



improved realisations as intrinsic value of assets can be preserved

**ACCELERATED PROVISIONING:** The provision for accelerated

provisioning within the new NPA resolution framework issued by the central bank will disincentivise lenders from avoiding referring cases to IBC, the ratings agency noted

**₹1 LAKH CRORE OWED BY POWER SECTOR FIRMS**  
Crisil said the immediate breather will be for power sector firm, which owe Rs 1 lakh crore, and banks with exposure to these firms as otherwise they would have been staring at "significant" haircuts from these accounts

**FLEXIBILITY TO BANKS:** Bank of America-Merrill Lynch said the new framework accords banks flexibility to restructure stressed loans bilaterally (with provisions) or refer them to the National Company Law Tribunal for auction

## Steps RBI can take to resolve NBFC liquidity crisis

- RBI can open a special borrowing window for short term liquidity for NBFCs under Sec 17,18 of RBI Act
- Eased norms of maintaining risk weights on banks lending to NBFCs
- Go for an Asset Quality Review
- RBI can identify systematically important NBFCs and backstop them through banks

**Update:** NPA falls to 9.3% from 11.5% (March 2019), as per FSR

**Update:** RBI Board finalises **Utkarsh 2022** to improve regulation, supervision

### EXPLAINED

#### Loan policies with board nod among steps to check fraud

A board-approved loan policies in public sector banks, use of third party data sources for comprehensive due diligence across data sources are among steps under banking reform process that have been put in place to check frauds. Strict monitoring in cases of high-value loans, deployment of specialised monitoring agencies for loans above Rs 250 crore and online end-to-end one-time settlements platforms have been done to ensure timely and better realisation in such settlements.

## 43. Solar powered agri

- Target marginal farmers with smaller solar pumps especially where groundwater potential is good
- Couple solar pumps with micro-irrigation and water harvesting
- Technology demonstration
- Promote community owned solar pumps where local water markets prevailing
- Encourage sharing of solar pumps
- Interest-subsidy for solar pumps

#### **44. Problems with EODB rankings**

- Focuses on major cities only
- Bank measures the business environment on just the written rules rather than the actual outcomes
- Appears that the rankings have been influenced by political consideration. Eg Chile
- Does not reflect experience of partnership and proprietorship firms that dominate small business segment in India
- Incentive for government to game the rankings by focussing on only those indicators
- Does not capture issues of low skills , lack of employability, accessing capital

#### **India's jump in EODB in 2018**

- Securing construction permits and trading across borders
- Smaller improvements in- Starting a business and getting credit
- Poor performance: Registering property, paying taxes, enforcing contracts

#### **Indicators**

- Starting a business
- Getting construction permits
- Securing electricity
- Registering property
- Getting credit
- Protecting minority investors
- Paying taxes
- Cross-border trade
- Enforcing contracts
- Resolving insolvency

#### **45. Problems with railways**

- Decay of capital stock, leading to reduced safety
- Scarcity of funds to maintain capital stock directly related to populism.

#### **46. Problems with FRDI bill**

- Banking system based on trust. This bill will erode people's faith in banks
- Possibility of moral hazard as banks not worried about repayment to depositors
- As per Financial Stability Report of RBI, failure of 1 bank can trigger failure of 18 others
- Deposit insurance should instead be raised

#### **47. Problems with India's tax exemptions**

- Sec 80C of ITA provides deductions of rs 1.5 lakh for making investments. But there is only an approved list of investments. Distorts choices for savers. Eg: some buy larger homes to avail home loan tax breaks, others invest in riskier assets
- Tax breaks to property investments, but this drives them away from financial investments. Capital gains exemptions if money is used to buy new property
- Indians prefer fixed income streams than equities. But present tax regime pushes towards equities

#### **48. Observations by Economic Survey 2017-18**

- Taxpayer count rises post GST by 50%
- Eliminate embedded taxes to boost exports. Gave example of ROSL leading to rise in ready-made garments
- Need \$4.5 trillion for infra by 2040
- Tax litigation leading to rising costs, low compliance, high backlog in courts. Also, pendency in IPR cases
- Incidence of open defecation fell by half
- Farming getting feminised, but women still not having access to property rights ( As per Census 2011, out of total female main workers, 55 per cent were agricultural labourers and 24 per cent were cultivators. However, only 12.8 per cent of the operational holdings were owned by women, which reflect the gender disparity in ownership of landholdings in agriculture)
- Spending on science just 0.5% GDP . China's 1%
- Focus on farmer extension, insurance, replace fertilizer subsidy with direct income support and drip irrigation to address climate change on agri
- Positive correlation between states prosperity and international trade. Internal trade about 60% of GDP
- Formality defined in terms of social security provisions is 31%, GST 53% for non farm sector
- Investment slowdowns affect growth, but not necessarily savings . Our investment rate now 26%, falling from 36% in 2007, mostly due to fall in

- private investment
- Poor direct tax collection by local bodies and states. States: 6% (Brazil 19%), RLG: 6% (Brazil 40%), ULGs: 18% (Brazil 19%) relatively better

## **Headwinds**

- Oil prices rising
- Fed raising interest rates
- Rising inequality

## **Two sustainable delivers of growth**

- Private investment
- Exports

## **5 reasons for slowdown in 2017**

- Demonetization
- GST
- Falling private investment due to TBS
- Monetary tightening leading to rising capital inflows
- Oil price rise

## **4 headwinds leading to late-converger stall**

- Rising protectionism, hampering exports
- Structural transformation: difficulty in shifting resources from low productivity to high productivity sectors
- Challenge of upgrading human capital. LPC of 40-50%
- Coping with climate-change induced fall in agri productivity

## **Middle income trap**

As countries attained middle-income status, they would be squeezed out of manufacturing and other dynamic sectors by poorer, lower-cost competitors. On the other hand, they would lack the institutional, human, and technological capital to carve out niches higher up the value-added chain. Thus, pushed from below and unable to grasp the top, they would find themselves doomed to, well, middle-income status.

### **Evidence of middle income trap in India**

- World Bank Policy paper in 2013 and Economic Survey 2017- 18 find no evidence
- But difficulty in defining middle-income. Relative or absolute
- Time series on PPP over long periods not yet fully available for middle income and poorer countries.

## **3 dimensions of women issues**

- Agency: control over women's right to choose, reproductive rights etc
- Attitude: towards gender violence, ideal number of daughters
- Outcomes: MMR, literac sex ratio



## Observations on gender development

- Good performance on 14/17 indicators based on development time instead of chronological time
- North eastern states do far better. But Southern states (AP,TN) and northern states not doing well.
- Son preference leading to **missing women**
- Son **meta** preference leading to 21 million **unwanted wome** and fertility rules
- Need full implementation of BBBP, Sukanya samriddhi yojana, maternity Benefits Amendment Act

## Ways to improve 'ease of doing science'

- Focus on maths and cognitive skills in children, STEM in higher education
- Encourage private sector investment in R&D
- Have industry-academia convergence and knowledge ecosystems
- Remove bureaucracies and encourage young scientists to take risks
- Mission mode approach to: ,CPS, genomics, dark matter, agriculture

## 49. Budget 2018-19

### Agriculture

- National bamboo mission restructured
- 1.5 times CoP MSP for unannounced kharif crops
- Tax breaks for firms promoting post-harvest activities, agro processing (Sampada scheme), and FPOs
- Upgrade rural haats into Gramin Agricultural Markets
- Operation Green:

### Industry

- Boost to Digital India, Mission on CPS
- Reduced 25% corporate tax rates for companies below turnover of 250cr
- Support to MSMES in interest subsidy, capital and credit subsidy
- Interest Equalization Scheme for export credit

### Infra

- Bharatmala pariyojana
- Sela Pass tunnel in Arunachal, Rohtang tunnel making all weather connectivity to ladakh possible, Zozila tunnel progressing
- Bharat net
- Extra funds for AMRUT and smart cities
- NABH Nirman: expand airport capacity

### Social

- Ayushman Bharat: Health insurance coverage up to 5lakh to 10 CR families, and set up health and wellness centres
- Ekalavya schools for tribal areas
- RISE: to step up research investments, to be funded by HEFA

### **Middle class**

- Deductions of 40000, but no other exemptions
- Combined health and education cess of 4%
- Long term capital gains on equities
- Exemption limit on interest income raised to 50000 for the elderly, continuation of PM Vaya Vandana Yojana (guaranteed 8% return on investments made with LIC)

### **Pros**

- Focuses on farm and health
- Will boost manufacturing and infra, jobs
- Relief to elderly

### **Cons**

- Rising protectionism on manufacturing
- 2000 CR not enough for health insurance scheme
- Social spending as a whole falling
- Fiscal roadmap not credible, as 3% FD target again deferred. Target this year is 3.3
- Health insurance will **increase hospitalisation** rates. Need to increase hospital infrastructure
- No agricultural R&D and climate change issues focussed
- Public spending on research still below 1% of GDP

### **Steps that can be for agriculture**

- Present practice of using A+FL can be replaced by using C2 for costs of cultivation
- Take 'price deficiency payment' scheme to stem price volatility
- Connect production centres with FPOs through value addition
- Issues of how states will implement this scheme
- Focus on irrigation (especially minor irrigation) and investments
- Focus on agri R&D and farmer extension
- Better weather updates
- **Dealing with PNB bank fraud**
- Auditing processes need to be checked. Self regulation not the way forward
- Know Your Employee
- Ensure CBS followed for all transactions. Connecting CBS with SWIFT
- Some suggesting privatization and reducing political interference in appointment of bank executives

### **Privatization No answer**

- Poorly regulated private banks led to 2008 crisis
- Banking system has not collapsed in India because of the implicit sovereign guarantee

### **51. Coal mines up for auction with no end-use restrictions**

- Greater efficiency
- Technology
- Higher investment and employment
- Revenue can be used to help mining affected districts

#### **Possible problems**

- Coal blocks viable only if offered in minimum blocks of 40-50 million tonnes
- e-auctions led to high prices. So, companies found it cheaper to import coal
- Issues related to land acquisition and regulatory clearances

### **52. Shaky foundations of current growth of economy (April 2018))**

- Falling investments to 30% from 34% in 2014
- Weakening industrial production, falling to 2% in mid 2017
- Falling credit due to rising NPAs. Currently growing at 6%, earlier 10%
- Falling inflation due to subdued commodity prices in gold, oil, coal.
- Low prices in these also improving our trade balance rather than improvement in exports.
- General govt deficit is still 6.5% of GDP, which is fairly high. Focusing only on central govt deficit can be problematic
- Debt GDP ratio at 70% fairly high

#### **Problems with Indian economy (Balakrishnan, December 2018)**

- Over-dependence on FDI, although it is a small part of capital formation in India
- Demonetization and its lagged effect on growth slowdown
- GST and its too-early implementation without developing the IT framework.
- Minimum govt has led to falling public expenditure, especially in public investments which can crowd in private investment. So, private investment has fallen.

### **53. Reality of falling poverty in the last decade**

- Poverty numbers fell for the first time in 1983, rose in 1993-4, and then rapidly fell in 2006-2011.
- The last period also coincided with highest growth rate of GDP
- Many argue it is the result of 1991 reforms. But the accelerated fall took place only after 15 years after the reforms.
- The actual reason is the high agricultural growth rate of 4% compared to 2.5% in the previous decade. This led to rapid decline in urban poverty for the first time.
- High agri growth due to rising public investment, faster credit growth for private investment and National Horticulture Mission. None of these were the reforms of 1991.

### **54. Problems with electrification achievement**

- Reliable and quality power 24/7 not available. Most discoms face: poor financial health and poor quality infrastructure, to supply 25/7 power. So, all states suffer from power cuts
- Theft of power infra like cables, wires etc still rampant. UDAY scheme has helped in reduction in power theft
- Not all households electrified. So **energy poverty** still remains even though country is net exporter of power
- Variations across States: 47% to 100%
- Average hours of power supplied: 11.5 in Mizoram to 24 in Kerala, guj, TN

- 7 states (BIMARU, Odisha, Assam, Jharkhand) account for 90% unelectrified households. They are also the poorest.
- 93% urban household electrified, but only 55% in rural areas
- Funds for DDUGJY and IPDS very low
- Distribution networks inadequate to provide electricity to every household. So, load shedding takes place
- Lack of cooperation between centre and states

### 3 Problems with rural electricity access

- **Cost recovery:** Building transmission lines in areas of lower demand generates lower return on investments
- **Reliability:** Theft, T&D losses, inefficient distribution
- **Affordability:** Distance from distribution centres and low population density drive up the price of service

### Issues faced in achieving rural electrification

- Inaccessibility and non-feasibility of conventional grid system
- Difficult hilly terrain
- Head loading of materials over 1-10 days
- Material transportation by choppers
- Areas affected by LWE
- Forest clearance
- Railway clearance

### Way Forward

- Focus on renewables
- Off grid power like rooftop solar
- Reduce T&D losses
- Upgrade T&D networks
- Increase capital investments in power
- Recover costs of servicing
- Improve centre state cooperation
- Set up **electric cooperatives:** member managed, more responsive, reduce corruption and increase sustainability. RGGVY had outlines, but not detailed
- Use **cogeneration:** currently being used in Maharashtra- sugar mills use waste bagasse for combined heat and power generation- sugar, ethanol and electricity from plants, hedging against risks, local employment, cleaner power, water conservation, solid waste reduction

### 55. Walmart takeover of Flipkart

- Largest takeover of Indian firm by foreign company. \$16 billion for 77% stake
- Will create a new e-commerce ecosystem in India, currently valued at \$33 billion, expected to reach 200 billion by 2027
- New categories like food and groceries will enter online retailing, moving beyond fashion and electronics
- Will gain control over data and use AI extensively
- Will help increase Walmart presence in India. Lead to consolidation in the market
- Has helped Japan's Softbank gain a good return from investing \$2.5 billion in flipkart. This will encourage Japanese investors further
- Will help carry the Flipkart business model to the rest of the world

#### Concerns

- Will start an online retail war between Amazon, flipkart and other retailers like Future group.
- Betting on groceries may backfire as kirana shops dominate here
- Taxing of the capital gains of the investors who offload stocks of flipkart after the deal. Issues of double taxation as Flipkart's Singapore parent firm offloads stocks

- Local traders and brick and mortar shops may be hit.

### Way Forward

- Need a consolidated e-commerce and FDI policy to prevent predatory pricing

### Problems with draft e-commerce policy

- Policy proposes creation of a single national regulator to oversee the entire industry
- Consumer protection norms to guard online shoppers from possible frauds not incorporated
- A sunset clause on discounts in draft policy that can be offered by e-commerce firms
- restrictions on sellers backed by marketplace operators
- Aim of these restrictions may be to prevent large players from pricing out the competitors through unfair practices
- Such licensing and price controls can depress the sector.
- Letting Govt decide who can offer how much discount and how long instead of letting customers exercise informed choices would be a regressive step.
- FDI restrictions on players who can hold their own inventory are sought to be lifted but Majority Indian partner and all products made in India
- This is in consonance with retail FDI policy, not easy to meet or monitor
- E-tailer costs likely to rise on account of storing and processing data locally
- Consumers and firms could both question the plan to stipulate payments via Rupay cards.

### New e-commerce policy

<https://indianexpress.com/article/explained/new-rules-for-e-commerce-how-they-affect-marketplace-players-buyers-5512553/>

## 'E-tail accounts for 23% of warehouse leasing in 2018'

Leasing of warehousing space went up by over 45 per cent last year, driven by e-commerce sector that accounted for 23 per cent of total demand, as per CBRE



**RENT RISE:** demand for better quality space resulted in rents rising by 10-25 per cent last year

**GROWTH REASONS:** The impressive growth of the e-commerce sector has been on the back of favourable policy reforms, tech-enhanced warehouses, rising smartphone and internet penetration, digital India movement, amongst others, the report said

**10%:** The growth in e-commerce sector has led to increase in its share in overall warehousing leasing from 10 per cent in 2017 to 23 per cent in 2018

**60 MILLION SQ FT:** Warehousing and logistic space sector has seen unprecedented growth and we expect supply to touch

**25 MILLION SQ FT:** Warehouse leasing crossed the 25 million sq ft mark in 2018 in seven major cities – Delhi-NCR, Mumbai, Chennai, Kolkata, Hyderabad, Pune and Bengaluru

almost 60 million sq ft by the end of 2020, CBRE said

**FURTHER PUSH:** Innovative technologies, coupled with viable government reforms such as GST and other global collaborations would further push the envelope of development for the Indian logistics sector

**GOING FORWARD:** CBRE anticipate warehouse leasing activity to remain vibrant going forward

### 56. Problems with inflation targeting

- Severely restricts RBI's flexibility in responding to market dynamics
- Most market agents already factor in the RBI policy rates, so the MPC announcements cease to act as benchmark rates
- RBI should focus on growth too. Not the same situation as a developed country
- Market interest rates have gone up by 120 bps while policy rates have gone up only 25

### Way Forward

- Remove the inflation targeting framework and look at multiple indicators instead of solely CPI
- Improve skills to better forecast CPI

### **57. Banking correspondents**

- Retail agents engaged by banks to provide services at locations other than bank branch and ATM
- Services include: identification of borrowers, collection of preliminary loans, collection of small value deposit, micro insurance, MF and pension products
- CSCs to offer BC services, and IRCTC ticketing

### **58 Should AI be privatised?**

- Govt plans to list AI on the Stock Market as sale bid fails. to offload \$5.1 billion of its debt

#### **Yes**

- It has huge debt. Private management can bring in better practices and reduce losses
- Govt. can use money from sale for public / social welfare, instead of running a loss-making luxury
- AI has many assets which can be better utilised. eg: MRO wing, vacant land, hotels etc

#### **No**

- This is a national heritage
- Instead of handing it over to private individuals, govt can change management practices and corporate governance
- Can lead to job losses.
- Recent failure of sale bid shows the private sector's unwillingness to operate a loss-making airline.

### **59 Infrastructure spending by govt.**

- Road: Bharatmala and Sagarmala, per-day road construction gone up 28 km from 12 km in 2014-15
- Airport expansion: UDAN and NABH
- Railways: Mission 25, Raftaar, Bullet train, gauge conversion, electrification, Dedicated Freight Corridors
- Power: SHAKTI, Saubhagya, DDUGJY, creation of national grid
- Petroleum: Ujala, Urja Ganga
- Urban Development: SMART City, AMRUT, HRIDAY, NRLM(Urban), Integrated Power Development Scheme
- Infra spending growing by 34%
- Increase in demand for cement, steel, HCV
- With elections coming, spending on social infra will rise: health, education, sanitation. eg: SBM, NHPS, Sarva Shiksha

## REASONS REPORTED FOR TIME OVERRUNS:

- Delays in land acquisition
- Forest clearance
- Supply of equipment
- Fund constraints
- Geological surprises
- Geo-mining conditions
- Slow progress in civil works
- Shortage of labour

### 60 Issue of capital outflow from Emerging Markets recently

- Investing in EM riskier but high growth compensates the risk. Plus, EM-DM growth differential was wide
- EMs could finance CAD by higher capital inflows. Large FDs provided increased interest rates which attracted more capital
- But now, US growth picking up. So, differential has narrowed. So, capital outflow taking place

- If govt. decides to widen FD, then interest rates will rise, forcing growth slowdown and resulting in further capital outflows
- Also, if private investment picks up, it will borrow from abroad widening CAD. Making the borrowing unsustainable without adequate reserves
- Govt. FD at 7% (C+S) stagnant since 2014-15. GST revenue growth below expected. So, need to tighten FP

## 61 Dairy Production in India

- 165 mt in 2016-17. Output value exceeds all cereals and pulses put together. Largest producer in world
- Source of income to small and agri HHS- 70% women
- Last 3-4 years, massive glut. with production surplus of 1 lakh tonne (lt)
- While prices for pouched milk remained stable, prices for Skimmed Milk Powder (SMP) crashed
- Surplus due to collapse of exports for 3 reasons: Bursting of chinese import bubble in 2013, Russian embargo on western food imports following Ukraine sanctions, EU dismantling milk production quota regime in 2015

### Way Forward

- NDDDB to create buffer stock of 1 lt
- Introduce SMP in futures trade. Prices likely to rise in the near future as other producers also making losses, like NZ
- Bring SMP under MEIS
- Investments in value-addition - cheese, butter, curd etc
- Expand domestic demand, by making milk compulsory in MDM scheme in 115 Aspirational Districts
- Cross-breeding and AI techniques to improve productivity of cows and buffaloes
- Subsidy upto 20% on SMP (Skimmed Milk Powder) exports. But this cannot be sustainable if global milk prices continue to crash
- Similar to Operation Flood, govt. can procure 1lt surplus milk and 'gift' it to neighbours like SL, Bhutan, Myanmar, Maldives, Bangladesh. Can be entrusted to the National Dairy Development Board. Benefits: Improve bilateral relations, will cost only 2000 cr (compared to 1.69 lakh cr food subsidy), provide external market to our surplus milk and prevent falling incomes of dairy farmers

## 62 External Debt

- At \$513.4 billion at end of Dec 2017. Rose 8.8% since March 2017
- Most of India's debt in dollars
- Two problems: Unexpected changes in interest rates and ER risks
- Fed raising rates: can raise interest rates and depreciate rupee as capital flows out to US, creating problems

## 63 Why GSP should continue

**GSP** is a non-reciprocal preferential trade treatment given to developing countries by certain advanced countries to incentivise developing countries and promote their fuller participation in global trade.

GSP derives its legal basis from the **Enabling Clause (EC)** of the WTO to allow preferential trade treatment given to developing countries on non-reciprocal basis.

India gets GSP benefits from EU, AUstralia, Russia. Exports to **EU nations highest** under GSP

### For USA

- Help consumers by lower prices of final products. Trade war with India will reportedly cost American business **\$300 million**.
- Small impact on US trade balance: <1% of total US imports



- Most Indian imports under GSP are intermediaries in value chains. Indian exports less expensive, high quality alternatives that reduce costs of final products and make US final products competitive in world market. eg: electric motors, generators

### For India

- India still a middle lower income country. Allows Indian exporters competitive edge and enables India to integrate with Global Value Chains (GVC)
- GSP a measure of goodwill between the two countries
- Indian companies have invested \$18 billion in US and generated 1.13 lakh jobs

GSP Exports by India growing (accounts for 25% of US GSP imports), though overall exports to US falling (from \$310 billion in FY15 to \$276 bn in FY17)

### US withdraws GSP for India (March 2019)

- As India failed to provide fair and equitable access to US products, especially pharma- like stents, and dairy sector
- Minimal impact of \$190 million on overall GSP exports of \$5.6 billion
- Goods affected: chemicals, gems and jewellery, textiles and engineering goods- mostly labour intensive goods.

### Steps India can take

- Ask USA to relook into the matter
- Refund taxes on exports not covered under GST
- Approach WTO. The world trading system is not based on leadership of a single country. Plus, GSP can be withdrawn for India and Turkey only if it improves the trading incentives or devt of the countries, not unilaterally, as per EC
- India has imposed retaliatory tariffs on 29 US goods

**Trade tensions**

*India is seeking to raise tariffs on U.S. imports starting next week. A look at the events that led to the decision and the major items that will be impacted if the retaliatory tariffs are brought into force*

- In March 2018, the U.S. imposed 25% tariff on steel and 10% import duty on aluminium. India was one of the major exporters of these items
- On June 5, 2019, the U.S. withdrew export incentives to India under its Generalised System of Preferences (GSP) programme. India was the largest beneficiary of GSP
- On June 21, 2018 India decided to impose duties in retaliation, but extended the deadline
- India now wants to implement its decision to impose retaliatory tariff on 29 U.S. items from June 16, 2019

**MAJOR PRODUCTS IMPACTED**

1. Walnut
2. Chickpeas
3. Bengal gram
4. Masur dal
5. Boric acid
6. Binders for foundry moulds
7. Domestic reagents
8. Apples

### Why US's actions against India's trade policy lack propriety procedures and substance

- **Propriety:** US investigates India's trade policy as per US domestic laws, not WTO laws. This is unilateralism and violation of multilateral agreements
- **Procedure:** US investigations based on inputs from US businesses with vested interests, affecting the neutrality of the investigations
- **Substance:** It did not bring India to the WTO DSB because it lacked substance to challenge it in the DSB

## 64 Steel Industry in India

- Fortunes rising due to: Cut in Chinese capacity, increased global demand, favourable govt. regulation spurring domestic demand
- Also, IBC resolutions helping reduce NPAs in this sector. 5/12 companies referred by RBI to NCLT were steel companies. eg: Bhushan Steel
- **Update:** Govt mandates imported steels to undergo higher domestic value addition before being eligible for govt purchase, to promote domestic steel.
- Crude steel output grows 5% in May 2019. Exports-imports both fell.

## 65 Steps taken for digitalization in India e-Governance

- Digital India : transforming e-Gov for Transforming Governance
- DBT in PDS and LPG
- PFMS, GeM, PRAGATI

### Financial Inclusion

- JAM
- UPI and Bharat Bill Payment System: increased digital payment of bills. India's digital payment space to be \$1 trillion by 2023
- e-KYC and Digilocker
- CSC-Online payments rise 4 times through CSCs for bills, tickets, mobile recharge

### Success of Digital India

- 2nd largest internet user base, with cheapest tariffs in the world
- AADHAAR based e-KYC has made it easy to open a bank account, and for employees to get their PPF transferred when switching jobs
- e-Hospital services have made it easy to take online appointments
- UMANG platform provides central and state govt services in 13 Indian languages, like e-Visa, soil health cards
- DBT through JAM
- PMGDISHA- helped in digital education and literacy
- CSCs are centres of rural entrepreneurship, along with Suvidha napkins
- Digital payments under BHIM have grown at staggering pace
- BPO centres in tier 2 and 3 cities, like Ghy, Kohima- 202 centres
- 2nd largest manufacturer of mobile units now
- Over 7000 tech driven startups- many of which are unicorns

### Way Forward

- Need to use emerging tech like AI, Data Analytics, IoT to power smart cities, digitisation of governance, digital villages, high speed internet
- Creating a faceless, paperless govt
- Digitise internal processes of the govt- for effective monitoring of performance and devt of automation of systems
- Set up 1 lakh digital villages with citizen centric services to reduce people's needs to visit towns for their needs
- Look into data governance- data localisation and privacy
- Continuous and effective skills development programme for HR

## 66 Why special consideration for NE states needed by 15th FC?

- Low human capital, low resource base, poor connectivity and infra

- Although Centrally Sponsored Schemes 90:10, actual costs higher than 10% as many schemes discontinued mid-way and burden of salaries falls on states
- Maintenance of PMGSY roads entail huge costs in hilly areas
- Disproportionate burden of natural disasters. NE highest in Disaster Vulnerability Index of TERI
- Highest forest cover. Incentives need to be provided to protect forest cover.
- Benchmarking should be done with other NE states, so that apples compared to apples

## **67 RBI's Financial Stability Report**

- Gross NPA may rise from 11.6 to 12.2% by March 2019. Severe shock to gross NPA can bring down CRAR of many PSBs below 9%
- PCA and Bank Recapitalisation essential to increase profitability and lending ops of banks respectively
- Sectors having increasing stressed assets: gems and jewellery, paper, cement and engineering
- Improving asset quality: food processing, textiles
- Banking Stability Indicator (BSI) hinted at possibility of instability in banking
- Median return on assets (RoA) has fallen
- Reasons for falling profitability: High loan loss provisions, debt overhang, increasing costs, declining revenues

## **FSR 2019**

- Gross NPA ratio declining to 9.3% March 2019 from 10.8% in Sept 2018, 11.5% in March 2018
- CAR of banks improving to 14.3% from 13.7% due to capital infusion by govt
- Marginal decline in CAR of private sector banks
- PSBs able to attract private capital through market discipline
- Credit growth of PSBs at 9%, but private lenders saw robust growth at 21%
- Picture not so rosy on macroeconomic framework- falling consumption, widening CAD

## **68 Why Rupee depreciating to 69?**

- Fed raising interest rates
- Rising oil prices and worsening CAD
- Possibility of trade war
- 87% of outflows from debt markets, as RBI hiking rates
- Iran sanctions
- World growth rate not as expected. Only US growing steadily, so dollar strengthening
- 48000 cr FPI outflow this year: 10-year high
- Rising external debt: Rose 8.8% (refer above)

**Sectors benefitting:** IT, pharma , as they receive 30-40% of their earnings from US markets

**Sectors taking a hit:** OMCs, auto exports (especially those import components like Maruti), airlines (high ATF and high competition)

**India becoming net seller of FPIs this year. Highest since 2008.**

## **69 IMF suggests 3 steps to sustain high growth rate**

- Revive bank credit and enhance efficiency of credit provision by cleaning up TBS
- Continue fiscal consolidation, simplify GST
- In LR, reform land and labour markets and increase competitiveness

## **70 IPR issues in GM cotton**

- Compulsory licensing of GM cotton and cry2ab gene by Agri ministry forced Monsanto to withdraw cry2ab gene for field trials (Bollgard II RRF- both herbicide resistant and insect-

- resistant) in protest
- delhi HC has invalidated the cry2ab patent on grounds that it has no intrinsic worth unless incorporated in a plant. Indian Patents Act : Plants are not patentable
- Both issues have led to shortage of herbicide resistant GM cotton that farmers want

## **2 observations**

- Farmers hungry for tech and will plant GM crops even against govt regulation. As seen in MH, TL, AP
- Suppliers of tech like Monsanto or Bayer are MNCs and they take IPR very seriously

### **Way Forward**

- Ensure these MNCs can arbitrarily raise prices
- Promote domestic breeding and R&D efforts

## **71 Marshallian Trinity**

- 3 reasons why firms from same industry locate close to each other
- Sufficient access to rich pool of labour
- Offers suppliers and to specialise in economies of scale
- New ideas or knowledge spread across firms

## **72 RBI's report on states' fiscal situation (July 2018)**

- GFD/GDP ratio of states at 3.1%. Deterioration in revenue balance. BUT capital account has improved
- Combined GFD/GDP at 6.4%. But FRBM Act mandates 5%
- Risk that private investment gets crowded out.

## **73 Insurance sector**

- NPAs rising to Rs. 22700 crore by 26% in 2017-18. Majority by LIC
- But total asset base is about 34 lakh crore. Very small chunk of total asset base
- Total investment in Central and State securities 60%, much higher than IRDA mandated 10%

## **74 Indian shipping**

- 92% of EXIM trade handled by foreign flag ships, only 8% by Indian flagged vessels
- Indian vessels get Right of First Refusal (ROFR): Indian registered vessels have the right to carry Indian cargo at the same tariff offered by foreign vessel. So, cargo would be carried by Indian ship without any additional cost to customers. Ensures assured market to Indian vessels
- Foreign vessels need license from Directorate General, Shipping to carry Indian cargo
- Govt. plans to remove ROFR to ensure faster movement of cargo through shipping by incentivising foreign ships to carry Indian cargo

### **Problems with removing ROFR clause**

- Indian vessels will lose assured market
- Given multiple taxes and rising costs, Indian vessels will deregister and register under tax havens like Panama and Bahama.
- Can lead to job losses and falling investments
- Merchant fleet acts as a second line of naval defence. This will go

## **75 India's IT sector Problems faced**

- Excessive focus on only a few sectors and markets like North America
- Reliant on cheap labour

- Lack of skilling
- Low intake of jobs. Growth of only 5% in last 5 years instead of 9%

### **Problems overcome**

- Diversified to sectors like life sciences, utilities, manufacturing and markets like Europe and APAC
- Embraced automation, ruthlessly cut costs upping utilization rates
- Massive reskilling of workforce

## **76 Jute Sector Problems**

- Availability of quality RM
- Shrinking acreage . 9.5% drop in one year
- Failure to modernise
- Dependence on govt like mandatory jute packaging
- Falling prices

I- CARE scheme by National Jute Board for improving technology (especially for retting)

## **77 DBT in PDS Benefits**

- Reduce large physical movement of grains by govt
- Provides greater autonomy to beneficiaries to choose consumption baskets, also increase dietary diversity
- Reduce leakage.

### **Problems faced**

- Inadequacy of transfers to maintain pre-DBT consumption levels
- Insufficiency of last-mile delivery mechanisms
- Weak grievance redressal mechanism

DBT currently working in UTs - Puducherry, Chandigarh and urban areas of Dadra, Nagar Havelli

### **Pre-conditions (given by RBI)**

- Complete digitisation and de-duplication of beneficiary database
- Seeding of bank accounts eith AADHAAR

## **78 Inflation WPI vs CPI**

- WPI tracks inflation at producer or factory level, bulk purchases by traders. CPI changes in prices at shop end, inflation experienced by consumers
- Weight to food: 46% in CPI, 24% in WPI
- CPI captures changes in services, WPI does not
- RBI using CPI since April 2014

### **GDP Deflator**

- Ratio of value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed in the base year
- More comprehensive measure of inflation

### **Deflator vs WPI vs CPI**

- CPI measures only a basket of goods while Deflator measures inflation in the economy as a whole

- Allows GDP deflator to absorb changes in consumption and investment pattern in economy
- Deflator available on a quarterly basis, CPI, WPI data released every month

### **Link between inflation and growth**

- Mohanty, Chakrabarty, Das, John (2011): Threshold of 4-5% WPI. Non-linear relationship

### **79 Problems with UDAN scheme**

- Not all underserved airports are operational
- Not all routes for which airlines had placed bids have been started. Many of the smaller airlines like Air Odisha struggling with logistics
- Still no helicopter service
- Quality of service not upto the mark, especially for newer airlines. Many cancellations and delays
- Questions about sustainability of these routes after the VGF is withdrawn

See Airports economic regulator authority Act

### **80 Schemes for roads and highways**

- Bharatmala Pariyojana
- Setu Bharatam: To make NHs railway level crossing free by building overbridges/underpasses
- LEEP
- Inam Pro/+
- NHDP
- Golden quadrilateral, E-W/N-S corridor
- Char dham mahamarg vikas pariyojana
- SARDP-NE and LWE Road improvement
- PMGSY
- National Green Highways Programme + Vehicle Fleet Modernization Programme
- BS VI

### **Problems in the transportation sector**

- Frequent changes in diesel prices
- Non-transparent toll policy
- High insurance premiums

### **91 Schemes for Railways**

- Rail Madad app
- Rashtriya Rail Sanrakhsana Kosh: For rail safety; removing unmanned level crossings, anti-collision devices etc
- SFOORTI app
- North east connectivity: Tripura, Meghalaya and Mizoram brought under railways
- Electrification
- Mumbai-Ahmedabad high-speed railway
- Luxury trains, included Tejas
- Menu on Rails app

Merry Go Round System, discount for loading of bagged consignment in open and flat wagons, new delivery models like Roll-on Roll-off services, re-introduction of short lead concession and reduction in minimum distance for charge, digital payment for freight business, Long Term Tariff Contract Policy (which provides tariff stability and attractive rebate in freight to customers), and Liberalised Automatic Freight Rebate scheme for traffic loaded in empty flow directions etc.

### **Bibek Debroy Committee Recommendations**

- International accounting principles
- Separate Rail Regulatory Authority
- Streamline HR and recruitment processes
- Allow entry of private players in running passenger and freight trains
- IR Manufacturing Company
- Construct suburban lines as JV with state govts
- Merge Rail budget
- Outsource non-core functions like schools, hospitals etc

### **92 Challenges in WTO**

- India allowed special advantages in WTO as its per capita income below \$1000, but this threshold was breached in 2013. So, export promotion schemes like SEZs, MEIS are under WTO scrutiny
- A bureaucratic organisation like the WTO cannot fulfil unfettered trade based on market principles as the bureaucracy is likely to be captured by special interest groups
- WTO, by discouraging competition between govts may prevent tearing down of trade barriers. eg: WTO rules prohibit giving tax breaks to exporters. But they lower trade barriers. In fact, most FTAs have lower tariff rates than the WTO system
- US has systematically blocked appointment of new Appellate Body members (judges) and de facto impeded WTO appeal mechanism. 4 out of 7 working members in July 2018, institution under stress.
- China may be on its way to having a permanent seat.
- Undemocratic and statist China does not have the legitimacy to lead, genuine adhesion to market economy is doubtful
- EU-China proposal to reform WTO is to combat "unilateralism", protectionism but may fail to address unfair trade issues raised against China itself.

### **93 Issues in non-coal mines**

- Only 43 out of 100 mines auctioned off
- Low quality of mineral
- Low quality of exploration data
- Land acquisition issues
- Demand supply scenarios in India-especially because cement and steel industries are in down swing
- High benchmark auction prices
- Lack of provisions for ancillary services
- Strict conditions regarding end-use

Under MMDR (Amendment) Act 2015, non-coal mines have to be auctioned off by respective state govts. Earlier states could give mining lease at their discretion

#### **94 APMC issues**

- India is yet to develop a national platform for spot commodity transactions where physical commodity is bought and sold at prevailing market prices.
- About 2,477 Agricultural Produce Market Committee(APMCs) and 4,843 sub-yards in the country
- Mechanism for price discovery in the mandis is non-transparent and farmers voices go mostly unheard
- It is essentially the powerful traders and arhityas (commission agents) who control the market committee. Farmers cant sell their produce outside the market, as the APMC Act prohibits it.
- Many primary markets across the country do not even have pucca roads and electronic weighing machines.
- Only 7% of the total produce sold by farmers is graded before sale and the storage capacity is only 30% of what is required.
- In an electronic platform all basic infrastructure including assaying and grading machines will be absolute necessities since in an online market two parties from different corners of the country trade.
- only 470 mandis in 14 states have been integrated with eNAM.
- In Mandis linked to platform, trade is not online. Buyers and sellers physically meet.
- To integrate with eNAM, states have to amend their APMC Act to a) provide for electronic auction as a mode of price discovery b) ensure single point of levy of market fees and c) permit one licence for a trader that is valid across all marketsin the state. So far only 14 states have made the amendments.
- Centre introduced Model Agricultural Produce and Livestock Marketing(Promotion & Facilitation) Act, 2017(APLM) and urged the states to adopt it.
- Single-point levy of a market fee and single licence for trade, it proposed delisting of fruits and vegetables from the APMC Act, capping mandi taxes, and pegged commission agents' levy at 2% of the total transaction cost for the non-perishables.
- No state implemented the recommendations in full spirit
- Karnataka is one state where APMC reforms have been fully implemented.
- Special purpose vehicle-Rashtriya e-Market Services Private Limited(ReMS)-a jt venture between Karnataka and NCDEX e Markets. ReMS UMP(unified market platform)-the online market platform for agri commodities-links 163 mandis (of the 165) across Karnataka.
- A key challenge to online inter/intra-state trade is the absence of assurance on the quality of the commodity; one has to physically examine the stock to know the quality.
- Though the e-NAM website has listed quality parameters for 69 commodities, its mandis are not equipped to do the assaying and grading.
- Many of the 400-plus mandis connected to eNAM today do not have the infrastructure for grading and assaying.
- Assaying requires large manpower.
- At peak arrival season in mandis, post the harvest, assaying all the arrivals is difficult, especially for oilseeds.
- Unless testing time is reduced, it may not be possible to assay all the lots.
- The warehousing capacity available is very low. Capacities of FCI, CWC, SWC, the co-operative and private sector put together was 126.96 million tonnes in 2015-16, a chunk of which is filled with government's procurement stock.
- The Govts need to invest in building warehouse infrastructure and assure proper connectivity through roads. They should promote pvt investment into warehousing.
- Once storage infrastructure is created, a farmer can get a loan by pledging the goods against the warehouse receipt.
- Building a national electronic platform is also about moving millions of farmers and traders into a new system of buying and selling.
- Stakeholders need to understand and approve it.
- A massive "farmer registration programme" was initiated, wherein farmers were registered on the platform with details such as name, address, mobile number and bank particulars.

#### **95 For capitalism less stigmatised**



Recent issues of corporate governance brought reliability and credibility of India's corporate sector into question.

#### TRANSPARENCY:

- Lack of **transparency** on any kind of decisions
- Its important to embrace openness as a key corporate governance construct
- Appropriate & timely disclosures in the public domain by pvt companies related to major board decisions

#### RESPONSIBLE CAPITALISM:

- It should be the next innings
- Should move from from shareholder capitalism to stakeholder capitalism
- This approach will include customers, employees, regulators, government, and the society at large
- Will involve ability to manage multiple bottomlines, not just bottomline related to profits
- Must include customer centricity, employee welfare, government & regulator interactions
- Most importantly, should include value added to general society by job creation and efficient investments.

### 96 GM Crops

- India officially released its Ist Bt cotton(Bollgard I) in 2002, patented by MMBL and multiplied by several Indian companies
- Licensee fees ensured protection of MMBL's intellectual property rights
- In 2006, MMBL introduced Bollgard-II with additional traits.
- India emerged as d largest producer of cotton & second largest exporter in world
- India gained from extra exports of raw cotton and yarn.
- Country benefited in terms of import savings of \$67 billion
- More than 95% cotton growing area in the country is under Bt cotton.
- Bollgard -I (BG-I) the Ist Bt variety launched by MMBL with single gene, cry 1Ac, fought infestations caused by American bollworm.
- Pink bollworm outbreak in Maharashtra last year indicates fading power of BG-II.
- It is time to have BG-III with additional pest resistant proteins (cry 1Ac, cry 2Ab and vip3A) along with HT(Roundup Ready Flex (RRF) traits.

### 97 Problems in skill development

- Why huge private sector scale-up? Standing Committee on Labour(2017-18) says its not efficiency but a disregard for norms and standards
- NSDC has short-term courses and its centres open and close frequently, its prone to dilution of standards
- Lack of a regulator for skill development, with teeth led to poor quality affiliation, assessment and certification
- Somaiya committee report scathing: outsourcing, no oversight, tussle between state and central govts
- Pvt-ITI accreditation troubles started when QCI, a pvt body was hired
- QCI didn't follow accreditation norms created by National Council for Vocational training (NCVT)
- Question paper prepared by NCVT but administered + evaluated by State Councils for VT
- NCVT is just a stamp with no role to actually assessing quality
- Pvt ITIs offered training in less than 5 trades
- In Govt ITIs it is less than 10
- Had fewer classrooms and workshops for practice
- Their teachers poorly paid
- Most students acquire **textual education**, but industry wants **contextual education**

#### Solutions

Sharda Prasad Committee recommendations:

- As per this committee, the core work (accreditation, assessment, certification and course standards) cannot be outsourced.
- A board like CBSE is required in vocational training that is accountable
- A mandatory rating system for the ITIs that is published periodically
- A ranking of the ITIs on several parameters such as one done by the NAAC in tertiary education can be replicated
- create a unified national vocational system where ITIs, NSDC pvt vocational trainers and vocational education in schools and other training conducting central ministries gel seamlessly, can learn from and work with each other
- Going for **eduployment** - education+employment:b readiness programmes designed to upskill engineering graduates with job-ready and future-ready expertise

Other suggestions:

- Need to reskill ITI teachers
- Maintain the student-teacher ratio
- Its worth considering talent from the open market to fill up higher posts in skill development
- To move the office of Directorate General of Employment (the arm that has all the data on employment) from the Ministry of Labour to MSDE. Would complement the Directorate General of Training already under MSDE.
- To mobilize adequate resources: through a reimbursable industry contribution (RIC)-a 1-2% payroll tax that will be reimbursed when employers train using public/private infrastructure and provide data.

### Examples

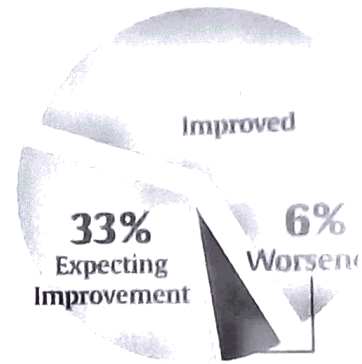
- India's rank in ease of doing business 77/190. Improved by 30 ranks in past one year
- Just 6 lakh jobs created in last 3 years
- India improved 16 places in the global competitiveness index last year. It's by WEF
- PSBs posted net loss of 87357 cr in 2017-18, as compared to 473 cr profit in 2016-17. Highest loss by PNB followed by IDBI
- Of 108 aspirational districts, Dahod most aspirational (july, 2018) as per NITI index on 5 sectors: edu, health, water and agriculture, financial inclusion and skill devt, basic infra
- World's Largest mobile factory set up by Samsung in Noida
- 26% projects face cost over-runs, power sector accounts for most 43%- MOSPI
- Road sector largest share of infra projects 22% - MOSPI
- Global wage growth slowed to 1.8% in 2017, from 2.4% in 2016. - ILO Global Wage Report

Almost 18-20% reduction in turnaround time has been reported by truckers due to abolition of checkpoints at state borders

Companies are moving towards hub and spoke model of transportation with warehouses being set up keeping logistical efficiencies in mind rather than tax savings

**20%** CAGR growth is expected in Indian warehousing sector between 2018 and 2020

**25** new multi-modal logistics parks are expected to come up in the next few years with GST playing a role in boosting the hub and spoke model



Source: ICRA, JLL

## MONTHLY GST COLLECTION (₹ CR)

**Is ahead: Inclusion of e items, simplified filing**

closely monitoring revenue trends, further rate rationalisation near future; real estate, petroleum products still out of GST ambit

**A KEY OUTCOME: SMOOTHER TRANSITION OF GOODS BETWEEN STATES**

With the rollout of GST a year ago and an eventual implementation of the electronic way bill system, smoother transition of goods between states was one of the key expected outcomes. This was to happen via better turnaround times of road transport modes and consolidation of warehousing network

Almost 18-20% reduction in turnaround time has been reported by truckers due to abolition of checkpoints at state borders

Companies are moving towards hub and spoke model of transportation with warehouses being set up keeping logistical efficiencies in mind rather than tax savings

**20%** CAGR growth is expected in Indian warehousing sector between 2018 and 2020

**25** new multi-modal logistics parks are expected to come up in the next few years with GST playing a role in boosting the hub and spoke model

Improved	61%	33%	6%
Expecting Improvement			
Worsened			

Source: ICRA, JLL

**MONTHLY GST COLLECTION (₹ CR)**

93,590 July	93,029 August	95,132 September	85,931 October	83,716 November
88,929 December	88,047 January	89,264 February	1,03,458 March*	94,016 April*

Source: Ministry of Finance, \*Collections for March, Note: Total mop up for FY18 includes Rs 22,000 cr

April were accounted in April, May 2018, respectively		3,38,474	for IGST and cess on imports for March
		TOTAL	
Though the return filing system is broadly settled along with a monthly average revenue collection of Rs 89,885 crore (for 2017-18), concerns remain over the less-than-desired compliance rate, especially for the assesseees under the composition scheme. The government is not in favour of keeping the assesseees, especially the smaller ones, on a tight	the enforcement agencies in a bid to boost compliance, revenue collections and check evasion. Also, the GST authorities will undertake audit of the tax returns filed vis-à-vis the tax history of the assesseees. "Audit will start taking up parties for auditing. There will be some methodology adopted to choose who will be audited and why will they be taken hem up first com-		nism, where the tax liability lies on the buyer in case of unregistered seller and tax deduction at source/tax collected at source are in limbo but may come into force in the second year of GST.
			<b>Returns Filing</b> A new and simplified returns filing system has already been approved though it is expected to

## 97. The Economy So Far:

- Agricultural growth may be equal to at best what it was last year-3.4%
- Services sector may perform better because PE will be maintained at a high level.
- IIP for Ist quarter show substantial improvement over the corresponding period of the previous year
- Combined revenues and profit of 370 large companies have shown better performance in the first quarter
- After several quarters of low growth a strong pick up in the last quarter of 2017-18
- Growth rate of 2017-18 will certainly be above 7%
- Trade wars have already started , US raised duties on several products
- China has retaliated
- India has also been caught in this exchange
- Country-specific sanctions such as those against Iran which have a direct impact on crude oil output and prices
- India's current account deficit was as low as 0.6% of GDP in 2016-17, rose to 1.9% of GDP in 2017-18 mainly because of crude price rise
- Reviving the banking system
- Central govt's fiscal has been within limits.
- At the end of the Ist quarter, fiscal deficit as a % of total deficit for the year as a whole was 68.7% - a strong improvement over last year corresponding period
- 2 aspects need to be kept under watch: 1) GST: GST revenues are currently running behind budgetary projections 2) impact of the proposed MSP for various agricultural commodities
- If market prices fall below MSP, 2 ways farmers can be assured of the minimum price. 1st one: MP Model where state pays the difference between the two. 2nd one is to procure excess production over normal production so that market prices rise.
- 2nd one won't work if MSP is fixed at a level to which market price will never rise.

## 98. FDI:

- Largest annual jump in FDI till date from \$7.6 billion in 2005 to \$20.3 billion in 2006 came after GDP growth from 7.8% to 9.3%
- 2008: \$47 billion FDI inflow followed GDP growth of 9.8% in 2007
- FDI as proportion of India's GDP hovered at 1.2% for many years, shot upto 3.6% in the aftermath of 2008 global financial crisis, impression of India being decoupled from the crisis
- India's growth collapsed, FDI flows dwindled, 1.3% of GDP by 2012
- In the 5 years to 2017, FDI had mild recovery to 1.5%, globally it was 2.4% of GDP, India way far below, given its size and prospects
- Stellar show in 2008 when India grabbed 3.2% of global FDI pool, share fell to 1.5% in 2012. Sme year, growth lowest at 5.5%
- Since then, smart recovery at 2.8% by 2017. Slump in last few years driven by global slump.. So need to focus on 8% growth rates to attract FDI

## Recent trends

- 2014-15- 22%

- 2015-16- 35%
- 2016-17-9%
- 2017-18- 3%
- 2018-19- (-)1%

### **Reasons for FDI slowdown**

- Global supply chains relocating to Vietnam, Malaysia etc due to trade war. India completely missing
- Poor infrastructure
- Rigid land and labour laws
- Banking crisis
- Lack of structural economic reforms
- Unilateral termination of 60 BITS and introduction of Model BIT that prioritises state interests over foreign investors

### **Problems with earlier investment regime**

- Gave extensive protection to foreign investors with scant regard for state interest
- Judicial delays and contradictory judgements, like en masse cancellation of 2G spectrum license
- India was dragged into international tribunals

### **Way Forward with BITS**

- Rather than unilateral termination, new BITS can be renegotiated to gain greater confidence
- Clarity, continuity and transparency in domestic regulation
- **'Progressive Capitalism' - Stiglitz**- channelising the power of markets to serve society

### **99 TRADE WAR:**

- Non-Chinese owned companies account for almost 60% of Chinese exports to the US.
- Much of this consists of very specialized parts required by US factories to make products ranging from out-board motors for boats to computer routers
- Since these companies cant relocate their operations to other countries, the net result is burden of tariffs to be felt by consumers in US
- US imports from China from also includes products which contain parts made in other countries
- South Korea's exports of cars and consumer electronics to China substantially
- The impact of tariffs on a potential reduction of these exports is further diminished by a 7% fall in the value of the Chinese currency.
- Beijing has more than \$1 trillion in foreign currency reserves to cushion the brunt of a trade war with Washington
- Retaliatory tariffs China has imposed on US products have also had a negative impact on German car producers in the US
- 25% tariff imposed on Mexican steel exports to the US has had no impact on the Mexican automobile industry
- Increased tariff by raising the cost of production compelled US companies to reduce employment
- Focus on trade crucially ignores changes in the US corporate structure and industrial relations over the last 30 years which have led to the phenomenon of extreme inequalities in income and wealth
- Less than 7% of private sector employees today are unionised, compared to a third in the 1950s.
- It has become easier for large companies to merge and form giant oligopolies
- The greater concentration of capital allows the giant oligopolies to raise prices which takes more of a worker's pay cheque
- Fewer companies means workers have less choice of employers and so have less bargaining power
- Germany lost only 11% of manufacturing jobs between 2002-08 when the USA lost 1/3rd

- Most German firms are privately owned, rather than buying back shares, they invested their capital in boosting their productivity.
- Trade war makes India a haven for **aluminium scrap dumping, hurting industry**

### Phase I deal between US-China

- China to buy \$200 of US goods- earlier only \$187 billion bought from US.
- But most of US tariffs to stay
- China not forced to buy US agri products, especially soya. So likely to not improve farmers' position in US

### Issues unresolved

- Industrial subsidies to state owned Chinese firms
- Currency manipulator tag
- Issues on IP protection

## 100 Logistics improvement steps and challenges

### Some key challenges

- High cost of logistics – impacting competitiveness in domestic & global market
- Unfavorable modal mix (Roadways 60%, Railways 30%) and inefficient fleet mix
- Under-developed material handling infrastructure and fragmented warehousing
- Multiple regulatory/policy making bodies with procedural complexities including cumbersome and duplicate processes.
- High dwell time and lack of seamless movement of goods across modes.

### Suggested Action Plan

- Formulation of **National Integrated Logistics** Policy to bring in greater transparency and enhance efficiency in logistics operations
- Develop **integrated IT Platform as a single window** for all logistics related matters. This portal will have linkages with the IT systems of Railways, Road transport & Highways, Shipping, Civil Aviation, CBEC, State Transport departments, etc. and act as a Logistics marketplace
- Usher in **ease of documentation, faster clearance, digitization.**
- Bring down logistics cost to less than 10% of GDP by 2022
- Faster clearances for setting up of logistics infrastructure like **Multi-modal logistic parks (MMLPs)**, Container Freight Station (CFS), Air Freight Station (AFS) & Inland Container Depot (ICD).
- Introduce **professional standards and certification for service providers**
- Promote introduction of **high-end technologies like high-tech scanning equipment, RFID, GPS, EDI, online Track & Trace systems** in the entire logistics network.
- **Improve Logistics skilling in the country and increase jobs in Logistics sector to 40 million by 2022.**

India has improved its ranking in the “Logistics Performance Index” (LPI) from 54 in 2014 to 35 in 2016

8.93 Inclusion of Logistics Sector in the Harmonized Master List of Infrastructure Subsector will benefit the sector in many ways as follows:

- i. It will be helpful in facilitating the credit flow into the sector with longer tenures and reasonable interest rates.
- ii. The infrastructure status will simplify the process of approval for construction of multimodal logistics (parks) facilities that includes both storage and transport infrastructure.
- iii. It will encourage market accountability through regulatory authority and will attract investments from debt and pension funds into recognized projects.

#### **101 Steps taken to boost industry**

- **Make in India:** The sectors have been identified for renewed focus under the Make in India version 2.0 including Defence & Aerospace, Biotechnology, Pharmaceuticals and Medical Devices, Chemicals, Electronic System Design & Manufacturing (ESDM),
- **IPR Policy:** Creative India, Innovative India- CIPAM opened
- **Startup India**

#### **102 HAM**

### Box 8.2 Hybrid Annuity Model (HAM)

Hybrid Annuity Model (HAM) is a combination of two models i.e., the EPC (Engineering, Procurement and Construction) model and BOT - Annuity (Build, Operate, Transfer) model. Under the EPC model, the private players construct the road and have no role in the road's ownership, toll collection or maintenance. National Highways Authority of India (NHAI) pays private players for the construction of the road. The Government with full ownership of the road, takes care of toll collection and maintenance of the road.

Under the BOT model private players have an active role in road construction, operation and maintenance of the road for a specified number of years as per agreement. After the completion of the years of operation, the private players transfer the asset back to the Government. Under BOT, the private players arrange all the finances for the project, while collecting toll revenue (BOT toll model) or annuity fee (BOT annuity model) from the Government, as agreed. In the BOT annuity model, the toll revenue risk is taken by the Government. The Government pays private player a pre-fixed annuity for construction and maintenance of roads.

HAM combines EPC (40 per cent) and BOT-Annuity (60 per cent) Models. On behalf of the Government, NHAI releases 40 per cent of the total project cost, in five tranches linked to milestones. The balance 60 per cent is arranged by the developer. The developer usually invests not more than 20-25 per cent of the project cost, while the remaining is raised as debt.

In BOT toll model, the private players did not show their willingness to invest, since they had to fully arrange for the entire finances, either through equity contribution or debt. NPA-riddled banks were reluctant to lend to these projects. Since there was no compensation structure such as annuity, the developers had to take entire risk in low traffic projects. The essence of HAM model arose due to requirement of better financial mechanism where the risk would be spread between developers and the Government.

### 103 STATE FINANCE COMMISSIONS:

- 5th generation SFCs ought to hv submitted reports by now
- Only Assam, HP, TN and Kerala submitted 5th SFC reports
- UFC is acknowledged as professional and quasi-judicial body
- In SFCs: serving and retired bureaucrats than academics
- Constitution treats local govt at par with a State govt in sharing of financial resources
- SFC is institutional agency to implement cooperative federalism
- Art 280(3): to take measures to to augment resources of panchayats and municipalities on the basis of SFC's recommendations
- Financial reporting system of the Union and States is well laid down.
- Local govts with no such budgetary system are in deep disarray
- SFCs face a crucial problem of reliable data
- No UFC has read or analysed SFC reports
- Barring the 13th UFC, no UFC has suggested measures to augment resources of local govt

### 104 Amendments to Tariff Policy 2016

Main amendments are as follows:

- **Promotion of Renewable Generation Obligation (RGO).**
- **Compulsory procurement by Discoms from waste-to-energy plants.**
- **Thermal Power Plants within 50kms of sewage treatment facilities to use treated sewage water.**
- **Hydro projects continued to be exempted from competitive bidding upto 15<sup>th</sup> August 2022.**
- **Use of Smart meters in a phased manner to enable 'Time of Day' metering.**
- **Inter-State and Intra-State transmission lines only through competitive bidding.**

### 105 Kelkar Committee Recommendations on PPP 2016

- institutional capacity building activities,
- develop a PPP law with endorsement from Parliament.
- Set up committee to review stressed projects
- Fls to issue deep discount bonds (zero coupon bonds) for long term financing
- One size fits all approach to be avoided- project assessments on individual basis
- Amend PCA 1988 to punish fraudulent contracts and save those who made genuine mistakes

### 106 Why GDP is inadequate



# Need for change



Why the committee insists that the measurement of India's Gross Domestic Product needs an overhaul? A look at the reasons cited:

▪ It does not measure the depletion of natural resources

▪ It ignores the economic contribution of women in running households

▪ It does not factor the change in the output quality

due to technological advances

▪ It does not factor the impact of artificial intelligence in employment

▪ It does not measure whether GDP adds to happiness of the citizens

## 107 Multi dimensional poverty

- According to MPI Report 2018, multidimensional poverty almost halved between 2005/6-2015/6 to 27.5%
- Deeper progress among the poorest

### Problems with MPI

- Measurability
- Aggregation across indicators
- Databases updating at short intervals

### Inequality

- Consumption Gini- 0.35
- Income Gini - 0.55
- Wealth Gini - 0.74

(All years 2011-12)

## 108 RBI-Centre tussle

### Issues

- PCA framework deemed to be too restrictive
- Feb circular on classification of NPAs too strict
- Centre wants power sector to be exempted from NPA norms
- Liquidity crunch to NBFCs
- Centre wants RBI to transfer Rs. 3.6 lakh crore of its surplus to the Centre. As per **Sec 47 of RBI Act**, profits of RBI are to be transferred to the govt after making various contingency provisions, public policy mandate of the RBI

### Problems

- Affects central bank independence

- RBI's dividends make up 92% of all Centre's dividends from public sector FIs. So, centre can treat RBI as a cash cow. But this can affect the independence of the RBI in hiring the best personnel and researchers.
- RBI's capital base is 27% of its total asset base. This is higher than most central banks. But only a third of it is contingency funds- the rest are revaluation funds whose rupee value changes with change in value of RBI assets. The depreciation of rupee has increased this. If RBI balance sheet had been in dollars, there would have been no change. Deployable capital base is just 7%- making RBI one of most under-capitalised central banks in the world.
- PCA has led to greater lending by better capitalised banks that have weaker incentives to evergreen their stressed assets.
- Sovereign govt gets money from two sources: tax revenues and printing money. As govts can take political policies that lead to uncertainty, the revenue from printing money is kept with the central bank to ensure some certainty for the public. Thus, central bank independence is crucial. It should not be based on performance.
- According to Bhalla, RBI has made inflation forecasting errors. So, high policy rates discouraging MSMEs and investments
- RBI says it needs a Contingency Fund of 12% of its total value of its assets. But why 12, and not 16 or 8? Even the Committees set up to determine the amount are RBI appointed.
- RBI by allowing depreciation of rupee through forex intervention puts a tax on the imports. So, it is a revenue that belongs to the Centre.

### **Recent international developments**

- Reserve Bank of NZ decided to move away from inflation targeting and include- price stability + fostering employment. It was the first bank to introduce IT
- UK Finance Ministry and Bank of England signed memorandum of agreement to have a common framework towards capital requirements, expenditure, surplus etc
- Thus, steps have been taken abroad to better align Central Bank policy with govt. objectives

### **Result of RBI Board Meeting on 19 November 2018**

- Relook into PCA for better credit flow to MSMEs
- Relook at Economic Capital Framework - provisions, reserves and buffers presently provided for by RBI. Govt. appoints Bimal Jalan Committee.
- Joint control of surplus by govt and RBI
- RBI refused to yield on lowering capital adequacy below 9%
- Reflects a new balance between the powers of govt and RBI
- All policy decisions must be deliberated by the Board
- But issues related to heart of the current conflict got drowned: inadequate sum for recapitalisation of banks, low capital buffers taking into account the systemic risks, issue of accountability of Fin Min and RBI.

### **Positive outcomes from the meeting**

- Revaluation reserves can be transferred to govt. as they are an accounting entry. This can lower the stock of govt debt
- PCA has significant negative externalities. Relaxation of PCA could relieve stress in the economy.

### **Issues with RBI having to pay its equity out to the government**

- Given RBI independence, part of country's assets protected in safe hands under RBI. Improves country's international credit ratings and greater credibility in committing to perform its emergency functions
- Creates a policy moral hazard. RBI may be tempted to lower policy rates as that improves its holding of government securities.

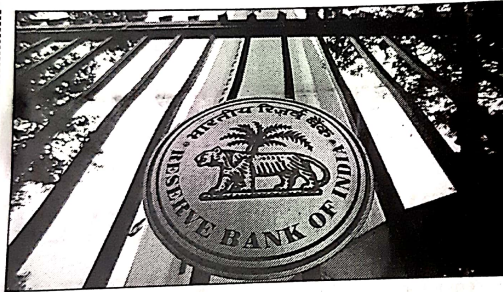
# 'Excess RBI capital must be used to recapitalise PSBs'

Bimal Jalan panel may recommend transferring up to ₹3 lakh crore of excess Reserve Bank capital to the Centre and the money should be used for recapitalising state-run lenders, according to a Bank of America Merrill Lynch report

**WELCOME STEP:** The economists said they actually welcome the use of excess RBI capital to recapitalise public sector banks to support economic recovery, adding even the RBI Act allows for transfer of the capital provided the central bank maintains \$0.7 million of reserves.

**MONETISE NETWORTH:** The RBI can "monetise networth as the creator of money" and will not have to resort to selling of G-secs or forex reserves either, it said

**NEUTRAL STEP:** If the excess capital is used for recapitalising state-run lenders, it will be neutral from both a fiscal deficit and



liquidity management perspective

**SUPPORT RBI AIMS:** Bank recapitalisation can indirectly support RBI objectives on the liquidity management, where the central bank has been

buying back bonds to inject liquidity

**RATINGS UNAFFECTED:** Drawing down from the excess capital will not impact ratings as well, as the ratings depend on the RBI's forex reserves and not on

**₹1L cr to 3L cr**  
Depending on the methodology, the panel will identify Rs 1 to 3 lakh crore or 0.5-1.5 per cent of GDP as the excess capital

internal reserves or the networth

**JALAN PANEL:** was constituted last December, after a protracted debate on the issue. Constitution of the panel was one of the first major decisions initiated by the career bureaucrat Shaktikanta Das, after he was appointed as governor last December

## RBI policy meeting (June 2019)

- Repo lowered by 25 bps to 5.75%, but need to ensure effective transmission- only 21 of the 50 bps cut has been passed on till now between February and April. Stance changes to 'Accommodative' from 'Neutral'
- Waiving off RTGS/NEFT charges to provide impetus to digital transactions
- Committee under CEO of IBA to examine charges on ATMs
- Forex trading platform for retail participants like individuals, exporters, SMEs etc for better pricing, competition and transparency to be developed by Clearing Corporation of India
- Steps to enhance retail participation of State Development Loans (SDLs) by using current platform of stock exchanges
- Lowering the leverage ratio of banks to 3.5% for all banks, except D-SIBS (4%) as per Basel III. This will augment the lendable resources of banks- leverage ratio introduced in 2008 crisis due to build up excessive on- and off-balance leverage in the banking system.
- Monitoring of liquidity crisis of NBFCs due to default of ILFS and DHFC.
- On-tap licensing for small finance banks as they further financial inclusion. For payments banks, sufficient data not available on the success of financial inclusion

## 109 GDP back-series data

- GDP growth during UPA I and II averaged 6.7%. Old series at 8.1 and 7.46% respectively. Current govt growth rate of 7.35%.
- Economy doesn't seem to have recovered from the GFC quickly, especially after taking into account mining and manufacturing data.
- Mfg sector growth plummeted to 4.7% in 2008-09, recovering to 11% in 2009-10, only to fall back to 3.1% in the next two years. Remained below 6% till 2014-15
- Mining didn't even cross 1% growth till 2014-15
- Old computations insensitive to current data. But new computations use ASI data for mfg, sales tax data for trade etc.
- According to Bhalla, problems with old series: 1. Incorporating employment growth estimate for just 10% of labour force using NSSO data for Wholesale, Retail and Trade (WRT), 2. Underestimation of inflation.
- Problems with Committee on Real Sector Statistics back-series: Used production shift method: not recommended by UN System of National Accounts (UNSNA), volume extrapolation should be used.

### **Differences with the older series**

- The key difference between the two was that the old method measured volumes — actual physical output in the manufacturing sector, crop production, and employment for the services sector. The MCA-21 database allows for a more granular approach, looking at the balance sheet data of each company and aggregating the performance of the sector from that, after adjusting for inflation.
- For most sectors, simply changing the price vectors from a 2004-05 to a 2011-12 base was enough, but others required a splicing of new and old data in the relevant proportions to arrive at the closest approximation.
- The new method is also statistically more robust as it tries to relate the estimates to more indicators such as consumption, employment, and the performance of enterprises, and also incorporates factors that are more responsive to current changes, unlike the old series that usually took 2-3 years to register an underlying change.
- Downward revision in growth rates has happened because the new series much better estimated the growth rate of the tertiary sector because these were overestimated in the previous series. In case of telecommunications, growth of telecommunication services was extrapolated from the growth in the number of subscribers. Now they have used the growth in data usage, which is much better. That's why the growth in telecommunication had come down.
- three sub-sector which account for the dominant share of downward revision are telecommunications, financial services and unorganised trade.
- changes in the growth rates of the primary sector were attributed to agriculture and mining, where the growth rates were lower
- In both the new and old series of Wholesale Price Index (WPI), the index for petroleum and natural gas mining used for deflating the output of the sector was lower in 2010-11 than in 2011-12
- In the secondary sector, the differences in rates was attributed to changed data sources and methodologies. The Annual Survey of Industries for 2011-12 was conducted in 2012-13 and finalised in 2015
- in the tertiary sector: in unorganised trade, latest round of NSS, sales tax index and new series of WPI have been used for preparing the back-series as against usage of constant GTI (Gross Trading Income) Index in 2004-05 series

### **Issues with the back-series**

- in the case of secondary sector, it was based essentially upon the Annual Survey of Industries (ASI). We do know that ASI was underestimating the growth in manufacturing, so I had expected

that to be revised upwards. But that has been revised downwards as well.

- big difference between the volume index approach and the financial data approach is that the financial data captures changes in quality which the volume approach does not. So if a substantial part of the growth has been coming from quality, then if you take the volume approach, you would underestimate the growth.
- NITI Aayog releasing the data, sends a political message
- for years preceding 2006, when the MCA-21 database did not exist, the CSO has used ASI data for estimating manufacturing growth whereas economists say there could have been other indicators for the same metric.
- Doesn't take into account impact of Demonetisation and GST on the informal sector.
- Impact of missing black economy
- For unorganised sector, they use **effective labour input** method that reduces the size of the sector. Further, what type of production function is used is also a matter of debate.

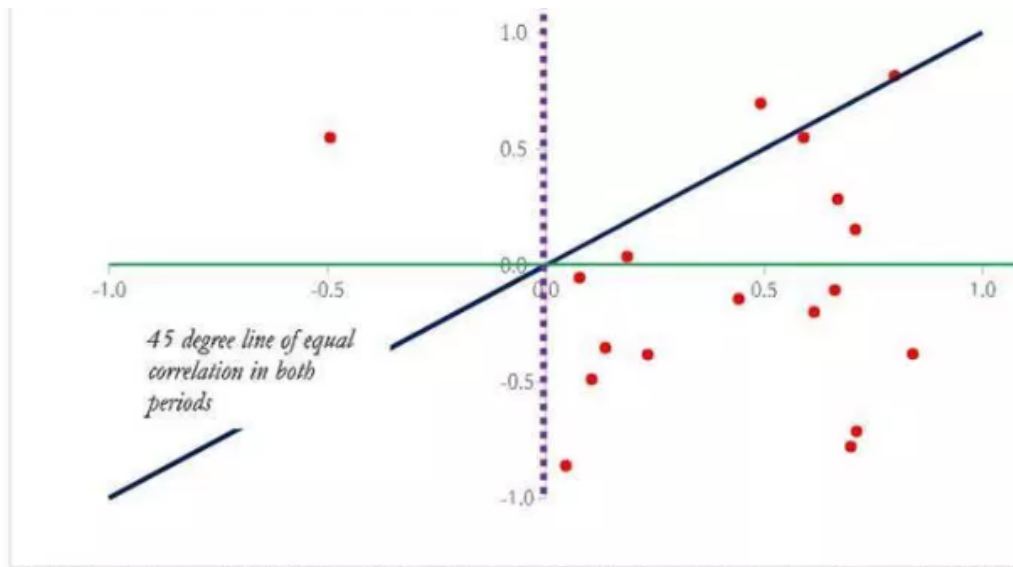
### **Subramanian's take on GDP data**

- GDP overestimated by 2.5 percentage points between 2011-2019
- Actual growth maybe around 4.5% with a 95% CI of 3.5-5.5%
- Not political-as includes both UPA 2 and NDA 1. Substantive work done by technocrats
- 5 **major shocks**: Collapse in exports, policy paralysis under UPA 2, demonetisation, TBS, drought in 2014-15. Yet, GDP continued to grow at 6-7% is unbelievable.
- **Direct taxes growth** slipped from 22.5% pre 2011 to 11.5% post 2011.
- He is not doing any new measurement of GDP, but seeing the demand side analysis- these variables will have effect on demand, and so, spur growth.
- **Deflator** used to subtract from nominal GDP growth to get real GDP growth was less than retail inflation- overestimated 'real' GDP growth rate.

### Methodology of CEA:

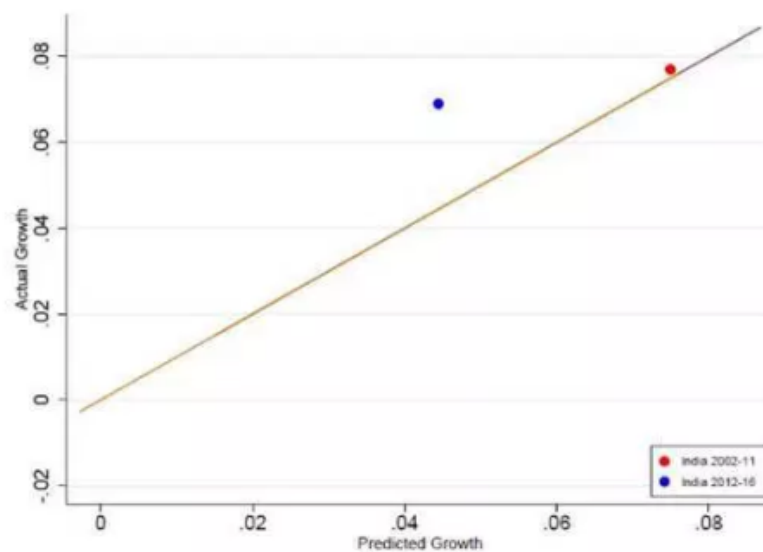
- Compile 17 key indicators from 2001-2 to 2017-18: electricity, IIP, IIP (mfg), IIP(consumer goods), Car sales, railway freight, airline traffic

- These are correlated to GDP but estimated independently, and not by the same agency (CSO)
- Compare India with other countries.
- Did not use MCA21 series.
- Mismeasurement appears to be particularly severe in formal mfg: before 2011, formal mfg VA moved closely with IIP (mfg), post 2011, negative correlation seen.



*For. Tourist: Foreign tourist arrivals; IIP: Index of industrial production; Exp. GS: Exports of goods and non-factor services; IMP. GS: Imports of goods and non-factor services; Rly. Frt.: Railway freight; Airline: Airline passenger traffic; Mfg.: Manufacturing; Cons.: Consumer goods; GVA: Gross value added; Comm. Vhd.: Commercial vehicles; IIP-GVA (Mfg.) refers to the correlation between manufacturing growth in IIP and GVA.*

Figure 1. Correlation Between Annual Growth of Indicators and GDP, 2001-2011 and 2012-2017



*The horizontal axis shows growth predicted for different countries based on the cross-country relationship between the indicators and GDP growth; the vertical axis shows actual growth.*

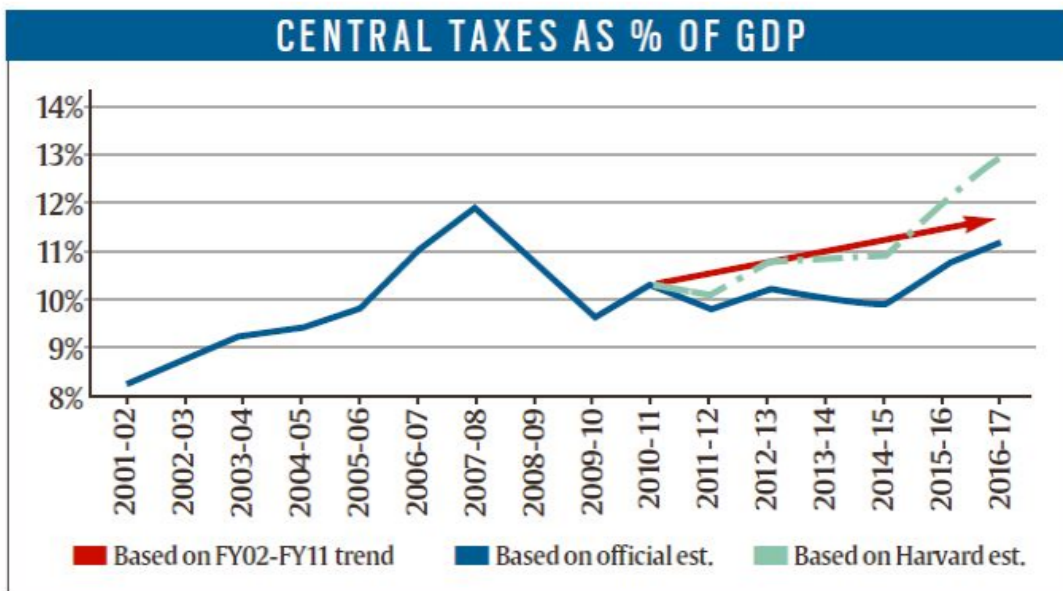
Figure 2. How Exceptional is India's GDP Growth in 2001-2011 and 2012-2016?

## Significance and consequences

- Too much focus on inflation leading to tight MP and FP, when instead the focus should have been on growth and stimulus
- Inaccurate stats on economy's health dampen impetus for reform
- Weak job growth and TBS might be the result of low growth, and not 'jobless growth'
- MCA 21 series should be made public for independent research evaluation
- Entire GDP estimation process needs to be revised, involving international and national experts

## Counter

- AS didn't use tax data on the ground that major changes had been brought about in the tax structure. BUT GST introduced in FY18, while his estimates end in FY17 without any radical direct or indirect tax changes taking place.
- So, if tax-GDP ratio taken, there would be a massive jump from FY12 onwards, as every year GDP has to be reduced cumulatively by 2.5 percentage points. But nothing of that observed.



- **Vaidyanathan- former PC member-** Ignores indicators related to key sectors like agriculture, services and informal sector

- **Pronab Sen:** A lot of the 17 indicators were used earlier in calculating GDP, but no longer used now.
- **Bhalla's take:** Manufacturing — value-added vs IIP growth: In period I, the two growth rates are virtually identical: 7.7 vs 7.3 per cent pa. In period II value-added in manufacturing increased at 7.2 per cent pa and IIP increased at only a 3.1 per cent rate. If the MCA data for period II are considered problematic, and IIP correct, then there is an over-estimation of 4.1 per cent per year. With a weight of 15 per cent, this will lead to an over-estimation of GDP of 60 bp per year in period II. Wages in manufacturing (ASI data): Real wage per day growth was only 0.4 per cent an annum in period I which accelerated to 2.2 per cent pa in period II.
- Agricultural wage growth: For (unskilled) ploughmen, this accelerated from 1.9 per cent in period I to 3.3 per cent in period II; for (semi-skilled) rural carpenters, the acceleration was much sharper — from 0.9 per cent to 4.5 per cent. Real wage growth is an important component of GDP growth, and both Annual Survey of Industries and rural wage growth indicators suggest that the second 2012-16 period (spanning both UPA and NDA) contributed a higher portion to aggregate GDP growth. The trend in wages conflicts with AS's derivation of over-estimation of GDP growth.
- **Bhalla recreates the AS model for 89 countries:** 43 countries with significant effects are almost equally over-estimated and under-estimated. eg: Germany over-estimates by 1.8 ppt while Brazil underestimates by 3 ppt.
- **Bhanumurthy:** No consolidated CPI before 2011. Using production shift approach- two series show no major break.

**Production Shift Approach:** New activities are given progressively more weight (or less weight) as one move ahead in time (or move back in time)



- Went against traditional economic theory of comparative advantage: Nehru invested in heavy goods and capital technologies, as against investing in clothes, leather etc
- Development of indigenous capabilities became a model for development economics
- Diversified India's economic base
- Development of IT and knowledge based industries mainly due to the higher educational and research institutions developed during planning period.
- After planning diminished, record in Indian mfg very poor.
- Even East Asian Tigers and China owe their success to planning
- To tackle empty challenge, cannot rely on foreign tech as these are labour saving
- Need to deal with issues of climate change and AI.

## 111 Aviation industry crisis in India

### Reasons

- High cost of fuel- makes up 40% of total airline expenditure
- Rupee depreciation- foreign currency for engine lease rentals, maintenance and purchase of spare parts
- Massive fleet expansion leading to over-capacity and stiff price competition.

### Challenges for local production

- Availability of skilled manpower
- Technical expertise
- Training capabilities

### Challenge of climate change

- Carbon emissions 285 g of CO<sub>2</sub> per km traveled > road 158 > Rail 14
- Responsible for 5% GHG emissions including CO<sub>2</sub> and NO<sub>x</sub>. Almost similar to India
- Sweden- flygskam- flight shame- started by Greta Thunberg against travelling by air

### Steps being taken

- Improving fuel efficiency by 1.5% per year from 2009 to 2020
- Stabilising CO<sub>2</sub> emissions to reduce emissions by 50% by 2050 compared to 2005
- Updated engines, aerodynamic modifications and fittings that weight less
- But-high costs and long replacement times of aircrafts make it difficult

According to **CAPA**, aviation sector likely to see \$500-700 mn profit in FY20 due to exit of Jet. Indigo and Spicejet likely to be biggest gainers. Air India can break even.

## 112 Tea Industry in 2018

### Positives

- Emergence of Bought Leaf Factory (BLF)- buys output from small tea growers (STGs)
- Mechanisation of large tea estates
- Growth of STGs- making up 47% of total output- creating a dual economic structure
- Efforts taken to genetically establish the uniqueness of Assam tea
- Agreement between two of the largest tea-growing and consuming - India and China- to promote sustainable development of tea sector.
- Tea exports to hit 240 million kg in 2018-19, slightly lower than 250 million last year. Growing to **Iran, Bangla and China**. But **single targets importer** include **CIS**- Russia, Ukraine, Kazakhstan
- Promoting tea as a **health drink** in domestic market

### Problems

- No GI tag for Assam Tea
- Climate change
- Floods in Kerala
- Low productivity of workers. In SE Asia, it is 6 kg per worker, in Assam it is 2.50 kg
- per capita consumption of tea is low in India
- Non-viability of large growers, with STGs still beyond the ambit of most regulations, leading to a **dual business model**
- Labour issues- Plantation Labour Act, high cost, labour shortage as most younger generations choosing to migrate from the sector.
- Excess supply leading to fall in prices. Tea prices rose by 4.8% CAGR, but total production cost went up by 10% CAGR

### **Update**

Tea Association of India wants state govts to restrict new lands being brought under cultivation to correct excess supply

### **113 NITI's Strategy for New India @75**

- Focus on service delivery and implementation of policies. Recommends looking into 2nd ARC
- Focusing on employment generation and mfg
- Strong clusters of small enterprises as a principal strategy for growth of competitive industrial sector
- Codification of labour laws
- Social security for domestic workers
- Increasing tax-GDP ratio for financing human development.
- Incentives to financial investments

### **Problems with environment and ecology strategy**

- Misses non-forest ecosystems like grasslands, coastal wetlands, mountains
- Ignores the impact of mining on environment
- Introduces mega river-valley projects
- Excessive focus on hybrid seeds that destroy biodiversity
- Stress on rapid single-window clearance on infra projects. An EIA should ideally take a year for different seasons. But the Strategy restricts it to 180 days
- Absence of consent under FRA and PESA

### **Positive approaches**

- Renewable energy
- Organic farming, especially ZBNF
- Increasing forest cover
- Reducing pollution and waste
- Peoples' participation
- Focus on air pollution, SWM, water pollution and forestry

### **Questions about Performance of the NITI Aayog**

- Lost its integrity as an independent think tank
- Simply brings out indices and reports. Doesn't thoroughly reviews govt schemes. Need for Programme Evaluation Organisation of PC to continue

### **Steps to rejuvenate NITI Aayog**

- NITI Aayog can deal with horizontal imbalance across states over infrastructure and transformational capital deficits
- Increase financial allocation to 1% of GDP to NITI to deal with above horizontal imbalance
- Set up Independent evaluation office to monitor and evaluate efficacy of utilisation of grants to states. But be careful of federal structure
- Extend it below to third tier of govt. Set up a **consolidated fund of the third tier**

## 114 Off-budget financing

- Special banking arrangements: Food subsidy bills of FCI by borrowing from banks, AIBP by borrowing from NABARD under Long Term Irrigation Fund
- Borrowings from IRFC for railway projects, PFC for power projects. All these are outside of budgetary control
- GST Compensation cess surplus that the Centre can dip into
- Using state govts to cover costs of financing
- Service tax collections have been 5.6k crore against nil estimates under Budget 2018-19
- Lowering allocations for flagship schemes like Ayushman Bharat: Budget estimate of Rs. 2000 crore against the actual requirement of Rs. 10-12000 crore

## 115 IIP vs ASI data

- IIP based on fixed set of items, but ASI record-based survey of establishments under Factories Act 1948- so sampling frame and sampled establishments undergo significant changes
- ASI captures info of new items and factories, IIP does not
- IIP smaller sample of factories
- IIP reg based on volume of production but ASI based on Value Added
- IIP establishments usually larger in size but ASI covers both smaller and larger units

## 116 Why Economic Inequality matters

- It increases social and political inequality
- Those with more wealth change the rules of the game to protect and increase their wealth and power
- Thus, opportunities for progress become unequal.

## 117 Interim Budget 2019

### Positives

- Focus on **Farmers** through KISAN scheme, inspired by Rythu Bandhu
- Increase in disposable incomes for **middle class** after raising threshold to Rs. 5 lakh will boost consumption
- Pension for **unorganised sector** workers earning less than 15,000 per month- important for social security
- Boost to **real-estate**: tax-free profits for affordable housing
- **Entrepreneurs**: MUDRA loans allocation increased
- **Ease of doing business**: Complete digitalised interface while dealing with income tax officials
- 10-point **Vision plan** for New India 2030
- Passing on the benefits of fiscal prudence to the population
- Rising consumptions will spur private investment
- Spending on NHAI and PMGSY will raise productivity, increase employment, increase demand for commercial vehicles and crowd in private investment

### Negatives

- **KISAN scheme**: **1.** Does not specify irrigated or unirrigated lands, **2.** Assumes 'land-owning' households. So, leaves out tenants and labourers, **3.** Identification of lands problematic. In case of Rythu Bandhu, land records were first updated. **4:** Can be potentially inflationary **5:** Can leave out lands collectively owned, like NE and tribal farmers

- **Pension Scheme:** **1.** No pension to existing old person, **2.** Pension is less than half the minimum wage- that would have been Rs.5000 per month, **3.** Person saving 100 per month will save Rs. 1.5 lakh at compound annual interest of 8% , which can give him pension of 3000 till age 65 from now. So, govt. contribution is negligible.
- **Tax reduction:** Where will the money come from after this? Urea subsidy and DBT going up as well.
- **Health expenditure:** **1:** Fallen for primary healthcare like NHM, **2.** Excessive focus on PM-JAY, **3.** Only 2.2% of budget on healthcare. But US spends 23.5% of the federal budget on healthcare
- Too much focus on **income transfer** absolves the state of its responsibility to provide basic and quality health, education and social services. eg: depriving ASHA and Anganwadi workers of their wages.
- MGNREGA allocation has been slashed. It is an important insurance for agri labourers and tenants
- No strategy on raising private investment and employment
- No focus on improving quality of primary and secondary education
- Allocation for research increased but remains grossly inadequate
- Reduction in Namami Gange

### 118 Different techniques to improve agricultural productivity

- **Engineer photosynthesis:** increase expression of three genes in tobacco and cassava plants
- **Reduce photorespiration in plants:** energy and oxygen produced by plants in 'light reaction' of photosynthesis used to produce wasteful products other than carbohydrates in the 'dark reaction'
- Include seaweeds in our diet as they efficient in photosyntheiss

#### Why seaweeds needs to be encouraged

- Low-calorie but nutrient dense foods, with vitamins A and C, omega 3 and 6 fatty acids
- Eaten in South East Asia
- Of the 306 varieties found in Gulf of Mannar, 252 are edible.
- Does not require fertilisers, pesticides and water for irrigation
- No fishy smell

### 119 MSME credit crunch

- As per Financial Stability Report RBI, credit to MSMEs fell in the nine months ended December 2018
- RBI set up committee under UK Sinha to look at long-term solutions for economic and financial sustainability of MSMEs.

#### Way Forward

- Speed up loan processing by banks
- Placing of adequate collateral system and loan guarantees

### 120 New National Electronics Policy

- Objective: Turnover of \$400 billion, and employment to 1 crore people in ESDM
- Interest subvention scheme
- Credit default guarantee
- Infra support to a industires in a value chain through Electronics Manufacturing Cluster Scheme

### 121 Angel Tax

Applicable to unlisted companies that have raised capital through sale of shares at a value above their fair market value.

- This excess capital is treated as income and taxed accordingly.
- Predominantly affects startups

### **New rules**

- Startups exempted on funds raised in the last 7 years
- Investments upto Rs. 25 crore will be exempt
- Investments made by a listed company of at least 100 crore worth or turnover 250 crore also exempt
- No investment in lands not for ordinary business operations.

## **122 Social Protection**

Requires three types of instruments to work together:

- **Promotional:** To enable families to survive shocks on their own- investments in human capital, wage laws, skills training, livelihood intervention
- **Preventive:** Reduce impact of shocks by enabling savings in good times and running down savings during bad times- through insurance
- **Protective:** Mitigate impact of shocks once they have occurred- classically called anti-poverty programmes, like PDS, DBT

Immediately post 1947, India's policy relied more on *protective* instruments due to high poverty, disease and famine.

But things have now changed:

- Pockets of deep poverty remain
- Inequality across locations and groups has increased
- Majority no longer, but vulnerability has risen- possibility of falling back into poverty

3 types of portable tools are needed to deal with this vulnerable group:

- **Health Insurance**
- **Social insurance-** accident
- **Pensions**

## **123 SWIFT**

Society for worldwide interbank financial telecommunication- global messaging software that enables financial entities to send and receive information about transactions in a secure, standardised and reliable environment.

- RBI penalised SBI, ICICI, Yes Bank etc for failing to integrate SWIFT with CBS

## **124 Problems with Gold Bond Scheme**

- Gold imports have remained mostly the same at 960 million tonnes
- People prefer physical gold primarily in the form of jewellery- and for two reasons- weddings and festivals. So, demat paper not preferable for this
- Gold not seen as an investment in equity
- Lack of awareness among people about the benefits of the bonds
- Problem of lock-in period.

### **Advantages**

- Interest rate on bond much higher than physical gold
- Paper is safer as no risk of impurity or wear and tear.

### 125 Rupee-dollar swap by RBI

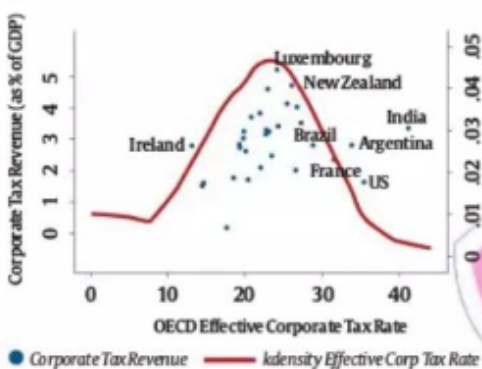
- RBI will buy up to \$5 billion from the market via auction on March 26, and simultaneously sell it back to the same counterparties effective March 2022.
- The dollars getting mopped up appear as RBI's forex reserves
- The system gets rupee equivalent liquidity for the same amount and same duration.

RBI gets to directly influence both **value of rupee and amount of liquidity in the economy using a single tool.**

### 126 Bhalla's different take on jobs and growth

ASI DATA ON INDUSTRIAL OUTPUT AND JOB GROWTH				
INDICATOR	NOMINAL		REAL	
	2011-13	2014-16	2011-13	2014-16
% per year (CAGR)				
<b>Inflation data</b>				
CPI	9	5	-	-
WPI	6.8	-0.3	-	-
WPIman	4.9	0.7	-	-
<b>ASI data</b>				
Net income	7.3	8.6	2.4	7.9
Net value added	8	8.2	3.1	7.5
Wages to workers	13	10.5	4	5.5
Jobs (# workers)	1.8	3.7	1.8	3.7

### THE LAFFER CURVE: INDIA IS OFF THE CHART



### 127 2.8 crore fewer women in the last 6 years in rural job market

- Higher participation in education
- Shrinking job market discouraging many women
- Cultural shift- once independent village woman a victim of social taboos against out and work

In **urban market**, participation rose by marginal 0.4 percentage points, especially the share of regular wage/salaried jobs. Share of non-agri informal sector dropped sharply - paper, wood, straw products.

### 128 Problems with Cotton

- Global prices crashing in 2015,2016
- No new tech introduced to deal with white fly and pink bollworm, which Bt tech cannot tackle.

### 129 National Statistical Office (NSO)

- Merger of CSO and NSSO
- To be headed by Chief Statistician of India- cumi Secretary (Statistics and Programme Implementation)
- In order to streamline and strengthen present nodal functions
- To bring in more synergy by integrating its administrative functions within the ministry

### Problems

- Role and supervision of National Statistical Commission (NSC) not yet clear
- NSC yet to be reconstituted
- Appears to be a dent on the autonomy of the Indian Statistical System

### Update

- MoSPI to set up National Data Warehouse wherein Big Data Analytical tools will be used to improve quality of macroeconomic aggregates

### 130 Ginger production in India

- **Main Production centres:** Karnataka (Mysore, SHivamogga), Kerala (Wayanad), MH, Goa
- **Minor centres:** Northern states and Nepal
- Last year prices crashed- so acreage shrank
- But prices have risen this year.

### 131 Mutual funds

- Net outflows from credit-risk funds jumped 3-fold in light of recent defaults and downgrades (May 2019)
- Inflows into debt funds tok a hit, while equities increased slightly
- As RBI lowers rates and investments pick up, more money is likely to flow into MFs

### 141 Consumption spending trends

- Discretionary goods seeing falling demand, but necessity items growing sales or output
- Mobile phone shares fell from 45% to 38% in one year
- FMCG showed much lower growth of 3.8% in 2018-19, compared to 10% previous year

### Reasons

- In rural areas, low realisation of agricultural prices. Most prices below MSP
- NBFC crisis- consequent squeeze in liquidity-NBFCs have wider penetration in rural areas, and account for 20% of credit to economy compared 15% 5 years ago

## LOWER GROWTH OF E-TAIL MAINSTAY - SMARTPHONES

■ Consumption breakdown is visibly stemming from non-agricultural segment in rural areas while agriculture is largely holding up in terms of physical volumes

■ In the urban areas, mainstay of online commerce — smartphones

— are witnessing lower than expected growth, while fashion and grocery goods have posted significant increase in demand

■ Necessity items such as refrigerators, washing machines have posted positive output trends

### 142 Steps the new govt should take

- Reflation through fiscal and monetary tools
- Privatization
- Factor market reform- land and labour
- it would help if key ministries—such as finance, education, health and agriculture—were manned by top talent from the private sector.
- Statistics

Refer: <https://www.livemint.com/opinion/columns/opinion-modi-2-0-should-be-about-two-r-s-reflation-and-reforms-1558423775525.html>

**As per SBI report, govt should focus on direct and quicker fiscal measures** rather than MP, as financial system is in need of repair.

### 143 Steps taken by government to finance renewable energy

- Capital subsidy
- Waiver of Inter State Transmission System Charges
- VGF
- FDI upto 100%. As per CEEW study, share of FDI in RE has gone up from 1.7% in 2000 to 3% in 2017-18
- Development Banks, like Indian Renewable Energy Devt Agency (IREDA)
- PSL status for RE upto Rs. 150 million
- Multilateral institutions. KfW germany's LoC for Green Energy Corridor Project, ADB, WB, NDB financing solar projects
- Green Masala Bonds used by IREDA to raise \$300 million
- VC, PE , sovereign wealth funds. eg: Greenko in Hyderabad raised money through PE

### Way Forward

- Pension and Hedge funds also need to be tapped. InvITs allowed by SEBI another option
- Reducing the currency hedging costs can mobilise foreign capital



- Introduce robust Payment Security Mechanism (PSM) de-risk investments. This explains the low tariff rates in Rewa solar plant. **Update:** PSM opened for private power plants. Discoms need to maintain adequate Letter of credit as payment security to the private power plants.
- Developing a dedicated ecosystem, involving all FIs

### Sources of RE

- Solar
- Biomass, biogas
- Wind
- Geothermal
- Ocean thermal
- Hybrids- wind-solar, wind-solar-biofuels
- Nuclear
- Electric vehicles through Hydrogen Fuel cells

### 144 Energy Efficiency

### 145 Credit Rating Agencies

- Failed to identify stress in corporate balancesheets on several occasions- ILFS, DHFL etc
- Problems with the Issuer-pays model: the ratings agency is paid the issuer of the instrument that it rates. So, it is more loyal to companies whose instruments they rate rather than to investors who provide precious capital

### SEBI issues revised disclosure norms



### 146 Need for a law on public procurement

- Procurement by govt makes up 30% of GDP
- Need to have a robust internal grievance redressal system
- Only 5 states have laws- TN, RJ, Assam, AP, KN. But the grievance redressal systems are neither effective nor independent.
- This leads to excessive litigation by aggrieved parties.

### 147 Cesses

- A cess is levied on the tax payable and not on the taxable income
- Can be levied on both direct and indirect taxes. eg: health and education cess at 4% on income tax
- Levied to meet a specific purpose. Its proceeds must be used for that purpose only
- All cesses credited to the Consolidated Fund. But the cess proceeds need not be shared with the states
- Preferred over a tax, because it is relatively easier to introduce and abolish

### **Case of Education Cess**

- Collection rising due to rise in IT and CIT
- Introduced in 2005. But only Prarambhik Shiksha Kosh set up for primary education. MUSK for secondary and higher education set up in 2017, 10 years after introducing cess
- So, funds have remained dormant. Rs. 94000 crore. In 2017-18, public exp on schools and higher education Rs 79000 crore. So, dormant funds exceed actual exp
- Need for an annual report on how the funds are actually used

### **148 Why WPI inflation exceeding CPI this year**

- Channel efficiency- compression of the value chain between farmgate and retail prices
- Also the result of supply side pressures due to drought and low price-realizations- initially felt in wholesale markets. Will get transmitted to consumers but with a lag

### **149 MUDRA**

- Under PMMY, 3 types of loans provided: Shishu (upto 50000), Kishore (50000 to 5 lakh), Tarun (5-10 lakh)
- These loans provided by SCBs, RRBs, cooperative banks, MFIs, NBFCs
- To non-corporate, non-farm and small enterprises
- MUDRA refinances these loans with allocation from the centre
- TN topped MUDRA disbursements, followed by KN, MH

### **Reasons for rising bad loans (5.28% compared to 3.9% a year ago)**

- Demo
- Loan waivers
- Ambitious targets- 3.11 lakh crore sanctioned against target of 3 lakh crore
- UK Sinha Committee has recommended- doubling cap on collateral free loan to 20 lakh- NPAs can rise sharply

### **150 Trends in domestic saving**

- Overall savings rate- GDS/GDP ratio- fell from 36.8% in 2008 to 30.5% in 2018. Ratio has been falling since 2012
- Largest savers are the HHs. But their share has fallen from 23% in 2010 to 17% in 2018
- Falling HH savings a cause of concern because they provide the funds for investment by the corporate sector and public sector. If these funds are not met, resort to foreign borrowings needed to meet the S-I gap. But that can worsen CAD
- Private corporate sector savings increased from 7.4 % in 2008 to 11.6% in 2018. Partly due to change in base year to 2011-12 which led to physical assets of quasi-corporations excluded from HHs and included in corporate sector

### **Why HH savings falling**

- Rising consumption- explains consumption led growth
- Financial liabilities rising
- Partly due to Modigliani's *life-cycle hypothesis* that people consume more than they earn in their youth

### **151 Direct Tax reforms India should adopt**

simplify complex global tax requirements, increase transparency, and ease tax compliance .

1. Cut Corporate tax rate to 25%
  2. Prevent BEPS using G20 Action Plan
  3. Broad basing and lowering tax rates- examples of HK, Russia and NZ
  4. Getting rid of exemptions
  5. Tax LTCG
- Link tax rebates with job creation and investment

### **152 Death of enterprise**

- Period after 1991 saw emergence of new capitalists, and rise of not-so-big old capitalists. eg: IT, Wipro, Jet, GMR, GVK etc
- But in the last 10 years, it has been mostly death of enterprises without any creation of new ones. So, Schumpeter's creative destruction not taking place. It is just destruction.
- Creation of a handful startups mostly in e-commerce or mobile-enabled services. eg: Flipkart, Snapdeal, Zomato
- But many more have gone into debt- or belly up. eg: Jet, Reliance (Anil Ambani), Essar Steel
- Death of enterprise+ dying of animal spirits - "the spontaneous urge to action rather than inaction"

### **Reasons**

- TBS
- Demo + GST
- Agricultural distress

### **153 Implementation problems of KISAN Scheme**

- As only landowners entitled to transfer, list of beneficiaries includes only 32% of farming households
- Only 27% have received the 1st instalment, 24% second
- Certain states getting prioritised- UP has received 33% of fund transfers, 17 states accounting for less than 9%
- Discrepancy in details of names of farmers given by states and banks have led to withholding of payments or reversal of payments. States have now been asked to verify the names before sending.

#### **154 Need for a corporate bond market**

<https://indianexpress.com/article/explained/why-a-corporate-bond-market-union-budget-2019-nirmala-sitharaman-5823094/>

#### **Why Indian govt wants to borrow from abroad?**

- India's sovereign external debt-GDP ratio at just 5% - one of the lowest in the world. This borrowing will be just 10% of total govt borrowing
- Free up domestic funds for the private sector. Govt borrowing takes up 80-85% domestic savings, through schemes like UDAY
- Get access to cheaper foreign funds, as global markets will assign a lower risk to India defaulting
- It will provide a yield curve- a benchmark- for Indian corporates who wish to raise loans in foreign markets
- Will lead to more disciplined fiscal policy. Too inflationary and the govt will see its payments go up.

#### **Concerns**

- Sharp depreciation in currency can increase repayment costs. Similar to the Latin American countries in 1970s
- As India borrows from foreign markets, its forex reserves will increase- leading to an appreciation of rupee, dampening exports
- Govt would not be able to print currency to repay its debt. So, possibility of default rises
- If fresh currency comes into economy, RBI would have to sterilise by selling bonds. This will reduce funds for the private sector. If it doesn't then inflationary scenario
- Quite likely that govts will be tempted to dip into foreign markets for future loans every time it runs out of money.

#### **155 Model Tenancy Act**

<https://indianexpress.com/article/explained/draft-model-tenancy-act-what-govt-proposes-for-house-owners-tenants-5829266/>

#### **156 Hydrocarbon Exploration and Licensing Policy 2016**

- Single license for exploration of all forms of hydrocarbons including shale and CBM
- Simple revenue sharing model
- Marketing and pricing freedom for developers
- Open acreage policy

#### **Objectives**

- Enhance production of oil and gas
- Increase private investment
- Generate employment
- Bring transparency and reduce administrative discretion

## **Problems**

- Under OALP, firms bidding aggressively at 90% share to govt but not starting operations

### **157 Problems in the automobile industry**

- NBFC liquidity crisis
- Changes in axle norms by govt in trucks have affected commercial vehicles
- New safety norms from April 2019 leading to price hikes in 2-3 wheelers
- Higher insurance costs
- Cesses and high taxes on diesel and petrol
- Consumers postponing buying decisions hoping for GST cuts and festive season offers
- Tractor sales down due to weak farm sentiment- fears of worse than average monsoon

### **158 Blue Economy**

#### **Potential**

- Enhance GDP
- Provide livelihood
- Infra expansion

#### **Ways to do so**

- Blue trade in both goods and services through devt of maritime services- ports, ships, maritime finance and insurance, ICT etc
- Blue investment- coastal-to-hinterland connectivity
- Blue SMEs
- Development of dedicated industrial parks, protection of coastal natural calamities
- Ease the flow of PPPs and private investments
- Upscaling technology and skilling of maritime population
- Protect federal structure with greater coordination with the states and ULBs

Follow **SMART (Specific, Measurable, Achievable, Realistic, Time-Tested)** Formula

### **159 What we can learn from the East Asian Tigers**

- Forced savings through compulsory PPF
- PSUs operating under budget constraints
- Highly regulated financial system- cost of capital high
- Vertical industrial policy (of picking winners) would not work without sound horizontal policy (labour reforms, land reforms, raising Women LFPR)
- Focus on human capital
- Bureaucracy had embedded autonomy

### **160 GeM**

#### **Problems**

- Time consuming to register, especially for MSMEs
- Complaints about substandard materials

#### **Way Forward**

- Bring technical experts for specialised products
- Incentives for ministries procuring from GeM
- All depts and mins should nominate a Joint-level officer to coordinate with GeM and identify products that might be procured through GeM

### **161 Why too much focus on fiscal deficit not good**

- FD by itself does not differentiate between revenue deficit and capital deficit
- It is the revenue deficit that we should be more worried about-  $RD < 0$  implies govt is dissaving
- At least some part of the borrowing is being used to finance current consumption
- Crowds out private investment- probably explains why private investment has not picked up even after fiscal consolidation

### **3 implications of RD becoming structural in India**

- Public debt is only bound to rise
- We are permanently borrowing to consume
- Leaving it to future generations to inherit the debt

### **162 What investors want**

- Macroeconomic stability- inflation, FD, CAD
- Supportive regulatory and policy environment- simplified tax rates, transparent mechanisms for dispute resolution, flexible labour laws, EODB
- Efficient infrastructure and ease of supply side factor market constraints

### **163 Stress in the telecom sector**

- High spectrum charges, and base price for auctions
- Only 4 players remaining in the market: Voda-Idea, Airtel, Jio, BSNL-MTNL
- Recent SC judgement on Adjusted Gross Revenue (AGR): Will lead to outgo of over Rs 1 lakh crore

<https://www.thehindu.com/business/Industry/why-is-the-telecom-sector-under-stress/article29865316.ece>

### **164 New Labour Code on Industrial Relations**

- Introduces fixed term employment through contract workers on pan-India basis
- Permission for retrenchment kept unchanged at 100 employees. But govt can change threshold through notification.

#### **Advantages**

- FTE will provide greater flexibility in hiring and firing
- During tenure of contract, they will be treated at par with regular workers

#### **Opposition**

- Flexibility with retrenchment threshold will only add to uncertainty
- FTE can result in more permanent workers being turned into contract workers

### **165 Issues over the CES Survey**

- Data revealed a decline in MPCE (**Rs 1446**) for the first time since 1972-73
- Rural HHs declined even after adjusting for inflation, while urban HHs reported marginal 2% increase between 2012-12 and 2017-18
- Concerns raised about sensitivity of survey to consumption patterns over health and education
- Issues with other administrative datasets that point at a different direction of change.
- But economists questioned this govt claim: Even PLFS and IIP shows decline
- But withholding of data can violate India's obligations under IMF's Special Data Dissemination Standard. India obliged to follow good practices in 4 areas: **Coverage, Periodicity, Public Access, Data integrity and quality.**

### **CES Survey**

- 5 yearly survey
- Last conducted in 2011-12, and then for 2017-18
- Areas looked into: HH consumer expenditure, nutritional intake in India
- Sharp variations in rural-urban, rich and poor states, and highest-lowest income fractiles

95th percentile in urban areas spent over Rs 6000.

### **166 Financial Inclusion Strategy 2024 of RBI**

- To strengthen financial services to Tier I and II cities
- To move to a less-cash society
- Increase bank outlets to every village within a radius of 5 km
- Ensure access to a mobile service to every citizen
- Enrol under insurance and pension scheme for every PMJDY holder
- Public Credit Registry to be fully operational by 2022

### **167 AGR Issue**

<https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about-agr/article30008124.ece>

### **168 Is India heading into stagflation**

- CPI inflation at 7.35% in December- mainly due to vegetables like onions- due to delayed monsoons and delayed withdrawal leading to damage to standing crop
- 6 consecutive quarters of slow growth since 2018- Sept-Dec quarter at 4.5%

#### **Reasons**

- Lack of sufficient demand due to demonetization, GST, TDS
- Fiscal consolidation leading to weakened government demand
- RBI rate cuts fuelling inflation

#### **Way Forward**

- Stop worrying about inflation and focus on AD
- RBI to further ease its policy stance
- Spend on infrastructure

#### **Counter argument**

- Not a stagflation as core inflation still within 2-6%

- Natural for growth to slow down after a credit fueled boom

## **169 Make in India**

### **Current Status**

- Investment falling to 21% of GDP, mostly private investment
- Employment falling, as per PLFS
- Output turning negative as per IIP

### **Why did it fail**

- Annual growth rate of 12-14% beyond industrial capacity- too ambitious a target
- Too many sectors into focus. Led to loss of policy focus.
- Rising protectionism across the world
- Over-reliance on foreign capital.