RAPID REVISION BOOK

for Prelims - 2023

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Economy and Social Development

Shield IAS

Your Door to the Future

Civil Services Examination

NOTE FOR STUDENTS

REVISION TIME ☺

With respect to the scheduled **Civil Services (Preliminary) Examination, 2023**, which is to be conducted on **28th May, 2023**, the time is ripe for **targeted revision**.

In this regard, students usually search for a **comprehensive and complete revision material** addressing their needs in the **final preparation** of the examination. With time on your side, embark this journey through **Rapid Revision Books**.

Rapid Revision books are the series of **eight booklets** covering the most important scoring portions of the General Studies (Preliminary) examination to provide confidence boosting edge in the final preparation.

These books are made available through sincere efforts of **SHIELD IAS, Laxmi Nagar, Delhi.**

Once done with basic revision of your class notes and standard books, the best way forward for final round of revision is through **Rapid Revision Books**.

RAPID REVISION BOOK-4
ECONOMY AND SOCIAL DEVELOPMENT

Highlights of this book:

- **Curation of content** as per relevance with the coming examination.
- **Covers finer and basic revision points.**
- **Easy to understand.**
- **Optimum coverage within minimum pages.**
- **One stop solution for standard content.**
- **Builds confidence for handling MCQs.**

Hence, this book takes care of **basic knowledge**, alongwith **sound mix** of **relational understanding**, and **practice questions**.
The overall emphasis is on making students confident and mentally relaxed before the examination.

Now, start your final round of revision with **RAPID REVISION BOOKS** to emerge ahead from your fellow competitors.

Stay connected.
Best of Efforts and Sound Luck!

From

Shield IAS

RAPID REVISION BOOKS- TITLES

BOOKLET	NAME
1	HISTORY 1- ANCIENT, MEDIEVAL, ART & CULTURE
2	HISTORY 2- MODERN INDIA
3	INDIAN POLITY AND GOVERNANCE
4	ECONOMY AND SOCIAL DEVELOPMENT
5	GEOGRAPHY AND ENVIRONMENT
6	SCIENCE AND TECHNOLOGY
7	IMPORTANT GOVT. SCHEMES
8	INTERNATIONAL AFFAIRS

Note: Additional booklet **number 9** on important topics of current affairs will be released in **April, 2023.**

RECOMMENDATION OF OUR SELECTED STUDENTS

I suggest UPSC civil services aspirants to refer to the standardised, precise and aptly curated SHIELD IAS Rapid Revision Books for targeted preparation of UPSC CSE Preliminary examination.

Also, the complete set of study material provided by SHIELD IAS is recommended for comprehensive coverage of General Studies topics for both preliminary and Mains stage of civil services examination.

AMOL SRIVASTAVA
AIR-83 UPSC CSE 2017

I would recommend the study material provided by Shield IAS for the UPSC Civil Services preparation to cover the General Studies syllabus.
The Rapid Revision Books would help the aspirants for speedy revision for the Civil Services (Preliminary) examination.
The books have been prepared by my mentors who helped me in clearing my Civil Service Exam in 2015-16.

HARSH KUMAR
IFS - 2016

I, Nidhin K Biju, IRS of 2020 batch, want to suggest the aspirants preparing for UPSC civil services Examination to read SHIELD IAS Rapid Revision books for swift coverage of syllabus for the UPSC civil services (Preliminary) exams. These books will help in targeted revision for confident attempt in the examination. I would also recommend reading the SHIELD IAS UPSC study material as a set of standard books for covering the entire general studies syllabus (Prelims and Main Examination).

- Nidhin

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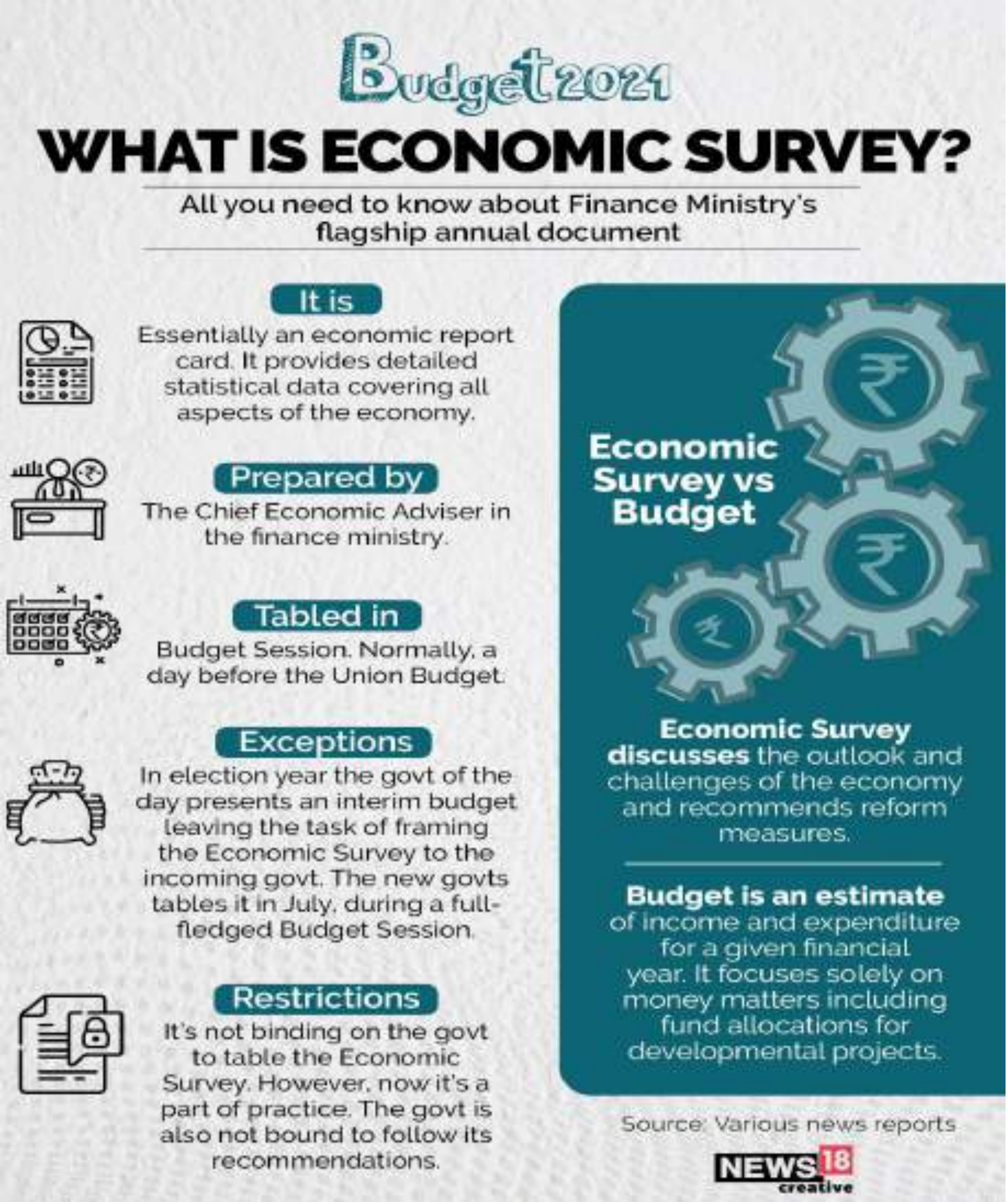
ECONOMY AND SOCIAL DEVELOPMENT

➡ ECONOMIC SURVEY 2022-23



- Economic Survey is an **annual document of the Ministry of Finance**. It reviews the economic progress of the country and issues in the last 12 months.
- The survey **provides information related to the performance of key developmental schemes launched by the government**.
- The document also explains the performance of major government policies and their impact.
- The **Economic Survey** discusses major **fiscal developments, macroeconomic factors, inflation, and other economic factors.** The document also highlights the impact of agriculture, climate change, and employment on the economy of the country.
- The **1st Economic Survey was tabled in 1950-51**. However, till the year 1964, it was presented along with the budget.

STATE OF THE ECONOMY 2022-23

- Recovering from pandemic-induced contraction, Russian-Ukraine conflict and inflation, Indian economy is staging a broad based recovery across sectors, positioning to ascend to the pre-pandemic growth path in FY23.
- India's GDP growth is expected to remain robust in FY24. GDP forecast for FY24 to be in the range of 6-6.8 %.
- Private consumption in H1 is highest since FY15 and this has led to a boost to production activity resulting in enhanced capacity utilisation across sectors.
- The Capital Expenditure of Central Government and crowding in the private Capex led by strengthening of the balance sheets of the Corporates is one of the growth driver of the Indian economy in the current year.
- The credit growth to the MSME sector was over 30.6 per cent on average during Jan-Nov 2022.
- Retail inflation is back within RBI's target range in November 2022.
- Indian Rupee performed well compared to other Emerging Market Economies in Apr-Dec2022.
- Direct Tax collections for the period April-November 2022 remain buoyant.
- Enhanced Employment generation seen in the declining urban unemployment rate and in the faster net registration in Employee Provident Fund.
- Economic growth to be boosted from the expansion of public digital platforms and measures to boost manufacturing output.

INDIA’S MEDIUM TERM GROWTH OUTLOOK

- Indian economy underwent wide-ranging structural and governance reforms that strengthened the economy's fundamentals by enhancing its overall efficiency during 2014-2022.
- With an underlying emphasis on improving the ease of living and doing business, the reforms after 2014 were based on the broad principles of creating public goods, adopting trust-based governance, co-partnering with the private sector for development, and improving agricultural productivity.
- The period of 2014-2022 also witnessed balance sheet stress caused by the credit boom in the previous years and one-off global shocks, that adversely impacted the key macroeconomic

variables such as credit growth, capital formation, and hence economic growth during this period.

- This situation is analogous to the period 1998-2002 when transformative reforms undertaken by the government had lagged growth returns due to temporary shocks in the economy. Once these shocks faded, the structural reforms paid growth dividends from 2003.
- Similarly, the Indian economy is well placed to grow faster in the coming decade once the global shocks of the pandemic and the spike in commodity prices in 2022 fade away.
- With improved and healthier balance sheets of the banking, non-banking and corporate sectors, a fresh credit cycle has already begun, evident from the double-digit growth in bank credit over the past months.
- Indian economy has also started benefiting from the efficiency gains resulting from greater formalisation, higher financial inclusion, and economic opportunities created by digital technology-based economic reforms.
- Thus Chapter 2 of the Survey shows that India's growth outlook seems better than in the pre-pandemic years, and the Indian economy is prepared to grow at its potential in the medium term.

FISCAL DEVELOPMENTS

- The Union Government finances have shown a resilient performance during the year FY23, facilitated by the recovery in economic activity, buoyancy in revenues from direct taxes and GST, and realistic assumptions in the Budget.
- The **Gross Tax Revenue registered a YoY growth of 15.5 per cent from April to November 2022,** driven by robust growth in the direct taxes and Goods and Services Tax (GST).
- Growth in direct taxes during the first eight months of the year was much higher than their corresponding longer-term averages.
- **GST has stabilised as a vital revenue source** for central and state governments, with the gross GST collections increasing at 24.8 per cent on YoY basis from April to December 2022.
- Union Government's emphasis on capital expenditure (Capex) has continued despite higher revenue expenditure requirements during the year. The Centre's Capex has steadily increased from a long-term average of 1.7 per cent of GDP (FY09 to FY20) to 2.5 per cent of GDP in FY22 PA.
- The Centre has also incentivised the State Governments through interest-free loans and enhanced borrowing ceilings to prioritise their spending on Capex.
- With an emphasis on infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs, the increase in Capex has large-scale positive implications for medium-term growth.
- The Government’s Capex-led growth strategy will enable India to keep the growth-interest rate differential positive, leading to a sustainable debt to GDP in the medium run.

MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION

- The RBI initiated its monetary tightening cycle in April 2022 and has since raised the repo rate by 225 bps, leading to moderation of surplus liquidity conditions.
- Cleaner balance sheets led to enhanced lending by financial institutions.
- The growth in credit offtake is expected to sustain, and combined with a pick-up in private capex, will usher in a virtuous investment cycle.
- Non-food credit offtake by scheduled Commercial Banks (SCBs) has been growing in double digits since April 2022.
- Credit disbursed by Non-Banking Financial Companies (NBFCs) has also been on the rise.
- The Gross Non-Performing Assets (GNPA) ratio of SCBs has fallen to a seven-year low of 5.0.
- The Capital-to-Risk Weighted Assets Ratio (CRAR) remains healthy at 16.0.
- The recovery rate for the SCBs through Insolvency and Bankruptcy (IBC) was highest in FY22 compared to other channels.

PRICES AND INFLATION

- While the year 2022 witnessed a return of high inflation in the advanced world after three to four decades, India caps the rise in prices.
- While India's retail inflation rate peaked at 7.8 per cent in April 2022, above the RBI's upper tolerance limit of 6 per cent, the overshoot of inflation above the upper end of the target range in India was however one of the lowest in the world.
- The government adopted a multi-pronged approach to tame the increase in price levels
- Phase wise reduction in export duty of petrol and diesel
- Import duty on major inputs were brought to zero while tax on export of iron ores and concentrates increased from 30 to 50 per cent
- Waived customs duty on cotton imports w.e.f 14 April 2022, until 30 September 2022
- Prohibition on the export of wheat products under HS Code 1101 and imposition of export duty on rice
- Reduction in basic duty on crude and refined palm oil, crude soyabean oil and crude sunflower oil
- The RBI's anchoring of inflationary expectations through forward guidance and responsive monetary policy has helped guide the trajectory of inflation in the country.
- The one-year-ahead inflationary expectations by both businesses and households have moderated in the current financial year.
- Timely policy intervention by the government in housing sector, coupled with low home loan interest rates propped up demand and attracted buyers more readily in the affordable segment in FY23.
- An overall increase in composite Housing Price Indices (HPI) assessment and Housing Price Indices market prices indicates a revival in the housing finance sector. A stable to moderate increase in HPI also offers confidence to homeowners and home loan financiers in terms of the retained value of the asset.

- India's inflation management has been particularly noteworthy and can be contrasted with advanced economies that are still grappling with sticky inflation rates.

SOCIAL INFRASTRUCTURE AND EMPLOYMENT

- Social Sector witnessed significant increase in government spending.
- Central and State Government's budgeted expenditure on health sector touched 2.1% of GDP in FY23 (BE) and 2.2% in FY22 (RE) against 1.6% in FY21.
- Social sector expenditure increases to Rs. 21.3 lakh crore in FY23 (BE) from Rs. 9.1 lakh crore in FY16.
- Survey highlights the findings of the 2022 report of the UNDP on Multidimensional Poverty Index which says that 41.5 crore people exit poverty in India between 2005-06 and 2019-20.
- The **Aspirational Districts Programme** has emerged as a template for good governance, especially in remote and difficult areas.
- **eShram portal developed for creating a National database of unorganised workers**, which is verified with Aadhaar. As on 31 December 2022, a total of over 28.5 crore unorganised workers have been registered on eShram portal.
- JAM (Jan-Dhan, Aadhaar, and Mobile) trinity, combined with the power of DBT, has brought the marginalised sections of society into the formal financial system, revolutionising the path of transparent and accountable governance by empowering the people.
- Aadhaar played a vital role in developing the Co-WIN platform and in the transparent administration of over 2 billion vaccine doses.
- Labour markets have recovered beyond pre-Covid levels, in both urban and rural areas, with unemployment rates falling from 5.8 per cent in 2018-19 to 4.2 per cent in 2020-21.
- The year FY22 saw improvement in Gross Enrolment Ratios (GER) in schools and improvement in gender parity. GER in the primary-enrolment in class I to V as a percentage of the population in age 6 to 10 years - for girls as well as boys have improved in FY22.
- Due to several steps taken by the government on health, out-of-pocket expenditure as a percentage of total health expenditure declined from 64.2% in FY14 to 48.2% in FY19.
- Infant Mortality Rate (IMR), Under Five mortality rate (U5MR) and neonatal Mortality Rate (NMR) have shown a steady decline.
- Nearly 22 crore beneficiaries have been verified under the Ayushman Bharat Scheme as on 04 January, 2023. Over 1.54 lakh Health and Wellness Centres have been operationalized across the country under Ayushman Bharat.

CLIMATE CHANGE AND ENVIRONMENT

- India declared the Net Zero Pledge to achieve net zero emissions goal by 2070.
- India achieved its target of 40 per cent installed electric capacity from non-fossil fuels ahead of 2030.
- The likely installed capacity from non-fossil fuels to be more than 500 GW by 2030 resulting in decline of average emission rate by around 29% by 2029-30, compared to 2014-15.
- India to reduce emissions intensity of its GDP by 45% by 2030 from 2005 levels.

- About 50% cumulative electric power installed capacity to come from non-fossil fuel-based energy resources by 2030.
- A mass movement **LIFE– Life style for Environment** launched.
- Sovereign Green Bond Framework (SGrBs) issued in November 2022.
- RBI auctions two tranches of ₹4,000 crore Sovereign Green Bonds (SGrB).
- National Green Hydrogen Mission to enable India to be energy independent by 2047.
- Green hydrogen production capacity of at least 5 MMT (Million Metric Tonne) per annum to be developed by 2030. Cumulative reduction in fossil fuel imports over ₹1 lakh crore and creation of over 6 lakh jobs by 2030 under the National green Hydrogen Mission. Renewable energy capacity addition of about 125 GW and abatement of nearly 50 MMT of annual GHG emissions by 2030.
- The Survey highlights the progress on eight missions under the NAP on CC to address climate concerns and promote sustainable development.
- Solar power capacity installed, a key metric under the National Solar Mission stood at 61.6 GW as on October 2022.
- India becoming a favored destination for renewables; investments in 7 years stand at USD 78.1 billion.
- 62.8 lakh individual household toilets and 6.2 lakh community and public toilets constructed (August 2022) under the National Mission on Sustainable Habitat.

AGRICULTURE AND FOOD MANAGEMENT

- The performance of the agriculture and allied sector has been buoyant over the past several years, much of which is on account of the measures taken by the government to augment crop and livestock productivity, ensure certainty of returns to the farmers through price support, promote crop diversification, improve market infrastructure through the impetus provided for the setting up of farmer-producer organisations and promotion of investment in infrastructure facilities through the Agriculture Infrastructure Fund.
- Private investment in agriculture increases to 9.3% in 2020-21.
- MSP for all mandated crops fixed at 1.5 times of all India weighted average cost of production since 2018.
- Institutional Credit to the Agricultural Sector continued to grow to 18.6 lakh crore in 2021-22
- Foodgrains production in India saw sustained increase and stood at 315.7 million tonnes in 2021-22.
- Free foodgrains to about 81.4 crore beneficiaries under the National Food Security Act for one year from January 1, 2023.
- About 11.3 crore farmers were covered under the Scheme in its April-July 2022-23 payment cycle.
- Rs 13,681 crores sanctioned for Post-Harvest Support and Community Farms under the Agriculture Infrastructure Fund.
- Online, Competitive, Transparent Bidding System with 1.74 crore farmers and 2.39 lakh traders put in place under the National Agriculture Market (e-NAM) Scheme.
- Organic Farming being promoted through Farmer Producer Organisations (FPO) under the Paramparagat Krishi Vikas Yojana (PKVY).

- India stands at the forefront to promote millets through the International Year of Millets initiative.

INDUSTRY

- Overall Gross Value Added (GVA) by the Industrial Sector (for the first half of FY 22-23) rose 3.7 per cent, which is higher than the average growth of 2.8 per cent achieved in the first half of the last decade.
- Robust growth in Private Final Consumption Expenditure, export stimulus during the first half of the year, increase in investment demand triggered by enhanced public capex and strengthened bank and corporate balance sheets have provided a demand stimulus to industrial growth.
- The supply response of the industry to the demand stimulus has been robust.
- PMI manufacturing has remained in the expansion zone for 18 months since July 2021, and Index of Industrial Production (IIP) grows at a healthy pace.
- Credit to Micro, Small and Medium Enterprises (MSMEs) has grown by an average of around 30% since January 2022 and credit to large industry has been showing double-digit growth since October 2022.
- Electronics exports rise nearly threefold, from US $4.4 billion in FY19 to US $11.6 Billion in FY22.
- India has become the second-largest mobile phone manufacturer globally, with the production of handsets going up from 6 crore units in FY15 to 29 crore units in FY21.
- Foreign Direct Investment (FDI) flows into the Pharma Industry has risen four times, from US $180 million in FY19 to US $699 million in FY22.
- The Production Linked Incentive (PLI) schemes introduced across 14 categories, with an estimated capex of ₹4 lakh crore over the next five years, to plug India into global supply chains. Investment of ₹47,500 crores has been seen under the PLI schemes in the FY22, which is 106% of the designated target for the year. Production/sales worth ₹3.85 lakh crore and employment generation of 3.0 lakh have been recorded due to PLI schemes.
- Over 39,000 compliances have been reduced and more than 3500 provisions decriminalized as of January 2023.

SERVICES

- The services sector is expected to grow at 9.1% in FY23, as against 8.4% (YoY) in FY22.
- Robust expansion in PMI services, indicative of service sector activity, observed since July 2022.
- India was among the top ten services exporting countries in 2021, with its share in world commercial services exports increasing from 3 per cent in 2015 to 4 per cent in 2021.
- India's services exports remained resilient during the Covid-19 pandemic and amid geopolitical uncertainties driven by higher demand for digital support, cloud services, and infrastructure modernization.
- Credit to services sector has grown by over 16% since July 2022.
- US$ 7.1 billion FDI equity inflows in services sector in FY22.

- Contact-intensive services are set to reclaim pre-pandemic level growth rates in FY23.
- Sustained growth in the real estate sector is taking housing sales to pre-pandemic levels, with a 50% rise between 2021 and 2022.
- Hotel occupancy rate has improved from 30-32% in April 2021 to 68-70% in November 2022.
- Tourism sector is showing signs of revival, with foreign tourist arrivals in India in FY23 growing month-on-month with resumption of scheduled international flights and easing of Covid-19 regulations.
- Digital platforms are transforming India's financial services.
- India's e-commerce market is projected to grow at 18 per cent annually through 2025.

EXTERNAL SECTOR

- Merchandise exports were US$ 332.8 billion for April-December 2022.
- India diversified its markets and increased its exports to Brazil, South Africa and Saudi Arabia.
- To increase its market size and ensure better penetration, in 2022, CEPA with UAE and ECTA with Australia come into force.
- India is the largest recipient of remittances in the world receiving US$ 100 bn in 2022. Remittances are the second largest major source of external financing after service export
- As of December 2022, Forex Reserves stood at US$ 563 bn covering 9.3 months of imports.
- As of end-November 2022, India is the sixth largest foreign exchange reserves holder in the world.
- The current stock of external debt is well shielded by the comfortable level of foreign exchange reserves.
- India has relatively low levels of total debt as a percentage of Gross National Income and short-term debt as a percentage of total debt.

PHYSICAL AND DIGITAL INFRASTRUCTURE

Public Private Partnerships

- In-Principal Approval granted to 56 projects with Total Project Cost of ₹57,870.1 crore under the VGF Scheme, from 2014-15 to 2022-23.
- IIPDF Scheme with ₹150 crore outlay from FY 23-25 was notified by the government on 03 November, 2022.

NATIONAL INFRASTRUCTURE PIPELINE

- 89,151 projects costing ₹141.4 lakh crore under different stages of implementation
- 1009 projects worth ₹5.5 lakh crore completed
- NIP and Project Monitoring Group (PMG) portal linkage to fast-track approvals/ clearances for projects

NATIONAL MONETISATION PIPELINE

- ₹ 9.0 lakh crore is the estimated cumulative investment potential.
- ₹ 0.9 lakh crore monetisation target achieved against expected ₹0.8 lakh crore in FY22.
- FY23 target is envisaged to be ₹1.6 lakh crore (27 per cent of overall NMP Target)

GATISHAKTI

- PM GatiShakti National Master Plan creates comprehensive database for integrated planning and synchronised implementation across Ministries/ Departments.
- Aims to improve multimodal connectivity and logistics efficiency while addressing the critical gaps for the seamless movement of people and goods.

ELECTRICITY SECTOR AND RENEWABLES

- As on 30 September 2022, the government has sanctioned the entire target capacity of 40 GW for the development of 59 Solar Parks in 16 states.
- 17.2 lakh GWh electricity generated during the year FY22 compared to 15.9 lakh GWh during FY21.
- The total installed power capacity (industries having demand of 1 Mega Watt (MW) and above) increased from 460.7 GW on 31 March 2021 to 482.2 GW on 31 March 2022.

MAKING INDIAN LOGISTICS GLOBALLY COMPETITIVE

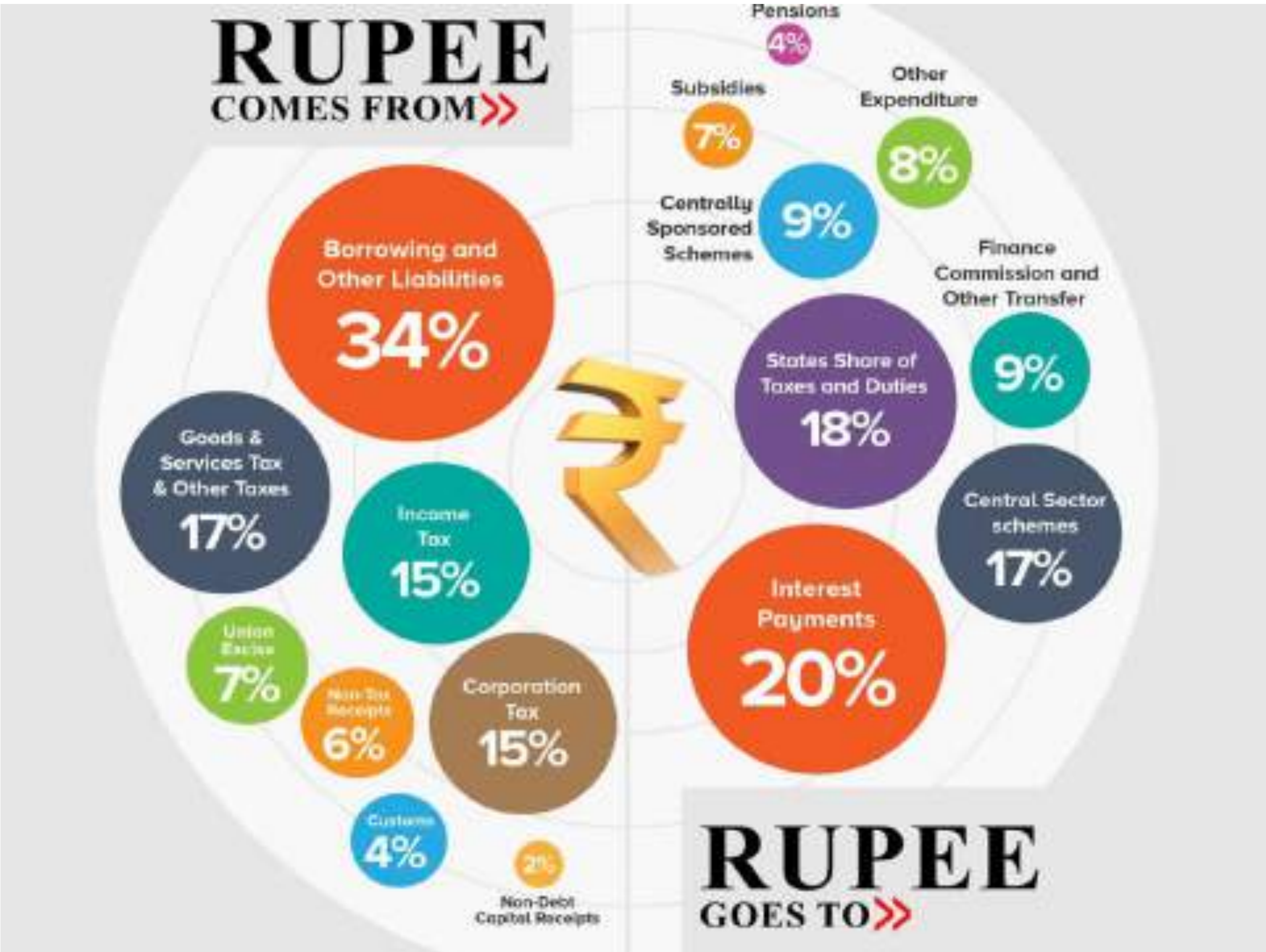
- National Logistics Policy envisions to develop a technologically enabled, integrated, cost-efficient, resilient, sustainable and trusted logistics ecosystem in the country for accelerated and inclusive growth.
- Rapid increase in National Highways (NHs) /Roads Construction with 10457 km NHs/roads constructed in FY22 compared to 6061 km in FY16.
- Budget expenditure increased from ₹1.4 lakh crore in FY20 to ₹2.4 lakh crore in FY23 giving renewed push to Capital expenditure.
- 2359 Kisan rails transported approximately 7.91 lakh tonnes of perishables, as of October 2022.
- More than one crore air passengers availed the benefit of the UDAN scheme since its inception in 2016.
- Near doubling of capacity of major ports in 8 years.
- Inland Vessels Act 2021 replaced 100-year-old Act to ensure hassle free movement of Vessels promoting Inland Water Transport.

INDIA'S DIGITAL PUBLIC INFRASTRUCTURE

- Unified Payment Interface (UPI)
- UPI-based transactions grew in value (121 per cent) and volume (115 per cent) terms, between 2019-22, paving the way for its international adoption.
- Telephone and Radio - For Digital Empowerment
- Total telephone subscriber base in India stands at 117.8 crore (as of Sept,22), with 44.3 per cent of subscribers in rural India.
- More than 98 per cent of the total telephone subscribers are connected wirelessly.
- The overall tele-density in India stood at 84.8 per cent in March 22.
- 200 per cent increase in rural internet subscriptions between 2015 and 2021.
- Prasar Bharati (India's autonomous public service broadcaster) - broadcasts in 23 languages, 179 dialects from 479 stations. Reaches 92 per cent of the area and 99.1 per cent of the total population.
- Digital Public Goods
- Achieved low-cost accessibility since the launch of Aadhaar in 2009

- Under the government schemes, MyScheme, TrEDS, GEM, e-NAM, UMANG has transformed market place and has enabled citizens to access services across sectors
- Under Account Aggregator, the consent-based data sharing framework is currently live across over 110 crore bank accounts.
- Open Credit Enablement Network aims towards democratising lending operations while allowing end-to-end digital loan applications
- National AI portal has published 1520 articles, 262 videos, and 120 government initiatives and is being viewed as viewed as a tool for overcoming the language barrier e.g**. 'Bhashini'.**
- Legislations are being introduced for enhanced user privacy and creating an ecosystem for standard, open, and interoperable protocols underlining robust data governance.

➡ UNION BUGDET 2023-24



PRIORITIES

PRIORITY 1: INCLUSIVE DEVELOPMENT

AGRICULTURE AND COOPERATION

Digital Public Infrastructure for Agriculture: Enable inclusive, farmer-centric solutions through relevant information services for crop planning and health, improved access to farm inputs, credit, and insurance, help for crop estimation, market intelligence, and support for growth of agri-tech industry and start-ups.

Agriculture Accelerator Fund: This fund will be set-up to encourage agri-startups by young entrepreneurs in rural areas, which will aim at bringing innovative and affordable solutions for challenges faced by farmers. It will also bring in modern technologies to transform agricultural practices, increase productivity and profitability.

Enhancing productivity of cotton crop: To enhance the productivity of extra-long staple cotton, Government will adopt a cluster-based and value chain approach through Public Private Partnerships (PPP). This will mean collaboration between farmers, state and industry for input supplies, extension services, and market linkages.

Atmanirbhar Horticulture Clean Plant Programme: to boost availability of disease-free, quality planting material for high value horticultural crops at an outlay of Rs 2,200 crore.

Global Hub for Millets: 'Shree Anna'- India is the largest producer and second largest exporter of 'Shree Anna' in the world as it grows several types of 'Shree Anna' such as jowar, ragi, bajra, kuttu, ramdana, kangni, kutki, kodo, cheena, and sama.

These have a number of health benefits, and have been an integral part of our food for centuries and acknowledged with pride that the huge service done by small farmers in contributing to the health of fellow citizens by growing these 'Shree Anna'.

To make India a global hub for 'Shree Anna', the Indian Institute of Millet Research, Hyderabad will be supported as the Centre of Excellence for sharing best practices, research and technologies at the international level.

Agriculture Credit: The agriculture credit target will be increased to Rs 20 lakh crore with focus on animal husbandry, dairy and fisheries.

The Government will launch a new **sub-scheme of PM Matsya Sampada Yojana** with targeted investment of Rs 6,000 crore to further enable activities of fishermen, fish vendors, and micro & small enterprises, improve value chain efficiencies, and expand the market.

Cooperation: For farmers, especially small and marginal farmers, and other marginalized sections, the government is promoting cooperative-based economic development model.

A new **Ministry of Cooperation was formed with a mandate to realize the vision of 'Sahakar Se Samriddhi**'. To realise this vision, the government has already initiated computerization of 63,000 Primary Agricultural Credit Societies (PACS) with an investment of Rs 2,516 crore.

In consultation with all stakeholders and states, model bye-laws for PACS were formulated enabling them to become multipurpose PACS. A national cooperative database is being prepared for country-wide mapping of cooperative societies.

HEALTH, EDUCATION AND SKILLING

MEDICAL & NURSING COLLEGES

- One hundred and fifty-seven new nursing colleges will be established in co-location with the existing 157 medical colleges established since 2014.
- A Mission to eliminate Sickle Cell Anaemia by 2047 will be launched, which will entail awareness creation, universal screening of 7 crore people in the age group of 0-40 years in affected tribal areas, and counseling through collaborative efforts of central ministries and state governments.

TEACHERS' TRAINING

- Teachers' training will be re-envisioned through innovative pedagogy, curriculum transaction, continuous professional development, dipstick surveys, and ICT implementation.
- **District Institutes of Education and Training** will be developed as vibrant institutes of excellence for this purpose.
- A National Digital Library for Children and Adolescents will be set-up for facilitating availability of quality books across geographies, languages, genres and levels, and device agnostic accessibility.
- States will be encouraged to set up physical libraries for them at panchayat and ward levels and provide infrastructure for accessing the National Digital Library resources.

PRIORITY 2: REACHING THE LAST MILE

ASPIRATIONAL DISTRICTS AND BLOCKS PROGRAMME

- After Aspirational Districts Programme, the Government has recently launched the **Aspirational Blocks Programme covering 500 blocks** for saturation of essential government services across multiple domains such as health, nutrition, education, agriculture, water resources, financial inclusion, skill development, and basic infrastructure.

PRADHAN MANTRI PVTG DEVELOPMENT MISSION

- To improve socio-economic conditions of the particularly vulnerable tribal groups (PVTGs), Pradhan Mantri PVTG Development Mission will be launched.
- This will saturate PVTG families and habitations with basic facilities such as safe housing, clean drinking water and sanitation, improved access to education, health and nutrition, road and telecom connectivity, and sustainable livelihood opportunities.
- An amount of Rs 15,000 crore will be made available to implement the Mission in the next three years under the Development Action Plan for the Scheduled Tribes.

WATER FOR DROUGHT PRONE REGION

- In the drought prone central region of Karnataka, central assistance of Rs 5,300 crore will be given to Upper Bhadra Project to provide sustainable micro irrigation and filling up of surface tanks for drinking water.

PRIORITY 3: INFRASTRUCTURE & INVESTMENT

- Investments in Infrastructure and productive capacity have a large multiplier impact on growth and employment and in view of this capital investment outlay is being increased steeply for the third year in a row by 33 per cent to Rs 10 lakh crore, which would be 3.3 per cent of GDP. She said that this will be almost three times the outlay in 2019-20.
- The 'Effective Capital Expenditure' of the Centre is budgeted at Rs 13.7 lakh crore, which will be 4.5 per cent of GDP.

SUPPORT TO STATE GOVERNMENTS FOR CAPITAL INVESTMENT

- The Finance Minister informed that the Government has decided to continue the 50-year interest free loan to state governments for one more year to spur investment in infrastructure and to incentivize them for complementary policy actions, with a significantly enhanced outlay of Rs 1.3 lakh crore.

RAILWAYS

- A capital outlay of **Rs 2.40 lakh crore** has been provided for the Railways, which is the highest ever outlay and about 9 times the outlay made in 2013- 14.
- One hundred critical transport infrastructure projects, for last and first mile connectivity for ports, coal, steel, fertilizer, and food grains sectors have been identified and they will be taken up on priority with investment of Rs 75,000 crore, including Rs 15,000 crore from private sources.
- An **Urban Infrastructure Development Fund (UIDF)** will be established through use of priority sector lending shortfall, which will be managed by the National Housing Bank, and will be used by public agencies to create urban infrastructure in Tier 2 and Tier 3 cities.

PRIORITY 4: UNLEASHING THE POTENTIAL

- For furthering the trustbased governance, Government has introduced the Jan Vishwas Bill to amend 42 Central Acts.

CENTRES OF EXCELLENCE FOR ARTIFICIAL INTELLIGENCE

- For realizing the vision of **"Make A-I in India and Make A-I work for India"**, three centers of excellence for Artificial Intelligence will be set-up in top educational institutions.
- Leading industry players will partner in conducting interdisciplinary research, develop cutting-edge applications and scalable problem solutions in the areas of agriculture, health, and sustainable cities, which will galvanize an effective A-I ecosystem and nurture quality human resources in the field.

NATIONAL DATA GOVERNANCE POLICY

- To unleash innovation and research by start-ups and academia, a National Data Governance Policy will be brought out, which will enable access to anonymized data.
- An **Entity DigiLocker** will be set up for use by MSMEs, large business and charitable trusts for storing and sharing documents online securely, whenever needed, with various authorities, regulators, banks and other business entities.

- One hundred labs for developing applications using 5G services will be set up in engineering institutions to realize a new range of opportunities, business models, and employment potential. The labs will cover, among others, applications such as smart classrooms, precision farming, intelligent transport systems, and health care applications.

PRIORITY 5: GREEN GROWTH

- "LiFE", or Lifestyle for Environment, to spur a movement of environmentally conscious lifestyle.
- India is moving forward firmly for the 'panchamrit' and net-zero carbon emission by 2070 to usher in green industrial and economic transition.
- Budget builds on the focus on green growth. The recently launched **National Green Hydrogen Mission**, with an outlay of Rs 19,700 crores, will facilitate transition of the economy to low carbon intensity, reduce dependence on fossil fuel imports, and make the country assume technology and market leadership in this sunrise sector. The target is to reach an annual production of 5 MMT by 2030.
- The Budget also provides Rs35,000 crore for priority capital investments towards energy transition and net zero objectives, and energy security by Ministry of Petroleum & Natural Gas.
- To steer the economy on the sustainable development path, Battery Energy Storage Systems with capacity of 4,000 MWH will be supported with Viability Gap Funding.
- **Inter-state transmission system** for evacuation and grid integration of 13 GW renewable energy from Ladakh will be constructed with investment of Rs 20,700 crore including central support of Rs 8,300 crore.

GOBARDHAN SCHEME

- 500 new 'waste to wealth' plants under **GOBARdhan (Galvanizing Organic Bio-Agro Resources Dhan)** scheme will be established for promoting circular economy. These will include 200 compressed biogas (CBG) plants, including 75 plants in urban areas, and 300 community or cluster-based plants at total investment of Rs 10,000 crore.
- She said, in due course, a 5 per cent CBG mandate will be introduced for all organizations marketing natural and bio gas and for collection of bio-mass and distribution of bio-manure, appropriate fiscal support will be provided.

BHARTIYA PRAKRITIK KHETI BIO-INPUT RESOURCE CENTRES

- The Centre will facilitate **one crore farmers to adopt natural farming**. For this, 10,000 **Bio-Input Resource Centres** will be set-up, creating a national-level distributed micro-fertilizer and pesticide manufacturing network.
- In furtherance of the vehicle scrapping policy mentioned in Budget 2021-22, allocated adequate funds to scrap old vehicles of the Central Government and States will also be supported in replacing old vehicles and ambulances.

PRIORITY 6: YOUTH POWER

- **Pradhan Mantri Kaushal Vikas Yojana 4.0** will be launched to skill lakhs of youth within the next three years.
- On-job training, industry partnership, and alignment of courses with needs of industry will be emphasized.
- The scheme will also cover new age courses for Industry 4.0 like coding, AI, robotics, mechatronics, IOT, 3D printing, drones, and soft skills.
- To skill youth for international opportunities, 30 Skill India International Centres will be set up across different States.

NATIONAL APPRENTICESHIP PROMOTION SCHEME

- To provide stipend support to 47 lakh youth in three years, Direct Benefit Transfer under a pan-India National Apprenticeship Promotion Scheme will be rolled out.

UNITY MALL

- States will be encouraged to set up a **Unity Mall in** their state capital or most prominent tourism centre or the financial capital for promotion and sale of their own ODOPs (one district, one product), GI products and other handicraft products, and for providing space for such products of all other States.

PRIORITY 7: FINANCIAL SECTOR

Credit Guarantee for MSMEs

- Revamping of the credit guarantee scheme for MSMEs and announced happily that the revamped scheme will take effect from 1st April 2023 through infusion of Rs 9,000 crore in the corpus.
- This will enable additional collateral-free guaranteed credit of Rs 2 lakh crore. Further, the cost of the credit will be reduced by about 1 per cent.
- **National Financial Information Registry** will be set up to serve as the central repository of financial and ancillary information.
- This will facilitate efficient flow of credit, promote financial inclusion, and foster financial stability.
- A new legislative framework will govern this credit public infrastructure, and it will be designed in consultation with the RBI.
- A Central Processing Centre will be setup for faster response to companies through centralized handling of various forms filed with field offices under the Companies Act.
- A one-time new small savings scheme, **Mahila Samman Savings Certificate**, will be made available for a two-year period up to March 2025. This will offer deposit facility upto Rs 2 lakh

in the name of women or girls for a tenor of 2 years at fixed interest rate of 7.5 per cent with partial withdrawal option.

SENIOR CITIZENS

- o The maximum deposit limit for Senior Citizen Savings Scheme will be enhanced from Rs 15 lakh to Rs 30 lakh.
- o Also, the maximum deposit limit for Monthly Income Account Scheme will be enhanced from Rs 4.5 lakh to Rs 9 lakh for single account and from Rs 9 lakh to Rs 15 lakh for joint account.

FIFTY-YEAR INTEREST FREE LOAN TO STATES

- o The entire fifty-year loan to states has to be spent on **capital expenditure within 2023-24**. Most of this will be at the discretion of states, but a part will be conditional on states increasing their actual capital expenditure.
- o Parts of the outlay will also be linked to, or allocated for, the following purposes: like Scrapping old government vehicles, Urban planning reforms and actions, Financing reforms in urban local bodies to make them, creditworthy for municipal bonds, Housing for police personnel above or as part of police stations, Constructing Unity Malls, Children and adolescents' libraries and digital infrastructure and State share of capital expenditure of central schemes.
- o The Revised Estimate of the total receipts other than borrowings is Rs 24.3 lakh crore, of which the net tax receipts are Rs 20.9 lakh crore.
- o The Revised Estimate of the total expenditure is Rs 41.9 lakh crore, of which the capital expenditure is about Rs 7.3 lakh crore.
- o Similarly, the Revised Estimate of the fiscal deficit is 6.4 per cent of GDP, adhering to the Budget Estimate.

BUDGET ESTIMATES 2023-24

- o The total receipts other than borrowings and the total expenditure are estimated at Rs 27.2 lakh crore and Rs 45 lakh crore respectively.
- o The net tax receipts are estimated at Rs 23.3 lakh crore.
- o The fiscal deficit is estimated to be 5.9 per cent of GDP.
- o To finance the fiscal deficit in 2023-24, the net market borrowings from dated securities are estimated at Rs11.8 lakh crore.

- The balance financing is expected to come from small savings and other sources. The gross market borrowings are estimated at Rs 15.4 lakh crore.

PERSONAL INCOME TAX

- There are five major announcements relating to the personal income tax. The rebate limit in the new tax regime has been increased to ₹ 7 lakh, meaning that peons in the new tax regime with income upto ₹ 7 lakh will not have to pay any tax. The tax structure in the new personal tax regime has been changed by reducing number of slabs to five and increasing the tax exemption limit to ₹ 3 lakh. This will provide major relief to all tax payers in the new regime.
- The benefit of standard deduction has been extended to the salaried class and the pensioners including family pensioner under the new tax regime. Salaried individual will get standard deduction of ₹ 50,000 and pensioner ₹ 15,000 as per the proposal. Each salaried person with an income of ₹ 15.5 lakh or more will thus gain ₹ 52,500, from the above proposals.
- The highest surcharge rate in personal income tax has been reduced from 37% to 25% in the new tax regime for income above ₹2 crore. This would result in maximum tax rate of personal income tax come down to 39% which was earlier 42.74%.
- The limit of tax exemption on leave encashment on retirement of non-government salaried employees has been increased from ₹3 lakh to ₹25 lakh.
- The new income tax regime has been made the default tax regime. However, the citizens will continue to have the option to avail the benefit of the old tax regime.

INDIRECT TAX PROPOSALS

THINGS TO KNOW

➡ CURRENT ACCOUNT DEFICIT

- The current account measures the **flow of goods, services and investments into and out of the country.** The country runs into a deficit if the value of goods and services import exceeds the value of the export. The current account includes net income, including interest and dividends, and transfers, like foreign aid.
- A nation's current account maintains a record of the country's transactions with other nations, it comprises of following components:
  - Trade of goods,
  - Services, and
  - Net earnings on overseas investments and net transfer of payments over a period of time, such as remittances
- A country with rising CAD shows that it has become uncompetitive, and investors may not be willing to invest there.
- In India, the Current Account Deficit **could be reduced by boosting exports and curbing non-essential imports such as gold, mobiles, and electronics**.
- A current account deficit is not always a problem. The Pitchford thesis states that a current account deficit does not matter if it is driven by the private sector. It is also known as **the "consenting adults"** view of the current account, as it holds that deficits are not a problem if they result from private sector agents engaging in mutually beneficial trade.
- The formula to calculate CAD is:

Current Account = Trade gap + Net current transfers + Net income abroad
(Trade gap = Exports – Imports)

WHY DOES CAD MATTER?

- The current account deficit is an important signal of competitiveness and the level of imports and exports. A large current account deficit usually implies some kind of disbalance in the economy, which needs correcting with the depreciation in the exchange rate and/or improved competitiveness over time.
- A current account deficit is financed by attracted capital inflows, for example, foreigners buying domestic assets. This means foreigners hold a greater claim on assets and dividends. The benefit of a CAD is that it allows higher levels of domestic consumption because we are buying from abroad.
- If an economy is running a current account deficit, it is absorbing **(absorption = domestic consumption + investment + government spending)** more than that it is producing.
- This can only happen if some other economies are lending their savings to it (in the form of debt to or direct/ portfolio investment in the economy) or the economy is running down its foreign assets such as official foreign currency reserve.

TRADE DEFICIT

- A trade deficit is an amount by which the **cost of a country's imports exceeds its exports**.
- The trade deficit in goods shows a rise of demand in the economy.
- It is a part of the Current Account Deficit.

CURRENT ACCOUNT DEFICIT

- The current account records **exports and imports in goods and services and transfer payments**.
- It represents a **country's transactions with the rest of the world** and, like the capital account, is a component of a country's Balance of Payments (BOP).
- There is a deficit in Current Account if the value of the goods and services imported exceeds the value of those exported.
- Major components are:
  - Goods,
  - Services, and
  - Net earnings on overseas investments (such as interests and dividend) and net transfer of payments over a period of time, such as remittances.
- It is measured as a percentage of Gross Domestic Product (GDP). The formulae for calculating Current Account Balance is:
- Current Account Balance = Trade gap + Net current transfers + Net income abroad.
- Trade gap = Exports – Imports

➡ FUTURES TRADING

- In order to understand futures trading, you should know what **derivatives trading** is. Derivatives are financial contracts that derive their value from the price movement of another financial item. The price of a derivative tracks the price of another (i.e. underlying) from which it gets its value.

KEY POINTS

- **Derivatives are financial contracts** that derive **their value from the price movement of another financial item.**
- Futures are **primarily used for hedging commodity price-fluctuation risks** or for taking advantage of price movements.
- When such a contract is initiated, the investor need not pay the full amount for a contract, only a small upfront payment is required.
- Futures contract is one such financial instrument **wherein a contract or agreement is formed between a buyer (the one with the long position) and seller (the one with the short position)** and the buyer agrees to purchase a derivative or index at a specified time in the future for a fixed price.
- As time passes, the **contract's price changes relative to the fixed price** at which the trade was done and **this creates profit or loss for the trader**.

- Every contract is **monitored by the stock exchanges** who settle this trade and stock exchanges.

HOW DO YOU TRADE A FUTURES CONTRACT?

- Futures are primarily used for **hedging commodity price-fluctuation risks or for taking advantage of price movements rather than buying or selling of the actual cash commodity which is done with a stock.**
- Futures contracts are available on four different assets - Stocks, Indices, Currency pairs and Commodities.
- There are two primary participants in futures trading - the **Hedgers and Speculators**. Hedgers use futures for protection against irrational or rapid future price movements in the underlying cash commodity.
- Hedgers are usually businesses, or individuals, who at one point or another deal in the underlying cash commodity.
- Speculators are the **second major group of futures players**. These participants include independent floor traders and investors. Independent floor traders, also called "locals", trade for their own accounts. Floor brokers handle trades for their personal clients or brokerage firms.

HOW FUTURES TRADING DIFFERS FROM OTHER FINANCIAL INSTRUMENTS

- **Firstly, the value of futures depends on that of another derivative**, so it has no inherent value in itself. The contract lasts only for a particular time period and has an expiration date, unlike other financial instruments.
- When you buy a stock, it represents equity in a company and can be held for a long time, whereas futures contracts have a fixed time period. This is why the market direction and timing are vital while considering futures trading. Perhaps the most important difference between futures trading and other financial instruments would be in the use of leverage.

IN-SHORT

- Futures trading is a **contract between a buyer looking to invest and a seller and where the contract is made for the future and has an expiration date**.
- There are two participants- **Hedgers and Speculators**. Hedgers protect their assets from risks and speculators are usually floor traders.
- **Futures trading have no inherent value** and are compared with the value of other underlying assets.
- One important aspect is **leverage.** The buyer only pays a small margin value at the time of initiating the contract.
- It is possible to trade commodities online with prior preparations.

➡ FREE TRADE AGREEMENTS

- A Free Trade Agreement (FTA) is an **agreement between two or more countries** to reduce trade barriers in imports and exports among them.

- These agreements deal with the **determination of the tariffs and duties** that are imposed by the countries on imports and to reduce trade barriers and thereby strengthen the bilateral or multilateral trade relations.
- With FTA, **goods and services can be exchanged across international borders** with limited or no government tariffs, quotas, or subsidies.
- A free-trade policy may simply be the absence of any trade restrictions.
- The **idea of FTA is the opposite of the concept of trade protectionism or economic isolationism**.
- In the current world, free trade policy is often implemented through a formal and mutual agreement of the nations involved.

CLASSIFICATION OF TRADE AGREEMENTS

Preferential Trade Agreement (PTA)	o Two or more countries agree upon a **preferential right of entry to certain products facilitated by reducing duties**. o A positive list is maintained i.e. the list of the products to which preferential access is provided. o Examples: India – MERCOSUR PTA and India – SAARC Preferential Trading Arrangement (SAPTA)
Free Trade Agreement (FTA)	o **Multiple countries agree to eliminate tariffs** on items covering substantial bilateral trade. o **A negative list of products and services** is maintained by the negotiating countries on which the terms of FTA are not applicable. Hence compared to PTAs, FTAs are more comprehensive. o Examples: India – South Asia Free Trade Area (SAFTA) and India Sri Lanka FTA
Comprehensive Economic Cooperation Agreement (CECA)	o These involve a **comprehensive package of agreements on goods/services**, investment, mutual recognition, e-commerce, intellectual property, etc. o Examples: India Singapore CECA and India Malaysia CECA
Customs Union (CU)	o **Members of the CU may agree to trade at zero duty among themselves**, maintain common tariffs against the rest of the world. o Examples: European Union Customs Union and Southern African Customs Union
Common Market	o In a **common market, countries also allow free trade and free movement of labour and capital among** the members of the group. o Example: European Common Market
Economic Union	o It is a Common Market **extended through further harmonisation of fiscal/monetary policies and shared executive, judicial & legislative institutions.** o Example: European Union (EU)

SIGNIFICANCE OF FTAS

- FTAs encourage businesses in member countries to **focus on producing and selling the goods** that best use their resources while other businesses import goods that are scarce or unavailable domestically.
- FTAs **increase the production and consumption** of internationally traded goods as selected goods are produced by every country at lower costs.
- FTAs **facilitate the mix of local production and foreign trade** which in turn helps economies to boost growth.
- FTAs help **diversify supply chains** by making it easier and cheaper for more businesses to do business across borders.
- **Reducing the trade barriers** will help small and medium-sized enterprises in the export of their goods and services.
- Also gives them **access to new and emerging technologies**.
- From the consumer's point of view, FTAs would help the consumers of both countries see improvements in the variety and affordability of products.
- FTAs play an **important role in strengthening** the bond between the countries.
- FTAs encourage Foreign Direct Investments (FDI) which helps in capital flow and employment creation.
- FTAs help in eliminating monopolies.

CONCERNS ABOUT FTA

- The overall success of trade agreements depends on the extent of new trade created based on comparative advantage, which will boost both trade and economic growth.
- However, if the FTA causes large diversions of the trade from more competitive nations to the FTA members, then the overall impact of the FTA will be negative.
- Threat to **Intellectual property rights**, as the products of domestic producers, can be easily replicated by big corporations.
- **Loss of revenue** which was levied in the form of import duties and tariffs.
- The **exploitation of domestic resources and labourers** due to the expansion of foreign corporations.
- It increases the **dependence of trade in goods and services on other countries**.
- The free movement of foreign goods **affects the domestic goods**, leading to losses for the indigenous industries.

➡ INTERIM AND ANNUAL BUDGETS

Interim Budget	Union Budget
o Interim Budget is a budget presented by the Central Government just **before the General elections.**	o Union Budget is an annual budget presented by the Central Government in the Parliament.
o **Vote on the account is passed without discussion** in Lok Sabha	o Union Budget is **passed after complete discussions in Lok Sabha**

o In the Interim Budget, the income and expenses of the previous year will be mentioned. o It also mentions the expenses for a few months till the charge is taken over by the next Government. o However, most importantly the **sources of income will not be detailed i**n the Interim Budget.	o The Union Budget has 2 different parts, one part is related to the expenses and income of the previous year and the other part is the plan of the Government to raise funds through taking various measures and how it would be utilised for the development of the nation.
o Interim Budget is during the election year, for a duration of approximately 2 to 4 months of the fiscal year	o Union Budget is for the entire fiscal year.
o The Interim Budget has only a summary of the expenses and income of the previous year.	o Union Budget will have income and expenses of the previous year would be provided in detail.
o The Interim Budget will not have the component of income through the collection of taxes.	o The Union Budget will have a component on spending funds for various social welfare measures for the development of a country and describe the ways of raising funds through taxes.

➡ CAPITALISM, COMMUNISM, AND SOCIALISM

	Capitalism	Communism	Socialism
Ideology	Maximisation of profit by any means necessary. It also believes in **Laissez-Faire,** a philosophy that emphasizes on leaving circumstances to run their natural course without any external intervention	From **each according to his ability,** to each according to his needs	From each according to his ability, to each according to his contribution
Economy Planning	In capitalist societies, the economy is planned as per the functioning of the free-markets	The economy is **planned by the Central Government**	The economy is planned by the central government
Ownership of Economic Resources	Private ownership of economic resources and property is actively encouraged with little to	All **economic resources are publicly owned** and controlled by the	Individuals **can own personal property** but all industrial and production capacity is

	no government intervention	government. Individuals hold no personal property or assets.	communally owned and managed by a democratically elected government.
Class distinction	There exists a distinct class whose standing in society is measured by the material wealth in their possession	**Class is abolished**. The chances of one worker earning more than the other are nonexistent	Classes exist but the differences between them are greatly reduced. It is possible for some people to earn more than others.
Religion	As per the ideology, it is indifferent towards religion, but bias thus exist towards religious groups who are well-off or as rich as another religious group	**Religion is effectively abolished**	Freedom of religion is allowed
Welfare	The welfare system is available only to those who have the wealth to pay for their services.	Supports widespread **universal social welfare** with an emphasis on public health and education	The state will be for the welfare of everyone in the society without any discrimination
Origins	The modern form of capitalism can be traced to the early **Renaissance period in the 15th -16th Centuries.** The wealthy merchants of Italian city-states engaged in small industry and wage-labour practices at the time.	Although the concept of egalitarian societies existed since the time of Ancient Greece, the foundations of modern-day communism were established in **1848 by the German Philosopher, Karl Marx** (May 5th, 1818 – 14 March 1883).	The economy of the 3rd century BC Mauryan Empire was described by economists as "a socialized monarchy" and "a sort of state socialism". It became more prominent towards the end of the 18th century and after 1848

➡ WORLD BANK GROUP

- The United Nations Monetary and Financial Conference, also known as the **Bretton Woods Conference held in 1944** led to the formation of the **International Monetary Fund** (IMF in 1945) and the **International Bank for Reconstruction and Development** (IBRD in 1944).

- The original focus of the IBRD was the **reconstruction of countries ravaged by the Second World War** through loans.
- Gradually, there was a shift from reconstruction to development with a particular emphasis on infrastructure, power grids, roads and transportation, dams, etc.
- The other institutions such as the **IDA, IFC, etc. were formed over the years** and all five institutions **(IBRD, IDA, IFC, MIGA, and ICSID) came to be called the World Bank Group**.
- Currently, the group engages in multifarious activities through its institutions and funds.
- There is a **special focus** on developing and underdeveloped countries.
- The WBG is one of the world's largest sources of funding and knowledge for developing nations. Its five institutions share a commitment to decreasing poverty, enhancing shared prosperity, and boosting sustainable development.
- The WBG is headquartered in Washington, D.C.
- The World Bank Group is a **specialized agency of the United Nations**.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

- The IBRD calls itself a global development cooperative. It has a membership of 189 countries.
- It is the **world's largest development bank**.
- It provides loans, guarantees, advisory services, and risk management products to middle-income and creditworthy low-income countries.
- **Middle-income countries represent more than 60%** of the IBRD's portfolio.
- IBRD finances investments across all sectors and offers technical support and expertise at every stage of a project.
- IBRD deals **only with sovereign governments** and not private players.
- It also assists governments in augmenting the investment climate of countries, removing service delivery bottlenecks, and strengthening institutions and policies.
- IBRD sources most of its funds from the world's financial markets.

IBRD and India

- India is a **founding member of IBRD**.
- It started lending to India in 1949, the first project being undertaken for the Indian Railways.
- Since the 1960s, the IBRD is an important source of long-term funding for India.
- India is the largest IBRD client of the World Bank.
- India is a blend country, which means it is transitioning from a lower-middle-income to a middle-income country.
- India is eligible for loans from both the IBRD and the IDA.

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

- The International Development Association (IDA) is a part of the World Bank Group that helps the world's poorest countries.
- The main objective of the IDA is to **provide grants and concessional loans** to the world's poorest countries.
- It **lends to developing countries with the lowest Gross National Income (GNI),** having troubled creditworthiness, & having very low per capita income.
- The IDA seeks to complement the work done by the International Bank for Reconstruction and Development.
- Collectively **IBRD and IDA are known as the World Bank.**
- IDA was established with the signing of agreements between 15 countries.
- 173 countries are its members.
- Around 52 nations are donor countries.
- IDA lends to 75 countries, out of which 39 countries are located in Africa.
- IDA **replenishes its resources every 3 years.**

- G-7 countries dominate donor contributions. Their contribution comprises 69% of the total funds donated.
- 26% of the total funds are donated by 11 mid-sized traditional donor countries.
- 5% of the total funds are donated by 34 small-donor nations.

International Development Association – Financial Instruments

There are 3 financial instruments under the International Development Association (IDA) which are given below.

Investment Operations	It is used to finance a wide range of physical and social infrastructure necessary to reduce poverty and create sustainable development.
Development Policy Operations	This focuses on financial policies and institutional actions that are consistent with the country's economic policies.
IDA Guarantees	This comes into picture when the default is caused by the Government failure. Here it mobilizes private sector finance.

IDA and India

- India is **one of the founding members** of the International Development Association.
- India got its first investment from IDA for a highway construction project in 1961.
- In the following decade, the IDA accounted for nearly three-fourths of all WB lending to India.

- By **1970, India was the largest recipient of IDA funds,** accounting for more than two-fifths of all its lending.
- India is also a **donor to the IDA classified as a Part II Donor**.
- In 1980, China joined the World Bank which significantly dropped India's share in IDA.
- China's claim to limiting the IDA resources also worsened Africa's economic fortunes.
- Now, **India is classified as a Blend Country** and is creditworthy for funding from both IBRD and IDA.
- **Blend Country or Blend Borrower** can be defined as one in the transition from lower-middle-income to middle-income.

INTERNATIONAL FINANCE CORPORATION (IFC)

- The IFC is a **sister organization of the World Bank (IDA + IBRD).** It is the largest international development institution focused on the private sector in developing countries.
- It functions as the **private sector arm of the WBG**.
- It works for economic development by investing in **for-profit and commercial projects for poverty reduction and augmenting development.**
- It also engages in **mobilizing third-party resources for projects**.
- The IFC works with the private sector to boost entrepreneurship and create sustainable businesses.
- The IFC provides investment, advice, and asset management offerings.
- It lends to businesses and private sector projects.

IFC and India

- India is a **founding member** of the IFC.
- Over the past few years, IFC has augmented its portfolio in India, improving profitability and investing in high impact projects.
- It is expanding its activities in the **LIS (the Low Income States and the NE States)** in India.
- Improving the investment climate for private sector development and inclusive growth.
- Financial inclusion by focusing on microfinance institutions.
- Focus on renewable energy and cleaner production methods.
- Developing PPP transactions with a focus on social services (health and education) and climate change impact projects.

MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

- MIGA's chief goal is to enhance **cross-border investment in developing countries** by giving guarantees (political risk insurance and credit enhancement) to lenders and investors.
- The agency's guarantees to protect investments against non-commercial risks.
- It emphasizes on **Fragile and Conflict-affected States.**

Political risk insurance products:

- Coverage against losses due to war, terrorism, and civil disturbance.
- Coverage against expropriation by governments.
- Coverage against breach of contract.

- Protection against losses arising from an inability to legally convert local currency into hard currency.
- Credit enhancement – protection when governments fail to honour financial obligations.
- India became a member of the **MIGA in 1994**.

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES (ICSID)

- ICSID engages in **international investment dispute settlement**.
- It settles disputes between **investors and governments.**
- It also settles state-state disputes under investment treaties and free trade agreements and acts as an administrative registry.
- The Centre provides for settlement of disputes by arbitration, conciliation, or fact-finding.
- It also disseminates information on international law on foreign investment.
- **India is not a member of the ICSID** because it claims that the ICSID's functioning and structure are biased towards the developed countries.
- India set up the BRICS Arbitration Centre (BRICS Centre) to address and reinforce international arbitrations with foreign investors. Although this is limited to the BRICS countries, it will be available for all developing countries in the future.

➡ FINANCIAL STABILITY AND DEVELOPMENT COUNCIL

- The **Financial Stability and Development Council (FSDC)** was constituted by an **Executive Order** of the Union Government as a **non-statutory apex body** under the Ministry of Finance in 2010.
- The **Raghuram Rajan Committee (2008)** on financial sector reforms first proposed the creation of FSDC.

FSDC – COUNCIL MEMBERS

- The **Finance Minister is the Chairman** of the FSDC.
- Members of FSDC include Heads of the Financial Sector Regulators listed below:

  - Reserve Bank of India (RBI)
  - Insurance Regulatory and Development Authority (IRDA)
  - Securities and Exchange Board of India (SEBI)
  - Pension Fund Regulatory and Development Authority (PFRDA)
  - Other members are Finance Secretary, Chief Economics Advisor and Secretary of the Department of Financial Services.

FSDC MEMBER REFORMS

The government reconstituted the FSDC to include the following Members in the Council:

- Minister of State responsible for the Department of Economic Affairs (DEA)
- Secretary of the Department of Electronics and Information Technology
- Revenue Secretary

- Chairman of the Insolvency and Bankruptcy Board of India (IBBI)
- The reconstitution would make FSDC more broad-based to incorporate changes in the economic regulatory framework of the country.

FUNCTIONS OF FSDC

- The Financial Stability and Development Council was established as an autonomous body dealing with **macroprudential and financial regularities** in the entire financial sector of India.
- The body envisages to strengthen and institutionalize the mechanism of maintaining financial stability, financial sector development, inter-regulatory coordination along with monitoring macro-prudential regulation of the economy.
- It must be noted that no funds are separately allocated to the council for undertaking its activities.

RESPONSIBILITIES OF FSDC

- Bringing about stability in the financial sector
- Development of the Financial Sector
- Coordination of Inter-Regulatory bodies
- Promoting financial literacy
- Ensuring financial inclusion
- Macroprudential supervision of the economy including the functioning of large financial conglomerates.
- Coordinating India's international interface with financial sector bodies like the Financial Action Task Force (FATF), Financial Stability Board (FSB) and any such body as may be decided by the Finance Minister from time to time.

➡ GLOBALISATION VS. LIBERALISATION

- Globalization is where an **economy of scale** is created through the interaction and integration among people, companies, and governments worldwide.
- It is a complex and multifaceted phenomenon, which is considered by some as a form of capitalist expansion which **entails the integration of local and national economies** into a global, unregulated market economy.
- **Liberalization is the process where a state lifts restrictions** on some private individual activities. It is a situation in which government regulations and restrictions are relaxed to make room for economic expansion.
- Globalization **means the speedup of movements and exchanges** (of human beings, goods, and services, capital, technologies or cultural practices) all over the planet. One of the effects of globalization is that it promotes and increases interactions between different regions and populations around the globe.

HOW DOES LIBERALIZATION SUPPORT GLOBALIZATION?

- Proponents of trade liberalization, however, claim that it ultimately lowers consumer costs, increases efficiency, and fosters economic growth.

- The outcome of trade liberalization and the resulting integration among countries is known as globalization.

GLOBALISATION	LIBERALISATION
Globalization is closely related to the scale of economic activities across nations	Liberalization is mainly concentrated on economic activities as a result of modernization and development
In a globalized setup, localities develop direct economic and cultural relationships to the global system through information technologies, bypassing and subverting traditional power hierarchies like national governments and markets.	Liberalization also often involves reductions in taxes, social security, and unemployment benefits.
Access to New Culture Lower Costs for Products Access to New Talent	Inward Investments Increased competition will lead to a rise in quality goods for the consumer
There are chances of developing nations will be open to exploitation by advanced economies Adverse effects on local economies Cultural Homogenization	Loss of domestic units due to the inflow of foreign goods Unbalanced economic development Increased dependency on foreign assistance

➡ PROTECTIONISM

- Protectionism refers to government policies that restrict international trade to help domestic industries and encourage domestic investment in a specific industry.
- Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.

VARIOUS PROTECTIONIST MEASURES INCLUDE:

Tariffs	A tariff is a **tax imposed by one country** on the goods and services imported from another country. Tariffs **increase the price of imported goods** in the domestic market, which, consequently, reduces the demand for them.
Quotas	**Quotas are restrictions on the volume of imports** for a particular good or service over a period of time. Quotas are known as a **"non-tariff trade barrier."** A constraint on the supply causes an increase in the prices of imported goods, reducing the demand in the domestic market.
Subsidies	Subsidies are **negative taxes or tax credits** that are given to domestic producers by the government. They create a discrepancy between the price faced by consumers and the

	price faced by producers.
Standardisation	The government of a country may require **all foreign products to adhere to certain guidelines.** Standardisation measures tend to reduce foreign products in the market.
Anti-dumping duties	These are **typically levied when a foreign company is selling an item significantly below the price** at which it is being produced. The intention of anti-dumping duties is to save domestic jobs, however, these tariffs can also lead to higher prices for domestic consumers.

ADVANTAGES OF PROTECTIONISM:

- **More growth opportunities**: Protectionism provides local industries with growth opportunities until they can compete against more experienced firms in the international market
- **Lower imports:** Protectionist policies help reduce import levels and allow the country to increase its trade balance.
- **More jobs:** Higher employment rates result when domestic firms boost their workforce
- **Higher GDP:** Protectionist policies tend to boost the economy's GDP due to a rise in domestic production

DISADVANTAGES OF PROTECTIONISM

- **Stagnation of technological advancements:** As domestic producers don't need to worry about foreign competition, they have no incentive to innovate or spend resources on research and development (R&D) of new products.
- **Limited choices for consumers:** Consumers have access to fewer goods in the market as a result of limitations on foreign goods.
- **Increase in prices (due to lack of competition):** Consumers will need to pay more without seeing any significant improvement in the product.
- **Economic isolation:** It often leads to political and cultural isolation, which, in turn, leads to even more economic isolation.

➡ ALGORITHMIC TRADING

- An algorithm is a specific **set of clearly defined instructions aimed to carry out a task or process**. And there are instances when a human trader isn't able to handle enormous numbers of trading, and that's when you need intervention of an **intelligent algorithm**.
- Algorithms have gained **popularity in the online trading landscape** and many big clients demand it.
- These **mathematical algorithms analyse every quote and trade in the stock market**, identify liquidity opportunities, and turn the information into intelligent trading decisions. Algorithmic trading, or computer-directed trading, cuts down transaction costs, and allows investment managers to take control of their own trading processes.
- Algorithm innovation continues to offer returns for firms with the scale to absorb the costs and to reap the benefits.

- In short, Algorithmic **trading (automated trading, black-box trading, or simply algo-trading)** is the process of using computers programmed to follow a defined set of instructions for placing a trade in order to generate profits at a speed and frequency that is impossible for a human trader.
- Any strategy for algorithmic trading requires an identified opportunity, which is profitable in terms of improved earnings or cost reduction. The algorithmic trading strategies follow defined sets of rules, and are based on timing, price, quantity or any mathematical model. Apart from profit opportunities for the trader, algorithmic-trading makes markets more liquid and makes trading more systematic by ruling out emotional human impacts on trading activities.

ALGORITHMIC-TRADING HAS MANY BENEFITS.

1. Trades are executed at the best possible prices
2. Instant and accurate trade order placement
3. Trades timed correctly and instantly. This avoids significant price changes
4. Reduced transaction costs due to lack of human intervention
5. Simultaneous automated checks on multiple market conditions
6. Reduced risk of manual errors in placing the trades
7. Reduced possibility of mistakes by human traders based on emotional and psychological factors
8. The greatest portion of present day algorithmic-trading is high frequency trading (HFT). This trading method attempts to capitalize on placing a large number of orders at very fast speeds, across multiple markets, and multiple decision parameters, based on per-programmed instructions.

ALGORITHMIC-TRADING CAN BE APPLIED IN MANY FORMS OF TRADING AND INVESTMENT ACTIVITIES:

- **Mid to long term investors or buy side firms** (pension funds, mutual funds, insurance companies) who purchase stocks in large quantities but do not want to influence stocks prices with discrete, large-volume investments.
- **Short term traders and sell side participants** (market makers, speculators, and arbitrageurs)benefit from automated trade execution; in addition, algorithmic-trading aids in creating sufficient liquidity for sellers in the market.
- **Systematic traders** (trend followers, pairs traders, hedge funds, etc.) find it much more efficient to program their trading rules and let the program trade automatically.

➡ REGRESSION THEOREM

- The regression theorem refers to a **theory of the origin of money**.
- It states that money must have originated as a **commodity with intrinsic value in the marketplace**.
- The idea was first proposed by Austrian economist **Carl Menger** in his 1892 work "On the Origins of Money."

- This theory is offered as an alternative to the **state theory of money which states that money (fiat money) can come into existence only when it is backed by the government.**

EVOLUTION OF MONEY

- The regression theory argues that **money comes into existence through a gradual process of evolution in the marketplace**, without the need for any government sanction.
- Economists who try to explain the regression theory generally start with the question of why money, particularly fiat money which is simply just a piece of paper, has any value at all in the marketplace.
- The most common answer to this question is that fiat money can be used to buy other useful goods such as houses, cars etc.
- But this answer is insufficient —it tries to tackle the question of why fiat money can buy other useful goods by simply saying that it can buy other useful goods.
- In real life, people accept money in exchange for goods in the present because they are aware that money was accepted as a medium in exchange for other goods in the past.
- For example, people accept wages in the US dollar today because they are aware that the dollar was used to buy cars, groceries and other goods in the market yesterday.
- This gives them confidence in the value of their money.

Q. What made people accept money in exchange for other useful goods in the past?

Ans. Intrinsic Value

- Economists who advocate the regression theory of money argue that money must have originated as a useful commodity like gold or silver or the barter system.
- This is the only way, they argue, it could have possibly been accepted by people in exchange for other useful goods at some point in the past.
- If a thing did not possess any intrinsic value, it is unlikely that people in the marketplace would have accepted it in exchange for other goods and services.
- So, commodities like gold and silver must have been traded in exchange for other goods and services at some point in history purely because they offered some kind of personal utility to people.
- For example, these precious metals could have been used to make ornaments, to fill teeth, etc., which gives them intrinsic value.
- They maintain value over time because their supply cannot be easily ramped up as mining gold involves significant production costs.

➡ RBI's RETAIL DIRECT

Retail Direct Scheme is a one-stop solution to facilitate investment in Government Securities by individual investors. Under this scheme individual retail investors can open a Gilt Securities Account – "Retail Direct Gilt (RDG)" account with RBI. Using this account, retail investors can buy and sell government securities through the online portal – https://rbiretaildirect.org.in

BENEFITS

- **G-sec are risk free:** G-sec in the domestic market context are risk free and carry no credit risk.
- **G-sec offer decent yields for longer duration**. G-sec yield curve extends up to 40 years. With Government issuing securities at different points on the yield curve, G-sec offer an attractive option for savers who need low risk investment options for longer durations.
- **G-sec offer prospect of capital gains**: As there is an inverse relationship between bond price and interest rate, there is a prospect of capital gains when the interest rates moderate. One, however, must be conscious of market risks that could result in losses in case the interest rate cycle reverses.
- **G-sec have reasonable liquidity**: G-sec have reasonable liquidity and can be transacted on NDS-OM. With the introduction of Retail Direct Portal, retail investors can now participate easily in primary and secondary market.
- **G-sec help to diversify portfolio**: Investments in government securities would help in portfolio diversification and consequently reduce risk for retail investors.
- **Zero charges under Retail Direct Scheme:** Retail Direct Account is completely free of charge and does not involve any intermediary. It would reduce overall transaction charges for individual investors in terms of the charges which they are otherwise required to pay for investing through aggregators or taking indirect exposure through mutual funds.

WHAT IS A GOVERNMENT SECURITY (G-SEC)?

- A Government Security (G-Sec) is a **tradeable instrument issued by the Central Government** or the State Governments. It **acknowledges the Government's debt obligation**.
- Such securities are **short term** (usually called treasury bills, with original maturities of less than one year) or **long term** (usually called Government bonds or dated securities with original maturity of one year or more).
- In India, the **Central Government issues both, treasury bills and bonds or dated securities** while the **State Governments issue only bonds or dated securities**, which are called the State Development Loans (SDLs).
- G-Secs carry practically no risk of default and, hence, are called **risk-free gilt-edged** instruments.

Treasury Bills (T-bills)

- Treasury bills or T-bills, which are money market instruments, are **short term debt instruments** issued by the Government of India and are presently issued in three tenors, namely, **91 day, 182 day and 364 day**.
- Treasury bills are **zero coupon securities** and **pay no interest**. Instead, they are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100/-.
- The return to the investors is the difference between the maturity value or the face value (that is ₹100) and the issue price.

Cash Management Bills (CMBs)

- In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government of India.

- The CMBs have the **generic character of T-bills but are issued for maturities less than 91 days**.

Dated G-Secs

- Dated G-Secs are securities which carry a **fixed or floating coupon** (interest rate) which is paid on the face value, on half-yearly basis.
- Generally, the tenor of dated securities ranges from 5 years to 40 years.

Advantages of G-Secs

- Besides providing a return in the form of coupons (interest), G-Secs offer the maximum safety as they carry the Sovereign's commitment for payment of interest and repayment of principal.
- They can be held in book entry, i.e., **dematerialized/ scripless form**, thus, obviating the need for safekeeping. They can also be held in physical form.
- G-Secs are available in a **wide range of maturities** from 91 days to as long as 40 years to suit the duration of varied liability structure of various institutions.
- G-Secs **can be sold easily in the secondary market** to meet cash requirements.
- G-Secs **can also be used as collateral** to borrow funds in the repo market.
- Securities such as **State Development Loans (SDLs) and Special Securities (Oil bonds, UDAY bonds etc) provide attractive yields.**
- The settlement system for trading in G-Secs, which is based on **Delivery versus Payment (DvP),** is a very simple, safe and efficient system of settlement. The DvP mechanism ensures transfer of securities by the seller of securities simultaneously with transfer of funds from the buyer of the securities, thereby mitigating the settlement risk.
- G-Sec prices are readily available due to a liquid and active secondary market and a transparent price dissemination mechanism.
- Besides banks, insurance companies and other large investors, smaller investors like Co-operative banks, Regional Rural Banks, Provident Funds are also required to statutory hold G-Secs.

➡ DEBT-TO-GDP RATIO

- The debt-to-GDP ratio **compares a country's sovereign debt to its total economic output for the year.** Its output is measured by gross domestic product (GDP).
- Learn how to calculate this figure and what it can tell you about a country's financial footing.

Debt-to-GDP Ratio = Debt ÷ Gross Domestic Product

WHAT IS THE DEBT-TO-GDP RATIO?

- The debt-to-GDP ratio is a simple way of comparing a nation's economic output (as measured by gross domestic output) to its debt levels.
- In other words, this ratio tells analysts how much money the country earns every year and how that compares to the money that country owes. The debt is expressed as a percentage of GDP.
- The formula for debt-to-GDP is simple: **you divide a nation's debt by its GDP.**

HOW DOES THE DEBT-TO-GDP RATIO WORK?

- The debt-to-GDP ratio indicates how **strong a country's economy is and the likelihood of paying off its debt.** It's used to compare debt between countries and determine whether a country is headed for economic turmoil.
- The **debt-to-GDP ratio is a useful tool for investors, leaders, and economists**. It allows them to gauge a country's ability to pay off its debt. A high ratio means a country isn't producing enough to pay off its debt.
- A **low ratio means there is plenty of economic output to make the payments**.

- If a country were a household, GDP is like its income. Banks will give you a bigger loan if you make more money. In the same way, investors will be happy to take on a country's debt if it has a relatively higher level of economic output. Once investors begin to worry about repayment, they will perceive a higher risk of default, which means they will demand a higher interest rate for their investment. That increases the country's cost of debt. When the cost of debt gets out of hand, it can quickly become a debt crisis.

➡ URBAN COOPERATIVE BANKS

- The term Urban Co-operative Banks (UCBs) refers to primary cooperative banks **located in urban and semi-urban areas.**
- These banks, **till 1996**, were allowed to **lend money only for non-agricultural purposes**. This **distinction does not hold today**.
- These banks were traditionally centred around communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.
- Cooperative societies are based on the **principles of cooperation**, - **mutual help, democratic decision making and open membership**. Cooperatives represented a new and alternative approach to organisation as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organisation.
- The first study of **Urban Co-operative Banks was taken up by RBI in the year 1958-59**. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban cooperative banks in new centers and suggested that State Governments lend active support to their development.
- In 1963, **Varde Committee recommended that such banks should be organised at all Urban Centres with a population of 1 lakh or more** and not by any single community or caste. The committee **introduced the concept of minimum capital requirement** and the criteria of population for defining the urban centre where UCBs were incorporated.

PROBLEM- DUALITY OF CONTROL

- However, concerns regarding the professionalism of urban cooperative banks gave rise to the view that they should be better regulated.
- Large cooperative banks with **paid-up share capital and reserves of Rs.1 lakh were brought under the purview of the Banking Regulation Act 1949** with effect from 1st March, 1966 and within the ambit of the Reserve Bank's supervision.

- This marked the **beginning of an era of duality of control over these banks**. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCBS were extended the benefits of Deposit Insurance.
- Towards the late 1960s there was much debate regarding the promotion of the small scale industries. UCBs came to be seen as important players in this context. The **Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group)** attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the Banking Commission (1969).
- The **Madhavdas Committee (1979)** evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards.
- The **Hate Working Group (1981)** desired better utilisation of banks' surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner.
- While the **Marathe Committee (1992)** redefined the viability norms and ushered in the era of liberalization, the **Madhava Rao Committee (1999)** focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.
- A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorised Dealers in Foreign Exchange
- Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavours are geared to consolidating and strengthening this sector and improving governance.

➡ FUTURE TRADING

- In order to understand futures trading, you should know what **derivatives trading** is. Derivatives are financial contracts that derive their value from the price movement of another financial item. The price of a derivative tracks the price of another (i.e. underlying) from which it gets its value.

KEY POINTS

- **Derivatives are financial contracts** that derive **their value from the price movement of another financial item.**
- Futures are **primarily used for hedging commodity price-fluctuation risks** or for taking advantage of price movements.

- When such a contract is initiated, the investor need not pay the full amount for a contract, only a small upfront payment is required.
- Futures contract is one such financial instrument **wherein a contract or agreement is formed between a buyer (the one with the long position) and seller (the one with the short position)** and the buyer agrees to purchase a derivative or index at a specified time in the future for a fixed price.
- As time passes, the **contract's price changes relative to the fixed price** at which the trade was done and **this creates profit or loss for the trader**.

- Every contract is **monitored by the stock exchanges** who settle this trade and stock exchanges.

HOW DO YOU TRADE A FUTURES CONTRACT?

- Futures are primarily used for **hedging commodity price-fluctuation risks or for taking advantage of price movements rather than buying or selling of the actual cash commodity which is done with a stock.**
- Futures contracts are available on four different assets - Stocks, Indices, Currency pairs and Commodities.
- There are two primary participants in futures trading - the **Hedgers and Speculators**. Hedgers use futures for protection against irrational or rapid future price movements in the underlying cash commodity.
- Hedgers are usually businesses, or individuals, who at one point or another deal in the underlying cash commodity.
- Speculators are the **second major group of futures players**. These participants include independent floor traders and investors. Independent floor traders, also called "locals", trade for their own accounts. Floor brokers handle trades for their personal clients or brokerage firms.

HOW FUTURES TRADING DIFFERS FROM OTHER FINANCIAL INSTRUMENTS

- **Firstly, the value of futures depends on that of another derivative**, so it has no inherent value in itself. The contract lasts only for a particular time period and has an expiration date, unlike other financial instruments.
- When you buy a stock, it represents equity in a company and can be held for a long time, whereas futures contracts have a fixed time period. This is why the market direction and timing are vital while considering futures trading. Perhaps the most important difference between futures trading and other financial instruments would be in the use of leverage.

IN-SHORT

- Futures trading is a **contract between a buyer looking to invest and a seller and where the contract is made for the future and has an expiration date**.
- There are two participants- **Hedgers and Speculators**. Hedgers protect their assets from risks and speculators are usually floor traders.
- **Futures trading have no inherent value** and are compared with the value of other underlying assets.
- One important aspect is **leverage.** The buyer only pays a small margin value at the time of initiating the contract.

- It is possible to trade commodities online with prior preparations.

➡ METROLOGY ACT

LEGAL METROLOGY ACT, 2009

- Metrology" can be defined as a **tool for measurement**.
- Legal metrology is that branch of law that deals with **units of weights and measures in trade and commerce and goods sold or distributed by weight, measures, or numbers**.
- It monitors the accuracy of weights and measurements and ensures its compliance with the Act and other technological standards.
- The Act was introduced to replace the **Standard of Weights and Measures Act, 1976,** and the Standards of Weights and Measures (Enforcement) Act, 1985. The provisions of the Act came into force on April 1, 2011.
- The Act was enacted to set standards of weights and measures in trade and commerce and to guarantee the public the security and legality in the goods or services of a proprietor.

SALIENT FEATURE OF THE ACT

- The Act specifies the metric system as the units of weights and measures which must be in accordance with the international system of units.
- According to Section 5 of the Act the base unit of weights and measures are as follows:
  - for length- meter,
  - for mass-kilogram,
  - for time – second,
  - for electric current – ampere,
  - for thermodynamic temperature- Levin,
  - for luminous intensity -Candela,
  - for the amount of substance – mole.
- The base units for numeration are defined as **the international form of Indian numerals**, numeration shall be made in accordance with the decimal system, as specified under Section 6.
- Any custom, usage, practice, or method apart from the manner prescribed in the Act which is contrary to the Act shall be void.
- The Act empowered the Union Government to form rules as and when required.
- The Act provides the Union Government power to appoint a **Director of Legal Metrology** to perform duties related to inter-state trade and commerce, and the Act also provides that the State Government shall appoint a Controller of Legal Metrology to perform duties related to intra-state trade and commerce.
- A person dealing in manufacturing or importing shall **get the approval of the model of weight and/or measure** before manufacturing or importing from the competent authority.
- An importer needs to get themselves registered with the concerned Director.

- All the manufacturer, repairer, and seller need to obtain a license from their respective Controller.
- The Act also allows test centers to verify weights and measures approved by the Government.
- Any non-standard weights and measures shall not be imported.

➡ PM-GATI SHAKTI

- PM Gati Shakti will incorporate the infrastructure schemes of various Ministries and State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. Economic Zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agri zones will be covered to improve connectivity & make Indian businesses more competitive.
- It will also leverage technology extensively including spatial planning tools with ISRO (Indian Space Research Organisation) imagery developed by BiSAG-N (Bhaskaracharya National Institute for Space Applications and Geoinformatics).

6 PILLARS OF PM GATI SHAKTI

- **Comprehensiveness**: It will include all the existing and planned initiatives of various Ministries and Departments with one centralized portal. Each and every Department will now have visibility of each other's activities providing critical data while planning & execution of projects in a comprehensive manner.
- **Prioritization**: Through this, different Departments will be able to prioritize their projects through cross-sectoral interactions.
- **Optimization**: The National Master Plan will assist different ministries in planning for projects after identification of critical gaps. For the transportation of the goods from one place to another, the plan will help in selecting the most optimum route in terms of time and cost.
- **Synchronization:** Individual Ministries and Departments often work in silos. There is lack of coordination in planning and implementation of the project resulting in delays. PM Gati Shakti will help in synchronizing the activities of each department, as well as of different layers of governance, in a holistic manner by ensuring coordination of work between them.
- **Analytical**: The plan will provide the entire data at one place with GIS based spatial planning and analytical tools having 200+ layers, enabling better visibility to the executing agency.
- **Dynamic:** All Ministries and Departments will now be able to visualize, review and monitor the progress of cross-sectoral projects, through the GIS platform, as the satellite imagery will give on-ground progress periodically and progress of the projects will be updated on a regular basis on the portal. It will help in identifying the vital interventions for enhancing and updating the master plan.

➡ NATIONAL ASSET RECONSTRUCTION COMPANY LIMITED (NARCL)

WHAT IS A BAD BANK? WHY WAS IT NEEDED?

- In every country, commercial banks accept deposits and extend loans. The **deposits are a bank's "liability"** because that is the money it has taken from a common man, and it will have to return that money when the depositor asks for it. Moreover, in the interim, it has to pay the depositor an interest rate on those deposits.

- In contrast, the **loans that banks give out are their "assets" because this is where the banks earn interest** and this is money that the borrower has to return to the bank.
- The whole business model is premised on the idea that a bank will earn more money from extending loans to borrowers than what it would have to pay back to the depositors.
- Imagine, then, a scenario where a bank finds a huge loan not being repaid because, say, the firm that took the loan has failed in its business and is not a position to pay back either the interest or the principal amount.
- Every bank can take a few such knocks. But what if such "bad loans" (or the loans that will not be paid back) rise alarmingly? In such a case, the bank could sink.
- Now imagine a scenario where several banks in an economy face high levels of bad loans and all at the same time. That will threaten the stability of the whole economy.
- In normal functioning, as the proportion of bad loans — they are typically calculated as a percentage of the total advances (loans) — rise, two things happen.
  - **One,** the concerned bank becomes less profitable because it has to use some of its profits from other loans to make up for the loss on the bad loans.
  - **Two,** it becomes more risk-averse. In other words, its officials hesitate from extending loans to business ventures that may remotely appear risky for the fear of aggravating an already high level of non-performing assets (or NPAs).
- From the taxpayer's perspective, the most worrisome fact was that an overwhelming proportion of NPAs was with the public sector banks, which were owned by the government and hence by the Indian public.
- To keep such PSBs in business, the government was forced to recapitalise them — that is, use taxpayers' money to improve the financial health of PSBs so that they could carry on with the business of lending and funding economic activity.
- But with each passing year, NPAs continued to mount — not helped by the fact that the economy itself started to lose its growth momentum since the start of 2017.
- It was argued by many that the government needs to create a bad bank — that is, an entity where all the bad loans from all the banks can be parked — thus, relieving the commercial banks of their "stressed assets" and allowing them to focus on resuming normal banking operations, especially lending.
- While commercial banks resume lending, the so-called bad bank, or a bank of bad loans, would try to sell these "assets" in the market.

HOW WILL THE NARCL-IDRCL WORK?

- The NARCL will first purchase bad loans from banks. It will pay 15% of the agreed price in cash and the remaining 85% will be in the form of "Security Receipts". When the assets are sold, with the help of IDRCL, , the commercial banks will be paid back the rest.
- If the bad bank is unable to sell the bad loan, or has to sell it at a loss, then the government guarantee will be invoked and the

TABLE 1

SSET MANAGEMENT COMPANIES IN VARIOUS COUNTRIES

MC	RTC	Danaharta	NAMA	AMCON
ountry	US	Malaysia	Ireland	Nigeria
ate established	1989	1998	2009	2010
wnership	State	State	51% private, 49% state	State
fficial mandate	Resolve thrifts	Purchase, manage, and dispose of NPLs; receiver of two failed banks	Purchase, manage and dispose of NPLs	Purchase, manage and dispose of NPLs, recapitalise failed banks, and invest in equities
ife span	7 years	7 years	Anticipated to be 15 years	None specified
ecovery rate face value)	87% (on assets only)	58%	~33% (end 2014)	N/A

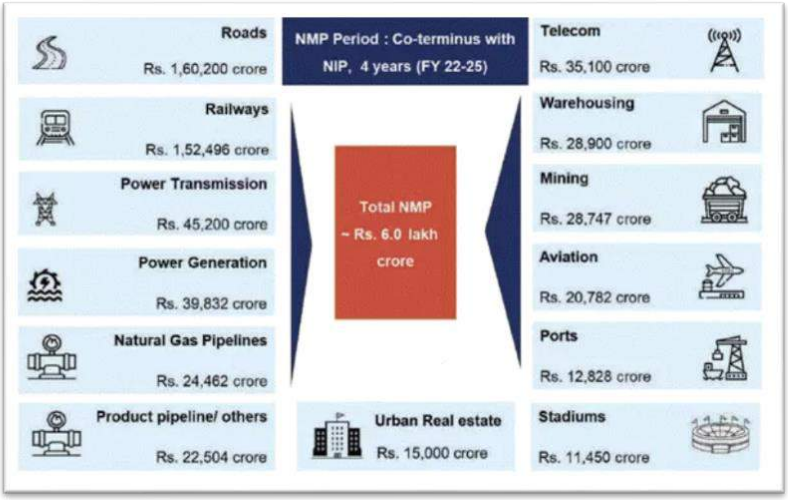
Source: Kotak Institutional Equities Research difference between what the commercial bank was supposed to get and what the bad bank was able to raise will be paid from the Rs 30,600 crore that has been provided by the government.

Will a bad bank resolve matters?

- **From the perspective of a commercial bank saddled with high NPA levels, it will help**. That's because such a bank will get rid of all its toxic assets, which were eating up its profits, in one quick move. When the recovery money is paid back, it will further improve the bank's position. Meanwhile, it can start lending again.
- **From the perspective of the government and the taxpayer, the situation is a little more muddled**. After all, whether it is recapitalising PSBs laden with bad loans or giving guarantees for security receipts, the money is coming from the taxpayers' pocket. While recapitalisation and such guarantees are often designated as "reforms", they are band aids at best. The only sustainable solution is to improve the lending operation in PSBs.
- **Lastly, the plan of bailing out commercial banks will collapse if the bad bank is unable to sell such impaired assets** in the market. If that happens, guess who will have to bail out the bad bank itself? Indeed, the taxpayer.

➡ NATIONAL MONETISATION PIPELINE

WHAT IS MONETISATION?



- In a monetisation transaction, the government is **basically transferring revenue rights to private parties** for a specified transaction period in return for upfront money, a revenue share, and commitment of investments in the assets.
- **Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs),** for instance, are the key structures used to monetise assets in the roads and power sectors.
- These are also listed on stock exchanges, providing investors liquidity through secondary markets as well.
- While these are a structured financing vehicle, **other monetisation models on PPP (Public Private Partnership) basis include:** Operate Maintain Transfer (OMT), Toll Operate Transfer (TOT), and Operations, Maintenance & Development (OMD). OMT and TOT have been used in highways sector while OMD is being deployed in case of airports.

WHAT IS THE GOVERNMENT'S PLAN?

- Roads, railways and power sector assets will comprise over 66% of the total estimated value of the assets to be monetised, with the remaining upcoming sectors including telecom, mining, aviation, ports, natural gas and petroleum product pipelines, warehouses and stadiums.

- In terms of annual phasing by value, 15% of assets with an indicative value of Rs 0.88 lakh crore are envisaged for rollout in the current financial year.
- The NMP will run co-terminus with the National Infrastructure Pipeline of Rs 100 lakh crore announced in December 2019. The estimated amount to be raised through monetisation is around 14% of the proposed outlay for the Centre of Rs 43 lakh crore under NIP.

WHAT IS THE LIST OF ASSETS?

The assets on the NMP list include:

- 26,700 km of roads, railway stations, train operations and tracks,
- 2,8608 Ckt km worth of power transmission lines,
- 6 GW of hydroelectric and solar power assets,
- 2.86 lakh km of fibre assets and 14,917 towers in the telecom sector,
- 8,154 km of natural gas pipelines and 3,930 km of petroleum product pipelines.
- In the roads sector, the government has already monetised 1,400 km of national highways worth Rs 17,000 crore. Another five assets have been monetised through a PowerGrid InvIT raising Rs 7,700 crore.
- Also, 15 railway stations, 25 airports and the stake of central government in existing airports and 160 coal mining projects, 31 projects in 9 major ports, 210 lakh MT of warehousing assets, 2 national stadia and 2 regional centres, will be up for monetisation. Redevelopment of various government colonies and hospitality assets including ITDC hotels is expected to generate Rs 15,000 crore.

WHAT ARE THE CHALLENGES?

- Among the key challenges that may affect the NMP roadmap are: lack of identifiable revenues streams in various assets, level of capacity utilisation in gas and petroleum pipeline networks, dispute resolution mechanism, regulated tariffs in power sector assets, and low interest among investors in national highways below four lanes.
- While the government has tried to address these challenges in the NMP framework, execution of the plan remains key to its success.
- Structuring of monetisation transactions is being seen as key.
- The slow pace of privatisation in government companies and less-than-encouraging bids in the recently launched PPP initiative in trains, indicate that attracting private investors interest is not that easy.
- The MNP framework notes that other key impediments to the monetisation process are asset-specific challenges such as presence of an identifiable revenue stream. This is specifically relevant to the railway sector, which has seen limited PPP success as a mode of project delivery.
- Konkan Railway, for instance, has multiple stakeholders, including state governments, which own stake in the entity. Creating an effective monetisation transaction structure could be a bit challenging in this case.

➡ SOVEREIGN RIGHT TO TAX

SOVEREIGN RIGHT TO TAXATION IN INDIA

- In India, the Constitution gives the government the right to levy taxes on individuals and organisations, but makes it clear that no one has the right to levy or charge taxes except by the authority of law.
- **Any tax being charged has to be backed by a law passed by the legislature or Parliament.**
- A document on the Ministry of Statistics and Programme Implementation website quotes the **definition of tax** as a "pecuniary burden laid upon individuals or property owners to support the government, a payment exacted by legislative authority", and that a tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority".
- Taxes in India come under a three-tier system based on the **Central, State and local governments**, and the **Seventh Schedule of the Constitution puts separate heads of taxation under the Union and State list.**
- There is no separate head under the Concurrent list, meaning Union and the States have no concurrent power of taxation, as per the document.

➡ e-RUPI

- e-RUPI is basically a **digital voucher which a beneficiary gets on his phone in the form of an SMS or QR code**. It is a **pre-paid voucher**, which he/she can go and redeem it at any centre that accepts its.
- For example, if the Government wants to cover a particular treatment of an employee in a specified hospital, it can issue an e-RUPI voucher for the determined amount through a partner bank. The employee will receive an SMS or a QR Code on his feature phone / smart phone. He/she can go to the specified hospital, avail of the services and pay through the e-RUPI voucher received on his phone.
- Thus e-RUPI is a **one-time contactless, cashless voucher-based mode of payment that helps users redeem the voucher without a card, digital payments app, or internet banking access.**
- e-RUPI should not be confused with Digital Currency which the Reserve Bank of India is contemplating. **Instead e-RUPI is a person specific, even purpose specific digital voucher.**

HOW IS E-RUPI ADVANTAGEOUS TO THE CONSUMER ?

- e-RUPI **does not require the beneficiary to have a bank account**, a major distinguishing feature as compared to other digital payment forms. It ensures an easy, contactless two-step redemption process that does not require sharing of personal details either.
- Another advantage is that e-RUPI is **operable on basic phones also**, and hence it can be used by persons who do not own smart-phones or in places that lack internet connection.

- e-RUPI is expected to play a major role in strengthening Direct-Benefit Transfer and making it more transparent. Since, there is no need for physical issuance of vouchers, it will also lead to some cost savings as well.
- Being a prepaid voucher, e-RUPI would assure real time payments to the service provider.

WHO HAS DEVELOPED THE E-RUPI ?

- The National Payments Corporation of India (NPCI), which oversees the digital payments ecosystem in India, has launched e-RUPI, a voucher-based payments system to promote cashless transactions.
- It has been developed in collaboration with the **Department of Financial Services, Ministry of Health & Family Welfare and National Health Authority**.

WHICH BANKS ISSUE E-RUPI ?

- NPCI has partnered with 11 banks for e-RUPI transactions. They are Axis Bank, Bank of Baroda, Canara Bank, HDFC Bank, ICICI Bank, Indian Bank, IndusInd Bank, Kotak Mahindra Bank, Punjab National Bank, State Bank of India and Union Bank of India.
- The acquiring Apps are Bharat Pe, BHIM Baroda Merchant Pay, Pine Labs, PNB Merchant Pay and YoNo SBI Merchant Pay.
- More banks and acquiring Apps are expected to join the e-RUPI initiative soon.

To begin with NPCI has tied up with more than 1,600 hospitals where e-RUPI can be redeemed. Experts say, in the days to come the user base of e-RUPI is expected to widen, with even private sector using it to deliver employee benefits and MSMEs adopting it for Business To Business (B2B) transactions.

➡ VEHICLE SCRAPPAGE POLICY

- The GoI has launched policy on phasing out old and defective vehicles. This is being done **in order to achieve goals like reducing air pollution, fulfilling India's climate commitments, improving road and vehicular safety, better fuel efficiency and increasing the availability of low-cost raw materials** for the auto, steel and electronics industry.
- Under its **Voluntary Vehicle-Fleet Modernisation programme (VVMP),** the government plans to set up between 450-500 automated vehicle fitness testing stations across India on a public-private partnership (PPP) basis involving private firms and state governments.
- A total of 60-70 vehicle scrapping centres will also be built. A total of seven agencies – including Tata Motors – have signed a Memorandum of Understanding (MoU) with the government today for this project.
- **Tata Motors' vehicle scrapping centre** will be set up in Gujarat, will scrap both passenger and commercial vehicles and will have the capacity to recycle up to 36,000 vehicles a year.
- The scrappage policy **leaves the choice of scrapping to the owner of the vehicle**.
- Private vehicles – which are over 20 years old – will have to undergo fitness tests, at an estimated cost of Rs 300-400 per test. Vehicles **that pass the automated tests will be subjected to a 'green tax'**, which will see owners shell out an additional 10 percent to 25 percent of road tax at the time of the renewal of the vehicle's fitness certificate, along with re-

registration fees. However, those who choose to drive a vehicle that has failed the automated test will face substantial penalties, and such vehicles could also be impounded.

WHEN WILL THE VEHICLE SCRAPPAGE POLICY COME INTO EFFECT?

- The implementation of the vehicle scrappage policy in India is still some time away. Initially, it will be heavy commercial vehicles that will need to undergo fitness tests starting 1 April, 2023, while fitness tests will be made mandatory for all other types of vehicles from 1 June, 2024, in a phased manner.

What are the benefits for a vehicle owner to scrap their vehicle?

- Once the vehicle has been scrapped, the owner will receive anywhere between four to six percent of their old vehicle's ex-showroom price, and a scrappage certificate, which will make the individual eligible for a road tax rebate of 25 percent, a registration fee waiver and a discount of five percent of a new vehicle's ex-showroom cost, offered by the vehicle manufacturer. This will essentially make a new vehicle cheaper for someone who has scrapped their old vehicle, with potential discounts in the range of Rs 30,000 (for a car costing Rs 6 lakh) to Rs 50,000 (for a car costing Rs 10 lakh).
- Over a period of time, the government estimates scrapping an old vehicle and replacing it with a new one will bring substantial monetary benefits for motorists, in addition to reducing emissions and enhancing fuel efficiency.

WHAT ARE THE OTHER POSITIVES OF THE VEHICLE SCRAPPAGE POLICY?

- The National Automobile Scrappage Policy will attract investment of over Rs 10,000 crore, and generate 50,000 jobs in the country. The proper recycling of raw materials obtained from the scrapping will help reduce import of materials such as aluminium, copper, steel and more. With the potential to recycle up to 99 percent of materials used in a vehicle, raw material costs are estimated to drop by as much as 40 percent. This will make components cheaper for vehicle manufacturers, and will also lead to increased GST revenues of Rs 30,000-40,000 crore for both state and central governments.
- Additionally, there's also a possibility to derive materials needed for local production of lithium-ion batteries (to be used in electric vehicles) from scrapping older vehicles, which could help drive the growth of the EV business.

➡ NMEO-OP

- India is the world's biggest vegetable oil importer
- The country does export agricultural commodities such as sugar and rice on the world market, but domestic oilseed production is nearly six times lower than rice and wheat.
- India produces **less than half of the roughly 2.4 crore tonnes of edible oil** that it consumes annually. It imports the rest, buying palm oil from Indonesia and Malaysia, soyoil from Brazil and Argentina, and sunflower oil, mainly from Russia and Ukraine.

In this regard, National Edible Oil Mission-Oil Palm (NMEO-OP) to boost domestic oilseed production and make the country self-sufficient in cooking oils is launched. ₹11,000 crore will be invested in the edible oil ecosystem.

- The scheme will immensely benefit the oil palm farmers, increase capital investment, create employment generation, shall reduce the import dependence and also increase the income of the farmers.
- Since 1991-92, many efforts have been made by the Government of India to increase the production of oilseeds and oil palm. The oilseeds production has increased from 275 lakh tons in 2014-15 to 365.65 lakh tons in 2020-21. For harnessing the potential of palm oil production, in the year 2020, an assessment has been made by the **Indian institute of Oil Palm Research (IIOPR)** for cultivation of oil palm which has given an assessment of around 28 lakh ha. Thus, there is huge potential in oil palm plantation and subsequently production of **Crude Palm Oil (CPO).** At present only 3.70 lakh hectares is under Oil Palm cultivation. Oil palm produces 10 to 46 times more oil per hectare compared to other oilseed crops and has yield of around 4 tons oil per ha. Thus, it has enormous potential for cultivation.
- Keeping the above in view, and also the fact that even today around 98% of CPO is being imported, it is proposed to launch the Scheme to further increase the area and production of CPO in the country.
- The proposed scheme will subsume the **current National Food Security Mission-Oil Palm programme**.
- There are two major focus areas of the Scheme. The oil palm farmers produce **Fresh Fruit Bunches (FFBs)** from which oil is extracted by the industry. Presently the prices of these FFBs are linked to the international CPO prices fluctuations.
- For the first time, the **Government of India will give a price assurance to the oil palm farmers for the FFBs**. This will be known as the **Viability Price (VP).** This will protect the farmers from the fluctuations of the international CPO prices and protect him from the volatility. This VP shall be the annual average CPO price of the last 5 years adjusted with the wholesale price index to be multiplied by 14.3 %. This will be fixed yearly for the oil palm year from 1st November to 31st October. This assurance will inculcate confidence in the Indian oil palm farmers to go for increased area and thereby more production of palm oil.
- **A Formula price (FP) will also be fixed** which will be 14.3% of CPO and will be fixed on a monthly basis. The viability gap funding will be the VP-FP and if the need arises, it would be paid directly to the farmers accounts in the form of DBT.
- The assurance to the farmers will be in the form of the viability gap funding and the industry will be mandated to pay 14.3% of the CPO price which will eventually go up to 15.3%. There is a sunset clause for the scheme which is 1st November 2037. To give impetus to the North-East and Andaman, the Government will additional bear a cost of 2% of the CPO price to ensure that the farmers are paid at par with the rest of India. The states who adopt the mechanism proposed by the Government of India would benefit from the viability gap payment proposed in the scheme and for this they will enter into MoUs with the Central Government.
- The **second major focus of the scheme is to substantially increase the assistance of inputs/interventions**. A substantial increase has been made for planting material for oil palm and this has increased from Rs 12,000 per ha to Rs.29000 per ha. Further substantial increase has been made for maintenance and inter-cropping interventions. A special assistance @ Rs 250 per plant is being given to replant old gardens for rejuvenation of old gardens.

- To address the issue of shortage of planting material in the country, **seed gardens will be provided assistance** up to Rs.80 lakhs for 15 ha. in Rest of India and Rs.100 lakhs for 15 ha in North-East and Andaman regions.
- Further, assistance for seed gardens @ Rs.40 lakhs and Rs.50 lakhs for Rest of India and North-East & Andaman regions respectively. Further Special assistance will be provided for the North-East and the Andaman regions in which special provisions is being made for half-moon terrace cultivation, bio fencing and land clearance along with integrated farming.

➡ RoDTEP

- The government notified the rates and norms for the R**emission of Duties and Taxes on Exported Products (RoDTEP) scheme.**
- The RoDTEP scheme had kicked in from January 1, after the earlier Merchandise and Services Export Incentive Schemes (MEIS and SEIS) were scrapped as they were found to be impermissible under the World Trade Organisation norms.
- Export centric industries are being reformed and introduced to better mechanisms so as to increase their competitiveness, boost exports, generate employment and contribute to the overall economy. This will go a long way in achieving our vision of building an Aatmanirbhar Bharat.
- **Remission of Duties and Taxes on Exported Products (RoDTEP) is one such reform, based on the globally accepted principle that taxes and duties should not be exported, and taxes and levies borne on the exported products should be either exempted or remitted to exporters.**

SCHEME'S OBJECTIVE IS TO REFUND, CURRENTLY UN-REFUNDED:

- Duties/ taxes/ levies, at the Central, State & local level, borne on the exported product, including prior stage cumulative indirect taxes on goods & services used in production of the exported product, and
- Such indirect Duties/ taxes/ levies in respect of distribution of exported products.

- It may be noted that rebate under the Scheme shall not be available in respect of duties and taxes already exempted or remitted or credited.
- RoDTEP is going to give a boost to Indian exports by providing a **level playing field to domestic industry abroad**.
- RoDTEP support will be available to eligible exporters at a notified rate as a percentage of Freight On Board (FOB) value. Rebate on certain export products will also be subject to value cap per unit of the exported product.
- Scheme **is to be implemented by Customs through a simplified IT System**. Rebate will be issued in the form of a transferable duty credit/ electronic scrip (e-scrip) which will be maintained in an electronic ledger by the Central Board of Indirect Taxes & Customs (CBIC).
- Identified export sectors and rates under RoDTEP cover 8555 tariff lines in addition to similar support being extended to apparel and made-ups exports under RoSCTL scheme of Ministry of Textiles.
- Employment Oriented Sectors like Marine, Agriculture, Leather, Gems & Jewellery etc. are covered under the Scheme. Other sectors like Automobile, Plastics, Electrical / Electronics,

Machinery etc. also get support. The entire value chain of textiles also gets covered through RoDTEP & RoSCTL.

➡ OIL BONDS

Oil bonds were issued by the government to compensate oil marketing companies (OMCs) to offset losses that they suffer to shield consumers from rising crude oil prices. The government issued these bonds mainly during 2005 to 2010.

WHY WERE THESE BONDS ISSUED?

- These bonds were issued to OMCs in lieu of cash at a time when the central government used to administer or fix petrol and diesel prices. Petrol and diesel prices were fixed by the government to cushion consumers from price shocks of costly international crude oil.
- For instance, previously, if crude oil prices were high, oil refining and marketing companies would technically sell petrol and diesel at retail outlets at a loss. The government, however, compensated oil companies by issuing long-term bonds that they could redeem at a later date, typically ranging 15-20 years.
- High crude prices and the blowback from the recession of 2008 increased the fiduciary pressure on the government. By raising capital through bonds, these payments could be made in a deferred manner without causing a major escalation in prices, thus insulating customers.
- These bonds are, in essence, **promissory notes of deferred payment of subsidies** that the government owes to oil marketing companies. Since the government did not subsidise these companies upfront, these payouts did not show up in budget documents, until the repayment of the principal or interest components took place.
- These **'off-budget' items**, also sometimes described as under-recoveries of oil companies, therefore, did not show up in the fiscal deficit numbers disclosed during the annual budget. The fiscal deficit started factoring these only when the repayment of the principal and interest of these bonds started to take place, years after they were issued.
- Moreover, oil bonds do not qualify as statutory liquidity ratio (SLR) securities, making them less liquid when compared to other government securities.

WHAT ARE UNDER-RECOVERIES?

- Under recoveries are revenues foregone by state-run refiners **for selling fuel below cost**. This is what kept diesel and petrol prices artificially in check.
- Between 2005 and 2009, the government issued bonds worth Rs 1.4 lakh crore. This was done to **partially compensate OMCs for recoveries amounting to Rs 2.9 lakh crore**. Under-recoveries are the difference between the cost of purchasing crude oil in the international market and the price at which petroleum products are sold in the domestic market.
- In the aftermath of the recession, OMCs were facing large under-recoveries. This presented the government with the dilemma of ensuring the financial stability of state-owned OMCS, while taking into account political repercussions of allowing fuel prices to rise. Oil bonds were chosen as the vehicle to dampen the pressure on OMCs while keeping prices in check.

WHEN WERE OIL PRICES DEREGULATED?

- The first step towards deregulation was taken in 2010 with the announcement that oil bonds will be discontinued, and OMCs will be paid in cash.
- In June 2010, petrol prices were deregulated, mirroring the market price of crude.
- The government freed up diesel prices in October 2014. Initially, prices changed on a fortnightly basis, based on the average global crude prices.
- In June 2017, India adopted the system of dynamic fuel pricing where the retail price of petrol and diesel fluctuate on a daily basis.

WHAT ARE TOTAL OUTSTANDING PAYMENTS ON OIL BONDS?

- The government has so far paid Rs 70,195.72 crore as interest on oil bonds in the last seven years. Of the Rs 1.34 lakh crore worth of oil bonds, Rs 3,500 crore principal has been paid and the remaining Rs 1.3 lakh crore is due for repayment until 2025-26.
- The government has to repay Rs 10,000 crore in the current fiscal year, another Rs 31,150 crore in 2023-24, Rs 52,860 crore in 2024-25, and Rs 36,913 crore in 2025-26.
- On an accumulated basis this is still far less than what the government collects from central excise duties on petroleum products alone. For instance, in 2020-21 it collected Rs 3.71 lakh crore as central excise revenues from petroleum products, nearly three times of what it has to pay—Rs 1.34 lakh crore—over the next five years to square up the oil bonds.
- In effect, repayment of oil bonds issued by the previous government alone is not the only reason why retail fuel prices are high. High crude prices and taxes are key reasons.

HOW ARE PETROLEUM PRODUCTS TAXED?

- **Taxes and duties account for nearly 60 percent of the price** that the consumer pays at a petrol pump. The price of a litre of petrol includes: **Base Price, Freight, Price charged to dealers** (excluding Excise Duty and VAT), **Central Excise Duty (including road cess), Dealer Commission, VAT (including VAT on Dealer Commission).**
- Successive governments, both at the Centre and states, have used petroleum products as milch cows. In 2020-21, the Centre earned Rs 3.71 lakh crore from central excise duty on petroleum products, which is about 20 percent of the Centre's total gross tax revenues of Rs 19 lakh crore earned during the year.
- Likewise, states earn significant revenues from taxing petroleum products. In 2020-21, all states put together earned Rs 2.02 lakh crore from state VAT on petroleum products.
- The pattern is more or less similar across most states, illustrating how a disproportionately high amount of tax revenues are coming from just one set of products, both for the Centre and the states.

➡ DISINVESTMENT

- Disinvestment refers to the mechanism in which the Government loses a part of its ownership of the PSUs through the sale of shares.
- The Disinvestment as a policy was adopted by the Government post 1991 LPG Reforms.
- The Department of Investment and Public Asset Management under the Ministry of Finance acts as the nodal agency for the Disinvestment in India.

STRATEGIC DISINVESTMENT

- According to the Department, strategic sale of a company has two elements:
  - Transfer of a block of shares to a Strategic Partner; and
  - Transfer of management control to the Strategic Partner.
- The strategic sale takes place when more than 51% of shares go to the private sector strategic partner. At the same time, it is not necessary that more than 51% of the total equity goes to the Strategic Partner for the transfer of management to take place. In other words, strategic sale can take place even if the private sector partner gets less than 51% shares.
- According to the strategic sale guidelines issued by DIPAM, after the transaction, the Strategic Partner may hold less percentage of shares than the Government but the control of management would be with partner.
- For instance, if in a PSU the shareholding of Government is 51% and the balance is dispersed in public holdings, then Government may go in for a 25% strategic sale and pass on management control, though the Government would post-transfer have a larger share holding (26%) than the Strategic Partner (25%).
- But the necessary condition is that the control of the firms should be with the strategic partner.
- **NITI Aayog**: Identifies CPSEs for Strategic Disinvestment; NITI Aayog advises on the mode of sale and percentage of shares to be sold; Core Group of Secretaries on Disinvestment (CGD) headed by Cabinet Secretary considers the recommendations of NITI Aayog; Decision by the Cabinet Committee on Economic Affairs (CCEA) on strategic disinvestment.

➡ NON-FOOD BANK CREDIT

Bank Credit

- The Bank credit in India refers to **credit lending by various scheduled commercial banks (SCBs)** to various sectors of the economy.
- The bank credit is **categorized into food credit and non-food credit**.
- The food credit indicates the **lending made by banks to the Food Corporation of India (FCI)** mainly for procuring foodgrains. It is a small share of the total bank credit.
- The **major portion of the bank credit is the non-food credit** which comprises of credit to various sectors of the economy (Agriculture, Industry, and Services) and also in the form of personal loans.
- The data on bank credit is collected on a monthly basis by the Reserve Bank of India (RBI). The data is sourced from 46 commercial banks, accounting for about 95% of the total non-food credit deployed by all scheduled commercial banks (SCBs).

CURRENT SCENARIO

- Credit to agriculture and allied activities continued to perform well, registering an accelerated growth of 10.3% compared with 5.2%.
- Size-wise, credit to medium industries registered a robust growth of 45.8% compared with a contraction of 5.3% a year earlier.
- Credit growth to micro and small industries accelerated to 5% compared with a contraction of 3.4%, while credit to large industries contracted by 1.7% compared with 2.8% growth.

- Loan growth to the services sector decelerated to 1.9%, from 10.3%, mainly due to deceleration in credit growth to NBFCs, transport operators and commercial real estate. Personal loans registered an accelerated growth of 12.4% (10.6%).

➡ EQUITY MARKET

- Equity market is a place **where stocks and shares of companies are traded**. The equities that are traded in an equity market are either **over the counter or at stock exchanges**.
- Often called as stock market or share market, an equity market allows sellers and buyers to deal in equity or shares in the same platform.
- Equity market, often called as stock market or share market, is a place where **shares of companies or entities are traded.** The market allows sellers and buyers to deal in equity or shares in the same platform.
- In the global context, equities are traded either over the counter or at stock exchanges. There are multiple buyers and sellers of the same equity/share.
- There is virtually no difference between stock and equity. These two words are commonly used to mean shares. Stock and equity are just synonyms.

HOW IS EQUITY MARKET IN INDIA ?

- Equities are mostly traded on the stock exchanges in India. In the Indian stock market, equities are available for trading at the **National Stock Exchange (NSE) , the Bombay Stock Exchange (BSE) and the latest entrant, Metropolitan Stock Exchange of India (MSE).** Shares of stock market listed companies are bought/sold.
- Equity share trading is roughly in two forms - **spot/cash market** and **futures market**. These are the different types of equity market in India. The spot market or cash market is a public financial market in which stocks are traded for immediate delivery. The futures market is a place where the shares' delivery is due at a later date.
- Shares/stocks traded in the equity market belong to companies that show growth. Investors typically invest in 'growth' stocks, which belong to small companies showing potential for high growth rates. The growth stocks are those where investors are ready to make big bids in the live equity market, be it in India or global equity market.

HOW DO EQUITY MARKETS WORK ?

- The concept behind how the stock market works is simple. Think of an auction house where buyers and sellers negotiate prices and make trades. Now, substitute the auction house and items with equity market and shares. Companies list their shares on an exchange. Investors can buy shares in the primary market i.e. IPOs, and secondary market.
- The stock market is regulated by a financial watchdog. The equity market is maintained by stock exchanges, and various stakeholders like brokers, dealers, clearing corporations etc. It is an extended family of institutions and this is the true equity market meaning.

Positives	Negatives
o **Wealth creation:** The biggest benefit of the equity market is the opportunity to make huge profit. Many	o **Lack of understanding can be costly**: If you do not properly

investors have experienced big returns that can never be given by any other financial investment. o **Enter and exit:** In case of equity market, you can easily enter and exit a stock. This should be compared to when you want to sell a house, where you cannot sell it on your own will always. o **Lower taxes:** When an equity is sold for profit after holding for more than 1 year, the profit attracts 10% tax. In case of fixed deposits, the tax rate is as per the individual's tax rate i.e up to 30%.	do research or invest in bad stocks, your chances of making losses are high. o **Equity market can be volatile:** Equity investment return does not move in a straight line. There are upswings and downswings in the live equity market. o **There is risk of capital erosion:** Equity share trading involves a chance of capital erosion.

➡ GROSS NON-PERFORMING ASSET (GNPA)

- **Non-Performing Assets (NPA):** NPA expands to non-performing assets (NPA). Reserve Bank of India defines NPA as any advance or loan that is overdue for more than 90 days.
- **Categories of NPA:** There are different types of non-performing assets depending on how long they remain in the NPA category.

a. **Sub-Standard Assets:** An asset is classified as a sub-standard asset if it remains as an NPA for a period less than or equal to 12 months.

b. **Doubtful Assets:** An asset is classified as a doubtful asset if it remained as an NPA for more than 12 months.

c. **Loss Assets**: An asset is considered as a loss asset when it is “uncollectible” or has such little value that its continuance as a bankable asset is not suggested. However, there may be some recovery value left in it as the asset has not been written off wholly or in parts.

NPA PROVISIONING

- Keeping aside the technical definition, **provisioning means an amount that the banks set aside from their profits or income in a particular quarter for non-performing assets**; such assets that may turn into losses in the future. It is a method by which banks provide for bad assets and to maintain a healthy book of accounts.
- Provisioning is done according to which category the asset belongs to. The categories have been mentioned in the above section. Not only the type of asset, but provisioning also depends on the type of bank. Like, Tier-I banks and Tier-II banks have different provisioning norms.

GNPA AND NNPA

Banks are required to make their NPAs numbers public and to the RBI as well from time to time. There are primarily two metrics that help us to understand the NPA situation of any bank. NPA numbers for a bank will be mentioned in the standalone financial statements of a bank.

NPA IN ABSOLUTE NUMBERS

- **GNPA:** GNPA stands for gross non-performing assets. GNPA is an absolute amount. It tells you the total value of gross non-performing assets for the bank in a particular quarter or financial year as the case may be.
- **NNPA:** NNPA stands for net non-performing assets. NNPA subtracts the provisions made by the bank from the gross NPA. Therefore net NPA gives you the exact value of non-performing assets after the bank has made specific provisions for it.

NPA RATIOS

NPAs can also be expressed as a percentage of total advances. It gives us an idea of how much of the total advances is not recoverable. The calculation is pretty simple:

- **GNPA ratio is the ratio of the total GNPA of the total advances.**
- **NNPA ratio uses net NPA to find out the ratio to the total advances.**

➡ NON-BANKING FINANCIAL COMPANY (NBFC)

- A Non-Banking Financial Company (NBFC) is a company registered under the **Companies Act, 1956** engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).
- NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

1. NBFC cannot accept demand deposits;
2. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
3. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

- NBFCs whose asset size is of ₹ 500 cr. or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.
- NBFCs are categorized **a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs**, **b) non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND)** and **c) by the kind of activity they conduct.** Within this broad categorization the different types of NBFCs are as follows:

1. **Asset Finance Company (AFC)** : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as **aggregate of financing real/physical assets supporting economic activity and income** arising therefrom is not less than 60% of its total assets and total income respectively.
2. **Investment Company (IC)** : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.
3. **Loan Company (LC):** LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.
4. **Infrastructure Finance Company (IFC):** IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.
5. **Systemically Important Core Investment Company (CIC-ND-SI):** It is an NBFC carrying on the business of acquisition of shares and securities.
6. **Infrastructure Debt Fund**: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.
7. **Non-Banking Financial Company** - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

a) loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;
b) loan amount does not exceed ₹ 50,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;
c) total indebtedness of the borrower does not exceed ₹ 1,00,000;
d) tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 15,000 with prepayment without penalty;
e) loan to be extended without collateral;
f) aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
g) loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

8. **Non-Banking Financial Company – Factors (NBFC-Factors):** NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.
9. **Mortgage Guarantee Companies (MGC)** - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.

10. **NBFC- Non-Operative Financial Holding Company (NOFHC)** is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

➡ RBI SURPLUS

- **RBI surplus is the amount it transfers to the government every year**. This surplus is the amount left over after meeting all its expenses. As RBI is not required to pay income tax, it transfers the surplus amount to the government.

HOW DOES A CENTRAL BANK LIKE THE RBI MAKE PROFITS?

- The RBI is a **"full service" central bank**— not only is it mandated to keep inflation or prices in check, it is also supposed to manage the borrowings of the Government of India and of state governments; supervise or regulate banks and non-banking finance companies; and manage the currency and payment systems.
- While carrying out these functions or operations, it makes profits. Typically, the central bank's income comes from the returns it earns on its foreign currency assets, which could be in the form of bonds and treasury bills of other central banks or top-rated securities, and deposits with other central banks.
- It also **earns interest on its holdings of local rupee-denominated government bonds or securities**, and while lending to banks for very short tenures, such as overnight. It claims a management commission on handling the borrowings of state governments and the central government.
- Its **expenditure is mainly on the printing of currency notes and on staff,** besides the commission it gives to banks for undertaking transactions on behalf of the government across the country, and to primary dealers, including banks, for underwriting some of these borrowings.

WHAT IS THE NATURE OF THE ARRANGEMENT BETWEEN THE GOVERNMENT AND RBI ON THE TRANSFER OF SURPLUS OR PROFITS?

- The RBI isn't a commercial organisation like the banks or other companies that are owned or controlled by the government – it does not, as such, pay a "dividend" to the owner out of the profits it generates.
- Although RBI was promoted as a private shareholders' bank in 1935 with a paid up capital of Rs 5 crore, the government nationalised it in January 1949, **making the sovereign its "owner".**

- What the central bank does, therefore, is transfer the "surplus" – that is, the excess of income over expenditure – to the government, in **accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934:** *"After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation fund [and for all other matters for which] provision is to be made by or under this Act or which are usually provided for by bankers, the balance, of the profits shall be paid to the Central Government."*
- The Central Board of the RBI does this in early August, after the July-June accounting year is over.

Is there an explicit policy on the distribution of surplus?

- No. But a Technical Committee of the RBI Board headed by **Y H Malegam,** which reviewed the adequacy of reserves and a surplus distribution policy, recommended, in 2013, a higher transfer to the government.
- Earlier, the RBI transferred part of the surplus to the Contingency Fund, to meet unexpected and unforeseen contingencies, and to the Asset Development Fund, to meet internal capital expenditure and investments in its subsidiaries in keeping with the recommendation of a committee to build contingency reserves of 12% of its balance sheet.
- But after the Malegam committee made its recommendation, in 2013-14, the RBI's transfer of surplus to the government as a percentage of gross income (less expenditure) shot up to 99.99% from 53.40% in 2012-13.

➡ CURRENCY SWAP

- A currency swap contract (also known as a cross-currency swap contract) is a **derivative contract between two parties that involves the exchange of interest payments, as well as the exchange of principal amounts in certain cases, that are denominated in different currencies.**
- Although currency swap contracts generally imply the exchange of principal amounts, some swaps may require only the transfer of the interest payments.
- A currency swap consists of **two streams (legs) of fixed or floating interest payments** denominated in two currencies. The transfer of interest payments **occurs on predetermined dates**. In addition, if the swap counterparties previously agreed to exchange principal amounts, those amounts must also be exchanged on the maturity date at the same exchange rate.
- Currency swaps are p**rimarily used to hedge potential risks associated with fluctuations in currency exchange rates or to obtain lower interest rates on loans in a foreign currency**. The swaps are commonly used by companies that operate in different countries. For example, if a company is conducting business abroad, it would often use currency swaps to retrieve more favorable loan rates in their local currency, as opposed to borrowing money from a foreign bank.
- For example, a company may take a loan in the domestic currency and enter a swap contract with a foreign company to obtain a more favorable interest rate on the foreign currency that is otherwise is unavailable.

TYPES OF CURRENCY SWAP CONTRACTS

Similar to interest rate swaps, currency swaps can be classified based on the types of legs involved in the contract. The most commonly encountered types of currency swaps include the following:

- **Fixed vs. Float**: One leg of the currency swap represents a stream of fixed interest rate payments while another leg is a stream of floating interest rate payments.
- **Float vs. Float (Basis Swap):** The float vs. float swap is commonly referred to as basis swap. In a basis swap, both swaps' legs both represent floating interest rate payments.
- **Fixed vs. Fixed**: Both streams of currency swap contracts involve fixed interest rate payments.

➡ GLOBAL MINIMUM TAX

WHAT IS THE NEED?

- Major economies are aiming to discourage multinationals from shifting profits — and tax revenues — to low-tax countries regardless of where their sales are made.
- Increasingly, income from intangible sources such as drug patents, software and royalties on intellectual property has migrated to these jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries.
- With its proposal for a minimum 15% tax rate, the Biden administration hopes to reduce such tax base erosion without putting American firms at a financial disadvantage, allowing competition on innovation, infrastructure and other attributes.

WHERE ARE THE TALKS AT?

- The **G7** talks is for broadening existing efforts.
- The **Organization for Economic Cooperation and Development** has been coordinating tax negotiations among 140 countries for years on rules for taxing cross-border digital services and curbing tax base erosion, including a global corporate minimum tax.
- The **OECD and G20 countries** aim to reach consensus on both by mid-year, but the talks on a global corporate minimum are technically simpler and less contentious. If a broad consensus is reached, it will be extremely hard for any low-tax country to try and block an accord.
- The minimum is expected to make up the bulk of the $50 billion-$80 billion in extra tax that the OECD estimates firms will end up paying globally under deals on both fronts.

HOW WOULD A GLOBAL MINIMUM TAX WORK?

- The global minimum tax rate **would apply to overseas profits**. Governments could still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country, their home governments could “top-up” their taxes to the minimum rate, eliminating the advantage of shifting profits.
- The OECD said that governments broadly agreed on the basic design of the minimum tax but not the rate. Other items still to be negotiated include whether investment funds and real estate investment trusts should be covered, when to apply the new rate and ensuring it is compatible with U.S. tax reforms aimed at deterring erosion.

WHAT ABOUT THAT MINIMUM RATE?

- Talks are focusing around the U.S. proposal of a minimum global corporation tax rate of 15% - above the level in countries such as Ireland but below the lowest G7 level.
- Any final agreement could have major repercussions for low-tax countries and tax havens.
- The Irish economy has boomed with the influx of billions of dollars in investment from multinationals. Dublin, which has resisted EU attempts to harmonise its tax rules, is unlikely to accept a higher minimum rate without a fight.
- However, the battle for low-tax countries is less likely to be about scuppering the overall talks and more about building support for a minimum rate as close as possible to its 12.5% or seeking certain exemptions.

➡ FDI IN INDIA

- Foreign direct investment (FDI) is **when a company takes controlling ownership in a business entity in another country**. With FDI, foreign companies are directly involved with day-to-day operations in the other country. This means they aren't just bringing money with them, **but also knowledge, skills and technology**.
- Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.
- FDI is an important monetary source for India's economic development. Economic liberalisation started in India in the wake of the 1991 crisis and since then, FDI has steadily increased in the country.

ROUTES THROUGH WHICH INDIA GETS FDI

- **Automatic route:** The non-resident or Indian company does not require prior nod of the RBI or government of India for FDI.
- **Govt route:** The government's approval is mandatory. The company will have to file an application through Foreign Investment Facilitation Portal, which facilitates single-window clearance. The application is then forwarded to the respective ministry, which will approve/reject the application in consultation with the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce. DPIIT will issue the Standard Operating Procedure (SOP) for processing of applications under the existing FDI policy.

Sectors which come under the ' 100% Automatic Route' category are:

Agriculture & Animal Husbandry, Air-Transport Services (non-scheduled and other services under civil aviation sector), Airports (Greenfield + Brownfield), Asset Reconstruction Companies, Auto-components, Automobiles, Biotechnology (Greenfield), Broadcast Content Services (Up-linking & down-linking of TV channels, Broadcasting Carriage Services, Capital Goods, Cash & Carry Wholesale Trading (including sourcing from MSEs), Chemicals, Coal & Lignite, Construction Development, Construction of Hospitals, Credit Information Companies, Duty Free Shops, E-commerce Activities, Electronic Systems, Food Processing, Gems & Jewellery, Healthcare, Industrial Parks, IT & BPM, Leather, Manufacturing, Mining & Exploration of metals & non-metal ores, Other Financial Services, Services under Civil Aviation Services such as Maintenance & Repair Organizations, Petroleum & Natural gas, Pharmaceuticals, Plantation sector, Ports & Shipping, Railway Infrastructure, Renewable Energy, Roads & Highways, Single Brand Retail Trading, Textiles & Garments, Thermal Power, Tourism & Hospitality and White Label ATM Operations.

GOVERNMENT ROUTE

Sectors which come under the 'up to 100% Government Route' category are

- Banking & Public sector: 20%
- Broadcasting Content Services: 49%
- Core Investment Company: 100%
- Food Products Retail Trading: 100%
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Multi-Brand Retail Trading: 51%

- Print Media (publications/ printing of scientific and technical magazines/ specialty journals/ periodicals and facsimile edition of foreign newspapers): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%
- Satellite (Establishment and operations): 100%

FDI PROHIBITION:

There are a few industries where FDI is strictly prohibited under any route. These industries are

- Atomic Energy Generation
- Any Gambling or Betting businesses
- Lotteries (online, private, government, etc)
- Investment in Chit Funds
- Nidhi Company
- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc)
- Housing and Real Estate (except townships, commercial projects, etc.)
- Cigars, Cigarettes, or any related tobacco industry

➡ FOREIGN PORTFOLIO INVESTMENT (FPI)

- FPI is a form of investment wherein investors hold assets and securities outside their country. These investments could include **stocks, bonds, exchange traded funds (ETFs) or mutual funds**. It is one way in which an investor can partake in a foreign economy.
- The reason FPI is watched carefully by experts is that it is an **indicator of the stock market's performance**.
- FPI also **enhances stock market efficiency a**nd ensures that there is a balance between value and the price of a stock.
- Emerging economies which show a potential for growth that is higher than the investor's country tend to see a high level of participation by foreign investors. Another factor that influences FPIs is an attractive growth rate.
- In India, foreign portfolio investment is regulated by the **Securities and Exchange Board of India (SEBI).**
- FPI in India refers to investment groups or **FIIs (foreign institutional investors) and QFIs (qualified foreign investors).**

DIFFERENCE BETWEEN FPI AND FDI

- FDI refers to a scenario when a direct business interest is established overseas. This business interest could be a warehouse or manufacturing entity for example.
- An **FDI could lead to transfer of resources, knowledge and funds and involves a joint venture or setting up a subsidiary.**
- Foreign direct investment is **more long-term** than foreign portfolio investment and also bulkier.

- Foreign direct investments are **taken up by institutions or venture capital companies**. Foreign portfolio investment is merely investing in the securities or assets of another country.
- Talking about the stock market, FPI involves buying shares or bonds that are made available on the foreign country's exchange. FPI is liquid and can be bought and sold easily.
- While FPI involves investors who are passive, FDI is all about active investors. FPI is not a direct investment and is a short term form of investment when compared to FDI.

Categories of FPI (for investments into India):

Earlier, FPI was divided into three categories, on the basis of their risk profile.

- **Category I or low-risk**: This kind of FPI includes government/government-related establishments like central banks and international agencies among others. An example could be a sovereign wealth fund or an SWF which is a fund owned by the state or its divisions.
- **Category II or moderate-risk**: This includes mutual funds, insurance firms, banks, and pension funds among others.
- **Category III or high-risk**: This type of foreign portfolio investment includes all other FPIs that don't fall into the first two categories. They could include charitable organisations such as trusts or societies, endowments or trusts among others.

- However, as per a new notification in the second half of 2019, SEBI has sought to reclassify the categories and simplify norms. Accordingly, FPIs would come under two categories. All those entities or funds that were earlier registered as Category III are now Category II, accordingly, and the Category I is a mix of the earlier Category I and II.

BENEFITS OF FPI

- Foreign portfolio investments **boost demand for stock of companies** and help them when it comes to raising capital at low costs.
- The presence of FPI would mean a **significant rise in the depth of the secondary market**.
- From the investor's perspective, it helps an **investor add more diversity to their investments** and benefit from such a diversification.
- Investors can also gain the **benefit of exchange rate changes**.
- Overseas markets provide **investors a chance to a bigger market** that may also sometimes not be as competitive as their home market. This means they benefit from the lower competition in a foreign country.
- A huge **advantage of FPI is that it is liquid**, ensuring that the investor is empowered and can move fast when there are good opportunities.

DISADVANTAGES

- To the country receiving FPI, i.e. the host, the unpredictability of such investments would mean a constant shift between markets over short periods. This gives rise to some amount of volatility.
- A sudden withdrawal of FPI could make an impact on the exchange rate. FPI may be risky at certain occasions, i.e. when there is political instability in a country.

➡ G-SECs

- A Government Security (G-Sec) is a **tradeable instrument issued by the Central Government** or the State Governments. It **acknowledges the Government's debt obligation**.
- Such securities are **short term** (usually called treasury bills, with original maturities of less than one year) or **long term** (usually called Government bonds or dated securities with original maturity of one year or more).
- In India, the **Central Government issues both, treasury bills and bonds or dated securities** while the **State Governments issue only bonds or dated securities**, which are called the State Development Loans (SDLs).
- G-Secs carry practically no risk of default and, hence, are called **risk-free gilt-edged** instruments.

TREASURY BILLS (T-BILLS)

- Treasury bills or T-bills, which are money market instruments, are **short term debt instruments** issued by the Government of India and are presently issued in three tenors, namely, **91 day, 182 day and 364 day**.
- Treasury bills are **zero coupon securities** and **pay no interest**. Instead, they are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100/-.
- The return to the investors is the difference between the maturity value or the face value (that is ₹100) and the issue price.

CASH MANAGEMENT BILLS (CMBS)

- In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government of India.
- The CMBs have the **generic character of T-bills but are issued for maturities less than 91 days**.

DATED G-SECS

- Dated G-Secs are securities which carry a **fixed or floating coupon** (interest rate) which is paid on the face value, on half-yearly basis.
- Generally, the tenor of dated securities ranges from 5 years to 40 years.

Advantages of G-Secs

- Besides providing a return in the form of coupons (interest), G-Secs offer the maximum safety as they carry the Sovereign's commitment for payment of interest and repayment of principal.
- They can be held in book entry, i.e., **dematerialized/ scripless form**, thus, obviating the need for safekeeping. They can also be held in physical form.
- G-Secs are available in a **wide range of maturities** from 91 days to as long as 40 years to suit the duration of varied liability structure of various institutions.
- G-Secs **can be sold easily in the secondary market** to meet cash requirements.
- G-Secs **can also be used as collateral** to borrow funds in the repo market.

- Securities such as **State Development Loans (SDLs) and Special Securities (Oil bonds, UDAY bonds etc) provide attractive yields.**
- The settlement system for trading in G-Secs, which is based on **Delivery versus Payment (DvP),** is a very simple, safe and efficient system of settlement. The DvP mechanism ensures transfer of securities by the seller of securities simultaneously with transfer of funds from the buyer of the securities, thereby mitigating the settlement risk.
- G-Sec prices are readily available due to a liquid and active secondary market and a transparent price dissemination mechanism.
- Besides banks, insurance companies and other large investors, smaller investors like Co-operative banks, Regional Rural Banks, Provident Funds are also required to statutory hold G-Secs.

➡ HEADLINE INFLATION AND CORE INFLATION

- **Headline inflation** refers to the change in **value of all goods in the basket**.
- **Core inflation excludes food and fuel items** from headline inflation.
- Since the prices of fuel and food items tend to fluctuate and create 'noise' in inflation computation, **core inflation is less volatile than headline inflation.**
- In a developed economy, food & fuel account for 10-15% of the household consumption basket and in developing economies it forms 30-40% of the basket.
- **Headline inflation is more relevant for developing economies than developed economies**.

➡ NATIONAL COMPANY LAW TRIBUNAL

- The National Company Law Tribunal is a **quasi-judicial body** in India that adjudicates issues relating to Indian companies.
- The tribunal was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India and is based on the recommendation of the **V. Balakrishna Eradi committee** on law relating to the insolvency and the winding up of companies.
- All proceedings under the Companies Act, including proceedings relating to arbitration, compromise, arrangements, reconstructions and the winding up of companies shall be disposed off by the National Company Law Tribunal.
- The NCLT bench is chaired by a **Judicial member** who is supposed to be a retired or a serving High Court Judge and a Technical member who must be from the Indian Corporate Law Service, ICLS Cadre.
- The National Company Law Tribunal is the adjudicating authority for the insolvency resolution process of companies and limited liability partnerships under the Insolvency and Bankruptcy Code, 2016.
- **No criminal court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Tribunal or the Appellate Tribunal is empowered to determine by or under this Act** or any other law for the time being in force and no injunction shall be granted by any court or other authority in respect of any action taken or to

be taken in pursuance of any power conferred by or under this Act or any other law for the time being in force, by the Tribunal or the Appellate Tribunal.

- The **tribunal has sixteen benches**, six at New Delhi (one being the principal bench) and two at Ahmedabad, one at Allahabad, one at Bengaluru, one at Chandigarh, two at Chennai, one at Cuttack, one at Guwahati, three at Hyderabad of which one is at Amaravathi, one at Jaipur, one at Kochi, two at Kolkata and five at Mumbai.
- Of the two new benches approved to be set up, one each in Indore and Amaravathi, the Indore bench is yet to be notified. Except the Bench at Amaravathi, all the benches have been notified as division benches. Justice M.M. Kumar, a retired Chief Justice of the Jammu & Kashmir High Court has been appointed president of the tribunal.
- The National Company Law Tribunal has the power under the Companies Act to adjudicate proceedings:

- Initiated before the Company Law Board under the previous act (the Companies Act 1956);
- Pending before the Board for Industrial and Financial Reconstruction, including those pending under the Sick Industrial Companies (Special Provisions) Act, 1985;
- Pending before the Appellate Authority for Industrial and Financial Reconstruction; and
- Pertaining to claims of oppression and mismanagement of a company, winding up of companies and all other powers prescribed under the Companies Act.

- Decisions of the tribunal may be appealed to the National Company Law Appellate Tribunal, the decisions of which may further be appealed to the Supreme Court of India on a point of law. The Supreme Court of India has upheld the Insolvency and Bankruptcy Code in its entirety.

➡ PURCHASING MANAGERS INDEX (PMI)

- The purchasing managers' index (PMI) is an **economic indicator based on surveys of businesses in a given sector.** The most common PMI surveys are the **manufacturing PMI** and the **services PMI.**
- Understanding the PMI can provide insight into recent market conditions and identify potential economic slowdowns.

WHAT IS THE PURCHASING MANAGERS' INDEX?

The purchasing managers' index consists of several different surveys of purchasing managers at businesses in manufacturing or services. These surveys are compiled into a single numerical result depending on one of several possible answers to each question.

The most common elements include:

- New orders
- Factory output
- Employment
- Suppliers' delivery times
- Stocks of purchases

Investors use PMI surveys as leading indicators of economic health, given their insight into sales, employment, inventory, and pricing. Manufacturing sector purchases tend to react to consumer demand and are often among the first visible signs of a slowdown.

HOW DOES THE PMI WORK?

- The PMI is a **diffusion index**, meaning that it **measures change across multiple indicators**. A diffusion index is particularly useful for identifying **economic turning points**, such as unemployment reporting from the Bureau of Labor Statistics.
- The purchasing managers' index is a diffusion index that indicates whether economic conditions are better or worse at the companies surveyed.
- The formula used to calculate the PMI assigns weights to each common element and then multiplies them by **1 for improvement, 0.5 for no change, and 0 for deterioration**.
- Here is how the formula appears:

PMI = (P1*1) + (P2*0.5) + (P3*0)

P1 = Percentage of answers reporting improvement

P2 = Percentage of answers reporting no change

P3 = Percentage of answers reporting deterioration

- A **figure above 50 denotes an expansion** while **anything below 50 denotes a contraction** in activity. The higher the difference from this mid-point of 50, greater the expansion or contraction.
- Also, the rate of expansion can be judged by **comparing the PMI with that of the previous month reading**. If the latest figure is higher than previous month's, then manufacturing or services is expanding at a faster rate. If it is lower than previous month, then it is growing at lower rate.

WHY IS IT IMPORTANT?

- The PMI is becoming one of the most tracked indicators of business activity across the world. It provides a reliable expectation of how an economy is doing as a whole — and manufacturing in particular.
- It is a **good gauge of boom and bust cycles** in the economy and closely watched by investors, business, traders and financial professionals besides economists. Also, the PMI, which is usually released at the start of the month, serves as a leading indicator of economic activity. It comes before the official data on industrial output, core sector manufacturing and GDP growth.
- Even central banks use the PMI to take decisions on interest rates. Besides influencing equity market movements, PMI releases also impact bond and currency markets.
- Since manufacturing sector is often where recessions begin and end, PMI manufacturing is always closely watched. A good reading of PMI enhances the attractiveness of an economy vis-a-vis other competing economies. Suppliers can decide on prices depending on PMI movements.

➡ INDEX OF INDUSTRIAL PRODUCTION (IIP)

- Index of Industrial Production data or IIP as it is commonly called is an index that **tracks manufacturing activity in different sectors of an economy.**
- The IIP number measures the industrial production for the period under review, usually a month, as against the reference period.
- **IIP is a key economic indicator of the manufacturing sector** of the economy. There is a lag of six weeks in the publication of the IIP index data after the reference month ends.
- IIP index is **currently calculated using 2011-2012 as the base year**.

IIP INDEX COMPONENTS:

- Electricity, crude oil, coal, cement, steel, refinery products, natural gas, and fertilisers are the **eight core industries** that comprise about **40 percent of the weight of items** included in the Index of Industrial Production.
- Mining, manufacturing, and electricity are the three broad sectors in which IIP constituents fall.

WHO RELEASES INDEX OF INDUSTRIAL PRODUCTION OR IIP DATA?

- In the case of Index of Industrial Production India, **IIP data is compiled and published by CSO every month**. CSO or Central Statistical Organisation operates under the Ministry of Statistics and Programme Implementation (MoSPI).
- The IIP index data, once released, is also available on the PIB website.

WHO USES IIP DATA?

- The factory production data (IIP) is used by various government agencies such as the Ministry of Finance, the Reserve Bank of India (RBI), private firms and analysts, among others for analytical purposes.
- The data is also used to compile the **Gross Value Added (GVA) of the manufacturing sector** in the Gross Domestic Product (GDP) on a quarterly basis.

WHERE IS IIP DATA SOURCED FROM?

- The **CSO uses secondary data** to reach the monthly IIP number. The data is sourced from various agencies in different ministries or departments of the government.
- The Department of Industrial Policy and Promotion (DIPP) is the source for the major chunk of data for the calculation.

IIP VS ASI

- While the IIP is a monthly indicator, the Annual Survey of Industries (ASI) is the prime source of long-term industrial statistics.
- The ASI is used to track the health of the industrial activity in the economy over a longer period. The index is compiled out of a much larger sample of industries compared to IIP.

➡ INDEX OF EIGHT CORE INDUSTRIES

- It is **released 12 days before the IIP** is released. The **objective** of the Index of Eight Core Industries is to **give an advance indication on the production performance of the industries** which **are of 'core' nature** before the release of the IIP.

- The ICI measures the individual and collective performances of the production in these eight core industries.
- The ICI is used by policymakers including the Ministry of Finance, other Ministries, and Departments.
- It is also used by banks for financing infrastructure projects and the Reserve Bank of India (RBI).
- To calculate the ICI, the components covered under the eight core sectors are mentioned in the table below:

- **Coal** – Coal Production excluding Coking coal.
- **Electricity** – Actual Electricity Generation of Thermal, Nuclear, Hydro, imports from Bhutan.
- **Crude Oil** – Total Crude Oil Production.
- **Cement** – Production of Large Plants and Mini Plants.
- **Natural Gas** – Total Natural Gas Production.
- **Steel** – Production of Alloy and Non-Alloy Steel only.
- **Refinery Products** – Total Refinery Production (in terms of Crude Throughput).
- **Fertilizer** – Urea, Ammonium Sulphate (A/S), Calcium Ammonium Nitrate (CAN), Ammonium chloride (A/C), Diammonium Phosphate (DAP), Complex Grade Fertilizer and Single superphosphate (SSP).

- The ICI is **released every month**.
- The index is calculated by using the **Laspeyres formula** of the **weighted arithmetic mean of quantity relatives**.

	Industry	**Weight**
01	Coal	10.33
02	Electricity	19.85
03	Crude oil	8.98
04	Cement	5.37
05	Natural gas	6.88
06	Steel	17.92
07	Refinery products	28.04
08	Fertilizers	2.63
	Total	**100**

➡ NASSCOM

- NASSCOM, a **not-for-profit industry association**, is the apex body for the 194 billion dollar IT BPM industry in India, an industry that had made a phenomenal contribution to India's GDP, exports, employment, infrastructure and global visibility.
- In India, this industry provides the highest employment in the private sector.
- Established in **1988** and ever since, NASSCOM's relentless pursuit has been to constantly support the IT BPM industry, in the latter's continued journey towards seeking trust and

respect from varied stakeholders, even as it reorients itself time and again to remain innovative, without ever losing its humane and friendly touch.

- NASSCOM is focused on building the architecture integral to the development of the IT BPM sector through policy advocacy, and help in setting up the strategic direction for the sector to unleash its potential and dominate newer frontiers.
- NASSCOM's members, 3000+, constitute 90% of the industry's revenue and have enabled the association to spearhead initiatives at local, national and global levels. In turn, the IT BPM industry has gained recognition as a global powerhouse.

Strategic Imperative includes building the tech ecosystem and industry narrative with focus on:

- **Nurture India's Innovation Quotient**
- **Grow New Opportunities for Business**
- **Build Tech Capability and Ecosystem**
- **Champion Equal Opportunity and Diversity**
- **Drive Policy Advocacy**

➡ FICCI

- The Federation of Indian Chambers of Commerce & Industry (FICCI) is a non-governmental trade association and advocacy group based in India.
- **Established in 1927, on the advice of Mahatma Gandhi by GD Birla and Purshottamdas Thakurdas**, it is the largest, oldest and the apex business organisation in India.
- It is a non-government, not-for-profit organisation.
- FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs. The chamber has an indirect membership of over 250,000 companies from various regional chambers of commerce.
- It is involved in **sector-specific business building, business promotion and networking**.
- It is headquartered in New Delhi.

➡ ASSOCHAM

- The Associated Chambers of Commerce and Industry of India (ASSOCHAM) is a non-governmental trade association and advocacy group based in New Delhi, India.
- The organisation **represents the interests of trade and commerce in India**, and **acts as an interface between issues and initiatives.**
- The goal of this organisation is to promote both domestic and international trade, and reduce trade barriers while fostering conducive environment for the growth of trade and industry of India.
- **ASSOCHAM was established in 1920** by promoter chambers, representing all regions of India.

- It has completed 100 years of existence.
- The association has a special role in promoting international trade, and often hosts international trade delegates to India, along with sending delegations of Indian business groups to foreign locations. It also interacts with international counterpart organisations to promote bilateral economic issues.
- ASSOCHAM is a member of the International Chamber of Commerce, the World Business Organisation, through ICC, India.
- ASSOCHAM is authorised by the Government of India to issue **Certificates of Origin, certify commercial invoices, and recommend business visa.**

➡ SEBI

- The Securities and Exchange Board of India was established on **April 12, 1992** in accordance with the provisions of the **Securities and Exchange Board of India Act, 1992**.
- The **Preamble** of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as *"...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"*.
- SEBI India follows a **corporate structure**. It has a Board of Directors, senior management, department heads and several crucial departments.
- To be precise, it comprises of over 20 departments, all of which are supervised by their respective department heads, who in turn are administered by a hierarchy in general.
- The SEBI's hierarchical structure comprises of the following 9 designated officers –

  - The Chairman – Nominated by the Indian Union Government.
  - Two members belonging to the Union Finance Ministry of India.
  - One member belonging to the Reserve Bank of India or RBI.
  - Other five members – Nominated by the Union Government of India.

The below-mentioned list highlights some of the most important departments of SEBI –

- The Information Technology Department.
- The Foreign Portfolio Investors and Custodians.
- Office of International Affairs.
- National Institute of Securities Market.
- Investment Management Department.
- Commodity and Derivative Market Regulation Department.
- Human Resource Department.

FUNCTIONS

- To protect the **interests of Indian investors** in the securities market.
- To promote the **development and hassle-free functioning of the securities market**.
- To **regulate the business operations** of the securities market.
- To serve as a **platform for** portfolio managers, bankers, stockbrokers, investment advisers, merchant bankers, registrars, share transfer agents and other people.

- To **regulate the tasks** entrusted on depositors, credit rating agencies, custodians of securities, foreign portfolio investors and other participants.
- To **educate investors** about securities markets and their intermediaries.
- To **prohibit fraudulent and unfair trade practices** within the securities market and related to it.
- To **monitor company take-overs and acquisition** of shares.
- To **keep the securities market efficient and up to date** all the time through proper research and developmental tactics.

POWERS

- **Quasi-judicial powers**: In cases of frauds and unethical practices pertaining to the securities market, SEBI India has the power to pass judgements.

  The said power facilitates to maintain transparency, accountability and fairness in the securities market.
- **Quasi-executive powers**: SEBI has the power to **examine the Book of Accounts and other vital documents** to identify or gather evidence against violations. If it finds one violating the regulations, the regulatory body has the power to impose rules, pass judgements and take legal actions against violators.
- **Quasi-Legislative powers**: To protect the interest of investors, the authoritative body has been entrusted with the power to formulate suitable rules and regulations. Such rules tend to encompass the listing obligations, insider trading regulations and essential disclosure requirements. The body formulates such rules and regulation to get rid of malpractices that are prevalent in the securities market.
- The Supreme Court of India and the Securities Appellate Tribunal tend to have an upper hand when it comes to the powers and functions of SEBI. All its functions and related decisions have to go through the two apex bodies first.

➡ MICROFINANCE INSTITUTIONS (MFIs)

- MFI is an organization that offers financial services to low income populations.
- These services include **microloans, micro-savings and microinsurance**.
- MFIs are financial companies that provide small loans to people who do not have any access to banking facilities.
- The definition of "small loans" varies between countries. In India, all loans that are below Rs.1 lakh can be considered as microloans.
- Microfinance sector has grown rapidly over the past few decades and currently it is serving around 102 million accounts (including banks and small finance banks) of the poor population of India.

- Different types of financial services providers for poor people have emerged - *non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale - offering new possibilities.*

- **Non-Banking Finance Company (NBFC)-MFIs** in India are regulated by **The Non-Banking Financial Company -Micro Finance Institutions (Reserve Bank) Directions, 2011** of the Reserve Bank of India (RBI).

MAJOR BUSINESS MODELS:

Joint Liability Group:

- This is usually an informal group that consists of 4-10 individuals who seek loans against mutual guarantee.
- The loans are usually taken for agricultural purposes or associated activities.

Self Help Group:

- It is a group of individuals with similar socio-economic backgrounds.
- These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations.
- The National Bank for Agriculture and Rural Development (NABARD) SHG linkage programme is noteworthy in this regard, as several Self Help Groups are able to borrow money from banks if they are able to present a track record of diligent repayments.

Grameen Model Bank:

- It was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s.
- It has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the end-to-end development of the rural economy.

Rural Cooperatives:

- They were established in India at the time of Indian independence.
- However, this system had complex monitoring structures and was beneficial only to the creditworthy borrowers in rural India. Hence, this system did not find the success that it sought initially.

Benefits:

- They provide **easy credit and offer small loans** to customers, without any collateral.
- It **makes more money available to the poor sections** of the economy, leading to increased income and employment of poor households.
- **Serving the under-financed section** such as women, unemployed people and those with disabilities.
- It **helps the poor and marginalised section** of the society by making them aware of the financial instruments available for their help and also helps in developing a culture of saving.
- Families benefiting from microloans are more likely to provide better and continued education for their children.

➡ SMALL FINANCE BANKS

- Small Finance Banks are the financial institutions which provide financial services to the unserved and unbanked region of the country.
- They are **registered as a public limited company under the Companies Act, 2013**.

OBJECTIVE

- **Access to financial services**: The main purpose behind having small finance banks is to expand access to financial services in rural and semi-urban areas. These banks can do almost everything that a normal commercial bank can do but at a much smaller scale.
- **Basic banking services**: It offer basic banking services, accept deposits and lend to underserved sections of customers, including small business units, small and marginal farmers, micro and small industries, and even entities in the unorganised sector.
- **Alternative institution**: Small finance banks have the potential to provide an alternative to some of the existing institutions with their mandated focus on small and medium businesses, the informal sector, small and marginal farmers and thus on increasing financial inclusion and serving a variety of unserved clients in the hinterland and tier three and four cities and towns.

ACTIVITIES

- The small finance bank shall **primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections** including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own funds, such as the **distribution of mutual fund units, insurance products, pension products, etc.**
- The small finance bank **can also become an Authorised Dealer in foreign exchange business** for its clients' requirements.
- **Open banking outlets**: Small finance banks will have general permission to open banking outlets from the date of commencement of business subject to the condition that the **requirement of opening at least 25 percent of its banking outlets in unbanked rural centres**.
- **Restriction in the area of operations**: There will not be any restriction in the area of operations of small finance banks; however, preference will be given to those applicants who, in the initial phase, set up the bank in a cluster of under-banked States/districts, such as in the North-East, East and Central regions of the country.
- These applicants will not have any hindrance to expand to other regions in due course.
- It is expected that the small finance bank should primarily be responsive to local needs. After the initial stabilization period of five years, and after a review, RBI may liberalize the scope of activities of the small finance banks.
- The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not commingled with the banking business.

CAPITAL REQUIREMENT

- The **minimum paid-up voting equity capital for small finance banks shall be Rs.200 crore**, except for such small finance banks which are converted from UCBs.
- In view of the inherent risk of a small finance bank, it shall be required to maintain a minimum capital adequacy ratio of 15 percent of its risk-weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time.

FOREIGN SHAREHOLDING

- The foreign shareholding in SFBs would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.
- Currently, the aggregate FDI in a private sector bank from all sources will be allowed up to a maximum of **74% of the paid-up capital of the bank.**
- In the case of Foreign Institutional Investors (FIIs)/Foreign Portfolio Investors (FPIs), individual FII/FPI holding is restricted to below 10% of the total paid-up capital.
- The aggregate limit for all FIIs/FPIs/Qualified Foreign Investors (QFIs) cannot exceed 24% of the total paid-up capital. This can be raised to 49% of the total paid-up capital by the bank concerned through a resolution by its Board of Directors followed by a special resolution to that effect by its General Body.

OTHER KEY POINTS

- SFBs need to **maintain a Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).**
- They are required to extend **75% of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending** by the Reserve Bank of India. At least 50% of its loan portfolio should constitute loans and advances of up to Rs. 25 lakh.
- SFBs can also **transit to a universal bank**, subject to fulfilling minimum paid-up capital/net worth requirements as applicable to universal banks.
- They cannot be a Business Correspondent (BC) for another bank. However, they can have their own BC network.

➡ GREEN CONTRACTS

- As both consumers and corporations reap the benefits of large-scale manufacturing and services, they must equally share the responsibilities relating to the loss of resources and reduce greenhouse gas emissions.
- Some corporations contribute a fair share to building a clean and sustainable future. But they can contribute in cutting down emissions through the process of green contracting.

GREEN CONTRACTS:

- 'Green contracts' refer to **commercial contracts which mandate that contracting parties cut down greenhouse gas emissions at different stages** of delivery of goods/services, including design, manufacturing, transportation, operations and waste disposal, as applicable to the industry.
- The process of implementing a green contract may **commence at the bidding stage itself**, when various interested companies participate in the tender process.
- In such a scenario, a **'green tender'** may prescribe necessary 'green qualifications', which can be considered when awarding the contract to a bidder. These green qualifications can range from using a pre-defined percentage of 'green energy' in service delivery to adequate on-site waste management, reducing carbon emissions by a certain level over period of time, etc.

- Once such a bidder is chosen, the contracting agreement between the parties can prescribe the **'green obligations' in detail**, thus making the obligations binding and enforceable in the eyes of the law. It is this obligatory nature of green contracts which sets the tone for the parties to cut down emissions.
- This can be achieved by contractual clauses providing for the use of good quality and energy-efficient infrastructure for production of goods/services, efforts in day-to-day operations such as reducing noise, air and water pollution and ensuring eco-friendly means of transportation like bicycles on site, establishing and maintaining a sustainable waste management system, and so on.
- One effective way to make sure that the service providers adhere to these contractual obligations would be to provide for measurement criteria and audit of the performance of the contractor with regard to these obligations. An organisation may also choose to contractually highlight non-performance of such obligations as a ground of contractual breach, with penalty prescriptions.
- Another way to make sure that these obligations under the green contracts resonate far is to make sure that they flow down to all levels of the supply chain engaged in the delivery of goods and services.
- Lastly, the economic cost of executing green contracts may be greater than a normal brown contract, but global entities operating in a changing environment need to take into consideration the greater environment costs at stake.

➡ IPO

- An Initial Public Offering (IPO) is the **first sale of stocks issued by a company to the public**. Before an IPO, a company is considered a private company, usually with a small number of investors (founders, friends, family, and business investors such as venture capitalists or angel investors).
- When a company goes through an IPO, the **general public is able to buy shares** and own a portion of the company for the first time. An IPO is often referred to as **"going public,"** and the underwriting process is typically led by an investment bank.

Reasons

- Companies that are looking to grow often use an Initial Public Offering to raise capital. The biggest advantage of an IPO is the additional capital raised.
- The capital raised can be used to **buy additional property, plant, and equipment (PPE), fund research and development (R&D), expand, or pay off existing debt**. There is also an increased awareness of a company through an IPO, which typically generates a wave of potential new customers.

TYPES OF IPO:

There are two common types of IPO. They are:

Fixed Price Offering

- Fixed Price IPO can be referred to as the issue price that some companies set for the initial sale of their shares. The investors come to know about the price of the stocks that the company decides to make public.

Book Building Offering

- In the case of book building, the company initiating an IPO offers a 20% price band on the stocks to the investors. The interested investors bid on the shares before the final price is decided. Here, the investors need to specify the number of shares they intend to buy and the amount they are willing to pay per share.
- The lowest share price is referred to as floor price and the highest stock price is known as **cap price**. The ultimate decision regarding the price of the shares is determined by investors' bids.

➡ GST COUNCIL

- The Goods & Services Tax Council is a **constitutional body** for making recommendations to the Union and State Government on issues related to Goods and Service Tax.
- The GST Council is **chaired by the Union Finance Minister** and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.
- The **Constitution (One Hundred and First Amendment) Act, 2016** introduced a national Goods and Services Tax (GST) in India from 1 July 2017.
- As per **Article 279A (1)** of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A. The notification for bringing into force Article 279A with effect from 12th September, 2016 was issued on 10thSeptember, 2016.
- As per Article **279A (4),** the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

  The Goods and Services Tax Council shall make recommendations to the Union and the States on

a) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

b) the goods and services that may be subjected to, or exempted from the goods and services tax;

c) model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;

d) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

e) the rates including floor rates with bands of goods and services tax;

f) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;

g) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and

h) any other matter relating to the goods and services tax, as the Council may decide.

- The Goods and Services Tax Council shall **recommend the date** on which the goods and services tax be levied on **petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.**
- **One-half of the total number of Members** of the Goods and Services Tax Council **shall constitute the quorum** at its meetings.
- **Every decision** of the Goods and Services Tax Council shall be taken at a meeting, **by a majority of not less than three-fourths of the weighted votes** of the members present and voting, in accordance with the following principles, namely: —
  - the vote of the Central Government shall have a weightage of one third of the total votes cast, and
  - the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.
- The Goods and Services Tax Council shall establish a mechanism to adjudicate any dispute
  - between the Government of India and one or more States; or
  - between the Government of India and any State or States on one side and one or more other States on the other side; or
  - between two or more States, arising out of the recommendations of the Council or implementation thereof.

➡ DIRECT TAX

- Direct taxes are type taxes that are paid straight or directly to the government, such as **income tax, poll tax, land tax, and personal property tax.** Such direct taxes are computed based on the ability of the taxpayer to pay, which means that the higher their capability of paying is, the higher their taxes are.

TYPES OF DIRECT TAXES IN INDIA

- **Income Tax**: Depending on an individual's age and earnings, income tax must be paid. Various tax slabs are determined by the Government of India which determines the amount of Income Tax that must be paid. The taxpayer must file Income Tax Returns (ITR) on a yearly basis. Individuals may receive a refund or might have to pay a tax depending on their ITR. Huge penalties are levied in case individuals do not file ITR.
- **Wealth Tax:** The tax must be paid on a yearly basis and depends on the ownership of properties and the market value of the property. In case an individual owns a property, wealth tax must be paid and does not depend on whether the property generates an income or not. Corporate taxpayers, Hindu Undivided Families (HUFs), and individuals must pay wealth tax depending on their residential status. Payment of wealth tax is exempt for assets like gold deposit bonds, stock holdings, house property, commercial property that have been rented for more than 300 days, and if the house property is owned for business and professional use.
- **Estate Tax:** It is also called as Inheritance Tax and is paid based on the value of the estate or the money that an individual has left after his/her death.
- Corporate Tax: Domestic companies, apart from shareholders, will have to pay corporate tax. Foreign corporations who make an income in India will also have to pay corporate tax. Income

earned via selling assets, technical service fees, dividends, royalties, or interest that is based in India are taxable. The below-mentioned taxes are also included under Corporate Tax:

- **Securities Transaction Tax (STT):** The tax must be paid for any income that is earned via security transactions that are taxable.
- **Dividend Distribution Tax (DDT):** The Dividend Distribution Tax is a tax levied on dividends that a company pays to its shareholders out of its profits. The Dividend Distribution Tax, or DDT, is taxable at source, and is deducted at the time of the company distributing dividends. The dividend is the part of profits that the company shares with its shareholders. The law provides for the Dividend Distribution Tax to be levied at the hands of the company, and not at the hands of the receiving shareholder. However, an additional tax is imposed on the shareholder, who receives over Rs. 10 lakhs in dividend income in a financial year.
- **Fringe Benefits Tax**: Companies that provide fringe benefits for maids, drivers, etc., Fringe Benefits Tax is levied on them.
- **Minimum Alternate Tax (MAT)**: For zero tax companies that have accounts prepared according to the Companies Act, MAT is levied on them.

- **Capital Gains Tax:** It is a form of direct tax that is paid due to the income that is earned from the sale of assets or investments. Investments in farms, bonds, shares, businesses, art, and home come under capital assets. Based on its holding period, tax can be classified into long-term and short-term.

  Any assets, apart from securities, that are sold within 36 months from the time they were acquired come under short-term gains. Long-term assets are levied if any income is generated from the sale of properties that have been held for a duration of more than 36 months.

ADVANTAGES OF DIRECT TAXES

- **Economic and Social balance**: The Government of India has launched well-balanced tax slabs depending on an individual's earnings and age. The tax slabs are also determined based on the economic situation of the country. Exemptions are also put in place so that all income inequalities are balanced out.
- **Productivity**: As there is a growth in the number of people who work, the returns from direct taxes also increases. Therefore, direct taxes are considered to be very productive.
- **Inflation is curbed**: Tax is increased by the government during inflation. The increase in taxes reduces the necessity for goods and services, which leads to inflation to compress.
- **Certainty**: Due to the presence of direct taxes, there is a sense of certainty from the government and the taxpayer. The amount that must be paid and the amount that must be collected is known by the taxpayer and the government, respectively.
- **Distribution of wealth is equal**: Higher taxes are charged by the government to the individuals or organisations that can afford them. This extra money is used to help the poor in India.

DIRECT TAXES VS. INDIRECT TAXES

- Direct taxes refer to taxes that are filed and paid by an individual directly to the government. Indirect taxes, on the other hand, are taxes that can be transferred to another entity. Therefore, the burden of paying them can be put on another person's shoulders.
- Direct taxes can be evaded in the absence of proper collection administration. **Indirect taxes cannot be escaped** from because these are charged automatically on goods and services.

- **Direct taxes can help address inflation while indirect taxes can lead to inflation**.
- Direct taxes lessen the savings of earners, but indirect taxes encourage the opposite because they make products and services more expensive and unaffordable.
- Direct taxes are imposed only on people that belong to various income brackets. Indirect taxes, on the other, can be felt by everyone who buys goods and avails services.

➡ CESS

- Cess is a tax **levied for a specific purpose and ought to be used for the same only**.
- The process of cess levying occurs after Parliament has **authorised its creation through an enabling legislation** that specifies the purpose for which the funds are being raised.
- However, the proceeds collected from cess levies and other charges are not being used lately for the purpose they were introduced.
- The latest audit of the Union Government's accounts tabled in Parliament has revealed that about 40% of all the cess collections in 2018-19 have been retained in the Consolidated Fund of India (CFI).

WHAT IS A CESS?

- Different from the usual taxes and duties like excise and personal income tax, **a Cess is imposed as an additional tax besides the existing tax (tax on tax) with a purpose of raising funds** for a specific task.
- For example, the Swachh Bharat cess is levied by the government for cleanliness activities that it is undertaking across India.
- The Union government is empowered to raise revenue through a gamut of levies, including taxes (both direct and indirect), surcharges, fees and cess.
- A cess, generally paid by everyday public, is added to their basic tax liability paid as part of total tax paid.
- **Article 270 of the Constitution** allows cess to be **excluded from the purview of the divisible pool of taxes** that the Union government must share with the States.

DIVISIBLE POOL

- A divisible pool is a portion of Gross Tax Revenue (GTR) that is distributed between the Centre and the States.
- It **consists of all taxes, except surcharges and cess levied for specific purpos**e, net of collection charges.
- Post-Independence, the cess taxes were linked initially to the development of a particular industry, including a salt cess and a tea cess in 1953.
- Subsequently, the introduction of a cess was motivated by the aim of ensuring labour welfare.
- Some cess that exemplified this thrust were the iron ore mines labour welfare cess in 1961, the limestone and dolomite mines labour welfare cess of 1972 and the cine workers welfare cess introduced in 1981.

TYPES OF CESS

- The introduction of the **The Goods and Services tax (GST)** in 2017 led to most cess being done away with and as of August 2018, there were only few cess that continued to be levied. These were:

- Cess on Exports
- Cess on Crude Oil
- Health and Education Cess
- Road and Infrastructure Cess,
- Other Construction Workers Welfare Cess,
- National Calamity Contingent Duty
- Duty on Tobacco and Tobacco Products
- The GST Compensation Cess.

- The Finance Minister Nirmala Sitharaman introduced a new cess — a Health Cess of 5% on imported medical devices — in the Finance Bill for 2020-2021.

➡ SURCHARGE

- 'Surcharge' is an **additional charge or tax levied on an existing tax**. Unlike a cess, which is meant to raise revenue for a temporary need, **surcharge is usually permanent in nature**. It is levied as a percentage on the income tax payable as per normal rates. In case no tax is due for a financial year, then no surcharge is levied. The **revenue earned via surcharge is solely retained by the Centre** and, unlike other tax revenues, is not shared with States.
- Collections from **surcharge flow into the Consolidated Fund of India**.
- Currently, wealthy individuals and companies are liable to pay a surcharge on their tax outgo. Individuals earning a taxable income of over ₹1 crore have to shell out a surcharge amounting to 15 per cent of their tax outgo. So, if your taxable income is ₹1.2 crore, your income tax payable works out to ₹34.25 lakh. The 15 per cent surcharge will be computed on this amount, at ₹5.13 lakh. Thus, the total tax payable is ₹39.38 lakh without including cess.
- Partnership firms earning over ₹1 crore in taxable income pay a surcharge of 12 per cent. Domestic firms earning ₹1 crore to ₹10 crore pay a 7 per cent surcharge and those earning over ₹10 crore pay 12 per cent.

WHY IS IT IMPORTANT?

- Surcharges, in India, are used to make the taxation system more 'progressive'. They are used to ensure that the rich contribute more to the tax kitty than the poor. Traditionally, the assumption has been that companies can pay higher taxes than individuals and corporate taxes have been subject to surcharge.

WHY SHOULD I CARE?

- Individuals are subject to highest levy of surcharge compared to other tax payers. So if your total taxable income exceeds ₹1 crore, you must brace for much higher tax outgo. The surcharge levied is not eligible for any deductions or exemptions. If you are a high income earner, you must keep surcharge in mind when jumping jobs or negotiating for a pay rise. The moment your income exceeds the magic number of ₹1 crore, your tax outgo will shoot up. Considering the heavy burden, tax laws provide something called **'marginal relief'** to super rich tax payers. This provision is designed to make sure that the increase in income tax due to surcharge is not higher than the actual increase in income. In such cases, the surcharge is restricted to the increased income.

- To claim the marginal relief, your incremental tax should be greater than the income earned beyond ₹1 crore. For instance, if your income is ₹1,01,00,000, your tax would be ₹28,55,000. The surcharge on this works out to ₹4,28,250, taking your total outgo to ₹32,83,250. Here, the extra tax (₹4.28 lakh) is greater than the extra income earned beyond ₹1 crore (₹1 lakh). Once you claim marginal relief, your surcharge will be restricted to ₹1 lakh.
- The **bottom-line**: Levying surcharge on the wealthy is fine. But the concept mustn't be stretched so far that the super-rich find smart ways to skip taxes altogether.

➡ PRODUCTION-LINKED INCENTIVE (PLI) SCHEME

- In order to boost domestic manufacturing and cut down on import bills, the central government introduced a scheme that aims to give **companies incentives on incremental sales from products manufactured in domestic units**.
- Apart from inviting foreign companies to set shop in India, the scheme also aims to encourage local companies to set up or expand existing manufacturing units.
- So far, the scheme has been rolled out for mobile and allied equipment as well as pharmaceutical ingredients and medical devices manufacturing. These sectors are labour intensive and are likely, and the hope is that they would create new jobs for the ballooning employable workforce of India.
- The objective is really to make India more compliant with our WTO (World Trade Organisation) commitments and also make it non-discriminatory and neutral with respect to domestic sales and exports.
- The PLI scheme is designed with four objectives:

1. Target **specific product areas**;
2. Introduce **non-tariff measures in order** to compete more effectively with cheap imports;
3. **Blend domestic and export sales** to make manufacturing competitive and sustainable; and
4. Promote **manufacturing at home** while encouraging investment from within and outside India.

- The reason it has caught on is that the application process is not complicated, and the incentive offered is very simple and tied to conditions that are specific and easy to calculate. The incentive is 4-6% of incremental sales with a defined base year.

NEED

- According to experts, the idea of PLI is important as the government cannot continue making investments in these capital intensive sectors as they need longer times for start giving the returns. Instead, what it can do is to invite global companies with adequate capital to set up capacities in India.

SECTORS CURRENTLY HAVE THE PLI SCHEME

- The central government introduced the PLI scheme for mobile manufacturing as well as pharmaceutical ingredients and medical devices.
- As a part of the PLI scheme for mobile and electronic equipment manufacturing, an incentive of 4-6 per cent is planned for electronics companies which manufacture mobile phones and other electronic components such as transistors, diodes, thyristors, resistors, capacitors and nano-electronic components such as micro electromechanical systems.
- Similarly, the PLI scheme for pharmaceutical ingredients and medical devices seeks that applicants will commit a certain amount prescribed by the government as investment to build capacities in these areas.

➡ CAPITAL EXPENDITURE

- Capital expenditure is the **money spent by the government on the development** of machinery, equipment, building, health facilities, education, etc.
- It also includes **the expenditure incurred on acquiring fixed assets** like land and investment by the government that gives profits or dividend in future.
- The Budget estimate of the government's capital expenditure for the year 2020-21 was Rs 1,084,748 crore.
- Capital spending is associated with investment or development spending, where expenditure has benefits extending years into the future. Capital expenditure includes money spent on the following:

  - Acquiring fixed and intangible assets
  - Upgrading an existing asset
  - Repairing an existing asset
  - Repayment of loan

WHY IS CAPITAL EXPENDITURE IMPORTANT?

- Capital expenditure, which leads to the **creation of assets are long-term in nature and allow the economy to generate revenue for many years** by adding or improving production facilities and boosting operational efficiency. It also increases labour participation, takes stock of the economy and raises its capacity to produce more in future.
- Along with the creation of assets, **repayment of loan is also capital expenditure, as it reduces liability**.
- However, the government has to be cautious with the expenditure. In the financial year 2019-20, capital expenditure was 14.2 per cent of Budget Estimates. The government had to cut public spending sharply towards the end of the financial year in order that the deficit target could be met. Total expenditure fell by 0.3 percentage points in 2018-19 over 2017-18. This includes a 0.4 percentage point slash in revenue expenditure and 0.1 percentage point hike in capital expenditure.

HOW IS CAPITAL EXPENDITURE DIFFERENT FROM REVENUE EXPENDITURE?

- Unlike capital expenditure, which creates assets for the future, **revenue expenditure is one that neither creates assets nor reduces any liability of the government**.
- Salaries of employees, interest payment on past debt, subsidies, pension, etc. fall under the category of revenue expenditure. It is recurring in nature.

➡ MONETARY POLICY

- Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.
- The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the **Reserve Bank of India Act, 1934.**

THE GOAL(S) OF MONETARY POLICY

- The **primary objective** of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth.
- In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the **flexible inflation targeting framework**.
- The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years.
- The Central Government notified the following as factors that constitute failure to achieve the inflation target:(a) the average inflation is more than the upper tolerance level of the inflation target for any three consecutive quarters; or (b) the average inflation is less than the lower tolerance level for any three consecutive quarters.
- Prior to the amendment in the RBI Act in May 2016, the flexible inflation targeting framework was governed by an Agreement on Monetary Policy Framework between the Government and the Reserve Bank of India of February 20, 2015.

THE MONETARY POLICY FRAMEWORK

- The amended RBI Act explicitly provides the legislative mandate to the Reserve Bank to operate the monetary policy framework of the country.
- The framework **aims at setting the policy (repo) rate** based on an assessment of the current and evolving macroeconomic situation; and modulation of liquidity conditions to anchor money market rates at or around the repo rate. Repo rate changes transmit through the money market to the entire financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth.
- Once the repo rate is announced, the operating framework designed by the Reserve Bank envisages liquidity management on a day-to-day basis through appropriate actions, which aim at anchoring the operating target – the **weighted average call rate (WACR)** – around the repo rate.
- The operating framework is fine-tuned and revised depending on the evolving financial market and monetary conditions, while ensuring consistency with the monetary policy stance. The liquidity management framework was last revised significantly in April 2016.

INSTRUMENTS OF MONETARY POLICY

There are several direct and indirect instruments that are used for implementing monetary policy.

- **Repo Rate:** The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).
- **Reverse Repo Rate:** The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.
- **Liquidity Adjustment Facility (LAF):** The LAF consists of overnight as well as term repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine-tuning variable rate repo auctions of range of tenors. The aim of term repo is to help develop the inter-bank term money market, which in turn can set market based benchmarks for pricing of loans and deposits, and hence improve transmission of monetary policy. The Reserve Bank also conducts variable interest rate reverse repo auctions, as necessitated under the market conditions.
- **Marginal Standing Facility (MSF):** A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
- **Corridor:** The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
- **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
- **Statutory Liquidity Ratio (SLR):** The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.
- **Open Market Operations (OMOs):** These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
- **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.

➡ CRYPTOCURRENCY

- A cryptocurrency is a form of digital asset based on a network that is distributed across a large number of computers. This decentralized structure **allows them to exist outside the control of governments** and central authorities.
- The word "cryptocurrency" is derived from the encryption techniques which are used to secure the network.
- Blockchains, which are organizational methods for ensuring the integrity of transactional data, are an essential component of many cryptocurrencies.
- Many experts believe that blockchain and related technology will disrupt many industries, including finance and law.
- Cryptocurrencies face criticism for a number of reasons, including their use for illegal activities, exchange rate volatility, and vulnerabilities of the infrastructure underlying them. However, they also have been praised for their portability, divisibility, inflation resistance, and transparency.

UNDERSTANDING CRYPTOCURRENCIES

- Cryptocurrencies are systems that allow for secure payments online which are denominated in terms of virtual "tokens," which are represented by ledger entries internal to the system. "Crypto" refers to the various encryption algorithms and cryptographic techniques that safeguard these entries, such as elliptical curve encryption, public-private key pairs, and hashing functions.

TYPES OF CRYPTOCURRENCY

- The first blockchain-based cryptocurrency was Bitcoin, which still remains the most popular and most valuable. Today, there are thousands of alternate cryptocurrencies with various functions and specifications. Some of these are clones or forks of Bitcoin, while others are new currencies that were built from scratch.
- Bitcoin was launched in 2009 by an individual or group known by the pseudonym "Satoshi Nakamoto." As of March 2021, there were over 18.6 million bitcoins in circulation with a total market cap of around $927 billion.
- Some of the competing cryptocurrencies spawned by Bitcoin's success, known as "altcoins," include Litecoin, Peercoin, and Namecoin, as well as Ethereum, Cardano, and EOS. Today, the aggregate value of all the cryptocurrencies in existence is around $1.5 trillion—Bitcoin currently represents more than 60% of the total value.

ADVANTAGES

- Cryptocurrencies hold the promise of making it easier to **transfer funds directly between two parties, without the need for a trusted third party like a bank or credit card company**. These transfers are instead secured by the use of public keys and private keys and different forms of incentive systems, like Proof of Work or Proof of Stake.
- In modern cryptocurrency systems, a user's "wallet," or account address, has a public key, while the private key is known only to the owner and is used to sign transactions. Fund transfers are completed with minimal processing fees, allowing users to avoid the steep fees charged by banks and financial institutions for wire transfers.

DISADVANTAGES

- The semi-anonymous nature of cryptocurrency transactions makes them well-suited for a host of illegal activities, such as money laundering and tax evasion. However, cryptocurrency advocates often highly value their anonymity, citing benefits of privacy like protection for whistleblowers or activists living under repressive governments. Some cryptocurrencies are more private than others.
- Bitcoin, for instance, is a relatively poor choice for conducting illegal business online, since the forensic analysis of the Bitcoin blockchain has helped authorities arrest and prosecute criminals. More privacy-oriented coins do exist, however, such as Dash, Monero, or ZCash, which are far more difficult to trace.

➡ PCA FRAMEWORK

- Reserve Bank of India PCA Framework for commercial banks.
- The Reserve Bank has specified certain regulatory trigger points, as a part of prompt corrective action (PCA) Framework, in terms of three parameters, i.e. **capital to risk weighted assets ratio (CRAR), net non-performing assets (NPA)** and **Return on Assets (RoA),** for initiation of certain structured and discretionary actions in respect of banks hitting such trigger points. The PCA framework is applicable only to commercial banks and not extended to co-operative banks, non-banking financial companies (NBFCs) and FMIs.
- The trigger points along with structured and discretionary actions that could be taken by the Reserve Bank are described below:

CRAR

1. CRAR less than 9%, but equal or more than 6% - bank to submit capital restoration plan; restrictions on RWA expansion, entering into new lines of business, accessing/renewing costly deposits and CDs, and making dividend payments; order recapitalisation; restrictions on borrowing from inter-bank market, reduction of stake in subsidiaries, reducing its exposure to sensitive sectors like capital market, real estate or investment in non-SLR securities, etc.
2. CRAR less than 6%, but equal or more than 3% - in addition to actions in hitting the first trigger point, RBI could take steps to bring in new Management/ Board, appoint consultants for business/ organizational restructuring, take steps to change ownership, and also take steps to merge the bank if it fails to submit recapitalization plan.
3. CRAR less than 3% - in addition to actions in hitting the first and second trigger points, more close monitoring; steps to merge/amalgamate/liquidate the bank or impose moratorium on the bank if its CRAR does not improve beyond 3% within one year or within such extended period as agreed to.

NET NPAS

1. Net NPAs over 10% but less than 15% - special drive to reduce NPAs and contain generation of fresh NPAs; review loan policy and take steps to strengthen credit appraisal skills, follow-up of advances and suit-filed/decreed debts, put in place proper credit-risk management policies; reduce loan concentration; restrictions in entering new lines of business, making dividend payments and increasing its stake in subsidiaries.

2. Net NPAs 15% and above – In addition to actions on hitting the above trigger point, bank's Board is called for discussion on corrective plan of action.

ROA LESS THAN 0.25% -

restrictions on accessing/renewing costly deposits and CDs, entering into new lines of business, bank's borrowings from inter-bank market, making dividend payments and expanding its staff; steps to increase fee-based income; contain administrative expenses; special drive to reduce NPAs and contain generation of fresh NPAs; and restrictions on incurring any capital expenditure other than for technological upgradation and for some emergency situations.

➡ ASSET RECONSTRUCTION COMPANY

- An asset reconstruction company is a special type of financial institution that buys the debtors of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself.
- The asset reconstruction companies or ARCs are registered under the RBI and regulated under the **Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002).**
- The ARCs take over a portion of the debts of the bank that qualify to be recognised as Non-Performing Assets. Thus ARCs are engaged in the business of asset reconstruction or securitisation or both.
- All the rights that were held by the lender (the bank) in respect of the debt would be transferred to the ARC. The required funds to purchase such debts can be raised from Qualified Buyers.

WHAT IS ASSET RECONSTRUCTION?

- It is the acquisition of any right or interest of any bank or financial institution in loans, advances granted, debentures, bonds, guarantees or any other credit facility extended by banks for the purpose of its realisation. Such loans, advances, bonds, guarantees and other credit facilities are together known by a term – **'financial assistance'.**

WHAT IS SECURITISATION?

- It is the acquisition of financial assets either by way of **issuing security receipts to Qualified Buyers** or any other means. Such security receipts would represent an undivided interest in the financial assets.

WHO ARE QUALIFIED BUYERS?

- Qualified Buyers include Financial Institutions, Insurance companies, Banks, State Financial Corporations, State Industrial Development Corporations, trustee or ARCs registered under SARFAESI and Asset Management Companies registered under SEBI that invest on behalf of mutual funds, pension funds, FIIs, etc. The Qualified Buyers (QBs) are the only persons from whom the ARC can raise funds.

WORKING OF THE ARC

- The working of the ARC can be summarized by the following diagram:
- The business of asset reconstruction or securitisation may be commenced **only after obtaining a registration certificate under Section 3 of the SARFAESI Act, 2002.**

The main requirement in this regard is that the 'net owned funds' as prescribed in the RBI Act should be Rs. 100 crore or more.

How will the ARC carry out the process of asset reconstruction?

- The main intention of acquiring debts / NPAs is to ultimately realise the debts owed by them. However, the process is not a simple one. The ARCs have the following options in this regard:

- Change or takeover of the management of the business of the borrower;
- Sale or lease of such business;
- Rescheduling the payment of debts – offering alternative schemes, arrangements for the payment of the same;
- Enforcing the security interest offered in accordance with the law;
- Taking possession of the assets offered as security;
- Converting a portion of the debt into shares.

➡ NON PERFORMING ASSESTS

- Reserve Bank of India defines **NPA as any advance or loan that is overdue for more than 90 days**. "An asset becomes non-performing when it ceases to generate income for the bank," said RBI in a circular form 2007. To be more attuned to international practices, RBI implemented the 90 days overdue. Depending on how long the assets have been an NPA, there are different types of non-performing assets as well.

NPAS ARE OF 4 TYPES:

- **Standard Assets:** It is a kind of performing asset which creates continuous income and repayments as and when they become due. These assets carry a normal risk and are not NPA in the real sense of the word. Hence, no special provisions are required for standard assets.
- **Sub-Standard Assets:** Loans and advances which are non-performing assets for a period of 12 months, fall under the category of Sub-Standard Assets.
- **Doubtful Assets:** The Assets considered as non-performing for a period of more than 12 months are known as Doubtful Assets.
- **Loss Assets:** All those assets which cannot be recovered by the lending institutions are known as Loss Assets.

➡ HUMAN CAPITAL

- Human capital is an **intangible asset or quality not listed on a company's balance sheet**.
- It can be classified as the **economic value of a worker's experience and skills**. This includes assets like education, training, intelligence, skills, health, and other things employers value such as loyalty and punctuality.
- The concept of human capital recognizes that not all labor is equal. But employers can improve the quality of that capital by investing in employees—the education, experience, and abilities of employees all have economic value for employers and for the economy as a whole.

- o Human capital is important because it is perceived to increase productivity and thus profitability. So the more a company invests in its employees (i.e., in their education and training), the more productive and profitable it could be.
- o Human capital is typically managed by an organization's human resources (HR) department. This department oversees workforce acquisition, management, and optimization. Its other directives include workforce planning and strategy, recruitment, employee training and development, and reporting and analytics.

A BRIEF HISTORY OF HUMAN CAPITAL

- o The idea of human capital can be traced back to the 18th century. **Adam Smith** referred to the concept in his book "An Inquiry into the Nature and Causes of the Wealth of Nations," in which he explored the wealth, knowledge, training, talents, and experiences for a nation.
- o Adams suggests that improving human capital through training and education leads to a more profitable enterprise, which adds to the collective wealth of society. According to Smith, that makes it a win for everyone.
- o In more recent times, the term was used to describe the labor required to produce manufactured goods. But the most modern theory was used by several different economists including **Gary Becker and Theodore Schultz,** who invented the term in the 1960s to reflect the value of human capacities.
- o Schultz believed human capital was like any other form of capital to improve the quality and level of production. This would require an investment in the education, training and enhanced benefits of an organization's employees.
- o But not all economists agree. According to Harvard economist Richard Freeman, human capital was a signal of talent and ability. In order for a business to really become productive, he said it needed to train and motivate its employees as well as invest in capital equipment. His conclusion was that human capital was not a production factor.

CALCULATING HUMAN CAPITAL

- o Since human capital is based on the investment of employee skills and knowledge through education, these investments in human capital can be easily calculated. HR managers can calculate the total profits before and after any investments are made.
- o Any **return on investment (ROI)** of human capital can be calculated by dividing the company's total profits by its overall investments in human capital.

Human Capital and Economic Growth

- o There is a strong relationship between human capital and economic growth. Because people come with a diverse set of skills and knowledge, human capital can certainly help boost the economy. This relationship can be measured by how much investment goes into people's education.
- o Some governments recognize that this relationship between human capital and the economy exists, and so they provide higher education at little or no cost. People who participate in the workforce who have higher education will often have larger salaries, which means they will be able to spend more.

DOES HUMAN CAPITAL DEPRECIATE?

- o Like anything else, human capital is not immune to depreciation. This is often measured in wages or the ability to stay in the workforce. The most common ways human capital can depreciate are through unemployment, injury, mental decline, or the inability to keep up with innovation.

- Consider an employee who has a specialized skill. If he goes through a long period of unemployment, he may be unable to keep these levels of specialization. That's because his skills may no longer be in demand when he finally reenters the workforce.
- Similarly, the human capital of someone may depreciate if he can't or won't adopt new technology or techniques. Conversely, the human capital of someone who does adopt them will.

➡ TRIPS AGREEMENT

The TRIPS Agreement, which came into effect on 1 January 1995, is to date the most comprehensive multilateral agreement on intellectual property.

- The areas of intellectual property that it covers are: **copyright and related rights** (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); **trademarks including service marks**; **geographical indications** including appellations of origin; **industrial designs**; **patents** including the protection of new varieties of plants; the layout-designs of integrated circuits; and undisclosed information including trade secrets and test data.

THE THREE MAIN FEATURES OF THE AGREEMENT ARE:

- **Standards:** In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each Member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.
  - The Agreement sets these standards by requiring, **first**, that the substantive obligations of the main conventions of the **WIPO**, the Paris Convention for the Protection of Industrial Property **(Paris Convention)** and the **Berne Convention** for the Protection of Literary and Artistic Works (Berne Convention) in their most recent versions, must be complied with.
  - With the exception of the provisions of the Berne Convention on moral rights, all the main substantive provisions of these conventions are incorporated by reference and thus become obligations under the TRIPS Agreement between TRIPS Member countries. The relevant provisions are to be found in Articles 2.1 and 9.1 of the TRIPS Agreement, which relate, respectively, to the Paris Convention and to the Berne Convention.
  - **Secondly,** the TRIPS Agreement adds a substantial number of additional obligations on matters where the pre-existing conventions are silent or were seen as being inadequate. The TRIPS Agreement is thus sometimes referred to as a Berne and Paris-plus agreement.
- **Enforcement:** The second main set of **provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights.** The Agreement lays down certain general principles applicable to all IPR enforcement procedures. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.

- **Dispute settlement**. The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.
- In addition, the Agreement provides for certain basic principles, such as **national and most-favoured-nation treatment**, and some general rules to ensure that procedural difficulties in acquiring or maintaining IPRs do not nullify the substantive benefits that should flow from the Agreement. The obligations under the Agreement will apply equally to all Member countries, but developing countries will have a longer period to phase them in. Special transition arrangements operate in the situation where a developing country does not presently provide product patent protection in the area of pharmaceuticals.
- The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish. Members are left free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.

➡ SOVEREIGN CREDIT RATING

A sovereign credit rating is an assessment of a country's creditworthiness. It shows the level of risk associated with lending to a particular country since it is applied to all bonds issued by the government.

- When evaluating the creditworthiness of a country, credit rating agencies consider various factors such as the **political environment, economic status, and its creditworthiness** to assign an appropriate credit rating.
- Obtaining a good credit rating is important for a country that wants to access funding for development projects in the international bond market. Also, countries with a good credit rating can attract foreign direct investments.
- The three influential rating agencies include **Moody's Services, Fitch Ratings, and Standard & Poor's**.
- Sovereign credit ratings are important for countries that want to access funds in the international bond market. Usually, a credit rating agency will evaluate a country's economic and political environment at the request of the government and assign a rating stretching from AAA grade to grade D.
- By allowing external credit rating agencies to review its economy, a country shows that it is willing to make its financial information public to investors. A country with high credit ratings can access funds easily from the international bond market and also secure foreign direct investment.
- A low sovereign credit rating means that a country faces a high risk of default and may have experienced difficulties in paying back debts. The level of sovereign credit risk depends on various factors, including a country's debt service ratio, import ratio, growth of domestic money supply, etc.
- Since sovereign credit ratings were introduced in the early 1900s, several countries have defaulted on their international bonds. For example, during the great depression, 21 nations defaulted on their debt obligations in the international bond market. Over the years, more than 70 nations have defaulted on either their domestic or foreign debts.

DETERMINANTS OF SOVEREIGN CREDIT RATINGS

- Credit rating agencies use both qualitative and quantitative techniques to determine the sovereign credit rating of a country. A 1996 paper published by Richard Cantor and Frank Packer titled "Determinants and Impacts of Sovereign Credit Ratings" outlined various factors that explain the difference in credit ratings assigned by the various rating agencies. The factors include:

1. Per capita income

- Per capita income estimates the income earned per person in a specific area. It is calculated by taking the total income earned by individuals in a given area divided by the number of people residing in that area. A high per capita income increases the potential tax base of the government, which subsequently increases the government's ability to repay its debts.

2. GDP growth

- The GDP growth rate of a country refers to the percentage growth in the GDP of a country from one quarter to another as the economy navigates a business cycle. Strong GDP growth means that a country will be able to meet its debt obligations since the growth in GDP results in higher tax revenues for the government.
- However, if the growth rate is negative, it means that the economy is experiencing a contraction, and the country may fail to honour its debt obligation if the situation continues.

3. Rate of inflation

- Sovereign debts are susceptible to changes in the rate of inflation, and an increase in inflation will affect a country's ability to finance its debt. A high inflation rate points to structural problems in a country's finances, and it is likely to cause political instability as the public becomes dissatisfied with the increasing inflation.

4. External debt

- Some countries rely heavily on external debts to finance their development and infrastructure projects. Increasing debt levels translate to a higher risk of default, which may affect its ability to access funding from international lenders. This burden increases if the foreign currency debts exceed the foreign currency income earned by a country in the form of exports.

5. Economic development

- Credit rating agencies consider the level of development when determining the sovereign credit rating of a country. Usually, once a country has reached a certain level of development or per capita income, it is considered less likely to default on its debt obligations. For example, economically developed nations are considered less likely to default compared to developing countries.

6. History of defaults

- A country that defaulted on its debt obligations in the past is considered to have a high sovereign credit risk by rating agencies. It means that countries with a record of defaults receive low ratings, making them less attractive to investors looking for low-risk investments.

➡ ANTI-DUMPING DUTY

- An anti-dumping duty is a **protectionist tariff** that a domestic government imposes on foreign imports that it believes are priced below fair market value.
- In order to protect their respective economy, many countries impose duties on products they believe are being dumped in their national market; this is done with the rationale that these products have the potential to undercut local businesses and the local economy.
- While the intention of **anti-dumping duties is to save domestic jobs, these tariffs can also lead to higher prices for domestic consumers**.
- In the long-term, anti-dumping duties can reduce the international competition of domestic companies producing similar goods.
- The World Trade Organization (WTO) that deals with the rules of trade between nations also operates a set of international trade rules, including the international regulation of anti-dumping measures.

ROLE OF THE WTO IN REGULATING ANTI-DUMPING MEASURES

- The World Trade Organization (WTO) plays a critical role in the regulation of anti-dumping measures. As an international organization, the WTO does not regulate firms accused of engaging in dumping activities, but **it possesses the power to regulate how governments react to dumping activities** in their territories.
- Some government sometimes react harshly to foreign companies engaging in dumping activities by introducing punitive anti-dumping duties on foreign imports, and the WTO may come in to determine if the actions are genuine, or if they go against the WTO free-market principle.
- According to the WTO Anti-Dumping Agreement, **dumping is legal unless it threatens to cause material injury in the importing country domestic market.** Also, the organization prohibits dumping when the action causes material retardation in the domestic market.
- Where dumping occurs, the WTO allows the government of the affected country to take legal action against the dumping country as long as there is evidence of genuine material injury to industries in the domestic market. The government must show that dumping took place, the extent of the dumping in terms of costs, and the injury or threat to cause injury to the domestic market.

➡ ANIMAL HUSBANDRY

- Animal husbandry refers to **livestock raising and selective breeding**. It is the management and care of animals in which the genetic qualities and behaviour of animals are further developed for profit. A large number of farmers depend upon animal husbandry for their livelihood.
- Animals provide us with a variety of food products which have high nutritional values. Therefore, they require a lot of care and attention.

- Animals are bred commercially in order to meet the high demand for food. Dairy products from animals like cows, buffaloes, goats, are rich sources of protein. These animals are called milch animals as they provide us with milk.
- Another set of animals that provide nutrient-rich food are hen, ducks, goose, etc. They provide us with eggs, which again are rich sources of protein.
- Animals like chicken, duck, ox, goat, pigs, etc. are bred for meat. Other than these domestic animals we have other sources of nutrients as well; they are marine animals. The seafood we eat has very high nutrient values. They are sources of a variety of nutrients like fat, proteins, vitamins and minerals.
- The care, breeding, management, etc. of animals are particularly monitored under the department of animal husbandry. Animal husbandry is a large scale business. The animals are bred, cared, reared and sheltered in a farm or region, which are specially built for them. Animal husbandry involves poultry, milk-farms, apiculture (bee agriculture), aquaculture, etc.

TYPES OF ANIMAL HUSBANDRY

DAIRY FARMING

- Dairy farming is the agricultural technique concerned with the long term production of milk, which is then processed to obtain dairy products such as curd, cheese, yoghurt, butter, cream, etc. It involves the management of dairy animals such as cows, buffaloes, sheep, goat, etc.
- The animals are taken care of against diseases and are inspected regularly by veterinary doctors. A healthy animal is physically, mentally and socially sound.
- These animals are milked by hand or by machines. The milk is preserved and converted into dairy products industrially, which are then used for commercial purposes.

POULTRY FARMING

- Poultry farming is concerned with raising and breeding of birds for commercial purposes. Birds like ducks, chickens, geese, pigeons, turkeys, etc. are domesticated for eggs and meat.
- It is very important to take care of the animals and maintain them in a disease-free environment to obtain healthy food from them. The eggs and meat are a rich source of protein.
- Sanitation and hygienic conditions need to be maintained. The faeces of birds are used as manure to improve soil fertility. Poultry farming provides employment to a large number of people and helps in improving the economy of the farmers.

FISH FARMING

- Fish farming is the process of raising fish in closed tanks or ponds for commercial purposes. There is an increasing demand for fish and fish protein. Fish species such as salmon, catfish, cod, and tilapia are raised in fish farms.

BEE FARMING

- Bee farming or apiculture is the practice of maintaining bee colonies by humans in man-made hives. Honey bees are reared on a large scale. The bees are domesticated for honey, wax, and to pollinate flowers. They are also used by other beekeepers for the same purposes. The place where bees are kept is known as an apiary or a bee yard.

➡ FISCAL POLICY

- Fiscal policy in India is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly.
- In recent times, the importance of fiscal policy has been increasing to achieve economic growth swiftly, both in India and across the world. Attaining rapid economic growth is one of the key goals of fiscal policy formulated by the Government of India. Fiscal policy, along with monetary policy, plays a crucial role in managing a country's economy.
- Through the fiscal policy, the government of a country controls the flow of tax revenues and public expenditure to navigate the economy. If the government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit. To meet additional expenditures, the government needs to borrow domestically or from overseas. Alternatively, the government may also choose to draw upon its foreign exchange reserves or print additional money.
- For example, during an economic downturn, the government may decide to open up its coffers to spend more on building projects, welfare schemes, providing business incentives, etc. The aim is to help make more of productive money available to the people, free up some cash with the people so that they can spend it elsewhere, and encourage businesses to make investments. At the same time, the government may also decide to tax businesses and people a little less, thereby earning lesser revenue itself.

MAIN OBJECTIVES OF FISCAL POLICY IN INDIA:

- **Economic growth**: Fiscal policy helps maintain the economy's growth rate so that certain economic goals can be achieved.
- **Price stability**: It controls the price level of the country so that when the inflation is too high, prices can be regulated.
- **Full employment**: It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity

WHAT IS THE DIFFERENCE BETWEEN FISCAL POLICY AND MONETARY POLICY?

- The government uses both monetary and fiscal policy to meet the county's economic objectives. The central bank of a country mainly administers monetary policy. In India, the Monetary Policy is under the Reserve Bank of India or RBI. Monetary policy majorly deals with money, currency, and interest rates. On the other hand, under the fiscal policy, the government deals with taxation and spending by the Centre.

IMPORTANCE OF FISCAL POLICY IN INDIA:

1. In a country like India, fiscal policy plays a key role in **elevating the rate of capital formation** both in the public and private sectors.
2. Through taxation, the fiscal policy **helps mobilise considerable amount of resources for financing** its numerous projects.
3. Fiscal policy also helps in **providing stimulus to elevate the savings rate**.
4. The fiscal policy gives adequate **incentives to the private sector** to expand its activities.
5. Fiscal policy aims to **minimise the imbalance in the dispersal of income and wealth**.

➡ WHOLESALE PRICE INDEX

- Wholesale Price Index, or WPI, measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses. WPI is unlike the Consumer Price Index (CPI), which tracks the prices of goods and services purchased by consumers.
- To put it simply, the **WPI tracks prices at the factory gate before the retail level**.
- The numbers are released by the **Economic Advisor in the Ministry of Commerce and Industry**. An upward surge in the WPI print indicates inflationary pressure in the economy and vice versa. The quantum of rise in the WPI month-after-month is used to measure the level of wholesale inflation in the economy.

WHAT IS THE DIFFERENCE BETWEEN WPI AND CPI INFLATION?

- While WPI keeps track of the wholesale price of goods, the CPI measures the average price that households pay for a basket of different goods and services. Even as the WPI is used as a key measure of inflation in some economies, the RBI no longer uses it for policy purposes, including setting repo rates.
- The **central bank currently uses CPI or retail inflation as a key measure of inflation to set the monetary and credit policy.**

NEW SERIES OF WPI

- With an aim to align the index with the base year of other important economic indicators such as GDP and IIP, the base year was updated to 2011-12 from 2004-05 for the new series of Wholesale Price Index (WPI), effective from April 2017.

HOW DO YOU CALCULATE WHOLESALE PRICE INDEX?

- The monthly WPI number shows the average price changes of goods usually expressed in ratios or percentages.
- The index is based on the wholesale prices of a few relevant commodities available.
- The commodities are chosen based on their significance in the region. These represent different strata of the economy and are expected to provide a comprehensive WPI value.
- The advanced base year 2011-12 adopted recently uses 697 items.

MAJOR COMPONENTS OF WPI

- **Primary articles** are major components of WPI, further subdivided into Food Articles and Non-Food Articles.
  - Food Articles include items such as Cereals, Paddy, Wheat, Pulses, Vegetables, Fruits, Milk, Eggs, Meat & Fish, etc.
  - Non-Food Articles include Oil Seeds, Minerals and Crude Petroleum
- The **next major basket in WPI is Fuel & Power**, which tracks price movements in Petrol, Diesel and LPG
- The **biggest basket is Manufactured Goods**. It spans across a variety of manufactured products such as Textiles, Apparels, Paper, Chemicals, Plastic, Cement, Metals, and more.
- Manufactured Goods basket also includes manufactured food products such as Sugar, Tobacco Products, Vegetable and Animal Oils, and Fats.

WPI FOOD INDEX

- WPI has a sub-index called WPI Food Index, which is a **combination of the Food Articles from the Primary Articles basket, and the food products from the Manufactured Products basket**.

➡ RECESSION

- A recession is when the **GDP growth rate of a country is negative for two consecutive quarters or more**. But a recession can be gauged even before the quarterly gross domestic product reports are out based on key economic indicators like manufacturing data, decline in incomes, employment levels etc.
- Although an economy can show signs of weakening months before a recession begins, the process of determining whether a country is in a true recession (or not) often takes time. A recession is short, but its impact can be long-lasting.

WHY DOES RECESSION OCCUR?

- Understanding the sources of recessions has been one of the enduring areas of research in economics. There are a variety of reasons recessions occur. Some are associated with sharp changes in the prices, which lead to steep drop in spending by both the private and public sectors.
- Some recessions, like the 2008 global financial meltdown, are rooted in financial market problems. Sharp increases in asset prices and a rapid expansion of credit often coincide with accumulation of debt. As corporations and households get over-extended and face difficulties in meeting their debt obligations, they reduce investment and consumption, which in turn leads to a decrease in economic activity. Not all such credit booms end up in recessions, but when they do, these recessions are often costlier than others. In some countries with strong export sectors, recessions can be the result of a decline in external demand. Adverse effects of recessions in large countries—such as Germany, Japan, and the United States—are rapidly felt by their regional trading partners, especially during globally synchronized recessions.
- Some recessions are also a result of global shocks like the current coronavirus-triggered lockdowns, which shut down economic activity in many countries.

IMPACT OF A RECESSION

- One of the consequences of recession is **unemployment,** which tends to increase, especially among the low-skilled workers, due to companies and even government agencies laying off staff as a way of curtailing expenses.
- Another result of recession is **drop in output and business closures**. Fall in output tends to last until weaker companies are driven out of the market, then output picks up again among the surviving firms. With more people out of work, and families increasingly unable to make ends meet, there will be demands for increased government-funded social schemes. With drop in government revenues during recession, it becomes difficult to meet the increased demands on the social sector.
- The most popular, or most recommended, policy for any country to dig itself out of recession is expansionary fiscal policy, or fiscal stimulus. This can be usually a two-pronged approach – **tax sops and increased government spending.**

➡ REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

- RCEP is a free trade agreement (FTA) between the ten member states of the ASEAN and the 5 Asia-Pacific states with which ASEAN has existing FTAs. (Australia, China, Japan, South Korea and New Zealand). RCEP covers trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.
- **Note**: India was also party to the RCEP negotiations. However, India pulled out later since its concerns were not addressed.

BENEFITS OF INDIA JOINING RCEP

- **Effective utilisation of FTAs:** RCEP provides an avenue for India to complement India's existing free trade agreements with the ASEAN and some of its member countries.
- **Greater Regional Integration**: Enable India to strengthen its 'Act East" Policy; quite important because India is not a party to two important regional economic blocs - Asia-Pacific Economic Cooperation and the Trans-Pacific Partnership.
- **Harness Comparative Advantage** in areas such as ICT, Education and Healthcare.
- **Attract Investment** from RCEP member countries
- Opportunities for Integration into **Global Value Chains (GVCs).**

CHALLENGES AND CONCERNS WITH INDIA'S MEMBERSHIP OF RCEP

- **Adverse Trade Deficit**: India has around $104 billion trade deficit with the RCEP member countries, which is 65% of India's total trade deficit. The RCEP agreement forced India to eliminate tariffs on almost 90% of the imported goods over the next 15 years. Hence, India was apprehensive that RCEP agreement would lead to increase in its trade deficit, particularly with countries such as China.
- **Adverse impact of previous FTAs**: The FTAs with Japan and South Korea have led to substantial increase in import of goods into the domestic market leading to adverse impact on domestic manufacturing.
- **Base Year for Eliminating Tariffs**: The RCEP member countries demanded that the base year should be 2013 while India demanded that the base year should be 2019. It is to be noted that India has increased import duties on several products between 2014 and 2019 and hence adoption of 2019 as the base year would have led to lower reduction in the customs duties and offered protection to the Indian Domestic Industry.
- **Ratchet Clause:** Ratchet means a screw which turns only in one direction, up or down and not both ways. This concept is proposed to be applied in RCEP which will disallow the member country to increase the import duties, once reduced. The Indian Government wanted the RCEP member countries to adopt safeguard mechanism which should enable the countries to increase the tariffs on certain products when there is a surge in imports. However, the RCEP member countries wanted that once the tariffs on products is raised, it should not be allowed to reduced.
- **Adoption of liberalized Rules of Origin** would have affected India's interests.
- **Application of Investors to State Dispute Settlement (ISDS) mechanism**: Under multilateral trade and investment agreements such as RCEP, a third party forum is normally

provided for to resolve such disputes. This means that the relevant laws and judiciary in India will no longer be able to intervene in such disputes.

- **Provisions against Data Localization** in the e-commerce chapter in the RCEP goes against India's interests.

STRATEGIC DIMENSION OF RCEP

'Act East' policy : There is inconsistency of some of our recent moves, with the 'Act East' policy–

- One, not joining RCEP.
- Two, at the latest East Asia Summit (EAS), only India and the U.S. were not represented at a summit level [India was represented by the External Affairs Minister].
- In the preceding Foreign Ministers' meeting, our Minister of State was present, not the External Affairs Minister.

GREATER INFLUENCE OF CHINA:

- For China to be part and parcel of RCEP when it is not part of the Trans-Pacific Partnership [TPP] is a big thing. What it does is it formalises its economic network in this part of the world. When people are talking about re-shoring and looking at alternative supply chains, this ensures that will not have much traction.
- If we are looking at the TPP and a Biden administration in the U.S. perhaps coming back in some way, this becomes all the more important. You will have ***a symmetric situation, with China being part of one trading arrangement with the U.S. out of it, and the U.S. part of one arrangement with China out of it***.
- That will leave India out in the cold.

OTHER STRATEGIC ADVANTAGES:-

- Port building in Philippine etc.
- Leverage at international forum like WTO.
- Cooperation in dealing with black money, terrorism, extradition treaty etc.

➡ IMF

- The International Monetary Fund (IMF) is an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
- Created in 1945, the IMF is governed by and accountable to the 190 countries that make up its near-global membership.
- The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

➡ CREDIT RATING AGENCIES

- A credit rating agency is an entity which assesses the ability and willingness of the issuer company for timely payment of interest and principal on a debt instrument. The Rating is denoted by a simple alphanumeric symbol, for e.g. AA+, A-, etc.
- The rating is assigned to a security or an instrument issued by a company.
- Ratings are based on a comprehensive evaluation of the strengths and weaknesses of the company fundamentals including financials along with an in-depth study of the industry as well as macro-economic, regulatory and political environment.

ISSUER PAY MODEL

- Under this Model, the Issuer i.e. the company pays the money to the Credit rating agencies (CRAs) in order to get credit rating for the instruments issued by it.
- In order to enable the CRAs to give the credit rating, the company provides all the necessary details such as company's balance sheet and business details. Based upon a thorough and detailed analysis of such details, the CRA issues credit rating to the instrument issued by the company.

INVESTOR PAY MODEL

- Under this Model, the investor is required to pay the money to the CRA in order to know the credit rating.
- Hence, only those investors who are ready to pay for a rating can access the credit rating of the instrument. The credit rating issued by the CRA is not commonly available to all the investors free of cost.

REGULATOR PAY MODEL

- Under this model, the money is paid by the regulator in the country in order to get the credit rating.
- Either the company or the investor need not pay for the credit rating. The credit ratings would be made available to all the investors.

Issuer Pay Model	Investor pays model	Regulator pays model
Advantages • Ratings are available to the entire market free of charge and will highly aid the small investors. • It gives the rating agencies access to high-quality information that enhances the quality of analysis. **Disadvantages** • It can lead to serious conflict of interest since the	**Advantages** • It would avoid the serious conflict of interest of the CRAs. • This would enable the investors to get the credit rating based on the true and actual financial condition of the company. **Disadvantages** • Ratings would be available only to those investors who can pay for them and takes ratings out of the public domain and thus	**Advantages** It eliminates the conflict of interest as seen in both Issuer Pay Model and Investor Pay Model. **Disadvantages** • The problem with this model lies in the choosing the CRA and payment to be fixed.

CRAs are paid by the company to get the rating. The CRAs may inflate the rating to satisfy the company. • It may lead to **'Rating Shopping'** which refers to the situations where an issuer approaches different rating agencies for the ratings and then choose to publish the most favourable ratings to disclose it to the public via media while concealing the lower ratings.	affects the small investors. • The company may not always share all the necessary information with the CRAs which then can have an adverse impact on the quality of the ratings. • It can pose serious conflict of interest involving the investors themselves. If investors are the payees, they can influence CRAs to give lower-than-warranted ratings to help them negotiate higher interest rates.	• The CRA chosen by the regulator may not be able to provide the best credit rating. Further, if the regulator pays less amount of money to the CRA, the CRA may find it difficult to continue with its business and could have an adverse impact on the quality of the ratings issued.

➡ UNCONVENTIONAL MONETARY POLICIES

Zero Interest Rate Policy (ZIRP)	Negative Interest Rate Policy (NIRP)	Helicopter Money
• This policy was **followed in USA from 2008** in the wake of financial crisis in order to inject money into the economy to promote economic growth. • Under this policy, the US Fed Bank provided loans to the banks at almost 0.25% rate of interest. The idea was to transmit lower rate of interest to the corporates and borrowers in order to spur demand. • This was also known as **Quantitative Easing**.	• This policy was followed in developed economies such as Japan, Denmark, Sweden, Switzerland etc. • Usually, the banks park their surplus reserves with the Central Bank and earn interest. • However, under the NIRP, the banks would be required to pay interest to the central bank if they park their surplus reserves. • The idea here is that the banks **should provide loans to the borrowers at cheaper rates** instead of parking their surplus reserves with the Central Bank.	• The adoption of Helicopter money was contemplated by Japan in order to overcome the 2008 financial crisis. • It is a hypothetical concept put forward by the economist, **Milton Friedman**. • This involves the central bank of the country printing currency notes and distributing it to the people free of cost. The idea here is to promote demand in the economy during recession. • It is different form ZIRP and NIRP, as under these two the people get loans at cheaper rate which increases the debt liability. • But in helicopter money since people receive money free of cost, it does not lead to increase in debt liability.

➡ YIELD CURVE

- A yield curve is a graph that depicts yields (Interest rates) on bonds ranging from short-term debt such as one month to longer-term debt such as 30 years.

  Usually, in order to track the yield curve, the yields of the Government bonds are taken into consideration. The Yield curve may provide important clues related to present and future economic conditions in a country.

TYPES OF YIELD CURVE AND THEIR INTERPRETATION

NORMAL YIELD CURVE

- The yields on the bonds depends upon the risk involved. Higher the risks, higher would be the yields.
- Normally, the yields on short term maturity bonds is lower than that of long term maturity bonds. The higher yields on the long term maturity bonds can be attributed to increased risk in the longer term (say 30 years). Hence, under normal conditions, the yield curve is upwards sloping.
- A normal yield curve indicates yields on longer-term bonds may continue to rise, responding to periods of economic expansion.

INVERTED YIELD CURVE

- When there are signs of slowdown in an economy, it would mean that the economy faces risk in the short term. However, in the long term, the economy may come back to normalcy. Hence, due to this, the yield on the short term bonds becomes higher than the yields of long term bonds.
- This is because the risks associated with the short term bonds is higher than the risks associated with long term bonds. Hence, an inverted yield curve points towards a probable economic recession.
- The present development in the US bond market has raised concerns that the inverted yield curve possibly points to global economic recession in future.

➡ WAYS AND MEANS ADVANCES

- The RBI acts as banker to the government i.e. it lends money to the Central and State Government. Earlier, the government relied on ad-hoc Treasury bills to borrow money from RBI. However, it was replaced by Ways and Means advances in 1997.
- Ways and Means advances **acts as a loan facility to the central and state governments** to meet their cash requirements. This facility is availed by the Government due to the temporary mismatches in their receipts and expenditure. The loan taken by the government through ways and means advances need to be paid back in 90 days. The interest rate of WMA currently is the repo rate. The limits for WMA are mutually decided by the RBI and Government of India.
- When the WMA limit is crossed the government takes recourse to overdrafts, which are not allowed beyond 10 consecutive working days. The interest rate on overdrafts would be 2 percent more than the repo rate.

REASONS FOR REPLACING AD-HOC T-BILLS WITH WMAS

- Earlier, under an agreement between RBI and Government, the central government needed to always hold certain amount of cash balances. The minimum cash limit was fixed in order to ensure smooth conduct of Government business and to ensure that government has sufficient cash to meet its operational requirements.
- However, if the cash balances reduced to below the threshold level fixed, the RBI provided the cash through the creation of ad-hoc treasury bills. The ad hoc Treasury Bills, which were meant to be temporary, gained a permanent as well as a cumulative character. Further, ad-hoc treasury bills became an attractive source of financing Government expenditures since it was available at an interest rate which was below the market rate of interest.
- Thus, the ad-hoc treasury bills led to increase in the government borrowings leading to poor financial discipline.

DIFFERENCES BETWEEN AD-HOC TREASURY BILLS AND WMA

- WMA would not be a source of financing Budget Deficit. It is only a mechanism to cover day-to-day mismatches in receipts and payments of the Government.WMA will also not be shown as a source of financing in the Budget estimates.
- Secondly, limits on WMA will be fixed and any excess withdrawal by Government beyond the limit will become permissible for not more than 10 consecutive working days.
- Thirdly, WMA will be charged at market related interest rate i.e. Repo rate.

➡ MUTUAL FUNDS

- Mutual Fund Company pools money from the investors which in turn is invested in different financial instruments such as shares, bonds, debentures, commercial paper etc.
- A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) before it can collect funds from the public.

TYPES OF MUTUAL FUND SCHEMES

- A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.
- An open-ended scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period.
- On the other hand, a close-ended scheme has a stipulated maturity period e.g. 3-5 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the new fund offer and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

WHAT ARE FIXED MATURITY PLANS (FMPS)?

- FMPs are close-ended mutual funds that one can invest in only during a new fund offer (NFO).
- The FMPs typically invest in debt instruments such as Bonds, commercial papers etc. that have the same maturity as that of the FMP. For example, if the duration of FMP is of 2 years, it would invest in only those debt instruments that have maturity period of 2 years.
- Because of such a nature of investment, the FMPs do not face interest rate risks. However, they face credit risks as there could be default on the payment by the company which issues the debt instrument.

➡ BIT

- Bilateral investment Treaties (BITs) are agreements between two countries for the reciprocal promotion and protection of investments in each other's territories by individuals and companies situated in either State. BITs encourage foreign investors to invest in a State and there by contributing towards overall developments and advancements of the economy.

IMPORTANT FEATURES OF BIT:

- **Fair and Equitable Treatment (FET)**: Mandates States to have a stable and predictable legal framework regulating investments which meets the reasonable expectations of the investors.
- **Full Protection and Security (FPS):** Mandates States to provide full protection and safety to foreign investments.
- **National Treatment:** The foreign investors should be treated at par with the domestic investors.
- **Most Favourable Nation Treatment (MFN):** Concession extended to foreign investor of a particular country would be extended to foreign investors of other countries.
- **Expropriation (Taking over property):** Bars the state from expropriating the foreign investments except under exceptional circumstances.
- **Repatriation of Investment and Returns**: Mandates the states to provide unrestricted power to the foreign investors to repatriate their investments and returns.
- **Investor State Dispute Resolution (ISDS):** Foreign investors can directly initiate arbitration proceeding against a State without approaching its own government. To handle such a dispute, an ad-hoc tribunal may be set up in accordance with the Arbitration rules of the United Nations Commission on International Trade Law

➡ CAPITAL ADEQUACY RATIO (CAR)

- The CAR has been laid down by the BASEL committee on banking supervision under Bank of International Settlement located in Basel, Switzerland.
- It has been laid down to ensure financial stability and to prevent failure of banks.
- So far, 3 BASEL Norms have been laid down: Basel I (1998), Basel II (2004), Basel III (2009).
- **CAR = (Tier-1 Capital + Tier-2 Capital)/ RWAs * 100.**
- The Banks in India are required to maintain CAR of 9% (Tier-1 capital: 7% + Tier-2 Capital: 2%) along with Capital Conservation buffer (CCB) of 2.5%.
- Unlike the BASEL III norms, which stipulate capital adequacy of 10.5% (8%-CAR + 2.5% CCB) , the RBI has mandated to maintain capital adequacy of 11.5% (9%-CAR + 2.5%-CCB).

➡ DEVELOPMENT BANKS

- As the name suggests, these banks are specialised financial institutions that are set up so as to promote the socio-economic development in a country. These Banks provide long term credit at concessional rates to certain critical sectors such as Agricultural, Infrastructure, Industries etc.

- Most of the advanced economies such as USA, UK, Japan etc. had set up development banks in the past which enabled them to attain higher growth momentum. On similar lines, China has also set up development banks in the field of agriculture and Trade so as to promote growth and development.
- Some of the development Banks in India include NABARD (Agriculture and Rural Development), Industrial Finance Corporation of India (Industrial Development), SIDBI and MUDRA (MSME Development), EXIM Bank (Trade Development), National Housing Bank (Housing Infrastructure).

DIFFERENCE BETWEEN DEVELOPMENT BANKS AND COMMERCIAL BANKS

- **Source of Funds**: The Commercial Banks are majorly dependant on the depositors' money for extending funds while the development Banks are dependent on the Government's financial support.
- **Nature of Loans**: The Commercial Banks extend short-term loans while the development Banks extend long-term loans.
- **Nature of Role**: The role of the commercial banks is confined to the extension of loans while the role of development banks is much more multidimensional. The Development Banks also offer various kinds of assistance to the companies such as identification of projects for undertaking investment, ensuring that the companies invest in financially viable projects, offering managerial assistance for the execution of projects etc.

Nature of Assistance provided by the Development Banks: The Development Banks may offer the following kinds of assistance to the companies:

- Extend long term finance at concessional rates to the companies.
- Subscribe/buy the shares of the companies which are involved in financing of infrastructure, industrial or housing projects
- Partial Credit Guarantee on the repayment of the bonds issued by the companies. This means that if the company issuing the bond defaults on its payment, the Development Bank would repay back a certain amount of money to the investors. This is known as **Credit Enhancement**. Such kind of guarantee on the repayment of loans reduces the risk enabling the companies to borrow money at lower rates of interest.

BENEFITS OF DEVELOPMENT BANKS

- **Meet Investment Needs**: The Government has set a vision to realise $ 5 trillion by the end of 2024-25. In this regard, the Economic Survey has recommended that Indian economy has to shift gears from consumption expenditure to Investment, wherein the private sector investment should become the main engine of growth of Indian Economy. The setting up of the development Banks would boost the credit creation in the economy leading to higher investment by the private sector.
- **Reduce Pressure on Commercial Banks**: The Financial System in India is not diversified and it is basically dominated by the Indian Banks. The Banks have mainly relied on short-term deposits for lending to long term infrastructural projects leading to Asset-Liability Mismatch and higher NPAs. The developed economies have diversified financial market consisting of Banks (for meeting short-term credit requirements) and bond market (for meeting long term

credit requirements). The setting up of development Banks would deepen the bond market (through credit enhancement) and reduce pressure on the commercial banks leading to diversified financial market.

- **Lower Cost of Capital**: As stated before, the credit enhancement provided by the development Banks would enable the companies to raise loans at lower rates of interest leading to decrease in the cost of capital.
- **Reduce Foreign Currency Exposures**: Presently, some of the Infrastructural and housing finance companies borrow loans from overseas market. The depreciation in the value of Rupee may put additional burden on them and expose them to fluctuations in the exchange rate. The development banks would enable these companies to raise loans in the domestic market and reduce the foreign currency exposure.

➡ EXCHANGE TRADED FUND (ETF)

- ETF is a fund that is created by pooling together assets and then dividing this cumulated asset into individual units that are traded on the stock exchange. The value of the ETF comes from the value of the underlying assets (shares of stock, bonds, foreign currency, etc.). These ETFs are listed in the stock exchanges are similar to like shares and can be traded like ordinary shares. In nature, the ETFs are index funds because they comprise of shares of different companies.
- A bond ETF invests in a basket of bonds in the underlying index. It can invest in the government, corporate, or public sector unit bonds.

FEATURES OF BHARAT BOND ETF

- The Bharat ETF will be a basket of bonds issued by CPSE/CPSU or any other Government organization. These Bonds will be tradable on secondary market.
- The unit size of Bharat bond ETF has been kept at smaller value of Rs 1000 to attract retail investors. Each ETF will have a fixed maturity date with 2 maturity series - 3 years and 10 years. The index will be constructed by an independent index provider, National Stock Exchange.

BENEFITS OF BHARAT BOND ETF

For Investors

- Safety as they are investing in government bonds;
- Liquidity as they are tradable on exchange;
- Since unit value is only Rs. 1000 it provides for easy and low-cost access to bond markets thereby increasing the participation of retail investors who are currently not participating in bond markets due to liquidity and accessibility constraints.

For CPSEs

- Additional source of meeting their borrowing requirements apart from bank financing.
- It will expand their investor base through retail participation which can increase demand for their bonds.
- With increase in demand for their bonds, these issuers may be able to borrow at reduced cost thereby reducing their cost of borrowing over a period of time.

Overall Impact:

This is expected to eventually increase the size of bond ETFs in India leading to achieving key objectives at a larger scale - deepening bond markets, enhancing retail participation and reducing borrowing costs.

➡ WTO: DISPUTE SETTLEMENT MECHANISM

Settling disputes is the responsibility of the Dispute Settlement Body which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish "panels" of experts to consider the case, and to accept or reject the panels' findings or the results of an appeal.

- **First stage**: Consultation (up to 60 days). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves.
- **Second stage**: If consultations fail, the complaining country can ask for a panel to be appointed. The panel's final report should normally be given to the parties to the dispute within six months. The report becomes the Dispute Settlement Body's ruling or recommendation unless a consensus rejects it. This entire process should be completed within 1 year.
- **Appeal Stage**: Either side can appeal a panel's ruling. Each appeal is heard by three members of a permanent seven-member Appellate Body set up by the Dispute Settlement Body and broadly representing the range of WTO membership. Members of the Appellate Body have four-year terms. They have to be individuals with recognized standing in the field of law and international trade, not affiliated with any government. The appeal can uphold, modify or reverse the panel's legal findings and conclusions. The Dispute Settlement Body has to accept or reject the appeals report and rejection is only possible by consensus.

➡ FISCAL DEFICIT

The Government is said to incur deficit if its expenditure is higher than its revenue. The Government deficit is mainly measured in 3 different ways:

- **Revenue Deficit (RD):** It is calculated as (Revenue Expenditure- Revenue Receipts) i.e. it highlights the deficit in the revenue account.
- **Fiscal Deficit (FD)**: It denotes the total borrowings of the Government for the entire financial year. The borrowed money may be used for meeting revenue expenditure (maintenance related expenses) as well as Capital expenditure (Creation of new assets).
- **Primary Deficit (PD)**: It is calculated as Fiscal Deficit- Interest payments.

RELATIONSHIP BETWEEN FISCAL DEFICIT AND ECONOMIC GROWTH

The developing countries such as India usually generate less amount of tax revenue. However, they are required to undertake higher amount of expenditure for the social sector (such as Education, health etc.) as well as for creating new assets and infrastructure.

Hence, they would be required to borrow money in order to meet their expenditure requirements. However, a higher amount of borrowings can increase the rate of inflation in the economy and can hence pose an adverse risk. Thus, there should be a limit on the Government's borrowings so that it does not lead to Inflation in future.

At the same time, the borrowed money should be ideally used for creating new assets and infrastructure (Capital Expenditure) rather than meeting its day-to-day maintenance related expenditure (revenue expenditure). This is because the money spent on the Capital expenditure has much higher returns unlike the maintenance related expenditure. For instance, higher investment in development of ports and airports can have a number of benefits such as creation of employment opportunities, development of infrastructure, boosting of exports etc. which in turn enhances the ability of the government to repay the borrowed money.

Thus, the Fiscal Deficit is said to be desirable in a country like India if it fulfills 2 conditions:

1. There must be limit on the fiscal deficit so that higher fiscal deficit does not lead to increase in Inflation.
2. The Fiscal Deficit must ideally be used for financing the creation of assets.

➡ LONG TERM REPO OPERATIONS

- The Repo rate is the rate at which the banks borrow mainly short term loans from the RBI. Under Repo mechanism, the banks sell their G-Secs to the RBI with an agreement to repurchase the G-Sec at a future date and at fixed price. The rate at which the banks repurchase the G-Secs from the RBI is known as the Repo rate.
- Depending upon the maturity period of the loans, there are different types of Repos in India. These are:

  Overnight Repos: (Maturity period of 1 day);

  Term Repos: There are different types of term repos depending upon the maturity period. Some of the term repos include 7-day, 14-day, 21 day, 28-day, 56-day.
- The overnight repos are available to the Banks from the RBI from Monday to Friday. However, the term repos are available to the Banks only when the RBI notifies about the Term Repos (Usually 2-3 days in a week). Further, the interest rate on the term repos is not same as the Repo rate. The Interest rate on the Term repos is determined through auction and hence is usually higher than the Repo rate.

LONG TERM REPO OPERATIONS (LTRO)

- It is a new policy tool used by the RBI to inject more liquidity into the Economy. It is considered to be similar to the term repos, but with a longer maturity period of 1 year and 3 years. Through the LTRO, the RBI seeks to inject long term liquidity into the economy at a lower interest rate. This is so because the interest rate on the LTRO is fixed at the Repo rate (which is considered to be much lower than the rate of interest on the 1 year or 3 year loans).
- Some of the basic features of the LTRO include:

  Total Funds to be injected: Up to Rs 1 Lakh crores.

  Interest Rate: Repo Rate.

  Method of Operations: The LTROs would be carried out through e-Kuber (The e-Kuber is the Core Banking Solution of the RBI which enables each bank to **connect their single**

current account across the country. The e-Kuber is also used by RBI to execute various transactions with banks such as carrying out overnight and term repos, reverse repos etc.)

NEED FOR LTROS

The RBI has consistently been reducing the Repo rates to inject liquidity into the economy. However, the Banks have not reduced the rate of interest on loans commensurately due to the poor monetary policy transmission. Further, the rate of interest on the long-term loans has remained much higher and has hindered the investment rates within India. Hence, the RBI has carried out the LTROs for the following purposes:

1. Reduce rate of Interest on the long term loans.
2. The reduction in the long term rate of interest would force the banks to reduce the rate of interest on short term loans. (The rate of interest on long term loans is usually higher than that on short term loans).
3. Incentivise the Banks to reduce their overall lending rates and improve the monetary policy transmission.

➡ RUPEE DEPRECIATION

- Rupee Depreciation refers to decrease in the value of Rupee with respect to other currencies such as dollar, euro, pound etc. For Example: Earlier $1= Rs 65; Now $1= Rs 73
- As shown in the example, due to the change in the exchange rate, one would be required to pay Rs 8 more to get the same dollar.
- Hence, the dollar value is said to have appreciated and rupee value depreciated.

Why does the Rupee value depreciate? The value of the currency depends mainly on demand and supply. For Example:

Higher demand for Dollar (More Outflow) and Lower Supply of Dollar (Less Inflow of Dollar)

Thus, Rupee may depreciate on account of following factors:

IMPACT OF RUPEE DEPRECIATION ON ECONOMY

1. **Impact on Imports and Exports**
   - In the event of Rupee Depreciation, the imports become costly while exports become competitive.
   - For example, Earlier $1 = Rs 65; Now $1 = Rs 73
   - Now, to import goods worth $1, importers would be required to pay Rs 8 more. Similarly, on exporting goods worth $1, exporters would earn Rs 8 More. Hence, Rupee depreciation adversely affects the importers while it benefits the exporters.
2. **Impact on Balance of Trade and Current Account:** India is majorly import-dependent country. Hence, costlier imports adversely affect the Trade balance and hence it leads to the widening of Current Account Deficit. It is to be noted that even though the Exports from India may increase during Rupee depreciation, it does not have much impact on Indian Economy since the imports are much higher than Exports.

3. **Impact on Inflation Rate:** The higher value of imported goods drives up the rate of Inflation in India leading to import-led inflation. According to RBI's Report, 5% depreciation of the currency would add about 15 basis points to domestic inflation.
4. **Impact on Forex Reserves:** The RBI intervenes in the forex market in order to reduce volatility in the exchange rate. The RBI sells dollars from forex reserves in order to check Rupee depreciation. Hence, this leads to decrease in volume of Forex reserves.
5. **Impact on External Commercial Borrowings (ECBs):** Raising money via the ECB route has emerged as a favourite mechanism among companies. However, depreciating rupee poses risk to external commercial borrowing (ECB) as the cost of borrowing goes up.

➡ MERCHANT DISCOUNT RATE (MDR)

- MDR is a fee charged for the merchants by the bank for accepting payments from customers through credit/debit cards/QR Code in their establishments. The merchant discount rate is expressed in percentage. This charge is in turn distributed among three stakeholders— ***customer's bank, merchant's bank and payment system operator (Visa, Mastercard, NPCI- RuPay or BharatQR).***
- **Government's Initiative:** In December 2019, the Government decided to waive off MDR charges on transactions done through RuPay and BHIM-UPI payments in order to push digital payments. This came into effect from Jan 1, 2020. The government has indicated that the Reserve Bank of India will absorb these costs from the savings that will accrue on account of handling less cash as people move to these digital modes of payment.

CRITICAL ANALYSIS OF GOVERNMENT'S INITIATIVE:

Positives: Bring down cost of digital payments done through RuPay and BHIM-UPI; Encourage adoption of indigenously developed payment tools; Promote Cashless economy; Nudge other payment operators such as Visa, Mastercard to bringdown their commission etc.

Negatives:

- Financial burden on the RBI: Rs 1800 crores.
- Loss to NPCI
- Banks have shifted to other payment service providers such as Visa, Mastercard to earn commission on digital payments.
- Number of fintech companies such as PayTM, Googlepay etc. have integrated UPI into their apps for facilitating digital payments. The waiver on MDR charges through UPI would lead to reduced profits, discourage innovation and hurt the fintech sector. Zero MDR charges would thus prevent growth of Fintech companies which in the long run could hurt the digital payments ecosystem.

WHAT NEEDS TO BE DONE?

- **Committee on Digital Payments under the chairmanship of Ratan P Watal:** MDR should be high enough for new players to be incentivized to enter the digital payments ecosystem and low enough that merchants are encouraged to adopt digital payments.
- **Nandan Nilekani Committee on deepening digital payments:** Let the MDR be market-determined.

Further step: Government should provide for a lower MDR on QR code / UPI/ RuPay Debit card transactions. This should be accompanied by tax incentives to merchants who accept electronic transactions and promote incentive schemes to improve popularity of QR code transactions in the country.

➡ MONETARY POLICY TRANSMISSION

- Monetary policy transmission refers to the process through which changes in the policy rates (such as Repo) by the RBI leads to commensurate changes in the rates of Interest of the Banks. As the Repo rate increases, the rate of Interest on the deposits and loans also increases. Similarly, as the repo rate decreases, the rate of interest decreases.
- In case of India, while increase in Policy rates get transmitted immediately, the rate cuts get transmitted with a significant amount of lag. So, even when the RBI reduces the Repo rate, the Banks may continue to maintain higher rates of Interest on loans. As seen recently, this inefficiency in the monetary policy transmission hinders the credit creation in the economy during the economic slowdown.

REASONS FOR POOR MONETARY POLICY TRANSMISSION:

- **Over-dependence on Deposits**: The Banks rely more on Public deposits rather than on RBI for raising money to give loans. Had the Banks been more dependent on the RBI for the raising money, then changes in the Repo rate would have been easily transmitted into changes in the rate of Interest on loans.
- **Deposits with higher maturity period:** Deposits with maturity of one year and above constitute more than 50% of total deposits. Most of these deposits are fixed-Interest rate deposits (and not floating rate) and hence it becomes difficult for the banks to reduce the rate of Interest on the loans without undertaking losses.
- **Small savings Schemes**: The Government is operating a number of small savings schemes such as PPF, National Savings Certificate (NSC), Kisan Vikas Patra etc. Usually, the interest rates on these savings schemes tend to be higher as compared to rate of Interest on Banks' deposits.
- **Higher NPAs:** The higher NPAs of the Banks accompanied by higher provisioning requirements would reduce the ability of the Banks to offer loans at lower rates of Interest and thus hinders monetary policy transmission.
- **Opaqueness in calculation of Marginal Cost of Lending rate (MCLR) :** The MCLR is the minimum rate of interest below which the Banks are not allowed to give loans. The MCLR, which replaced the earlier Base rate regime was introduced in 2016.

➡ PAYMENT AND SETTLEMENT SYSTEM

It is a system that facilitates transfer of money from a payer to the beneficiary. It includes both paper-based payments such as cheques, drafts as well as electronic payments such as Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), Immediate payment Service (IMPS), UPI etc.

- **Payment systems under RBI:** Real Time Gross Settlement (RTGS) and National Electronics Fund Transfer (NEFT). The RTGS system is used for high-value transactions wherein minimum transaction amount should be Rs 2 lakhs and above.
- **Payment systems under National Payments Corporation of India (NPCI):** Umbrella organization for operating retail payments and settlement systems. It is an initiative of RBI and Indian Banks' Association (IBA).
  - **RuPay Contactless**: Allows cardholders to wave their card in front of contactless payment terminals without the need to physically swipe or insert the card into a point-of-sale device.
  - **Unified Payments Interface**: Real-time interbank payment system for sending or receiving money.
  - **BHIM App**: BHIM is a mobile app for Unified Payments Interface. The BHIM apps has 3 levels of authentication.
  - **Bharat BillPay**: One-stop ecosystem for payment of all bills
  - **Immediate Payment Service**: Real time interbank payment system
  - **National Financial Switch:** Network of ATMs in India.
  - **BharatQR:** A common QR code built for ease of payments
- **Card Networks operated by Non-Banks**: Visa, MasterCard, American Express etc.

➡ PUBLIC DEBT

- **Debt Position of the Central Government:** The Fiscal deficit represents the Government's borrowings for a single financial year. However, the Public Debt represents the total accumulated borrowings which have not been repaid back so far. The Debt position of the central Government can be analyzed by looking at the total liabilities of the Central Government. The Total liabilities of the Central Government include debt contracted against the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account.
- The Total liabilities of the central Government as on 2019-20 stands at 46.5% of India's GDP. The liabilities are categorized under two heads- Public Debt and Liabilities under Public Account of India.
- Depending upon the source of Government's borrowings, the Public Debt is categorized into Internal and External Debt.
- Some of the major sources of Internal Debt are:
  - **Treasury Bills**: Instruments to raise short-term loans
  - **Dated Securities**: Used for raising long term loans
  - **Ways and means advances (WMA)**: Borrowings from the RBI to meet immediate cash requirements which can arise due to temporary mismatches in receipts and expenditure.
  - **Sovereign Gold Bonds**: Government securities denominated in terms of Gold.
  - **Bank Recapitalization Bonds**: Bonds issued by the Government to raise loans for undertaking recapitalization of Public Sector Banks (PSBs)
  - **Securities issued against NSSF**: The money collected under various small savings schemes such as Post office Deposits, National Savings Certificate, PPF etc. is deposited under National Small Savings Fund (NSSF) which is maintained as part of Public Account of India. Certain

percentage of funds under the NSSF is used to investment in special G-Secs and hence considered to be Government's borrowings.

Important Note: Presently, major part of Internal debt is dominated by market borrowings i.e. Treasury Bills and Dated Securities. It is followed by Securities issued against NSSF.

➡ SCHEDULED BANKS

DEFINITION OF SCHEDULED BANK:

The definition of the Scheduled Bank has been provided under the RBI Act, 1934. According to the act, a scheduled Bank is one which is

- Included in the second schedule of the RBI Act
- Has a paid-up capital of not less than 5 lakhs.
- Satisfies that its affairs are not being conducted in a manner which is detrimental to the interests of the depositors.

It includes different categories such as Scheduled commercial Banks, Public Sector Banks, Cooperative Banks, Regional Rural Banks etc.

Note: The RBI usually comes out with detailed policy guidelines for the issuance of Banking Licenses. For example, the RBI has stipulated the minimum capital requirement of Rs 500 crores for the issuance of new banking licenses. Further, to be eligible to get a Banking license, an entity should have successful track record of running its business for at least 10 years. These requirements are in addition to the requirements mentioned in the RBI Act, 1934.

Based upon fulfilment of these requirements, in 2016, the RBI had given approval for 2 new Banks- IDFC and Bandhan Bank.

➡ GIG ECONOMY

- It refers to the form of economy in which the organizations employ contractual, non-permanent employees instead of permanent employees. The Gig-economy workers range across the spectrum of professions, from the highly paid to below-minimum-wage. This trend is very strong in advanced economies like the US wherein a large number of firms hire contractual workers on a short-term basis.
- **Note:** Gig workers as workers outside the traditional employer-employee relationship. On the other hand, Platform workers are defined as those who access organisations or individuals through an online platform and provide services or solve specific problems. Hence, there is a considerable amount of overlapping between the Gig workers and Platform workers. For example, Ola Cab Driver can be considered to be belonging to both these categories of workers.
- **Difference between Normal Employees and Gig/Platform workers**: In the case of an ordinary employer-employee relationship, the employer dictates when, where, and how the work is carried out. Whereas Gig/Platform workers have complete control over those aspects subject to the terms of the contract. They are only responsible for ensuring that the expected result is met.

REASONS FOR THE DEVELOPMENT OF GIG ECONOMY

- Rapid growth of the digital communication wherein the workforce is highly mobile and work can be done from anywhere without any geographical barriers.
- Adoption of Gig Economy reduces the operating costs of the firms since the companies would not be liable to pay pension and other social security benefits.
- Flexibility to the workers wherein they can switch jobs frequently and choose work which suits their area of interest.
- Recent slowdown in the formal employment creation has also boosted the development of Gig Economy.

PROTECTION PROVIDED TO GIG/PLATFORM WORKERS UNDER SOCIAL SECURITY CODE 2020:

The Code on Social Security, 2020 provides for the registration of all the Gig workers and Platform workers. It calls upon the Central and State Governments to formulate schemes to ensure social security benefits such as Insurance for the Gig workers. It also empowers the Government to set up Social Security Funds for their benefit. The contribution to these funds may be funded from contributions of Centre, State and aggregator platforms such as Uber, Zomato etc.

CONCERNS/ CHALLENGES

- **Lack of Labour Rights:** Platform workers often have limited control over their work (for instance, in some cases they cannot set prices, they are required to wear uniforms, they cannot choose the order of their tasks, etc.). This in turn makes them prone to the exploitation of the platform-based companies.
- **Greater control by Employees:** It is being said that the Gig/Platform workers enjoy higher level of freedom and flexibility in their work. However, these advantages get over-shadowed by their higher dependence on the platforms. Take for instance, if a person wants to work a cab driver or food delivery agent, he needs to own vehicle. Since, poor people do not have access to loans, they come to be dependent on the platforms for the loans provided by them. This in turn reduces the flexibility associated with the Gig Economy. The Workers would have to work according to the needs and requirements of the Platform companies.
- **No Guaranteed Benefits:** The Industrial workers are automatically guaranteed social security benefits such as Provident Funds, Insurance, Maternity benefits etc. However, such benefits are not automatically extended to Gig Workers. The Central and State Governments are required to come up with schemes to provide these benefits. So, the social security benefits for the Gig Workers depend upon the political will of the Government.
- **No Guaranteed Contribution by Aggregator Platforms**: The Code on Social security mandates the Industries employing workers above a certain threshold level to compulsorily contribute towards social security benefits such as Provident Fund and Insurance. However, as far as Gig Workers is concerned, the language in the code does not provide for compulsory contribution by the aggregator platforms. Hence, it is left open to the Government whether to seek contribution from the aggregator platforms or not.
- **No legal Rights for Gig Workers:** The Industrial workers are given legal rights over the various aspects of work such as Payment of Minimum wages, safe working conditions, right to strike, right to form trade Unions etc. However, such rights have not been recognised in case of Gig workers.

➡ BUYBACK OF SHARES

- **Meaning of Buyback**: Buy-back is a procedure that enables a company to purchase its shares from its existing shareholders, usually at a price near to or higher than the prevailing market price. When a company buys back, it reduces its outstanding shares in the market, which increases the percentage shareholding for the remaining shareholders.
- **Mechanism for Buy back of Shares**: In a buy-back, the company generally offers its shareholders an option to tender a portion of their shares within a certain time frame and at a specified price. This price compensates the shareholders for tendering their shares rather than holding on to them.

REASONS FOR THE BUYBACK OF THE SHARES:

- To enable the promoters to increase their stakes in the company.
- To improve earnings per share;
- To provide an additional exit route to shareholders when shares are undervalued or are thinly traded;
- To enhance consolidation of stake in the company;
- To return surplus cash to shareholders;
- To support share price during periods of sluggish market conditions

WHY HAS THE GOVERNMENT ASKED THE PSUS TO GO FOR BUYBACK OF SHARES?

- Buyback of shares can be considered as mechanism for undertaking disinvestment of Government's ownership in PSUs. For example, let's say, a particular PSU has total share capital of Rs 100 crores (10 crore shares of Rs 10 each). Out of total 10 crore shares, 6 crore shares are held by Government and remaining 4 crore shares are held by Public. This translates into 60% ownership for the Government and 40% ownership of the Public.
- If the PSU buys back 2 crore shares from the Government, then the total shares of the company would be reduced to 8 crores. Out of which, 4 crore shares would be with Government and remaining 4 crore shares with Public. This translates into 50% ownership for the Government and 50% ownership of the Public.

How will it help the Government?

1. The Government has set an ambitious disinvestment target of Rs 2.1 lakh crores for the present financial year. However, the economic slowdown would make it difficult for the Government to meet its disinvestment target. In this regard, to a certain extent, buyback of shares would help the Government to raise revenue by undertaking disinvestment.
2. Some of these PSUs are sitting on cash surpluses, but unable to undertake capital expenditure due to the prevailing economic slowdown. The Government wants to use this surplus cash to boost demand.

➡ BASE EROSION AND PROFIT SHIFTING (BEPS)

- It refers to tax avoidance strategy wherein the companies take undue advantage of the tax exemptions in order to pay less tax.
- As part of tax avoidance strategy, the Multinational companies **shift their profits from high tax jurisdictions to low tax jurisdictions (tax havens)** in order to pay less tax.
- This leads to erosion of the tax base of the high tax jurisdictions. This causes significant revenue losses for the high tax jurisdictions.
- A report published by OECD in 2017 has stated that BEPS is responsible for tax losses of around $200bn globally. Some of the tools of the BEPS are misuse of DTAA, Round Tripping, Treaty Shopping.

➡ DTAA

- A DTAA is a tax treaty signed between two or more countries. Its key objective is that **tax-payers in these countries can avoid being taxed twice for the same income**.
- A DTAA applies in cases where a tax-payer resides in one country and earns income in another. DTAAs are intended to make a country an attractive investment destination by providing relief on dual taxation.
- Such relief is provided by **exempting income earned abroad from tax in the resident country**. India has signed DTAA with more than 80 countries.

➡ GEOGRAPHICAL INDICATION (GI) TAG

- A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory. Such a name conveys an assurance of quality and distinctiveness which is essentially attributable to its origin in that defined geographical locality.
- GI tag is covered under WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- India has enacted the Geographical Indications of Goods (Registration and Protection) Act, 1999 to promote and protect GI tags in India.

Benefits:

A geographical indication right enables those who have the right to use the indication to prevent its use by a third party. It provides legal protection to Indian Geographical Indications which in turn boost exports. It promotes economic prosperity of producers of goods produced in a geographical territory.

Application for the registration of a geographical indication: Any association of persons, producers, organisation or authority established by or under the law can apply for registration of GI Tag. The applicant must represent the interest of the producers.

Validity: The registration of a geographical indication is valid for a period of 10 years. However, it can be renewed from time to time for further period of 10 years each.

HOW IS GI TAG DIFFERENT FROM A TRADEMARK?

- A trademark is a sign which is used in the course of trade and it distinguishes goods or services of one enterprise from those of other enterprises.
- Whereas a geographical indication is an indication used to identify goods having special characteristics originating from a definite geographical territory.

➡ MINIMUM SUPPORT PRICE

- The MSP is the rate at which the government purchases crops from farmers, and is based on a **calculation of at least one-and-a-half times the cost of production incurred by the farmers.**
- This year, the MSP for bajra was set at 85% above the cost of production, while the MSP for urad and tur will ensure 60% returns. The MSPs for the remaining crops were mostly set around the stipulated 50% above the cost of production.
- **CACP recommends MSP for twenty two (22) crops and Fair & Remunerative Price (FRP) for sugarcane**. Apart from Sugarcane for which FRP is declared by the Department of Food &Public Distribution, twenty two crops covered under MSP are Paddy, Jowar, Bajra, Maize, Ragi, Arhar, Moong, Urad, Groundnut-in-shell, Soyabean, Sunflower, Seasamum, Nigerseed, Cotton, Wheat, Barley, Gram, Masur (lentil), Rapeseed/Mustardseed, Safflower, Jute and Copra.
- In addition, **MSP for Toria and De-Husked coconut** is fixed by the Department on the basis of MSP's of Rapeseed/Mustardseed and Copra respectively.
- Besides, announcement of MSP, the Government also organizes procurement operations of these agricultural commodities through various public and cooperative agencies such as **Food Corporation of India (FCI), Cotton Corporation of India (CCI), Jute Corporation of India (JCI), Central Warehousing Corporation (CWC), National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), National Consumer Cooperative Federation of India Ltd. (NCCF), and Small Farmers Agro Consortium (SFAC)**.
- Besides, State Governments also appoint state agencies to undertake PSS operations.

➡ APMC

- Agricultural Produce Market Committees (APMC) is the marketing boards established by the state governments in order to eliminate the exploitation incidences of the farmers by the intermediaries, where they are forced to sell their produce at extremely low prices.
- All the food produce must be brought to the market and sales are made through auction. The market place i.e. Mandi is set up in various places within the states. These markets geographically divide the state. Licenses are issued to the traders to operate within a market. The mall owners, wholesale traders, retail traders are not given permission to purchase the produce from the farmers directly.

- **Why APMC Act is Essential for Farmers?** The legislation of 1964 had undergone several modifications over the years to protect farmers against abuse and exploitations by middlemen at the time of price discovery, weighing and measurement of produces or while making payment after the transaction.
- Far-reaching changes were incorporated into the APMC Act such as creation of a revolving fund to implement the Floor Price Scheme to protect the interests of farmers, allowing contract farming companies to procure directly from farmers with a predetermined agreed price and so on. e-marketing initiative of the State Department of Agriculture Marketing is considered as a novel one and emulated by several States.
- **What is APMC Yard?** Agricultural Produce Market Committee (APMC) Yard / Regulated Market Committees (RMC) Yard is any place in the market area managed by a Market Committee, for the purpose of regulation of marketing of notified agricultural produce and livestock in physical, electronic or other such mode. The place shall include any structure, enclosure, open space locality, street including warehouse/silos/pack house/cleaning, grading, packaging and processing unit present in the Market Committee of the defined market area.
- **What is Minimum Support Price?** The minimum support price is an agricultural product price set by the Government of India to purchase directly from the farmer. This rate is to safeguard the farmer to a minimum profit for the harvest, if the open market has lesser price than the cost incurred.
- **What was the need of introducing MSP?** On the path of the Green Revolution, Indian policymakers realised that the farmers needed incentives to grow food crops. Otherwise, they won't opt for crops such as wheat and paddy as they were labour-intensive and didn't fetch lucrative prices. Hence, to incentivise the farmers and boost production, the MSP was introduced in the 1960s.

➡ FOOD CORPORATION OF INDIA (FCI)

- The Food Corporation of India is a **statutory body** created and run by the Government of India.
- It is under the ownership of **Ministry of Consumer Affairs, Food and Public Distribution**, Government of India formed by the enactment of **Food Corporation Act, 1964**.
- Its top official is designated as Chairman who is a civil servant of the IAS cadre.
- It was set up in 1965 with its initial headquarters at Chennai. Later this was moved to New Delhi.

MANDATE:

- Effective price support operations for **safeguarding the interests of the poor farmers**.
- **Distribution of foodgrains** throughout the country for Public Distribution System (PDS).
- Maintaining a satisfactory **level of operational and buffer stocks** of foodgrains to ensure National Food Security.
- **Regulate market price** to provide foodgrains to consumers at a reliable price.

OPERATIONS

- o The Food Corporation of India procures rice and wheat from farmers through many routes like paddy purchase centres/mill levy/custom milling and stores them in depots. FCI maintains many types of depots like food storage depots and buffer storage complexes and private equity godowns and also implemented latest storage methods of silo storage facilities which are located at Hapur in Uttar Pradesh, Malur in Karnataka and Elavur in Tamil Nadu.
- o The stocks are transported throughout India by means of railways, roadways and waterways and **issued to the state government nominees at the rates declared by the Government of India for further distribution under the Public Distribution System (PDS)** for the consumption of the ration card holders. (FCI itself does not directly distribute any stock under PDS, and its operations end at the exit of the stock from its depots).
- o The **difference between the purchase price and sale price, along with internal costs, are reimbursed by the Union Government in the form of food subsidy**. At present the annual subsidy is around $10 billion.
- o FCI by itself is not a decision-making authority; it does not decide anything about the MSP, imports or exports. It just implements the decisions made by the Ministry of Consumer Affairs, Food and Public Distribution and Ministry of Agriculture.
- o Food Corporation of India recently ventured into procurement of pulses in various regions from the crop year 2015–16, and pulses are procured at market rate, which is a sharp deviation from its traditional minimum support price-based procurement system.
- o In 2014, Government of India set up a high-level committee under the chairmanship of Hon'ble Member of Parliament and former Minister of Food and Consumer Affairs and Public Distribution Shri Shanthakumar to recommend viable solutions regarding restructuring and reorienting the role of Food Corporation of India, and the committee submitted its report to the government. Many of the committee recommendations are under various stages of implementation.
- o On 27 November 2019, Cabinet Committee on Economic Affairs (CCEA) approved to increase the authorized capital of Food Corporation of India (FCI) from existing Rs. 3,500 crores to Rs. 10,000 crores.

➡ FOOD MANAGEMENT POLICY

- o The main elements of the Government's food management policy are **procurement**, **storage** and **movement of foodgrains**, **public distribution** and **maintenance of buffer stocks**.
- o The foodgrain management policy in India is detailed in the **Targeted Public Distribution System (TPDS) (Control) Order, 2015**.

- o **Procurement operations are seasonal –**
- ▪ **Kharif Marketing Season (KMS) starts from 1st October and lasts upto 30 September next year**. Paddy/ Rice and coarse grains like jowar, bajra, ragi & maize are procured during the KMS.
- ▪ The **Rabi Marketing Season (RMS) starts from 1 April and lasts upto 31 March next year**. Mostly, wheat and sometimes barley is procured during RMS. [The kharif cropping

season is from July –October during the south-west monsoon and the Rabi cropping season is from October-March (winter).]

- Before the start of every marketing season, **Department of Food and Public Distribution convenes a meeting of State Food Secretaries** to make advance arrangements for procurement of foodgrains/coarse grains.
- In this meeting, issues like **procurement centres to be opened by Food Corporation of India (FCI) /State Agencies, arrangement of storage space, evacuation plan for foodgrains and arrangement of packaging material** are discussed. Based on the estimates given by the State Food Secretaries, the targets of total procurement for the Central Pool are worked out in the meeting.
- Under the existing procurement policy of the Government of India (GOI), foodgrains for the Central Pool are procured by various agencies such as **FCI, State Government Agencies (SGAs) and private rice millers**.
- Before the start of each procurement season, Govt. of India announces **uniform specification for quality of wheat, paddy, rice and coarse grains**.
- **Quality Control Division of FCI** ensures procurement of foodgrains from procurement centres strictly in accordance with Govt. of India's uniform quality specifications.
- Procurement of **wheat and paddy** for the Central Pool is carried out on **open ended basis** (i.e., accepting all the grains that are sold to it by farmers) at the declared Minimum Support Price (MSP) fixed by the GOI.
- In addition, States/ Union Territories (UTs) which are presently under Decentralised Procurement (DCP) scheme also procure foodgrains for the Central Pool, but directly store and distribute them under **Targeted Public Distribution System [TPDS] and Other Welfare Schemes (OWS)** based on the allocation made by the GOI. Any surplus stock over their requirement is taken over by FCI and in case of any shortfall in procurement against allocation made by the GOI, FCI meets the deficit out of the Central Pool.
- In order to give relief to the farmers affected by the unprecedented rains & hailstorms, Central Government may (This was done, for instance, in 2015 for wheat procurement) relax quality norms for the procurement and also reimburse the amount of value cut on such relaxation to the States so that farmers get full Minimum Support Price (MSP).
- The procured food grains are taken over from **State Government Agencies (SGAs) and private rice millers into the Central Pool by FCI** and are moved from the procuring states to the consuming states for distribution to the consumers and for creation of buffer stock in various states. Food grains of the Central Pool are stored by FCI in both its own godowns and at hired godowns in different parts of the country. FCI, if so required, may use warehouse receipts as collateral for financing its operations.

ALLOCATION, OFF-TAKE OF FOODGRAINS AND CENTRAL ISSUE PRICES

- The function of distribution of foodgrains to the consumers is carried out by the State Governments through Targeted Public Distribution Scheme [TPDS] and Other Welfare Schemes (OWS).
- The foodgrains are also disposed off by FCI and State Governments, based on allocation of the GOI through sale under **Open Market Sales Scheme (OMSS)** [i.e., selling foodgrains at predetermined prices in the open market from time to time to enhance the supply of grains especially during the lean season and thereby to moderate the open market prices especially in

the deficit regions. Wheat and Rice are also allocated to State Governments for retail sale through non-PDS Channels under OMSS.].

- Based on the allocation made by the GOI, State Governments lift (off-take) the food grains from the Central Pool for distribution to the consumers through TPDS and OWS. Distribution of food grains for BPL, AAY and APL is carried out by the State Governments through TPDS, with a network of many Fair Price Shops (FPS) spread throughout the country. The State Governments are responsible for identification of beneficiaries and issue of ration cards.
- Food grains from the Central Pool are issued to States at **Central Issue Price (CIP)** for distribution under TPDS to serve families of BPL, APL and AAY at rates fixed by the GOI. Ministry of Consumer Affairs, Food &Public Distribution Government of India, fixes the **Central Issue Prices (CIP) of wheat and rice which is uniform throughout the country**.

MOVEMENT OF FOOD GRAINS

- In order to ensure availability of foodgrains for TPDS and OWS, and to maintain reasonable levels of buffer stocks at various strategic locations throughout the country, FCI undertakes transportation of foodgrain (wheat and rice) from surplus States to the deficit States and also within the States by rail, road and riverine modes. About 90% of all India movement is undertaken by railways and rest by road and waterways.
- On an average of 25 lakh bags (each one is 50 KG) of foodgrains are transported every day from the procuring areas to the consuming areas, covering an average distance of 1500 Kilometre.
- **All India Movement Plan** is prepared on monthly basis at FCI headquarters keeping in view the quantity available in surplus States, quantity required by consuming States, likely procurement in procuring States, vacant storage capacity both in consuming and procuring States, and monthly allocation/off-take.
- An online tracking system for movement of foodgrains and depot management was launched in March 2016. The system would provide various types of data regarding stock position, movement, quality and quantity on line. It would also generate SMS alerts to depot officials, area manager and other decision making authorities. All the data are available on dashboard also for top management to monitor centrally so as to help in automatic reconciliation and generation of MIS reports about foodgrain management.

BUFFER STOCK POLICY OF THE GOI

- The concept of buffer stock was first introduced during the **IV Five Year Plan (1969-74).**
- Buffer stock of food grains in the Central Pool is maintained by the GOI for

1. meeting the prescribed **minimum buffer stock** norms for food security,
2. **monthly release** of food grains for supply through TPDS and Other Welfare Schemes,
3. meeting **emergency situations** arising out of unexpected crop failure, natural disasters, etc. and
4. **price stabilisation** or market intervention to augment supply so as to help moderate the open market prices.

- While four months requirement of food grains for issue under TPDS and OWS are earmarked as **operational stocks**, the surplus over that is treated as buffer stock and physically both buffer and operational stocks are merged into one and are not distinguishable.

- According to the present practice, the GOI treats the food stock over and above the minimum norms as excess stock and liquidates them from time to time through exports, open market sales or additional allocations to states. The buffer stock figures are normally reviewed after every five years.
- The total annual stock of foodgrains in the Central Pool is distributed over different quarters of the year depending upon offtake and procurement patterns. The seasonality of production and procurement is thus a decisive factor in determining the minimum norm of food grains stocks required in a particular quarter of the year.

OPEN MARKET SALE SCHEME (DOMESTIC)

- In addition to maintaining buffer stocks and making a provision for meeting the requirement of the Targeted Public Distribution Scheme and Other Welfare Schemes (OWS), FCI on the instructions from the Government, sells wheat and rice in the open market from time to time to enhance the supply of wheat and rice especially during the lean season and to moderate the open market prices especially in the deficit regions.
- For transparency in operations, the Corporation has switched over to **e- auction for sale under Open Market Sale Scheme (Domestic).** The FCI conducts a weekly auction to conduct this scheme in the open market using the platform of commodity bourse **NCDEX (National Commodity and Derivatives Exchange Limited).** The State Governments/ Union Territory Administrations are also allowed to participate in the e-auction, if they require wheat and rice outside TPDS & OWS.
- The present form of OMSS comprises 3 schemes as under:

1. Sale of wheat to bulk consumers/private traders through e-auction.
2. Sale of wheat to bulk consumers/private traders through e-auction by dedicated movement.
3. Sale of Raw Rice Grade 'A' to bulk consumers/private traders through e-auction.

➡ NCDEX

- National Commodity & Derivatives Exchange Limited (NCDEX) (NCDEX/the Exchange) is a leading agricultural commodity exchange in India, with a market share of 78.0% in the agricultural commodity segments, based on average daily turnover (by value).
- The Exchange has maintained its leadership position since 2005, in the agricultural commodity derivatives market. Further, the Exchange is a professionally managed company, which is driven by technology.

CURRENT SHAREHOLDERS

- Life Insurance Corporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD), National Stock Exchange of India Limited (NSE), Canara Bank, Punjab National Bank (PNB), CRISIL Limited, Indian Farmers Fertiliser Cooperative Limited (IFFCO), Shree Renuka Sugars Limited, Jaypee Capital Services Limited, Build India Capital Advisors LLP, Oman India Joint Investment Fund, Investcorp Private Equity Fund I (formerly known as IDFC Private Equity Fund III), Star Agriwarehousing and Collateral Management Limited and shareholding by individuals.
- The Exchange has a broad based bouquet of permitted commodities aggregating to a total of **23** (which is also the highest), and includes commodities such as pulses, spices and guar,

which are not traded on any platforms in the global scenario, and are economically relevant to India, forming an important component of India's global trade.

- The Exchange was incorporated as a **public limited company on April 23, 2003**, pursuant to a certificate of incorporation and commenced its business pursuant to a certificate for commencement of business dated May 9, 2003, each granted by the Registrar of Companies, Maharashtra at Mumbai.
- The Exchange was registered with the **Forward Markets Commission** as a recognised association under **The Forward Contracts (Regulation) Act, 1952**.
- With effect from **September 28, 2015, the Exchange became a deemed recognized stock exchange** under the Securities Contracts (Regulation) Act, 1956.
- NCDEX is **regulated by Securities and Exchange Board of India (SEBI)**. NCDEX is subjected to various laws of the land like the Securities Contracts (Regulation) Act, 1956, Companies Act, Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, SEBI (Listing Obligations and Disclosure Requirements) Regulations, Stamp Act, Contract Act and various other legislations.
- NCDEX headquarters are located in Mumbai and offers facilities to its members from the centres located throughout India.
- As of March 31, 2021, NCDEX offered future contracts for 23 agricultural commodities and 1 non-agricultural commodity, 1 Indices contract and options contracts for 7 agricultural commodities, on the Exchange platform.

➡ NABARD

- National Bank for Agriculture and Rural Development (NABARD) is an **apex regulatory body for overall regulation and licensing of regional rural banks and apex cooperative banks** in India.
- It is under the jurisdiction of **Ministry of Finance**.
- The bank has been entrusted with "matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India".
- NABARD is active in **developing & implementing Financial Inclusion**.
- NABARD was established on the recommendations of **B. Sivaramman Committee** (by Act 61, 1981 of Parliament) on 12 July 1982 to implement the **National Bank for Agriculture and Rural Development Act 1981.**
- It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premier agencies providing developmental credit in rural areas.
- NABARD is India's **specialised bank for Agriculture and Rural Development in India**.
- International associates of NABARD include World Bank-affiliated organisations and global developmental agencies working in the field of agriculture and rural development. These organisations help NABARD by advising and giving monetary aid for the upliftment of the people in the rural areas and optimising the agricultural process.

ROLES

- Serves as an **apex financing agency for the institutions** providing investment and production credit for promoting the various developmental activities in rural areas
- Takes measures towards **institution building** for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
- **Co-ordinates the rural financing activities** of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, state governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation.
- Undertakes **monitoring and evaluation of projects refinanced** by it.
- NABARD **refinances the financial institutions** which finances the rural sector.
- NABARD partakes in **development of institutions** which help the rural economy.
- NABARD also keeps a check on its client institutes.
- It regulates the institutions which provide financial help to the rural economy.
- It provides training facilities to the institutions working in the field of rural upliftment.
- It regulates and supervise the cooperative banks and the RRB's, through out entire India.
- NABARD **supervises** State Cooperative Banks (StCBs), District Cooperative Central Banks (DCCBs), and Regional Rural Banks (RRBs) and conducts statutory inspections of these banks.
- NABARD's refinance fund from World Bank and Asian Development Bank to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (SCBs), regional rural banks (RRBs), commercial banks (CBs) and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally given to individuals.
- Through assistance of **Swiss Agency for Development and Cooperation**, NABARD set up the **Rural Innovation Fund.**
- Rural Innovation Fund is a fund designed to support innovative, risk friendly, unconventional experiments in these sectors that would have the potential to promote livelihood opportunities and employment in rural areas. The assistance is extended to Individuals, NGOs, Cooperatives, Self Help Group, and Panchayati Raj Institutions who have the expertise and willingness to implement innovative ideas for improving the quality of life in rural areas.
- NABARD also started direct lending facility under **'Umbrella Programme for Natural Resource Management'** (UPNRM). Under this facility financial support for natural resource management activities can be provided as a loan at reasonable rate of interest.

➡ FARMER PRODUCER ORGANISATIONS (FPOs)

- Farmer producer organisations (FPOs) are agricultural cooperatives that are emerging as a practical approach towards empowering a great number of smallholder farmers and ensuring their prosperity. In countries where agriculture is the primary source of income for millions of farmers, they play a significant role in improving marginalised farmers' access to resources, which further helps boost their agri-productivity and their incomes.

- Over the past decade, the Government of India has introduced various initiatives through agencies including **Small Farmers' Agri-Business Consortium (SFAC)** and **National Bank for Agriculture and Rural Development (NABARD), National Commodity and Derivatives Exchange (NCDEX),** and the various State Governments and NGOs.
- Presently, these agencies have established over 5,000 FPOs across the country with up to a thousand members in each of these organisations. Several of these FPOs have been successful in making agriculture profitable for thousands of farmers. Besides, the Indian Government introduced a new Central Sector Scheme that aims to create and promote 10,000 FPOs. Under the new scheme, the members of FPOs can avail relevant benefits such as **Credit Guarantee Fund** and advisory services from **Cluster Based Business Organization (CBBO)** and the **National Project Management Agency (NPMA).**

FINDING STRENGTH IN NUMBERS

- Small farmers as individuals face diverse challenges such as poor income, limited or no access to the right inputs, inadequate knowledge of modern farming techniques, and a lack of direct market access, among several others. In many underdeveloped or developing countries, several small farmers primarily produce for their subsistence and sell small quantities of the harvest when they face a need. These farmers often approach farming as a way of life rather than a business opportunity, which severely limits them from achieving the full potential of their farms. However, with the right support and guidance, they can bring about a tremendous transformation in the agriculture and food sector. This is made possible by farmer producer organisations that mobilise farmers in large numbers, build their capacity, and leverage their collective strength to enhance production capabilities and marketing opportunities.
- For both governmental and non-governmental entities alike, an FPO is a means of actively engaging farmers in the development process. It provides an **organised system to transfer modern-day technology,** absorb them efficiently into rural development programs, and monitor their socio-economic progress. It also plays a critical role in creating sustainable employment for youth and women, and progress towards reducing poverty for millions of people.
- The collective strength of this producer-led organisation offers several advantages: -

  Firstly, it considerably improves their bargaining power by creating forward and backward linkages in the supply chain and enables them to benefit from economies of scale. By aggregating both their demand and supply, the members will now be able to purchase agri-inputs and sell their commodities at competitive prices.

  Secondly, farmer producer organisations can facilitate linkage with various stakeholders, which allows members to gain better access to technical, technological, and financial support. As a result, the members of FPOs can adopt better agricultural practices, enjoy hassle-free financial support from banks, and leverage the infrastructure that is made available to them through the organisation. All of this combined makes it possible for them to significantly enhance their productivity and, therefore, the income too. The FPOs also empower them to hedge against potential commodity price fluctuations during harvest by leveraging available platforms.

  Thirdly, organising producers into collectives makes it convenient for governments to bring them into the folds of digitisation and empower them with the benefits of various developmental policies. In the last few years, the Indian government has introduced several measures, such as the **Equity Grant Fund Scheme**, the **Scheme for Creation of**

Backward and Forward Linkages, the Credit Guarantee Fund Scheme, and the National Rural Livelihoods Mission (NLRM) to promote and strengthen the FPOs. The objective of these measures is to make the agriculture sector more sustainable and prosperous by making effective use of the available resources.

THE ROLE OF THE PRIVATE SECTOR

- The last decade witnessed the launch of thousands of startups in the agriculture space. From delivering technological solutions that improve agri-productivity to ensuring superior market linkage, these organisations have been adding immense value to smallholder farmers in numerous developing nations.
- With farmer producer organisations being recognised as pathways to alleviate poverty and to encourage small farmers to adopt sustainable, climate-smart farming practices, several agritech startups are working towards effectively providing these farmers with as much assistance as possible.
- The structure of FPOs is such that it facilitates faster adoption of technology by its members, which goes a long way in transforming agri-food production within a comparably shorter period of time. The use of digital technologies helps the producer organisations achieve supply chain efficiency and provide the buyers of the produce with adequate quality and food safety assurances.

The road ahead for farmer producer organisations

- While FPOs continue to face several setbacks and are struggling to operate viably in many countries, continued support from governments and other organisations can ensure their sustainability in the long run. Their survival and prosperity are also highly crucial to bring about transformation in the food and agriculture sector in developing and underdeveloped countries, which is imperative to guarantee food security for future generations. With the implementation of the right policies, and with the support of all actors in the ecosystem, FPOs will soon be able to achieve sustainability and reap optimal benefits for its shareholders.

➡ BHARATNET PROJECT

- The Bharat Net project has the underlying objective of providing high-speed broadband to all the panchayats in the country. It is the revamped version of **National Optical Fibre Network (NOFN)** which was launched in October 2011.
- BharatNet Project is regarded as a highly scalable network infrastructure, giving net accessibility to every person without any discrimination.
- The project is being funded by the **Universal Service Obligation Fund (USOF).** This fund is raised through the imposition of **'Universal Access Levy (UAL)',** which is a percentage of the revenue earned by the operators under various licenses. This fund was established with the object of improving telecom services in the remote and rural areas of India.
- **Bharat Broadband Network Limited (BBNL)** has been entrusted with the responsibility for the establishment, management and operation of the project.
- Connectivity to Gram Panchayats by optimal mix of media.
  - ✓ Underground OFC
  - ✓ Aerial OFC

- ✓ Radio
- ✓ Satellite
- ✓ Last mile architecture (Wi-Fi) to be set up at GP level through Viability Gap Funding (VGF) in PPP model for accessing the network by citizens.
- The list of services that can be provided through the BharatNet includes E-Governance, E-Healthcare, Public Internet access, E-Commerce etc.

TECHNOLOGY

- **GPON (Gigabit Passive Optical Network) technology** will be used for BharatNet Project. GPON is an open standard technology which brings fiber cabling and signals to the end user using a point-to-multipoint scheme that enables a single optical fiber to serve multiple users.
- This architecture of GPON uses passive (unpowered) optical splitters, reducing the cost of equipment compared to point-to-point architectures.
- GPON helps to connect Blocks to GPs on point to multi-point connections. Further, this technology has low power consumption equipment and hence is suitable for Rural India.

IMPLEMENTATION

- The plan for the project is to be implemented in three phases with the first phase providing broadband connectivity through optic fibre cable to one lakh gram panchayats.
- The second phase will extend the cables to 2, 50,000 gram panchayats. This phase also includes laying of OFC over electric poles. This is a new element of the BharatNet strategy as the mode of connectivity by aerial OFC has several advantages, including lower cost, speedier implementation, easy maintenance and utilization of existing power line infrastructure. The last mile connectivity to citizens is proposed to be provided creating Wi-Fi hotspots in gram panchayats
- The third phase involves future proofing of the Network to meet the requirements of Internet of Things (IoT) and 5G services, to be completed by 2023.

➡ FOOD PRIZE INDEX (FPI)

- The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. Hence, in a way, it could be considered to be similar to Consumer Price Index (CPI) or Wholesale Price Index (WPI) which are used for the measurement of Inflation within Indian Economy. However, FFPI tracks the ***international prices*** of the most commonly traded food commodities.
- **Commodity Groups Covered:** 5 commodity groups which include Meat, Dairy, Cereals, Vegetable oil and Sugar. These commodities represent about 40 percent of gross agricultural food commodity trade. They are chosen for their high and strategic importance in global food security and trade.
- **Weightage Assigned**: Each of the Commodity groups is assigned a weightage in proportion to its share in the global trade in agricultural commodities.

  Base Year: A three-year period is chosen to minimize the impact of variation in both internationally traded prices and quantities. Earlier, the Base year was 2002-04, but now it has been changed to 2014-16. The base period 2014–16 was chosen as the new base as it was considered the most representative period for most markets in the past ten years.

➡ BALTIC DRY INDEX

- The Baltic Dry Index (BDI) is an economic indicator issued daily by the London- based Baltic Exchange. The index provides an assessment of the price of moving the major raw materials by sea. The Baltic Dry Index takes into account the freight rates for bulk commodities such as coal, iron ore and grain.
- **Importance of Baltic Dry Index:** Changes in the Baltic Dry Index can provide investors with important clues related to global supply and demand trends.
  - It is often considered a leading indicator of future economic growth.
  - If the Index increases, it means that the freight rates have increased which indicate higher demand for raw materials such as Coal, Iron-ore etc. Hence, an increase in the index value would point to increased economic activity and hence higher economic growth.
  - Similarly, if the index decreased, it would point to decreased economic activity and hence lower economic growth in future.

Other Indices for tracking Freight rates: The Baltic Dirty Tanker Index tracks freight rates for crude oil and the Baltic Clean Tanker Index tracks freight rates for petroleum products.

➡ RENEWABLE PURCHASE OBLIGATION (RPO)

- DISCOMs are required to purchase certain percentage of electricity from various renewable energy sources.
- RPO is laid down under Electricity Act, 2003 and National Tariff Policy 2016.
- **Types of RPOs:** Solar RPO and Non-Solar RPO. Recently, Government declared that procurement of power from large Hydropower Projects (more than 25 MW) and Ocean Energy would be considered as Non-Solar RPO.
- Annual Targets for RPO are laid down by State Electricity Regulatory Commissions (SERCs). Long term targets laid down by Ministry of Power.
- **Present Targets:** Long Term target to be met by 2022. Total RPO: 21% (Solar RPO: 10.5% + Non-Solar RPO: 10.5%)

Renewable Energy Certificates (RECs): DISCOMs that exceed their RPO obligations can sell RECs to other DISCOMs that fail to meet RPO target. 1 REC is equal to 1 Mwh.

➡ NATIONAL TECHNICAL TEXTILES MISSION

COMPONENTS

- **Component -l (Research, Innovation and Development):** Promote both Fundamental and applied research for the development of new technical textiles.

- **Component -II (Promotion and Market Development)**: Aims at average growth rate of 15-20% per annum taking the level of domestic market size to 40-50 Billion USD by the year 2024 from the Current $ 16 bn.)
- **Component - III (Export Promotion):** Export promotion of technical textiles enhancing from the current annual value of approximately Rs.14000 Crore to Rs.20000 Crore by 2021-22 and ensuring 10% average growth in exports per year upto 2023-24.
- **Component- IV (Education, Training, Skill Development):** Promote technical education at higher engineering and technology levels related to technical textiles.

PRACTICE QUESTIONS

1. Which of the following statements is/are correct with respect to the capital-output ratio?

1. A higher capital-output ratio indicates technological advancement in the economy.
2. A lower capital-output ratio is desirable in the economy.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

2. Which of the following best explains 'twin deficits' in the economy?

(a) Fiscal Deficit and Current Account Deficit
(b) Fiscal Deficit and Revenue Deficit
(c) Fiscal Deficit and Capital Account Deficit
(d) Fiscal Deficit and Budgetary Deficit

3. Consider the following statements with respect to inflation:

1. Inflation is good for those who lend money than for those who borrow money.
2. Inflation is good for those who make the products than for those who buy it.

Which of the statements given above is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

4. Which among the following statements can be considered as the best argument to promote human development in a country?

(a) Human development would lead to an increase in the GDP growth rate.
(b) Human development would promote political development and strengthen democratic values.
(c) Human development enhances the ability of the people to make their own choices.
(d) Human development would promote inclusive and balanced growth and development.

5. Which among the following indicators are used in the UNDP's Gender Inequality Index (GII)?

1. Enrolment in primary education
2. Maternal mortality Rate (MMR)
3. Share of parliamentary seats

4. Female Labour Force Participation Rate

Select the correct answer using the code given below:

(a) 1, 2 and 3 only (b) 2, 3 and 4 only
(c) 1, 2 and 4 only (d) 1, 2, 3 and 4

6. Which of the following statements is/are correct about disguised unemployment?

1. It is unemployment that affects aggregate output.
2. An economy demonstrates disguised unemployment when productivity is low and too many workers are filling too few jobs.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

7. India has a score of 0.49 in the Human Capital Index released by the World Bank. What does this imply?

(a) Only 49% of the population of India is fully developed and works with optimum productivity.
(b) A child born in India will only be 49% productive when he attains the age of 18, compared to what he would be had he received full education and health.
(c) Only 49% of the population is employable in India.
(d) All of the above.

8. Which of the following comes/come under the revenue receipts of the government?

1. Corporation tax
2. GST and taxes of the Union territories
3. Custom duties

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) 1 and 3 only (d) 1, 2 and 3

9. Consider the following statements about the Securities and Exchange Board of India:

1. It is a non-statutory body.
2. It regulates the credit rating agencies in India.

Which of the statements given above is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

10. Which of the following indicate/s situation of monetary policy transmission in the economy?

1. The banks benchmarking their lending rates based on MCLR (Marginal Cost of funds based Lending Rate).
2. External benchmarking of interest rates.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

11. Which of the following best represent the concept of differentiated banks in India?

1. Small Finance Banks
2. Payment Banks
3. Regional Rural Banks
4. The Industrial Development Bank of India

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 1 and 3 only (c) 2 and 3 only (d) 1, 2, 3 and 4

12. Which of the following statements is/are correct?

1. Stagflation is characterised by slow economic growth and high unemployment.
2. Skewflation is price rise of a small group of commodities over a sustained period of time.
3. Hyperinflation is a large and accelerating inflation that takes place over a very short period of time.

Select the correct answer using the code given below:

(a) 2 only (b) 2 and 3 only (c) 1 and 2 only (d) 1, 2 and 3

13. Consider the following statements regarding "stressed asset":

1. The Central Bank has made it voluntary for the lenders to take the defaulters to the bankruptcy court.
2. The 'Prudential framework for resolution of stressed assets' of the Reserve Bank of India (RBI) gives only 1-day leeway to the defaulters.

Which of the statements given above is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

14. Which of the following are said to increase the general price level in an economy?

1. Failed monsoon
2. Increase in population
3. Introduction of Universal Basic Income
4. Job losses

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 1, 2 and 3 only (c) 2 and 3 only (d) 1, 2, 3 and 4

15. Which of the following documents are mandated to be provided as part of the Union Budget by the Indian Constitution?

1. Annual Financial Statement
2. Demand for Grants
3. Finance Bill
4. Macro-economic Framework Statement
5. Fiscal Policy Strategy Statement

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 1, 2 and 3 only (c) 1, 2, 3 and 4 only (d) 1, 2, 3, 4 and 5

16. What is meant by a dwarf firm?

(a) Young firms that are less than 10 years old.
(b) Firms that are quite old, but failed to grow into large sized firms.
(c) Firms that are quite young, but still employ large number of people.

(d) Young firms that have less potential to grow into large sized firms due to their own weakness.

17. According to the Fiscal Responsibility and Budget Management rules, rolling targets have been set for certain indicators. Which of the following are the components of the rolling targets?

1. Fiscal deficit as a percentage of the GDP
2. Tax revenue as a percentage of the GDP
3. Foreign debt as a percentage of the GDP
4. GDP growth rate

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 1, 2 and 3 only (c) 2 and 4 only (d) 1, 2, 3 and 4

18. The World Investment Report is released by which of the following organizations?

(a) The World Economic Forum
(b) UNCTAD (The United Nations Conference on Trade and Development)
(c) The World Bank
(d) The International Monetary Fund

19. Consider the following statements about the Municipal Performance Index:

1. It has been developed by NITI Aayog.
2. Parameters of the Municipal Performance Index include technology and planning.

Which of the statements given above is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

20. What would happen to the "money multiplier" in an economy, if the cash reserve ratio (CRR) is reduced?

(a) The money multiplier would increase.
(b) The money multiplier would decrease.
(c) The money multiplier would remain constant.
(d) There is no relationship between the money multiplier and the cash reserve ratio (CRR).

21. Which of the following statements related to the Purchasing Managers' Index is correct?

(a) It is an index of the prevailing direction of economic trends in both the manufacturing and service sectors.
(b) It is an index of the prevailing direction of economic trends in the service sectors only.
(c) It is an index of the prevailing direction of economic trends in the international market and exchange rate.
(d) None of the above

22. Which of the following statements is/are correct about the National Mission for Sustainable Agriculture (NMSA)?

1. NMSA aims at promoting sustainable agriculture through climate change adaptation measures.
2. The major thrust is enhancing agriculture productivity, especially in the rainfed areas, focusing on integrated farming, soil health management and synergizing resource conservation.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

23. Which of the following statements is/are correct about the Per Drop More Crop (PDMC)?

1. It focuses on water use efficiency at farm level through precision/ Micro Irrigation (MI).
2. The Department of Agriculture, Co-operation & Farmers' Welfare is implementing Per Drop More Crop.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

24. Which of the following is/are said to trigger a 'currency war'?

1. A central bank following expansionary monetary policy in order to devalue its currency.
2. A central bank eases the money supply to lower exchange rates.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

25. Which of the following statements are correct?

1. Foreign Portfolio Investment (FPI) involves holding financial assets from a country outside of the investor's own.
2. FPI holdings can include stocks; American depositary receipts (ADRs), bonds, mutual funds and exchange-traded funds.
3. Unlike Foreign Direct Investment (FDI), FPI consists of passive ownership.

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

26. In the context of which of the following do you sometimes find the terms amber box, blue box and green box?

(a) WTO (b) SAARC (c) UNFCCC (d) India-EU FTA

27. Which of the following committees recommended setting up of the Payment Banks?

(a) Nachiket Mor Committee (b) Rangarajan Committee

(c) N.K. Sinha Committee (d) Bibek Debroy Committee

28. Which of the following statements is/are correct?

1. The Bad Bank is basically an Asset Restructuring Company (ARC).
2. The concept of the Bad Bank was pioneered at the Mellon Bank.

Choose the correct code

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

29. Which of the following statements is/are correct?

1. An asset quality rating is a review or evaluation assessing the credit risk associated with a particular asset.
2. A rating of one shows poor asset quality and there is huge credit risk.

Choose the correct code

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

30. Which of the following statements is/are correct?

1. Viability Gap Funding (VGF) means a grant to support projects that are economically unjustified but financially viable.
2. Viability Gap Funding(VGF) is provided as a capital subsidy to attract the private sector players to participate in PPP projects.

Choose the correct code

(a) 1 only (b) 2 only (c) Both 1 and2 (d) Neither 1 nor 2

31. Consider the following statements:

1. Capital Adequacy Ratio(CAR) is the ratio of a bank's capital in relation to its risk weighed assets and current liabilities.
2. Tier I capital comprise of the core resources of a Bank.
3. Tier II capital comprises of the undisclosed resources.

Which of the above statements is/are correct?

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of the above

32. Consider the following statements with respect to Bond Market Development:

1. Greater economic size means greater bond market development.
2. Countries with stable exchange rate are conducive to bond market development.
3. High level of interest rate volatility in the fixed income securities market tends to lower bond market development.

Which of the above statements is/are correct?

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of the above

33. Consider the following statements:

1. A credit rating is an assessment of the creditworthiness of a borrower.
2. Individuals, corporations and governments are assigned credit ratings — whosoever wants to borrow money.
3. Individuals are given 'credit ratings', while corporations and governments receive 'credit scores'.

Which of the above statements is/are correct?

(a) 1 and 2 (b) 1 and 3 (c) 1 only (d) All of the above

34. Consider the following statements:

1. The Trade Facilitation Agreement (TFA) is the outcome of WTO's Bali (Indonesia) ministerial package of 2013.
2. To facilitate TFA, the Government of India (GoI) released National Trade Facilitation Action Plan (NTFAP).

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) None of the above

35. Consider the following statements:

1. The ICADR is an autonomous organization working under the aegis of the Ministry of Law & Justice, Govt. of India.
2. The Chief Justice of India is the Patron of ICADR.

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) None of the above

36. Consider the following statements:

1. Agreement on Agriculture (AoA) is a treaty under the World Trade Organization that was negotiated during the Doha Round negotiations.
2. The agreement is centered around the need to eliminate 'trade distorting' agricultural subsidies.

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) None of the above

37. Consider the following statements:

1. Blue Box contains those subsidies that tend to distort the international trade by making products of a country cheaper in the international market.
2. Green Box contains those subsidies that do not distort trade nor cause any distortion are classified under this box.

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) None of the above

38. The World Economic Outlook Report is released by

(a) World Bank

(b) World Economic Forum

(c) International Monetary Fund

(d) European Bank for Reconstruction and Development

39. The main purpose of setting up New Development Bank is

(a) To provide finance to all countries for poverty alleviation.

(b) To provide loans to countries to meet BoP crisis.
(c) To mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies.
(d) To develop public institutions in countries through long-term loans.

40. Consider the following statements about Trade Facilitation Agreement:

1. This agreement is associated with the Uruguay round of WTO.
2. It is aimed at facilitating smooth movement of goods across borders.

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) 1 and 2 (d) Neither 1 nor 2

41. Consider the following statements about Multilateral Investment Guarantee Agency:

1. It encourages foreign investment in developing economies by offering insurance to foreign private investors against loss caused by non-commercial risks.
2. It is an institution of International Monetary Fund.

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) 1 and 2 (d) Neither 1 nor 2

42. Which of the following statements is/are correct about the Small Farmers' Agribusiness Consortium?

1. It will provide venture capital assistance to agri businesses.
2. It will help in formation of Farmer Producer Organisations.
3. It is being implemented by the Ministry of Commerce and Industry.

Select the correct option using the codes given below:

(a) 1 only (b) 1 and 3 (c) 2 and 3 (d) 1 and 2

43. Grey revolution is related to

(a) Fertilizers (b) Jute (c) Food grains (d) Non-conventional energy

44. Which of the following forms a part of India's external debt?

(a) Loans from RBI
(b) Loans from multilateral banks
(c) Foreign Direct Investment
(d) Loans advanced to foreign banks

45. Consider the following statements about rupee convertibility:

1. Rupee convertibility means the ease with which rupee can be converted into another currency.
2. Rupee is fully convertible on current account.
3. Rupee is fully convertible on capital account.

Which of the above statements is/are correct?

(a) 1 and 2 (b) 2 and 3 (c) 1 and 3 (d) 1, 2 and 3

46. In the context of Balance of Payment (BoP), which of the following form a part of internationally acceptable assets?

(a) IMF Reserve Tranche
(b) Foreign loans
(c) Shares
(d) None of the above

47. Consider the following statements about Special Drawing Rights (SDR):

1. SDR is an international currency created by IMF.
2. SDR is used for the purpose of settling international accounts.
3. SDR derives its value from US dollar as it the most commonly used currency.

Which of the above statements is/are correct?

(a) 1 only (b) 2 only (c) 1 and 3 (d) 1, 2 and 3

48. Official reserve transactions refer to

(a) transactions undertaken by the central government out of the Consolidated Fund of India.
(b) transactions undertaken by RBI to balance the BOP deficit or surplus.
(c) transactions undertaken by Ministry of Finance on the official reserves.
(d) transactions undertaken by public sector banks to maintain their required reserves.

49. An exchange traded fund refers to

(a) a stock that tracks the exchange rate of the country.
(b) a stock that that tracks an index, a commodity, bonds or basket of assets.
(c) a stock whose value depends upon the level of foreign exchange reserves of the country.
(d) None of the above

50. Inflation in the economy results in

(a) benefitting to the debtors.
(b) rise in consumption.
(c) benefitting to savers.
(d) appreciation of exchange rate.

PRACTICE QUESTIONS (ANSWER KEY)

1. Ans: (b)

Exp:

Capital output ratio is the amount of capital needed to produce one unit of output. For example, suppose that investment in an economy, investment is 32% (of GDP), and the economic growth corresponding to this level of investment is 8%. Here, a Rs 32 investment produces an output of Rs 8.

2. Ans : (a)

Exp:

The twin deficit, or double deficit, occurs when a nation has both a current account deficit and a budget deficit. This means the country's economy is importing more than it is exporting, and the country's government is spending more money than it is generating.

3. Ans: (d)

4. Ans: (c)

Exp:

Human development is defined as the process of enlarging people's freedoms and opportunities and improving their well-being. Human development is about the real freedom ordinary people have to decide who to be, what to do, and how to live. Central to the human development approach is the concept of capabilities.

5. Ans: (b)

Exp:

The GII is an inequality index. It measures gender inequalities in three important aspects of human development—reproductive health, measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education; and economic status, expressed as labour market participation and measured by labour force participation rate of female and male populations aged 15 years and older. The GII is built on the same framework as the IHDI—to better expose differences in the distribution of achievements between women and men. It measures the human development costs of gender inequality. Thus the higher the GII value the more disparities between females and males and the more loss to human development.

6. Ans: (b)

Exp:

Disguised unemployment is unemployment that does not affect aggregate economic output. It occurs when productivity is low and too many workers are filling too few jobs. It can refer to any part of the population that is not employed at full capacity.

7. Ans: (b)

8. Ans: (b)

Exp:

- Revenue receipts can be defined as those receipts which neither create any liability nor cause any reduction in the assets of the government. They are regular and recurring in nature and the government receives them in the normal course of activities.
    - Revenue receipts include the proceeds from taxes and other duties levied by the Centre; the interest and dividend it receives on its investments; and the fees and charges the government receives for its services.
- Simply put, revenue receipts must satisfy two basic conditions:
    - **No liability:** Revenue receipts do not create any liability for the government. For example,

taxes received by the government, unlike borrowings, do not create any liabilities for it.

- o **No asset reduction:** Revenue receipts do not lead to any reduction in the government's assets. So, the government cannot show its earnings from sale of stake in a public-sector undertaking as revenue receipts because the stake sale resulted in reduction of its assets.
- o For the government, there are two sources of revenue receipts — tax revenues and non-tax revenues.

9. Ans. (b)

Exp:

The Securities and Exchange Board of India is the regulatory body for securities and commodity market in India under the ownership of Ministry of Finance, Government of India. It was established on 12 April 1988 and given Statutory Powers on 30 January 1992 through the SEBI Act, 1992.

10. Ans. (c)

Exp:

Monetary policy transmission is the process through which policy action of the central bank is transmitted to meet the ultimate objectives of inflation and growth. In general, policy transmission is considered to be a two-stage process. In the first stage, the policy shock impacts different segments of the financial markets. In the second stage, it gets transmitted to the real economy.

11. Ans: (a)

Exp:

Differentiated banks are banking institutions licensed by the RBI to provide specific banking services and products. It is a system refers to the system of different licenses for different sub components of the banking sector such as Limited Banking License, Commercial Banking License etc.

12. Ans: (d)

13. Ans: (a)

Exp:

- The new framework gives lenders a breather from the one-day default rule whereby they had to draw up an resolution plan (RP) for implementation within 180 days of the first default.
- It gives lenders (scheduled commercial banks, all-India financial institutions and small finance banks) 30 days to review the borrower account on default.
- During this review period, lenders may decide on the resolution strategy, including the nature of the RP and the approach for its implementation.
- Lenders may also choose to initiate legal proceedings for insolvency or recovery.
- The new circular is also applicable to small finance banks and systemically important non-deposit taking non-banking financial companies (NBFCs) and deposit-taking NBFCs.
- In cases where the RP is to be implemented, all lenders have to enter into an inter-creditor

agreement (ICA) for the resolution of stressed assets during the review period to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender.

- Under the ICA, any decision agreed to by the lenders representing 75 per cent of total outstanding credit facilities by value and 60 per cent by number will be binding upon all the lenders. In particular, the RPs will provide for payment which will not be less than the liquidation value due to the dissenting lenders.

14. Ans: (b)

15. Ans:(b)

16. Ans: (b)

Exp:

Firms employing less than 100 workers are categorized as small and firms employing 100 or more workers as relatively large. The small firms (employing less than 100) and the ones that have been in existence for over 10 years, is classified as 'dwarfs'.

17. Ans: (a)

18. Ans: (b)

19. Ans: (b)

20. Ans: (a)

Exp:

The money multiplier tells you the maximum amount the money supply could increase based on an increase in reserves within the banking system. The formula for the money multiplier is simply 1/r, where r = the reserve ratio.

21. Ans: (a)

Exp:

- The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.
- The PMI is based on a monthly survey of supply chain managers across 19 industries, covering both upstream and downstream activity.
- The value and movements in the PMI and its components can provide useful insight to business decision makers, market analysts, and investors, and is a leading indicator of overall economic activity

22. Ans: (c)

23. Ans: (c)

24. Ans: (c)

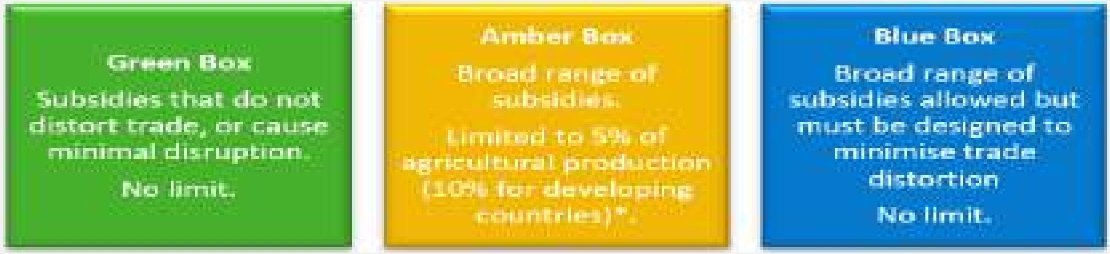
Exp:

Currency war, also known as competitive devaluations, is a condition in international affairs where countries seek to gain a trade advantage over other countries by causing the exchange rate of their currency to fall in relation to other currencies.

25. Ans: (d)

26. Ans: (a)

Exp:



27. Ans: (a)

Exp:

The Nachiket Mor committee was headed by Nachiket Mor. This committee was formed by former Reserve Bank of India Governor Raghuram Rajan in 2013. This committee is also known as the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households.

28. Ans: (c)

29. Ans: (a)

Exp:

- An asset quality rating refers to the assessment of credit risk associated with a particular asset, such as a bond or stock portfolio. The level of efficiency in which an investment manager controls and monitors credit risk heavily influences the rating bestowed.
- A rating of 1 indicates strong asset quality and credit administration practices.

30. Ans: (b)

Exp:

Viability Gap Funding (VGF) means a grant one-time or deferred, provided to support infrastructure projects that are economically justified but fall short of financial viability.

31. Ans. (d)

Exp:

The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier-1 capital, which can absorb losses without a bank being required to cease trading, and tier-2 capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

32. Ans: (d)

Exp:

Bond market development contributes economic growth in four dimensions of the financial system – size, access, efficiency and stability

33. Ans: (a)

Exp:

- A credit rating is a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a financial obligation.
- Credit ratings determine whether a borrower is approved for credit as well as the interest rate at which it will be repaid.
- A credit rating or score is assigned to any entity that wants to borrow money—an individual, a corporation, a state or provincial authority, or a sovereign government.
- Credit for individual consumers is rated on a numeric scale.
- Bonds issued by businesses and governments are rated by credit agencies on a letter-based system.

34. Ans: (c)

Exp:

The WTO Trade Facilitation Agreement (TFA) entered into force on 22 February 2017. It is a result of the Doha Round of Trade Negotiations, which was launched in 2001. The text of the TFA was adopted by WTO Members at the 9th Ministerial Conference in Bali, 3-6 December 2013. The Agreement entered into force in accordance with the provisions of Article X:3 of the WTO Agreement and Members have to individually accept the amendment of the WTO Agreement by depositing an instrument of acceptance for the Protocol of Amendment, adopted on 27 November 2014.

35. Ans: (c)

Exp:

- The justice dispensing system in India has come under great stress for several reasons, chief of them being the huge pendency of cases in courts underlining the need for Alternative Dispute Resolution (ADR) methods. The Government of India thought it necessary to provide a new forum and procedure for resolving international and domestic disputes quickly.
- The ICADR is an autonomous organization working under the aegis of the Ministry of Law &

Justice, Govt. of India with its headquarters at New Delhi and Regional Centres at Hyderabad and Bangalore. The Regional Centres of ICADR are fully funded and supported by the respective State Governments.

- The Chief Justice of India is the Patron of ICADR.

36. Ans: (b)

Exp:

The Agreement on Agriculture (AoA) is a WTO treaty that was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and formally ratified in 1994 at Marrakesh, Morocco. The AoA came into effect in 1995.

37. Ans: (b)

38. Ans: (c)

Exp:

The World Economic Outlook (WEO) is an IMF report that provides analysis and forecasts of economic developments and policies in its member countries.

39. Ans: (c)

40. Ans: (b)

Exp:

The Trade Facilitation Agreement (TFA) was one among the 10 agreements of the deal the WTO members (including India) had agreed upon in December 2013 Bali Ministerial meeting. The TFA seeks to speed up global trade by reforming customs procedures and cutting red tape.

41. Ans: (a)

Exp:

- The Multilateral Investment Guarantee Agency (MIGA) is an international institution that promotes investment in developing countries by offering political and economic risk insurance.
- The agency aims to support economic growth, reduce poverty, and improve people's lives through foreign direct investment into developing countries.
- MIGA is a member of the World Bank Group and has 181 member states.

42. Ans: (d)

Exp:

- SFAC was established in 1994 under Societies Registration Act, 1860 as an autonomous body promoted by the Ministry of Agriculture & Farmers' Welfare.
- Objectives: Promoting agribusiness by encouraging institutional and private sector investments and linkages to ensure the empowerment of all farmers in the country.
- Organising small and marginal farmers as Farmer Interest Groups, Farmer Producer

Organisations and Farmer Producer Company for endowing them with bargaining power and economies of scale.

43. Ans: (a)

44. Ans: (b)

45. Ans: (a)

46. Ans: (a)

Exp:

- The reserve tranche is a segment of an International Monetary Fund (IMF) member country's quota that is accessible without fees or economic reform conditions.
- Initially, member nations' reserve tranches are 25% of their quota, but this position can change according to any lending that the IMF does with its holdings of the member's currency.
- The reserve tranches that countries hold with the IMF are considered their facilities of first resort, meaning they will tap into them before seeking a formal credit tranche that charges interest.

47. Ans: (b)

Exp:

Special Drawing Rights (SDR):

The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies. The SDR serves as the unit of account of the IMF and some other international organizations.

48. Ans: (b)

Exp:

Official reserve transactions are the transactions made by the Central Bank which cause changes in its official reserves of foreign exchange. This transaction happens only when an economy withdraws from its stock of foreign exchange reserves to finance the deficit in its overall Balance of Payments.

49. Ans : (b)

Exp:

An exchange-traded fund (ETF) is a type of pooled investment security that operates much like a mutual fund. Typically, ETFs will track a particular index, sector, commodity, or other asset, but unlike mutual funds, ETFs can be purchased or sold on a stock exchange the same way that a regular stock can.

50. Ans: (a)