2019

drishti

CURRENT AFFAIRS

ECONOMIC DEVELOPMENT

25th November- 30th November

THE HINDU | The Indian EXPRESS | live mint

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1. **<u>Economic Slowdown in India</u>**

Why in News?

Growth of India's Gross Domestic Product (GDP) for the July-September quarter hit a six year low of 4.5%.

- According to data released by the Ministry of Statistics and Program Implementation, this was the slowest growth rate in six year.
  - In the fourth quarter (January-March) of fiscal year 2012-13, the GDP growth rate was 4.3%.
- Also, this is the sixth successive quarter of growth rate declining.
- All the three sectors, agriculture, industry and manufacturing recorded lower growth rate than corresponding quarter of last fiscal.
  - Most worrying is the growth rate of just half a percentage point for industry.
  - More particularly, manufacturing has contracted by 1%.
  - This indicates both consumption and investment demand are still in slow lane.

Reasons for Economic Slowdown

- Twin Balance Sheet (TBS) problem - The balance sheets of both public sector banks (PSBs) and corporations are under stress and it has become a major obstacle to investment and reviving growth.
  - Sluggish demand and high debt accumulation by companies has lead to non-payment of interest payments on loans.
  - This has burdened the PSBs with the high NPAs.
- Global Economic Slowdown - The global economy is in a synchronised slowdown; the International Monetary Fund (IMF) has downgraded growth for 2019 to 3%.
  - This is the slowest pace since the 2008 global financial crisis.
- Agriculture Sector Distress -
  - Agricultural commodity prices haven't risen significantly in the last five years.
  - Factors like unpredictable weather, lack of good post harvest infrastructure and high input cost has adversely impacted agricultural growth.
- Slump in exports - India's exports have declined 9.71% to $25.01 billion in June 2019 as compared to $27.7 billion in June 2018.
- Weak Demand - According to the Reserve Bank of India's consumer confidence survey, spending on non-essential items of consumption has shrunk compared to a year ago.
  - Weak consumption demand reduces manufacturing and industrial output.
- Inability of the Insolvency and Bankruptcy Board of India (IBBI) to resolve cases in a time-bound manner.

Impact

- Unemployment in India has increased many folds due to the continuous slowdown the past few quarters.

- The economic slowdown is adding pressure on already stressed PSBs and investors, as a result they are inclining towards safer options like government securities and treasury bills amidst market uncertainty.
- The lack of investment due to slowdown is further giving impetus to the downtrend in the economy.
- As per the National Statistical Office (NSO) data, the manufacturing sector is shrinking as a result of ongoing slowdown.
- Many international credit rating agencies have downgraded India's credit rating outlook, making it tougher for Indian government and businesses to draw investments from international investors and markets.

2. Treasury Bills

Why in News?

The yield on Treasury Bills (T-bills) dropped below that of the repo rate for the first time in over two years.

- Investors who are wary about the economy are stepping back from riskier investments and instead investing into T-bills. This pushes prices of T-bills higher and yields lower.
- **Repo rate** is the rate at which the Reserve Bank of India lends money to commercial banks in the event of any shortfall of funds.
- It is used by monetary authorities to control inflation.

What are Treasury Bills?

- Treasury bills are issued when the government needs money for a **shorter period** of time.
- They are presently issued in three maturities: 91 days, 182 days and 364 days (maximum maturity).
  - As they deal with funds with a maturity of less than 1 year, T-Bills are categorised as **money market** instruments.
- They are zero coupon securities and **pay no interest.** Rather, they are issued at a discount (at a reduced amount) and redeemed (given back money) at the face value at maturity.
- The **Reserve Bank of India** conducts auctions usually every Wednesday to issue T-bills.
- Treasury bills are usually held by financial institutions including banks. Banks can keep it as part of Statutory Liquidity Ratio (SLR).
  - SLR is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold reserves or other RBI approved securities.