CFA
Centre for Financial Accountability

POCKET MONEY

Briefs on what they kept from you about your money this week

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01 The RBI warns of an overcast 2023

In its State of Economy report for the month of December, the RBI wraps up the year on a rather ominous note. “As we near the end of a tumultuous 2022, the outlook is overcast for 2023 with indications of weaker global growth, fraught with downside risks”, it reads. It warns, “The balance of risks is increasingly tilted towards a darkening global outlook” as the coming year will “bear the brunt of monetary policy actions of this year.” The emerging market economies (EMEs), it says, appear to be more vulnerable as they have been battling currency depreciation, capital flight, slow growth & high inflation. It warns that while inflation seems to be easing around the world, it is far from being out; “If anything, it has broadened and become stubborn.” While fuel prices would remain volatile, the war along with the climate crisis are expected to keep food prices high.

02 Did we avert recession by not spending on people?

Nirmala Sitharaman in Parliament said that many countries, including large developed economies, are facing recession because of the way they handled the Covid crisis. She said that the tendency of giving money in the hands of the people or go for printing notes to reboot the economy is what landed several of these countries into recession. “As we close the calendar year 2022, we should look at the negative effect of the implementation of such a suggestion by the other countries.” She also said that India did not get into recession because of the “targeted way” it gave the relief during Covid. The ruling party in fact has taken pride in the fact that the government did not shower "helicopter money" on people whose livelihoods were wrecked by Covid even as it has showered its blessings on the rich through tax cuts and PLI schemes. Rohit Azad and Indranil Choudhury however show that the inflation in US was not an outcome of wage-price spiral but that of the Russian war and the resultant surge in oil prices. So the crisis they face today is more a result of cost push inflation than one emerging out of spending on the people. While the government boasts of “targeted relief”, it is a fact that it was a pittance leading to 23 crore people falling below poverty line. It is also a fact that the government refused to heed to its own revenue officers who advised in favour of a wealth tax on the super rich so as to increase the fiscal elbow space for spending.

03

Small borrowers better at returns, while favoured big borrowers run into defaults

In a reply to a question in the winter session the Minister of State for Finance revealed that Non Performing Assets relating to Mudra loans, extended to non corporate, non-farm small/micro enterprises, comprised merely 3.17% of the credit disbursed till March 2022. This figure is below the percentage of gross NPAs which stood at 5.9%. Despite the fact that it is these enterprises which were hit the hardest by the government imposed lockdown, they have been able to maintain financial discipline. This needs to be contrasted with the fact that it is the big borrowers who are more likely to default on loan repayments. The Minister had informed earlier this year that more than 5,200 companies having credit exposure of Rs 5 crore or above were categorised as non-performing assets (NPAs) or bad loans on the banks' books as of December 31, 2021. As per 2019 data companies with a credit exposure of more than 100 crore comprised 75.3% of the NPAs. Dr Zico Dasgupta of Azim Premji University has demonstrated that lower bank profits in the Indian context, implies credit rationing and leads to higher effective interest rate of Micro, Small & Medium Enterprises due to credit rationing of Public Sector Banks.

04 Lecture Series highlights the layers of inequality and points to way forward

The Centre for Financial Accountability organised a three part lecture series on 'Capital, Poverty & Inequality: Understanding Wealth Accumulation'. The series underscored that while we celebrate the ranking of our billionaires, our ranking in global hunger index is on a free fall. The gap between the rich and poor in India is alarming today and needs immediate attention. In the first lecture, senior economist Prabhat Patnaik presented a historical overview of wealth inequality and argued for implementation of a wealth tax and inheritance tax as a possible remedy. Bina Pallical, part of National Commission on Dalit Human Rights, unpacked the 'Layers of Inequality' and stressed that "It is time to seek reparations from state and society for the physical and economic violence done on dalit and adivasi communities." In the third and final lecture on 'Combating Wealth Inequality' Dr Anirban Bhattacharya of CFA, demonstrated how majoritarianism rises in proportion with wealth inequality and how it is important to address it in order to respond to the climate crisis. "If political will exists then a model of wealth tax and inheritance tax can be implemented to address growing inequality. Wealth tax is a measure among many others that can help us address inequality," he pointed out.