CFA
Centre for Financial Accountability

POCKET MONEY

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

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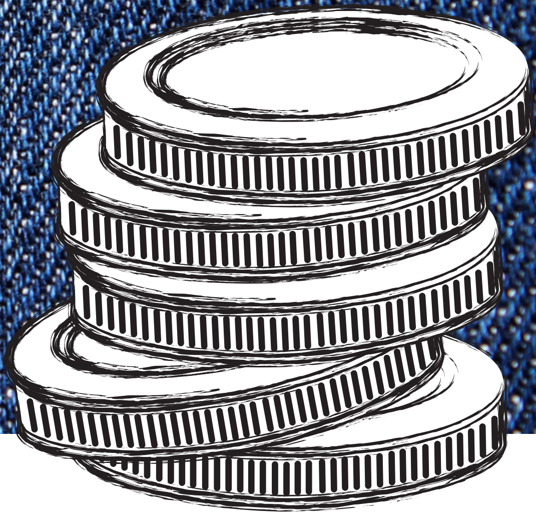

01

'2000 ka chutta nahi hai': RBI conjures the ghost of Demonetisation Disaster

RBI has announced withdrawal of Rs 2000 notes, which will have to be returned by 30th Sep. The note was introduced to fulfil currency requirements after Rs 1000 & 500 notes were demonetised in 2016, breaking the back of the informal sector and the labouring class. Printing of the note had already stopped in 2018 and RBI deems that there is enough stock of other denominations in the market. In any case, the Rs 2000 note served little practical purpose and created more trouble than convenience as people had to run around looking for change. The deadline may not be sufficient for the informal sector where cash is heavily used and may have an impact on real estate market where large portions of undocumented payments are made in cash.

02

Adani probe: Let’s be clear, its not a “clean chit”

There is almost a celebration from the ruling party after what they are calling a Supreme Court appointed expert panel’s "clean chit" to Adani. However, it is important to emphasize and reiterate that this is far from a “clean chit”. In the context of the murky foreign portfolio investors, the panel in fact says, “It has been a long-standing suspicion of SEBI that some of the public shareholders are not truly public shareholders and could be fronts for the promoters of these companies.” But it seems despite its efforts through the ED and the IT Department (who in any case are overworked raiding opposition leaders and civil society), SEBI has failed to determine the ultimate ownership of these entities. It is in fact reported that, “if you remove these [offshore] funds, the effective [public] shareholding in Adani Enterprises comes down to only 10%.” And why did SEBI fail? Because, “in 2018, the provision of dealing with an ‘opaque structure’ and requiring an FPI to disclose every ultimate natural person at the end of the chain of every owner of economic interest with the FPI was done away with.” By SEBI itself. Wonder to whose advantage?

03 Profits are the only priority? Changes to Priority sector lending being considered

Priority sector lending has been one of the casualties pf rampant privatization as the interests of profits overtook social interests. The RBI regulations require banks to allocate 40% of their adjusted net bank credit for the priority sector - agriculture, MSMEs, economically vulnerable groups such as small farmers, micro-enterprises, and disadvantaged segments. These however has been undergoing dilutions over the years. Corporate farmers and usurious NBFCs has also been considered in its ambit. Recently it has come to light that the govt is considering another set of changes which will allow deposits in Rural Infrastructure Development Funds (RIDF) and other such funds to compensate for the banks' shortfall in meeting their priority sector lending. These, it is said, would free up more funds for lending in sectors that generate more profit for banks. This is a cause for concern as it defeats the very purpose of priority sector lending, which was to lift the ones at the very bottom of the ladder irrespective of profitability. So the axe of such logic may fall first on the mall farmers or disadvantaged communities.

04

Falling LIC shares may spell further trouble

LIC's shares have fallen by 40% from their IPO price, resulting in a loss of nearly Rs 2 lakh crore in investor wealth. LIC, India's largest state-owned life insurer, went public on November 16, 2021, with high expectations and substantial interest from investors. However, the company's stock has experienced a sharp decline in value since then. This downturn has had a significant impact on the wealth of investors who bought LIC shares during the IPO. The decline in LIC's share price has significant implications for the Indian economy, as the company's IPO was showcased as one of the largest in the country's history. The erosion of investor wealth raises concerns about the valuation & future prospects of LIC as a publicly traded entity. The worst losers though are the policy holders whose share was reduced from 95% to 90% in order to make LIC IPO attractive to investors, and have not benefited from the IPO. Given the governance environment which favours profit, the decline in LIC shares may encourage the insurance giant to invest less in social infrastructure and welfare measures and more in profit maximising activities.

05

What does the New Wealth Report say?

The World Wealth Report 2023 gives key insights into the trends in accumulation of wealth, shifts in investments and spending. It seems that despite the economic uncertainty and what is being called the "permacrisis", four in ten High Net Worth Individuals are planning to increase overseas travel spending expenditure on leisure activities. Continuing pent-up demand from the pandemic or revenge consumption is on a high as Knight Frank Luxury Investment Index show that "investments of passion are still riding high, despite economic worries." In the evident K shaped recovery the trend is similar in India as in recent reports we have seen luxury car sales and spending on imported wines are disproportionately higher.