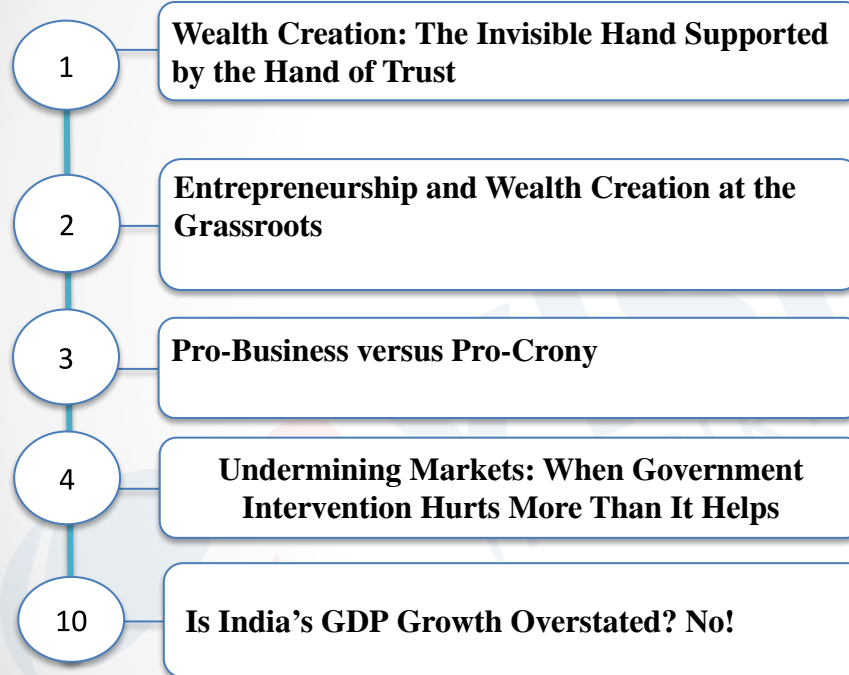
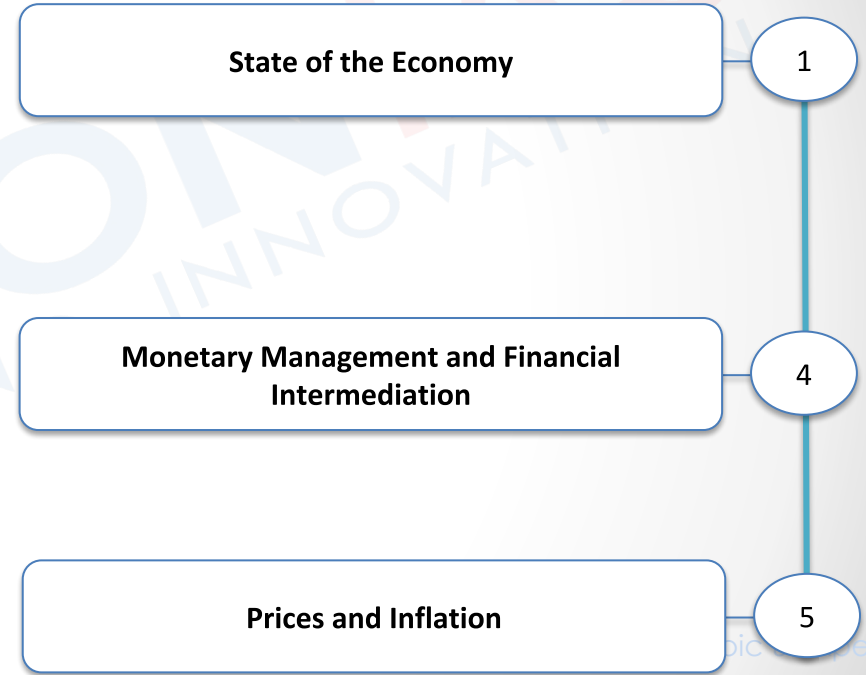


# Economic Survey 2019-20

## Volume 1



## Volume 2



# Volume 2- Chapter 4: Monetary Management and Financial Intermediation

## V2- Ch4: Monetary Management

**Table 1: Revision in Policy Rates**

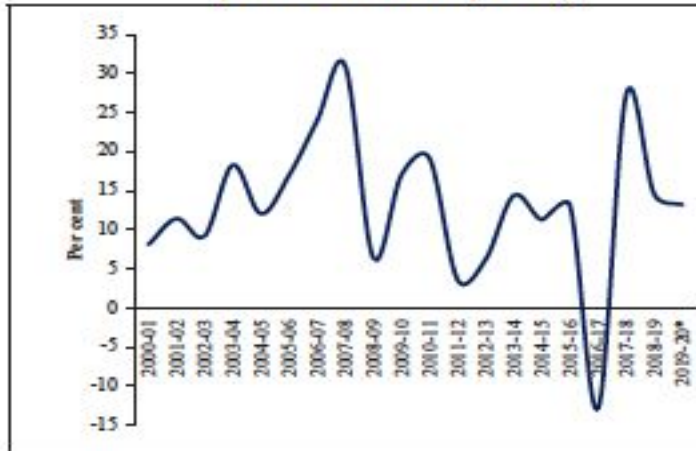
Effective Date	Repo Rate (per cent)	Reverse Repo Rate (per cent)	Bank Rate/ MSF Rate* (per cent)	Cash Reserve Ratio (per cent of NDTL)	Statutory Liquidity Ratio (per cent of NDTL)
04-04-19	6.00	5.75	6.25	4.00	19.25
06-06-19	5.75	5.50	6.00	4.00	19.00
07-08-19	5.40	5.15	5.65	4.00	18.75
04-10-19	5.15	4.90	5.40	4.00	18.50**
05-12-19	5.15	4.90	5.40	4.00	18.50
04-01-20	5.15	4.90	5.40	4.00	18.25

Source: RBI.

# V2- Ch4: Monetary Management

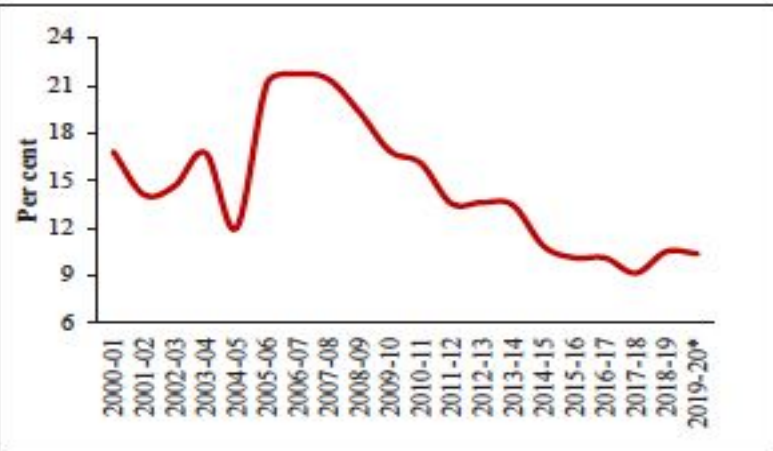
## Measures of Money Supply – Monetary Aggregates

**Figure 1: Reserve Money Growth  
(Year on Year (YoY))**



Source: RBI.

**Figure 2: Broad Money Growth (YoY)**



## V2- Ch4: Monetary Management

### Measures of Money Supply – Monetary Aggregates

M0

Component Side – Increase in CiC

Sources Side – RBI's Net  
Foreign Assets

- RBI Credit to Govt.

M3 – Declining growth since 2009,  
marginal uptick

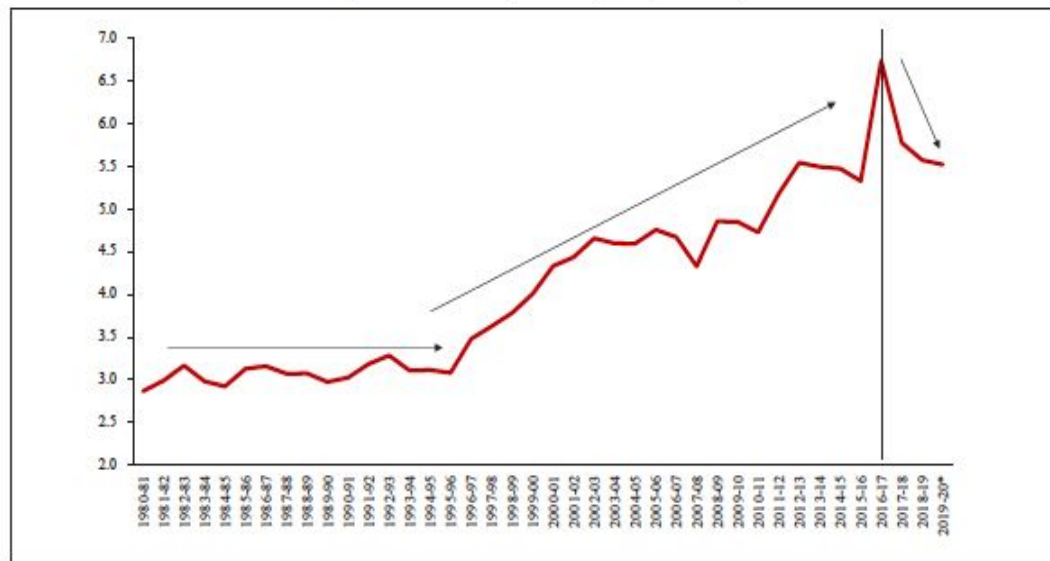
Component Side- Aggregate  
deposits

Sources Side – Bank's credit to  
Govt.

# V2- Ch4: Monetary Management

## Measures of Money Supply – Money Multiplier

Figure 4: Money Multiplier (M3/M0)

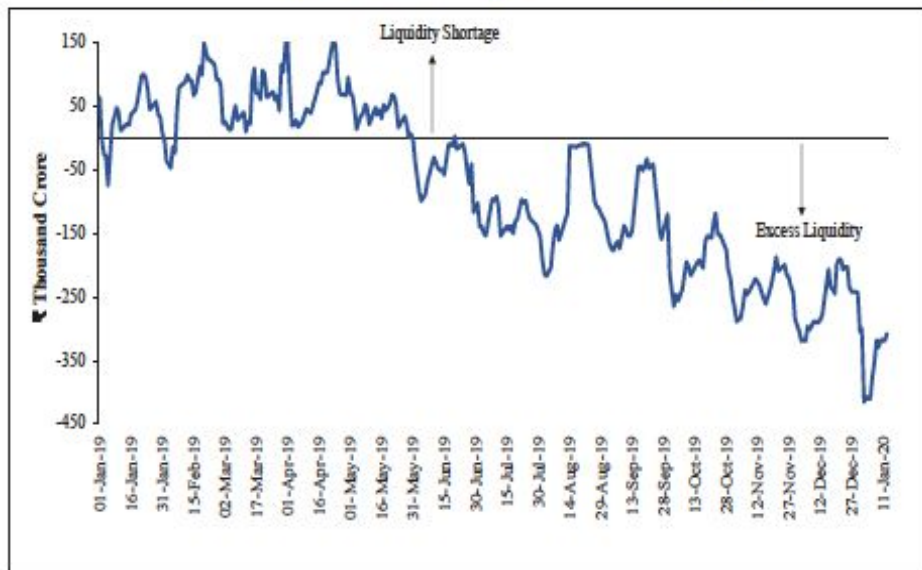


Source: RBI.

# V2- Ch4: Monetary Management

## Liquidity Management

Figure 5: Daily Liquidity Management



Source: Net liquidity injected data from Money Market Operation, RBI

- Swap auctions of \$/Rupee
- Two OMOs
- Increased spending by govt.
- Net Forex purchases by RBI



# V2- Ch4: Monetary Management

## Developments in G-Sec markets

Figure 7: 10-Year Benchmark G-Sec Yield



Source: CCIL.

- Subdued Oil Prices
- Surplus liquidity
- Policy rate cuts
- Decisions by US Fed
- Special Operations by RBI - Swap

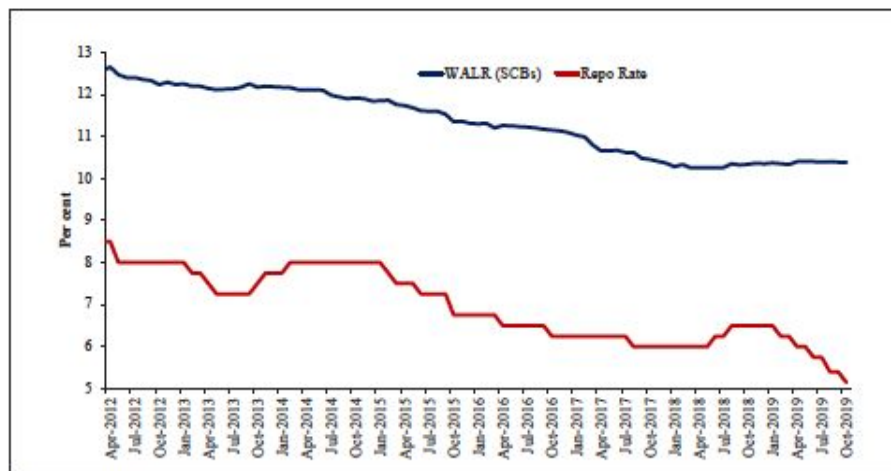
# V2- Ch4: Monetary Management

## Banking Sector

GNPAs –  
9.3%, PSBs – 12%  
CRAR –  
Increased from 14.1  
to 15%

## Monetary Transmission

Figure 8: Weighted Average Lending Rate on outstanding loans and Repo rate



Source: RBI.

Slightly better on Fresh loans, still only marginal

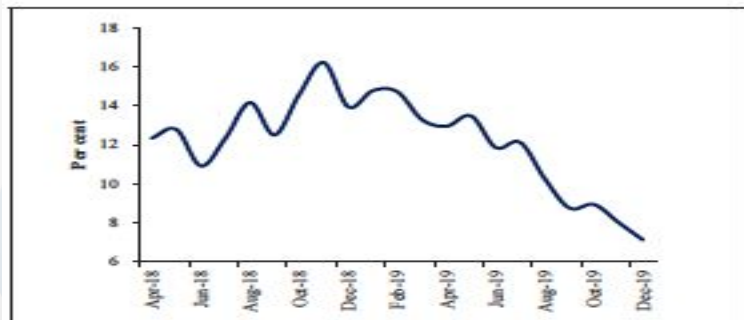
# V2- Ch4: Monetary Management

## Monetary Transmission

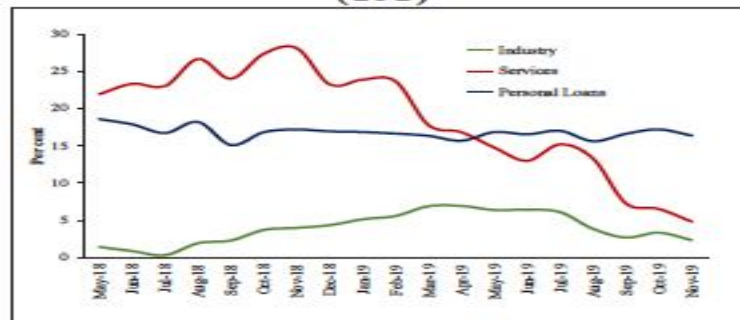
Possible Reasons:

- Very less decline in Savings & Time Deposit Rates
- High Administered Interest rates like PPF
- Lack of credit demand – Declining growth in all segments except Personal loans. MSME credit declined.

**Figure 13 (a): Bank Credit Growth (YoY)**



**Figure 13 (b): Sectoral Bank Credit Growth (YoY)**



# V2- Ch4: Monetary Management

## NBFC

Liquidity problems:

Sources of funds-

- Banks – less rate of growth, still healthy
- Mutual Funds – Substantial decrease
- Markets – Now the prominent source of funds

CRAR – Regulatory requirement – 15%, current status 19%

GNPAs – Increased to 6%

**\*\*Refer BOX 1 and BOX 2 for regulatory changes for Banks and NBFCs**

## V2- Ch4: Monetary Management

### Banks:

- One time restructuring of loans to MSMEs
- External Benchmarking
- Harmonised framework of resolution of stressed assets

### NBFCs:

- Minimum capital requirements
- Power to remove directors and supersede board
- Increasing quantum of penalties
- New Liquidity management framework – authorized dealers

# V2- Ch4: Monetary Management

## Financial Sector and Insurance

- Performance of Benchmark indices – All time highs
- New capital raised through fresh issuings – decreased; now more through private placement rather than public issues.
- MF AUM - Increased

Insurance Penetration = Premiums/GDP; Life – 2.74 (decreased since 2011),  
Non-life – 0.97 (Increased)

Insurance Density = Premium/Population; Currently \$74

# V2- Ch4: Monetary Management

## Insolvency and Bankruptcy Code

**Table 10: Quarterly trends of cases**

Quarterly trends of cases	April-Jun 2019	July-Sep 2019	Oct-Dec 2019
Total No. of CIRPs initiated/admitted during the quarter	300	565	562
Total No. of cases in which resolution plan has been approved during the quarter	27	32	30
Total No. of cases withdrawn during the quarter	24	18	5
Total No. of cases settled during the quarter	22	24	14
Total No. of cases under liquidation during the quarter	96	153	132
Category wise distribution (Financial creditor, Operational Creditor, Corporate Debtor) of all the admitted cases in which CIRP has been initiated.	Financial Creditor-129 Operational Creditor- 154 Corporate Debtor-17	Financial Creditor-265 Operational Creditor-291 Corporate Debtor-9	Financial Creditor-245 Operational Creditor-301 Corporate Debtor-16



# V2- Ch4: Monetary Management

## Insolvency and Bankruptcy Code

Table 12: Sector-wise breakup of the total cases admitted by NCLT for CIRP during the quarter

Sector*	April-Jun 2019	July-Sep 2019	Oct-Dec 2019
Extraterritorial organizations and bodies	1	4	3
Agriculture, Hunting and Forestry	9	18	15
Construction	28	64	65
Education	2	1	2
Electricity, Gas And Water Supply	7	23	22
Financial Intermediation	4	6	5
Health And Social Work	3	5	9
Hotels And Restaurants	8	12	12
Manufacturing	125	208	232
Mining and Quarrying	2	5	5
Other Community, Social And Personal Service Activities	4	5	7
Others	4	8	8
Real Estate, Renting And Business Activities	62	125	109
Transport, Storage And Communications	8	22	12
Wholesale And Retail Trade; Repair Of Motor Vehicles, Motorcycles And Personal And Household Goods	33	59	55
Fishing	0	0	1
<b>Grand Total</b>	<b>300</b>	<b>565</b>	<b>562</b>

### Amendments:

1. Bar promoters from bidding
2. Allowing creditors to withdraw application
3. Treating home buyers as financial creditors
4. Timely admission and completion of process – 330 days time frame for entire process



# V2- Ch4: Monetary Management

## Insolvency and Bankruptcy Code

Table 14: NPAs of SCBs recovered through various channels

Recovery Channel	Amount in ₹crore							
	2017-18				2018-19(P)			
	No. of cases referred	Amount involved	Amount recovered*	Col. (4) as per cent of Col. (3)	No. of cases referred	Amount involved	Amount recovered*	Col. (8) as percent of Col. (7)
1	2	3	4	5	6	7	8	9
Lok Adalats	33,17,897	45,728	1,811	4.0	40,80,947	53,506	2,816	5.3
DRTs	29,345	1,33,095	7,235	5.4	52,175	30,66,499	10,574	3.5
SARFAESI Act	91,330	81,897	26,380	32.2	2,48,312	2,89,073	41,876	14.5
IBC	704@	9,929	4,926	49.6	1,135@	1,66,600	70,819	42.5
Total	34,39,276	2,70,631	40,352	14.9	43,82,569	8,15,678	1,26,085	15.5

Performance:

- Time period of resolution – 340 days average v/s 4.4 years
- Recovery rates

## Volume 2- Chapter 5: Prices and Inflation

## V2- Ch5: Prices and Inflation

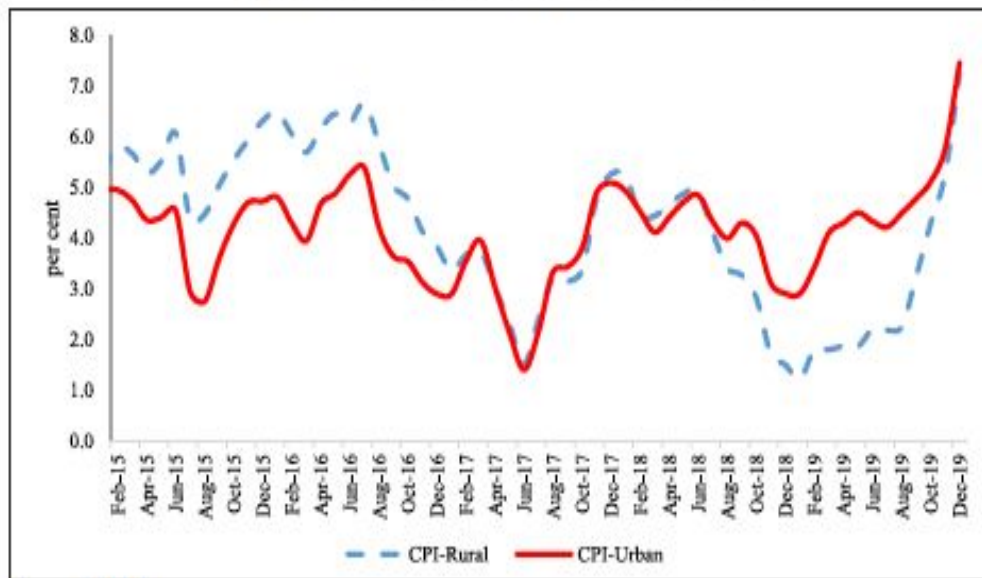
**Table 1: General inflation based on different price indices (in per cent)**

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19*	2019-20*
<b>WPI</b>	5.2	1.2	-3.7	1.7	3.0	4.3	4.7	1.5 (P)
<b>CPI - C</b>	9.4	5.9	4.9	4.5	3.6	3.4	3.7	4.1 (P)
<b>CPI - IW</b>	9.7	6.3	5.6	4.1	3.1	5.4	4.9	7.6
<b>CPI - AL</b>	11.6	6.6	4.4	4.2	2.2	2.1	1.7	7.3
<b>CPI - RL</b>	11.5	6.9	4.6	4.2	2.3	2.2	1.9	7.1

Source: Office of the Economic Adviser, Department for Promotion of Industry and Internal Trade (DPIIT) for Wholesale Price Index, National Statistical Office (NSO) for CPI-C and Labour Bureau for CPI-IW, CPI-AL and CPI-RL.

## V2- Ch5: Prices and Inflation

Figure 3: CPI Rural and Urban inflation



Reasons for Divergence:

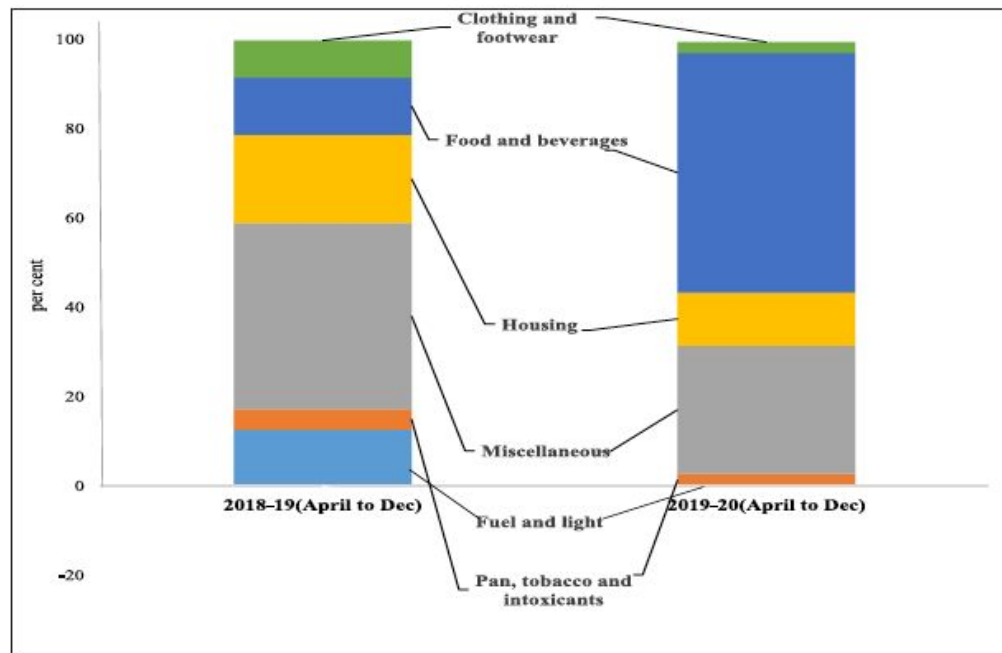
- Weights of components: Food, clothing
- Slide in real rural wages
- Regional variation - States

## V2- Ch5: Prices and Inflation

Drivers of inflation:

Food & Beverages and  
Miscellaneous group

**Figure 12: Contributions to CPI-C inflation in 2018-19 (April to December) and 2019-20 (April to December)**



## V2- Ch5: Prices and Inflation

Food Inflation: Demand- Supply mismatch

- Untimely Rains (Onion)
- Slow progress in sowing (Pulses)
- Volatility due to Stockholding, speculation

Cobweb Phenomenon- Eg. Pulses

**WPI inflation rate of Pulses from April 2012 to December 2019**



Source: Office of Economic Advisor, DPIIT.

## V2- Ch5: Prices and Inflation

Food Inflation: Steps that can be taken:

- Safeguard farmers from crop failures/ Price Shocks through Price Stabilisation Fund
- PM-FSBY
- PM-AASHA
- Warehouses, transportation
- e-NAM
- Openness for external trade - Free Exports

## V2- Ch5: Prices and Inflation

Divergence between WPI and CPI – Case of Food crops:

- High transaction costs
- Weak infrastructure and Information Systems
- Poor marketing facilities
- Middlemen margin
- Collusion of traders



# Volume 1- Chapter 4: Undermining Markets: When Government Intervention hurts more than it Helps

# V1- Ch4: Undermining Markets

Economic Freedom in India – Freedom of choice – mostly unfree

The Index of Economic Freedom - Heritage Foundation

Global Economic Freedom Index - Fraser Institute,

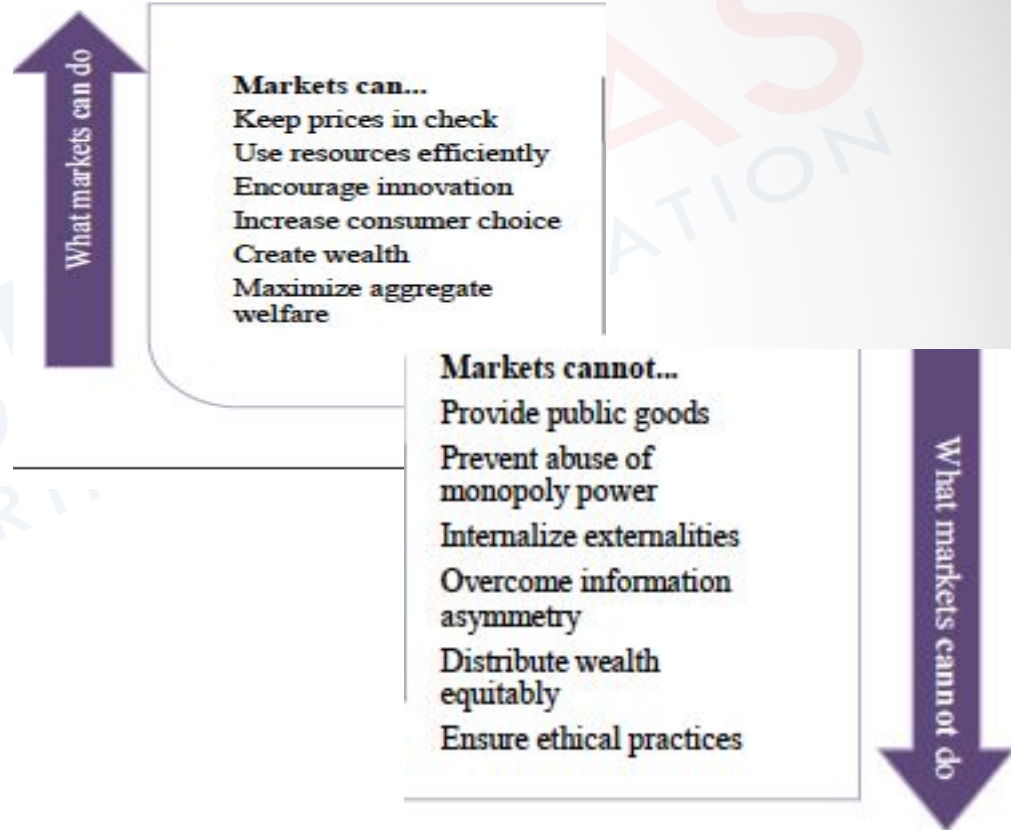
\* Close relationship of the index rankings with Per capita GDP, Ease of Doing Business, Innovation, Patents – several aspects of wealth creation

# V1- Ch4: Undermining Markets

Case of Govt. intervention – in case of market failure

v/s Interference through direct involvement – creation of deadweight loss:

- Artificial higher prices – excess production
- Artificial lower prices – excess demand



# V1- Ch4: Undermining Markets

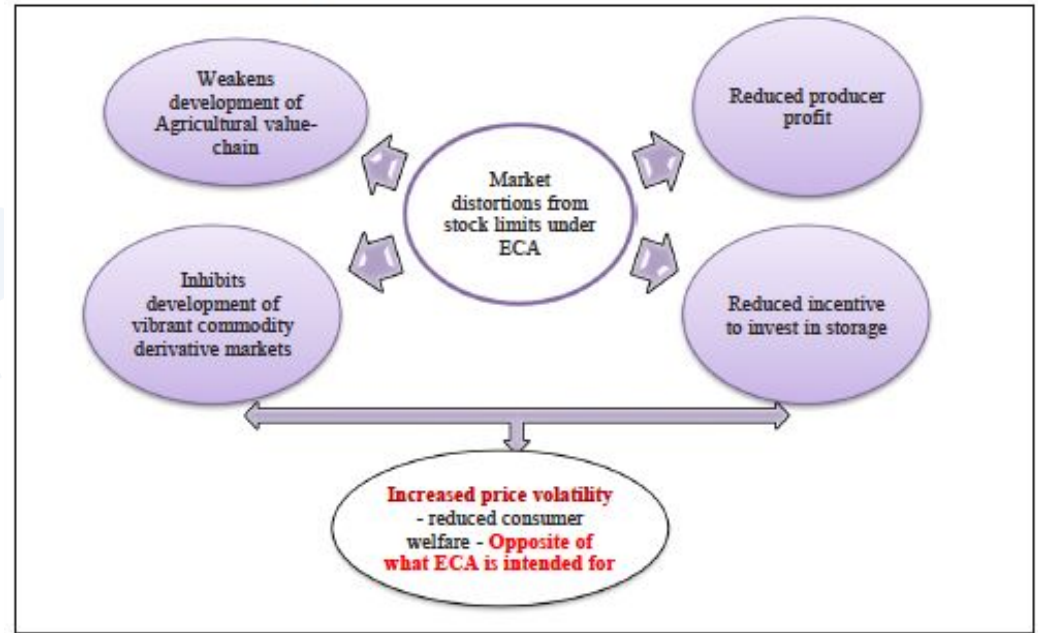
Essential Commodities Act, 1955

The regulator can:

- Impose stockholding limits on the commodity,
- restrict movement of goods,
- mandate compulsory purchases under the system of levy.

Consequently, all wholesalers, distributors, and retailers dealing in the product must reduce their inventories to comply

Figure 7: Agricultural Market distortions due to ECA



# V1- Ch4: Undermining Markets

Essential Commodities Act, 1955

The regulator can:

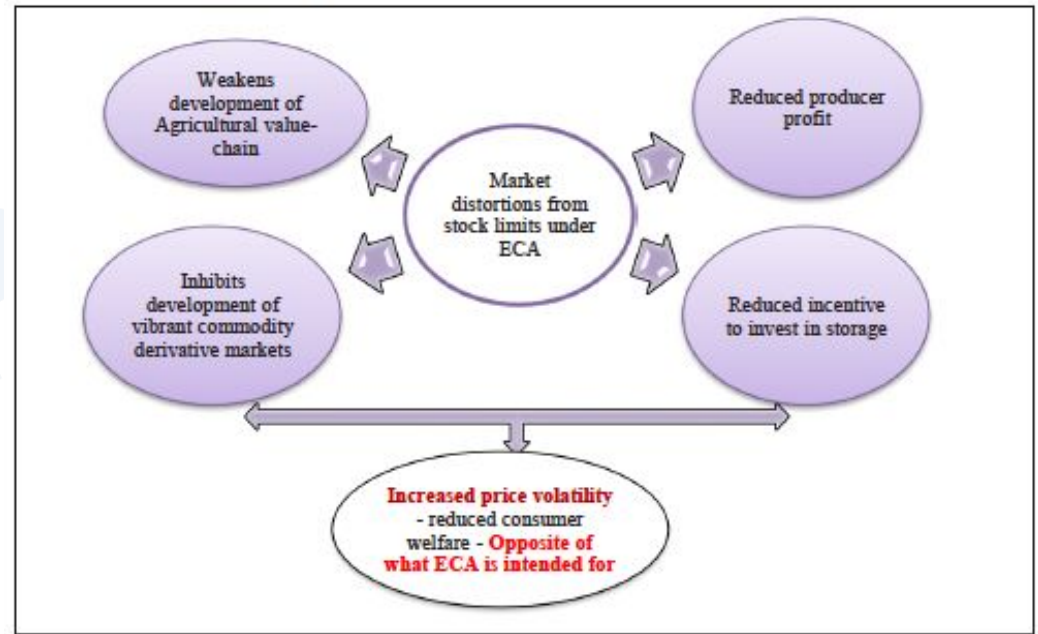
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Consequently, all wholesalers, distributors, and retailers dealing in the product must reduce their inventories to comply

# V1- Ch4: Undermining Markets

- No incentive to develop storage capacity
- Does not distinguish between firms that genuinely need to hold stocks and speculators
- Reduces effectiveness of Free trade flow
- Inhibits developments of Commodity markets – increasing uncertainty
- Discourage open reporting of stockholdings –no data on private storage capacity

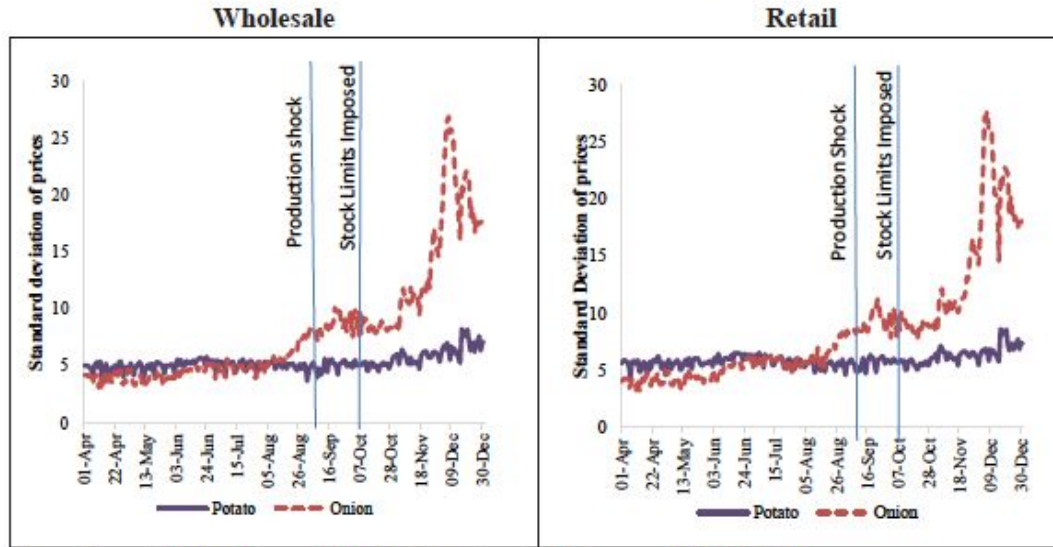
Figure 7: Agricultural Market distortions due to ECA



# V1- Ch4: Undermining Markets

## Essential Commodities Act, 1955 – Example of Onions

Figure 8c: Volatility in Retail and Wholesale prices of Onion in 2019 even after stock limits were imposed under ECA



Impact of raids? -  
Negligible!

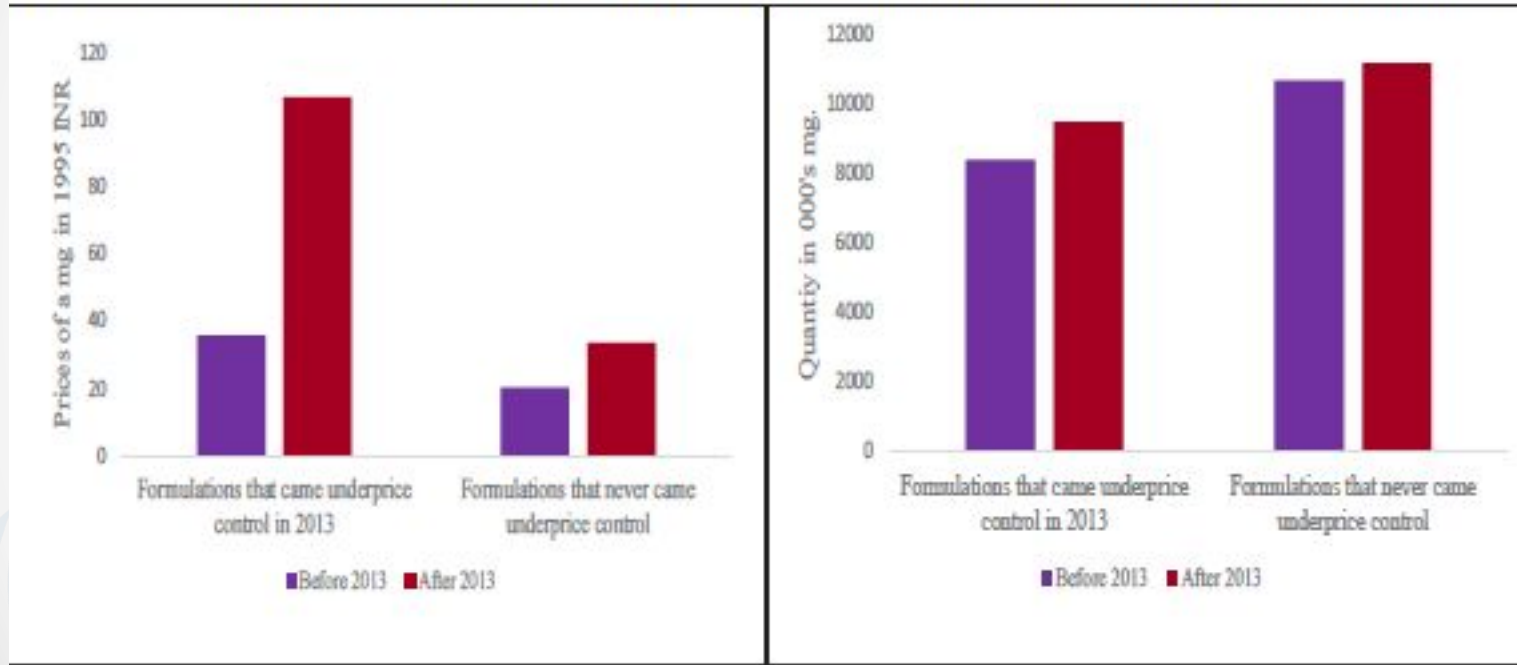
Less than 3%  
convictions



# V1- Ch4: Undermining Markets

## Example of Drugs under DPCO

**Figure 13: Effect of DPCO, 2013 on Prices and Quantities consumed of regulated drugs**

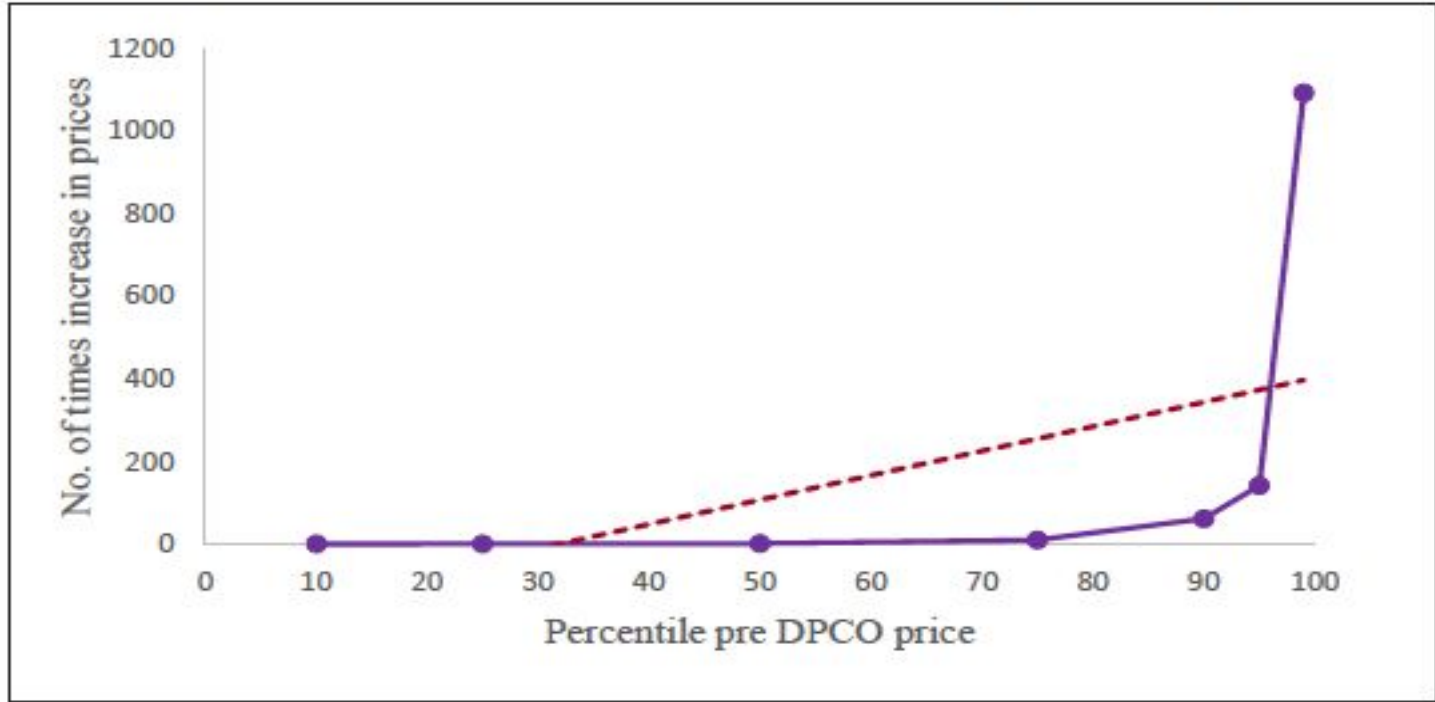




# V1- Ch4: Undermining Markets

## Example of Drugs under DPCO

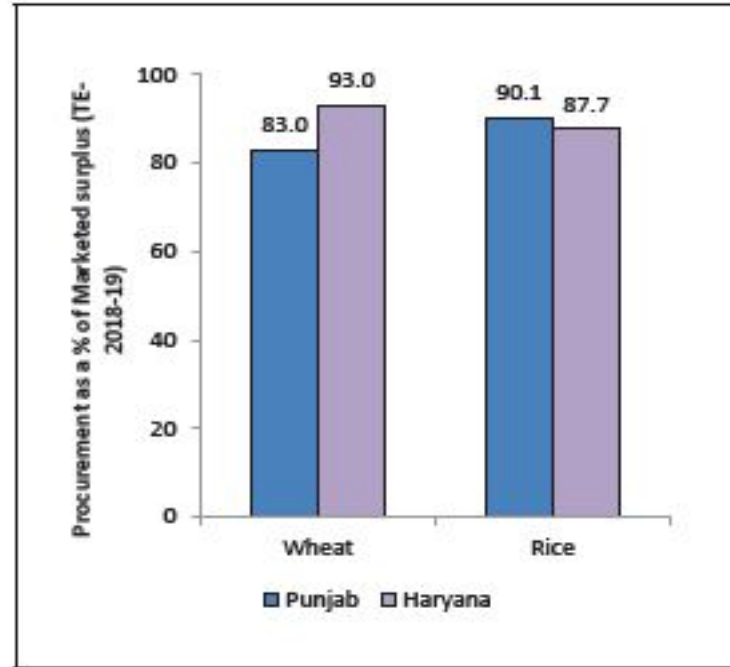
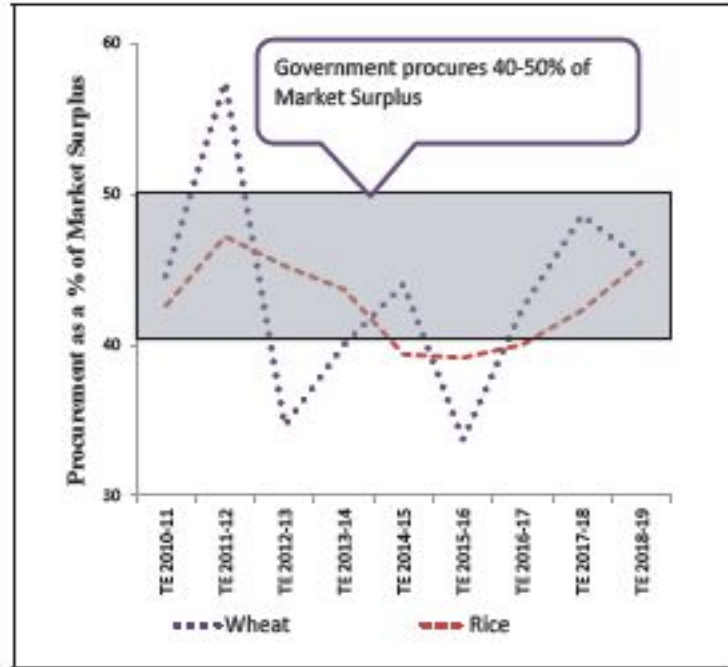
**Figure 15: The effect of DPCO 2013 on prices by percentile (of prices)**



# V1- Ch4: Undermining Markets

## Example of Food Grains

**Figure 16: Government – Single Largest Procurer of Rice and Wheat**



# V1- Ch4: Undermining Markets

## Example of Food Grains

Figure 17: Increasing MSPs leading to Higher Procurements

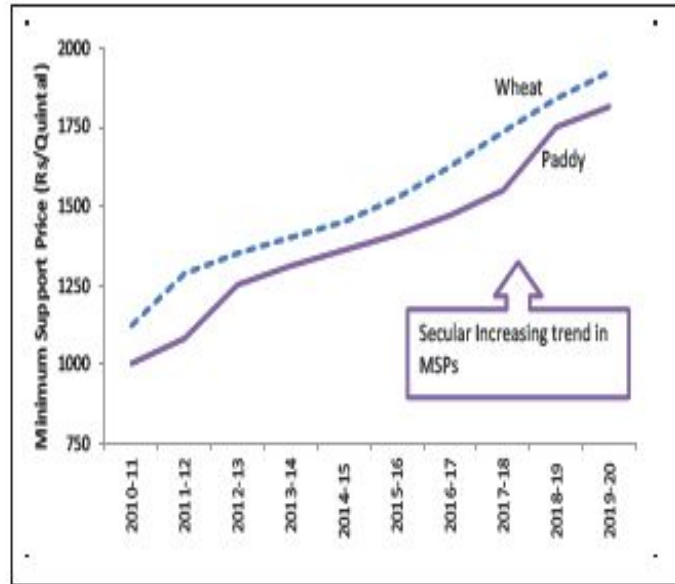
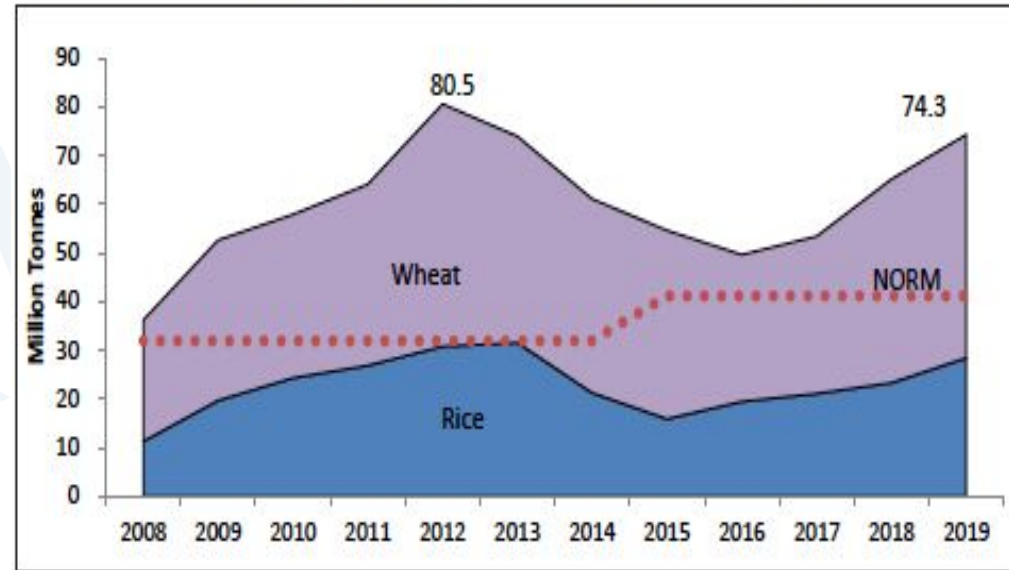


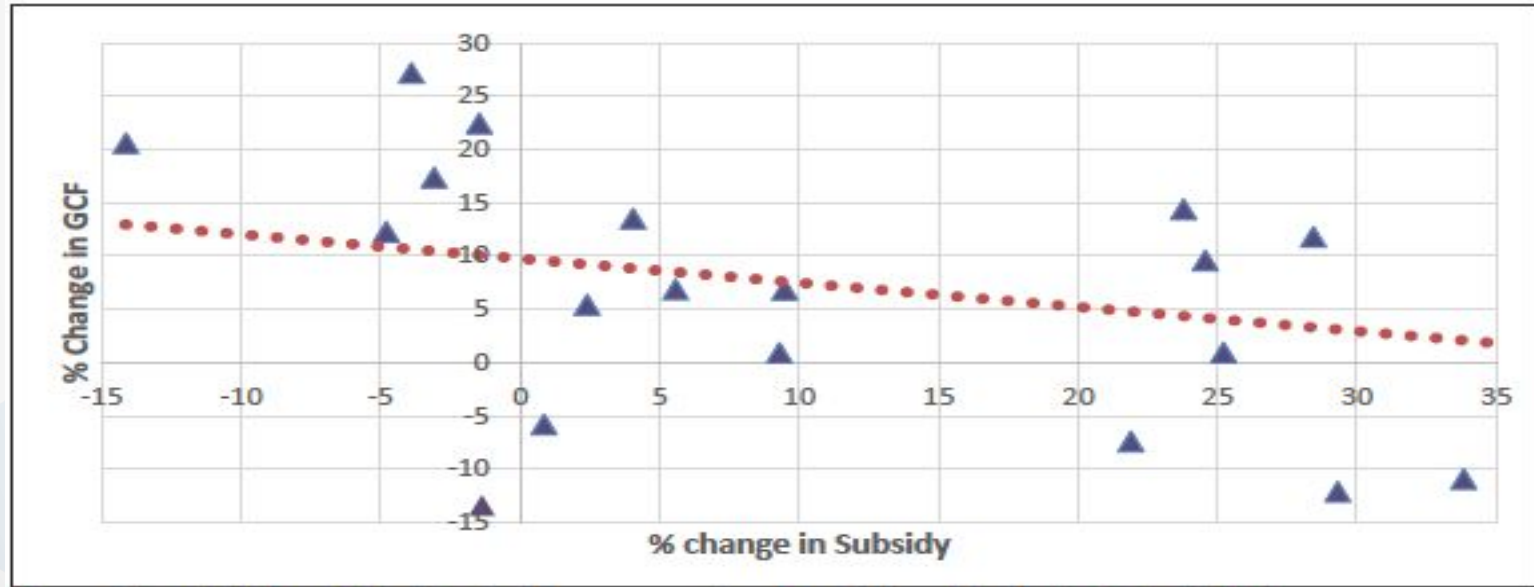
Figure 18: Trend in Buffer Stocks with FCI



## V1- Ch4: Undermining Markets

Example of Food Grains – Food Subsidy gets diverted to less productive areas

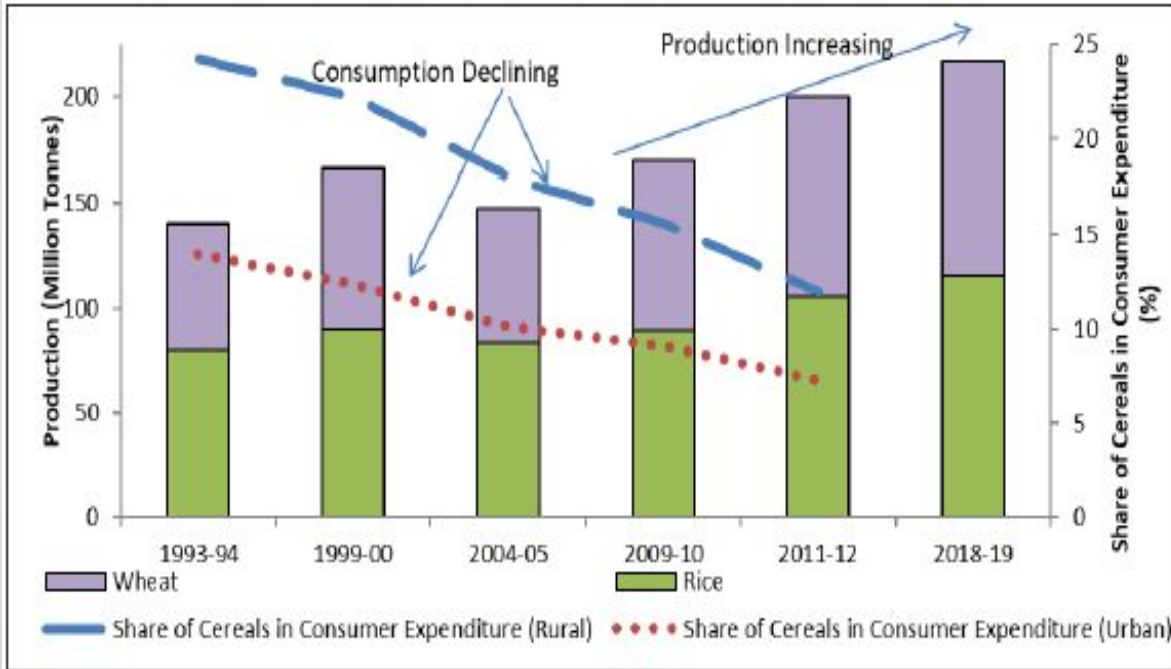
**Figure 20: Inverse correlation between Change in outlays of food subsidy and Public Investments in Agriculture**



# V1- Ch4: Undermining Markets

## Example of Food Grains

Figure 21: Trends in Consumption and Production of Cereals in India



Farmers deriving signals not from markets but from government policies of procurement and distribution

# V1- Ch4: Undermining Markets

## Example of Farm Loan Waivers

Is there a case of debt overhang, i.e. little incentive of investment in physical and human capital that justifies loan waiver?

Actual effect observed:

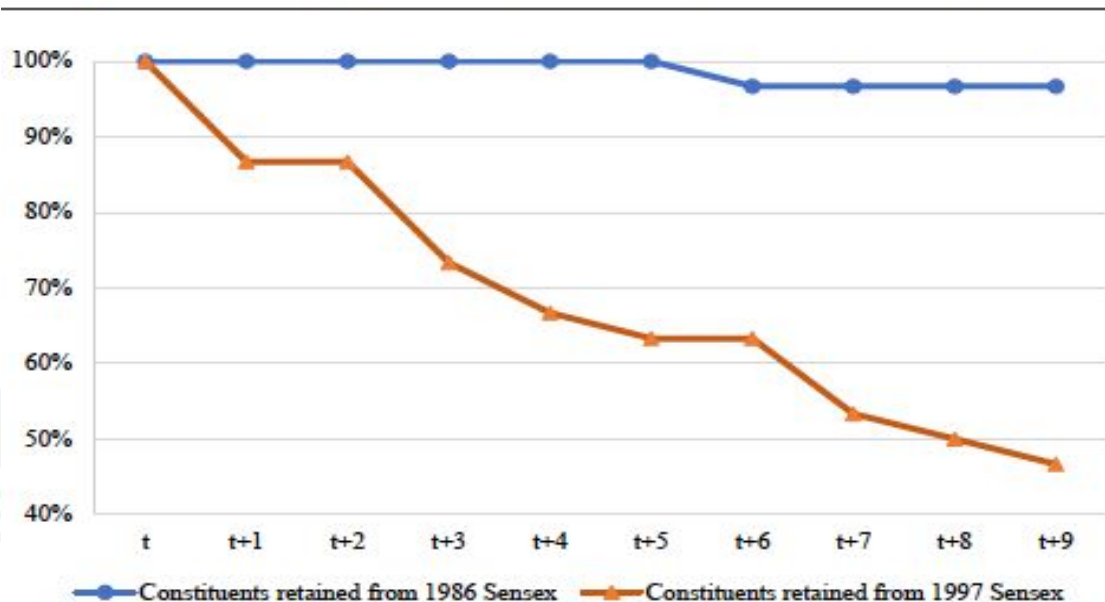
- Neither agri investment nor productivity increased after waiver
- No impact on consumption
- Beneficiaries Save less, consume less, invest less
- Less likely to get fresh loans – Share of formal credit decreases
- Deterioration in NPAs (Anticipation)
- Case of stressed v/s unstressed farmer – marginal improvement in former, large deterioration because of latter

## Volume 1- Chapter 3: Pro Business V/s Pro Crony

## V1- Ch3: Pro Business v/s Pro- Crony

Case of Creative Destruction –  
“process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.”

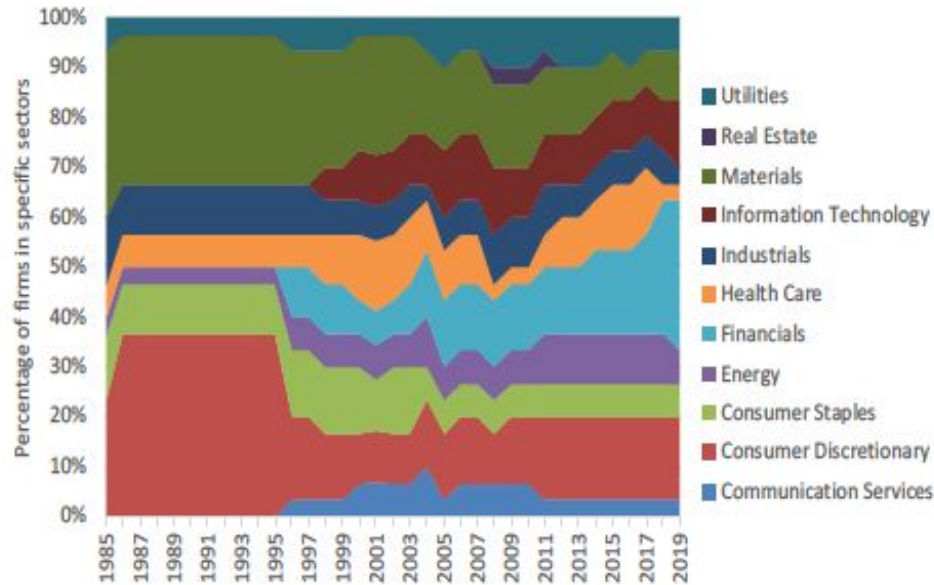
Figure 2: Percentage of Sensex constituents retained over next decade





# V1- Ch3: Pro Business v/s Pro- Crony

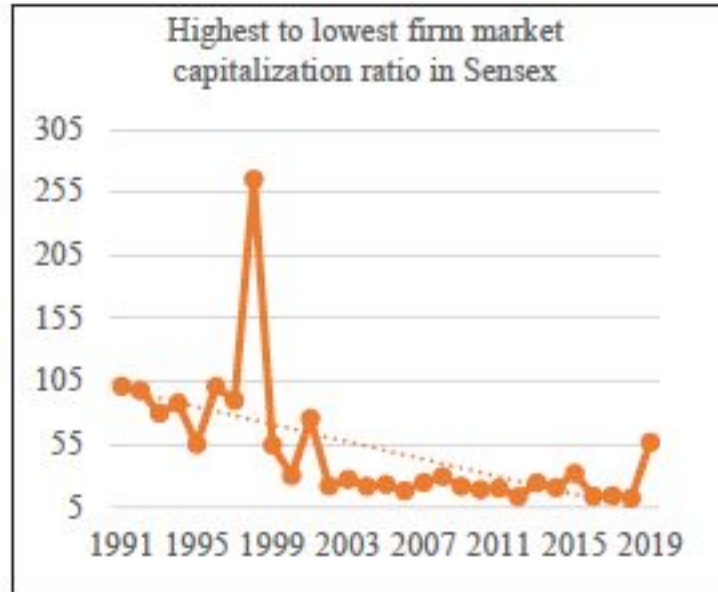
**Figure 5: Sectoral concentration of the Sensex decreased post-liberalization as new sectors emerged**



Far more sectors,  
Far more democratic

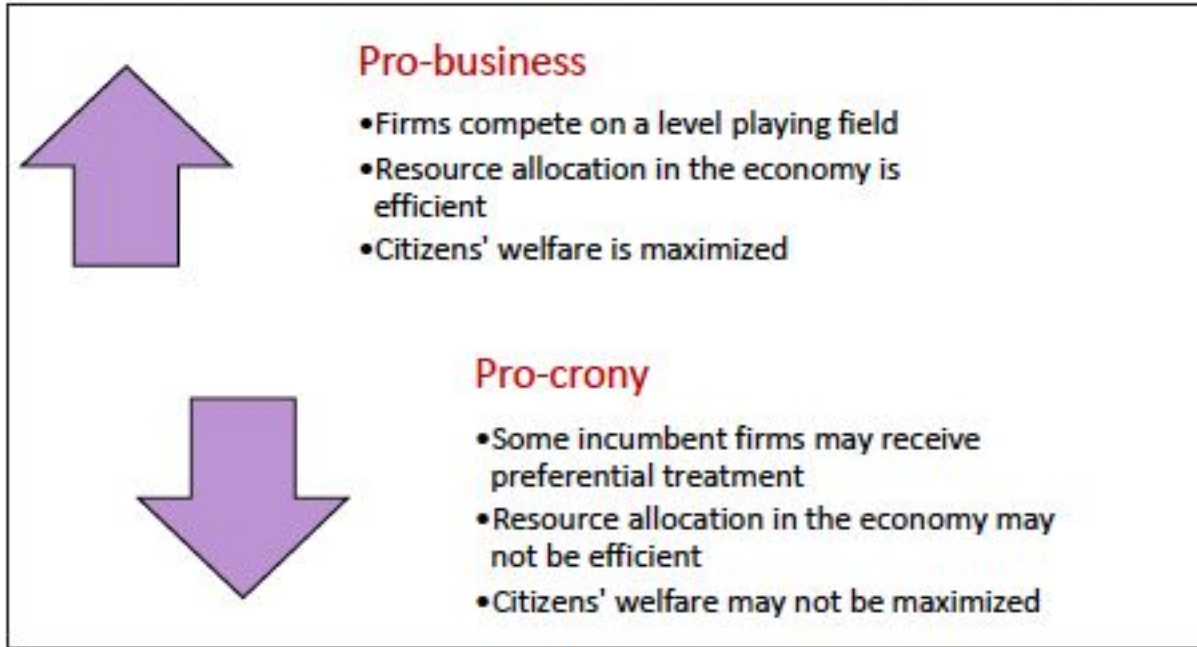
# V1- Ch3: Pro Business v/s Pro- Crony

**Figure 7: Decreasing size concentration of firms in the Sensex**



# V1- Ch3: Pro Business v/s Pro- Crony

**Figure 11: Difference between pro-business and pro-crony policy**



# V1- Ch3: Pro Business v/s Pro- Crony

## Rent Extraction by cronies – Connected Firms

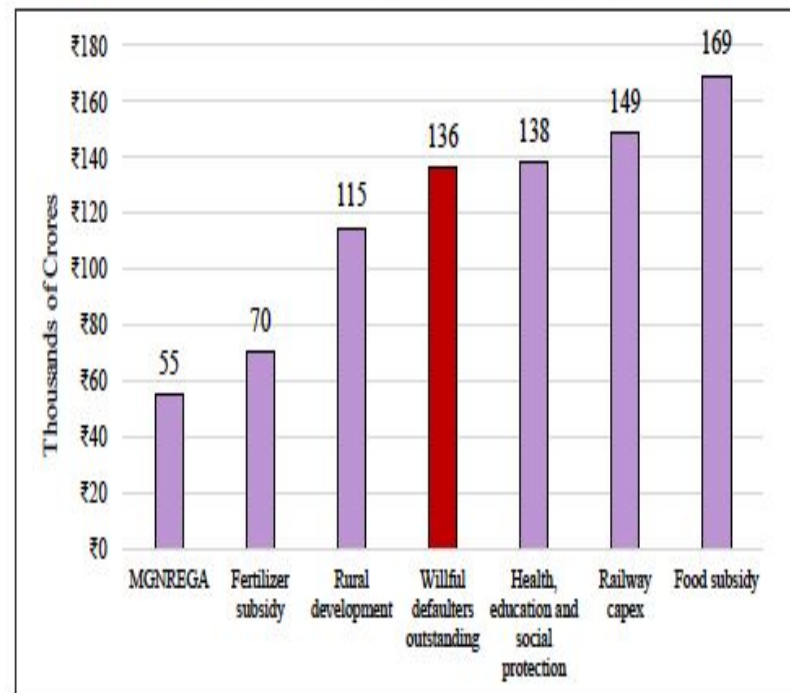
- Average Returns - Low
- Securities Pledged - More
- Assets/Value created – Less
- Efficiency – Less
- Focus on – Connections rather than innovation
- Loss borne by? – Citizens
- Transfer of wealth & hence, Inequality – Very high

# V1- Ch3: Pro Business v/s Pro- Crony

Example of a wilful defaulter:

The RBI defines wilful defaulter as a firm that has defaulted in meeting its repayment obligations even though it has the capacity to honour these obligations. A firm could also be branded a wilful defaulter if it uses the funds for purposes other than what is sanctioned by the lender, siphons the money out to related parties or removes the assets used to secure the loan.

Figure 18: Wealth destroyed by wilful defaulters in comparison to Union Budget Allocations



# V1- Ch3: Pro Business v/s Pro- Crony

What does he do? Riskless Returns

- Siphons of wealth through Director compensation
- Capital purchases
- Tax loopholes
- Companies close soon
- Less opaque
- Have large related party loans
- Result – Increased cost of borrowing for everyone else, genuine credit demand falls!

Thank You!  
(Until Next Year 😊)