Question

19 September 2024 08:01 PM

Shyam.kaggod@unacademy.com

- MS Swaminathan
- PV Narasimha Rao
- Choudhary Charan Singh : Land Reforms

Q : Capitalism has guided the world economy to unprecedented prosperity. However, it often encourages short-sightedness and contributes to wide disparities between the rich and the poor. In this light, would it be correct to believe and adopt capitalism for bringing inclusive growth in India? Discuss.

- Advantages of capitalism - High economic gains, Greatest benefit with high efficiency, growth, rising incomes, rising employment generation etc.
- Disadvantages of capitalism – rising Inequality, Environmental degradation, production of harmful goods, concentration of wealth etc.

Q : Explain the difference between computing methodology of India's Gross Domestic Product (GDP) before the year 2015 and after the year 2015 (150 words)

- India has introduced a new methodology of GDP calculation post 2015 and the changes incorporated are
- Earlier
  - Factor costs were considered
  - Base year was 2004-05
  - IIP was considered
  - ASI data was considered
- Now
  - Calculated based on market prices
  - Base year has been changed to 2011-12
  - GVA data is used
  - MCA21 is used for data collection

Q - Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments.

- The GDP growth rate and inflation in recent times have remained steady.
- With steady GDP growth rate, the size of the economy increases, is also associated with rising employment and reduction in poverty. Having steady growth rate will also help the govt in introducing certain important reforms in various sectors.
- Low inflation rate will also ensure that the purchasing power of common man is not affected and hence demand will be there in the market.
- Having said so there are certain issues such as – rising unemployment rate, rising food inflation, distress in the agriculture sector, loss of incomes for the households, stress in various sectors such as telecom, civil aviation etc.

Q - Discuss the rationale for introducing Goods and services tax in India. Bring out critically the reasons for delay in roll out for its regime

- GST is one of the most important reforms introduced by the govt post 1991 reforms.
- Reason
  - Creation of national market
  - Rationalizing (or harmonizing) indirect tax regime
  - Addressing the issue of cascading effect
  - Promoting ease of doing business
  - Promoting manufacturing sector competitiveness etc

Enumerate the indirect taxes which have been subsumed in the goods and services tax (GST) in India. Also, comment on the revenue implications of the GST introduced in India since July 2017

- At the Central level
  - Central Excise Duty
  - Additional Excise Duty
  - Service Tax
  - Additional Customs Duty commonly known as Countervailing Duty etc.
- At the State level
  - Value Added Tax/Sales Tax
  - Entertainment Tax
  - Central Sales Tax (levied by the Centre and collected by the States).
  - Octroi tax etc

- Revenue implications
  - States would be foregoing the powers to impose taxes which would be affecting their revenue collection.
  - More number of establishments would be covered (formalization) leading to higher revenue collection over a period of time.
  - Higher tax collections would also lead to higher tax to GDP ratio.
  - Cascading effect would be addressed which would be helping
    - Customers
    - Exporters
    - Manufacturers etc.

Q - The public expenditure management is a challenge to the Government of India in context of budget making during the post liberalization period Clarify it.

Challenges faced by the government with regards to PEM

- Fiscal deficit
- Crowding out effect
- Challenges of Globalization- global shocks
- Narrow tax net
- Capital expenditure
- Populist tendencies

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Challenges faced by the government with regards to PEM

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- Crowding out effect
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- Narrow tax net
- Capital expenditure
- Populist tendencies

Q - Elaborate the policy taken by the Government of India to meet the challenges of the food processing sector.

Introduction – what is food processing

Challenges

- Small scale farming
- fragmented agricultural holdings
- Quality, Grading and Quantity related inadequacies,
- Cold storage, warehousing and Logistics issues
- Market size, finance and infrastructural limitations etc.

- Steps taken to address the challenges in FPI sector:
- Pradhan Mantri Kisan Sampada Yojana(PMKSY) under which various schemes like Mega Food Parks (MFP), Integrated Cold Chain etc.
- One District and One Product Scheme
- FDI in food processing etc.

- Conclusion
- Conclude by highlighting how FPI is critical to increase growth, income and prosperity in rural sector and how it can reduce dependence in traditional agriculture system.

Q - What do you mean by Minimum Support Price (MSP)? How will MSP rescue the farmers from the low-income trap?

Intro – define the concept of MSP

Main body

Briefly discuss about problem of low-income trap in developing economies and India In particular.

Give benefits of MSP and how it disturbs the vicious circle of Low-Income Trap and rescue the farmers:

- Assured remunerative prices.
- Insurance against market price risk,
- Incentivize agricultural production and provide diversity of crops to the farmers.

Q - What are the reformative steps taken by the Government to make the food grain distribution system more effective?

Body

Reforms Initiated by the Government to make the food grain distribution system more effective:

- NFSA,TPDS, IM-PDS, ONOR Scheme, etc
- End to end computerization
- Interventions in storage and procurement etc.

More reforms Required- Implementing Shanta Kumar committee recommendations, including private sector, decentralizing the system etc.

L1 Introduction to Economics

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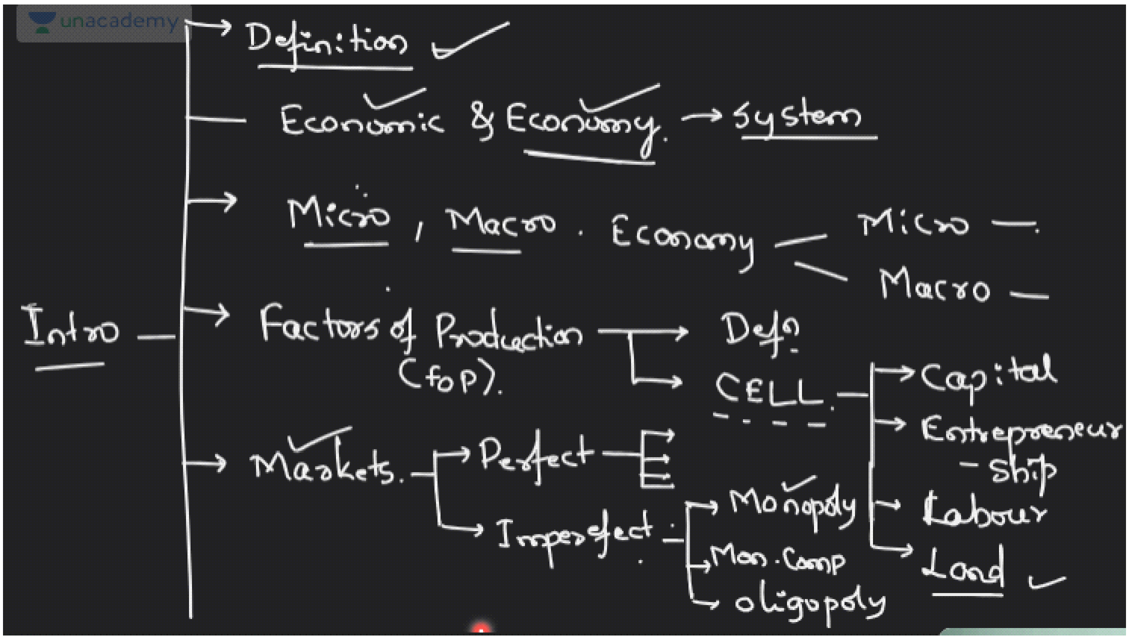
<table>
<tr><td>Introdcution</td><td>



</td></tr>
<tr><td>ECONOMICS</td><td>

• It is the study of how people will make choices when they face scarcity of resources
• Resources — what is available (inputs) for us to produce goods and services
• Economy - Study of Territory structure

• Units/Agents : Government, Companies/Firms, Households, Central bankers

</td></tr>
<tr><td>Types</td><td>

Micro and Macro Economics

Micro	Macro
Study of individual units.	Study of Economy as a whole.
Deals with individual income, individual units, individual outputs, etc.	Deals with aggregates such as National Income, Employment, etc.
Main tools are demand and supply.	Tools are aggregate demand and supply.

• Macro : Aggregates
• Micro : individual units / Agents

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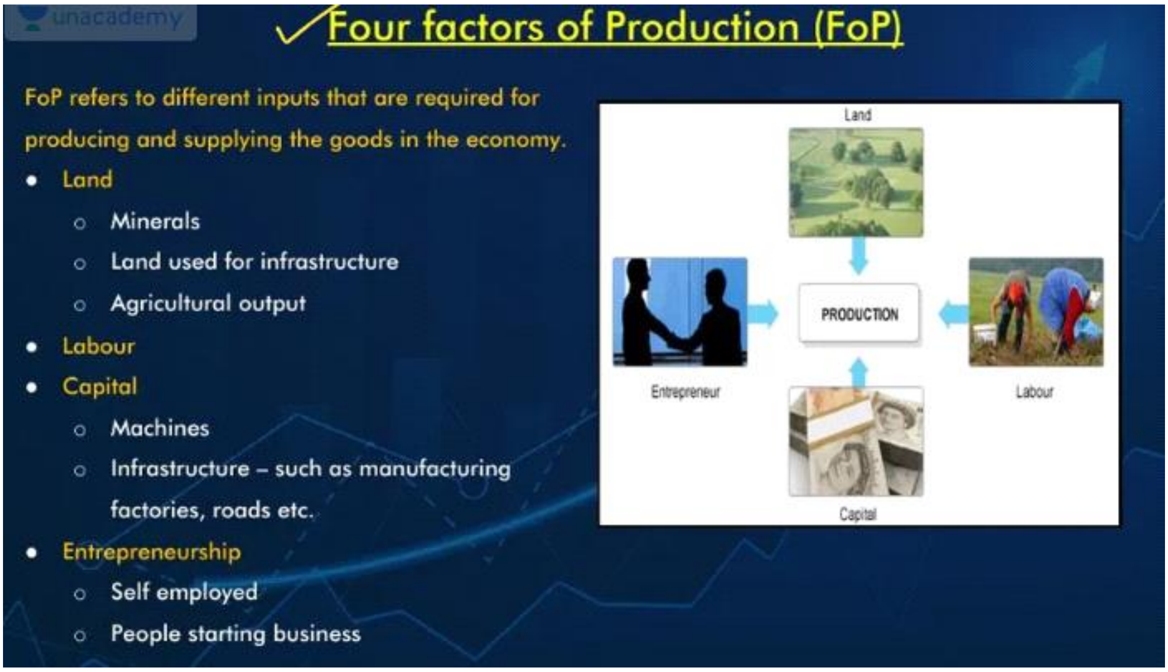
<table>
<tr><td>Factors of Production FoP</td><td>


• Remember by CELL

<table>
<tr><td>Land</td><td>• All available in Nature, ores</td></tr>
<tr><td>Labor</td><td>• Human</td></tr>
<tr><td>Capital</td><td>• Produced by human that are used by others
• Can be bought by money, not money</td></tr>
<tr><td>Entrepreneur</td><td>• Man taking all the risk, invest, and helps in production of economy</td></tr>
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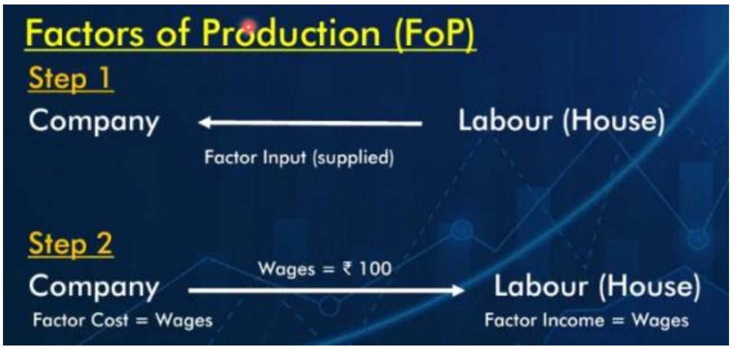

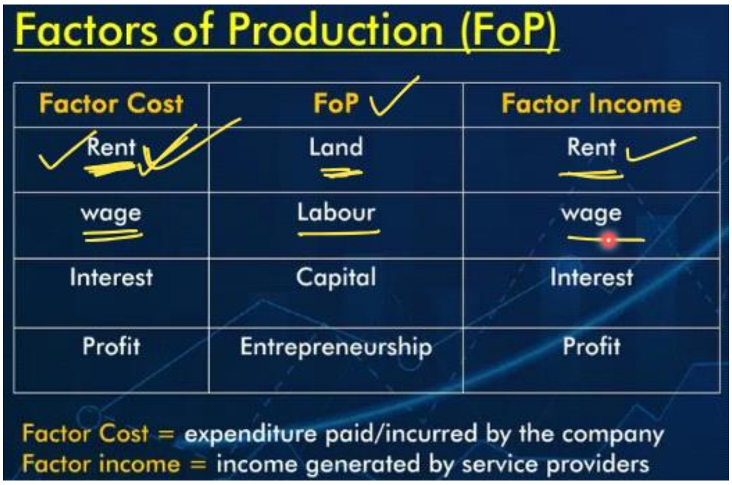

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<tr><td>Market</td><td>
• Buyer Seller meet and transaction is done

• Perfect Competition : Only in theory ->
  • High seller,
</td></tr>
</table>

- Perfect Substitutes : Closed Product : 5 rupees coin and note
- Easily setup same manufacture and exit the marker
- Price Taker : One cannot control market price

- Imperfect Competition :

Monopoly :	• One supplier : Cancer Drugs • No Close Substitute • Entry Exit Restricted • Price maker -> Decide the price in market
Monopolistic Competition :	• Number of sellers are Large, more than 10 • Related Products :Closed substitutes • Price maker (But some control) : 1 or 2 company leading the market

Oligopoly	• More than one less than 10
	• Products can be same and different :
	    • Jio and Airtel : same close product,
	    • Reliance and Indian Gas : different product
	• Price maker

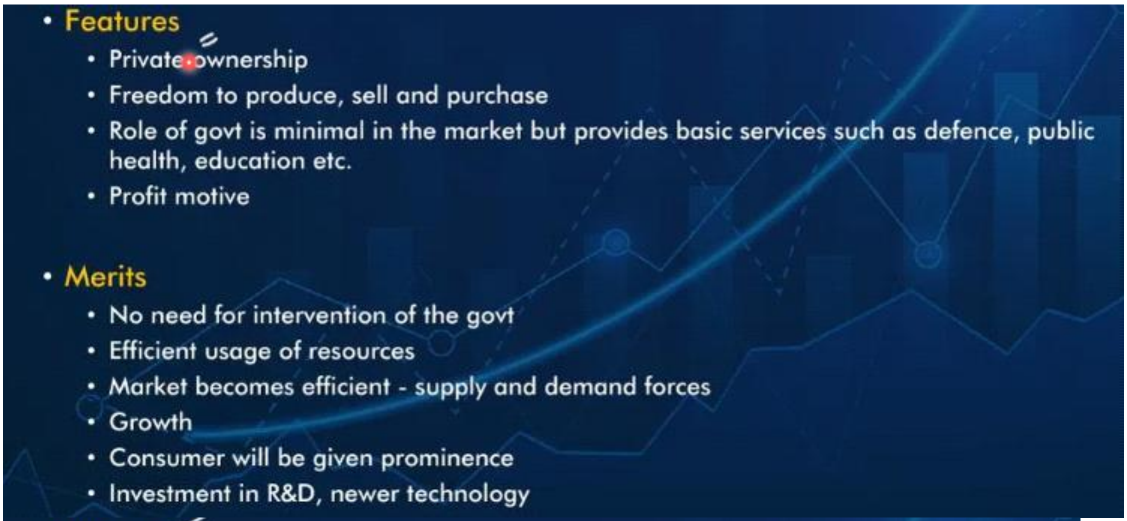
Markets

	Perfect Competition	Imperfect Competition		
		Monopoly	Monopolistic Competition	Oligopoly
How many sellers	Very large	One	Large	Many
Product	Perfect Substitutes	No Close Substitutes / Unique	Close Substitutes	Either
Entry & Exit	Free	Restricted	Free	Free
Price	Price Taker	Price Maker	Price Maker (Some Control)	Price Maker

EVOLUTION OF ECONOMICS

Features	Capitalism	Socialism	Mixed Economy
Factors of production are controlled by	Private ownership	Government	By both
Role of the government	Minimal	Maximum	More of providing a conducive environment.
Price determination	Market forces will decide.	Government to decide	Both (government in some cases and market in others).
Competition	Very high	Almost absent	high
Motive	Profits	Social welfare	both
Exploitation (of factors of production)	Yes	No	No
Outcomes	Social strata, increasing income gap, thriving private sector etc.	Wage gaps, prominent role of PSEs.	Prominence given to both public and private sector enterprises.

<table>
<tr><td></td><td>• Central Problems : What resource will be used, What to produce, How much to produce, sell</td></tr>
<tr><td>CAPITALISM</td><td>
• Private Sector controls the production, like USA
• Govt control basic service like defence and public
• By Adam Singh
• Focus : Profit
• Model : Supply Demand control evrything



• Anarchy Capitalism : Extreme Capitalism
• Privatise everything, no government
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<tr><td>SOCIALISM</td><td>
• Government control factor of production. Like USSR
• Limited choice, Complex Structure
• Focus : Social Welfare

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<td>MIXED ECONOMY</td>
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• Both Government and Private control together, like India
• Some sector only govt or private are allowed


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L2 Demand Supply Curve, Elasticity

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<td>OPPORTUNITY COST</td>
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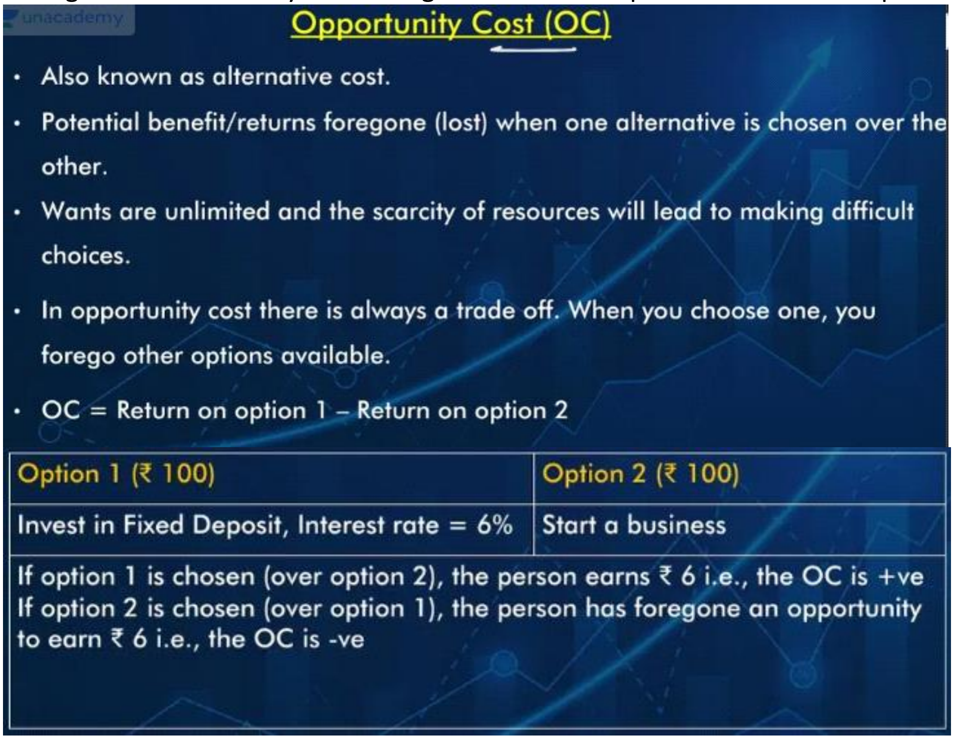
- Losing amount of money if investing in some other option which is not as profitable.



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<td>Law of Demand</td>
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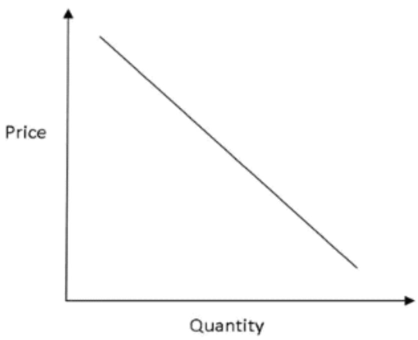
- Demand depends on
  - Price Of Commodity -> Reduction in purchasing power
  - Price Related Goods
    - Substitute goods : Tea ^ and Coffee V
    - Complementary goods : Fuel ^ + Car ^
  - Income Of The Consumer
  - Tastes And Preferences



- Law of Diminishing Marginal utility : Satisfaction got from consumption
- Lesser satisfaction from utility -> demand reduce

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<tr>
<td>Law of Supply</td>
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- Supply depends on
  - Price of the commodity
  - Price of other goods
  - Change in technology
  - Change in cost Of production
  - Taxes and subsidies
  - Transportation costs

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• Law of Supply - all other factors being equal/unchanged (Ceteris paribus), as the price Of a good or service changes, the quantity of goods or services that also change in the same direction.

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<tr><td>EXCEPTION</td><td>

Certain Exceptions

- Availability of substitutes.
- Good is essential or non-essential. : price of salt does not affect consumpttion
- Impact on the budget.
- foods which have shorter shelf life. : Green leaves have shelf life of 1 day
- Very rare articles such as Paintings, coins etc. : cannot ccontrol demand of rare
- Future expectations.

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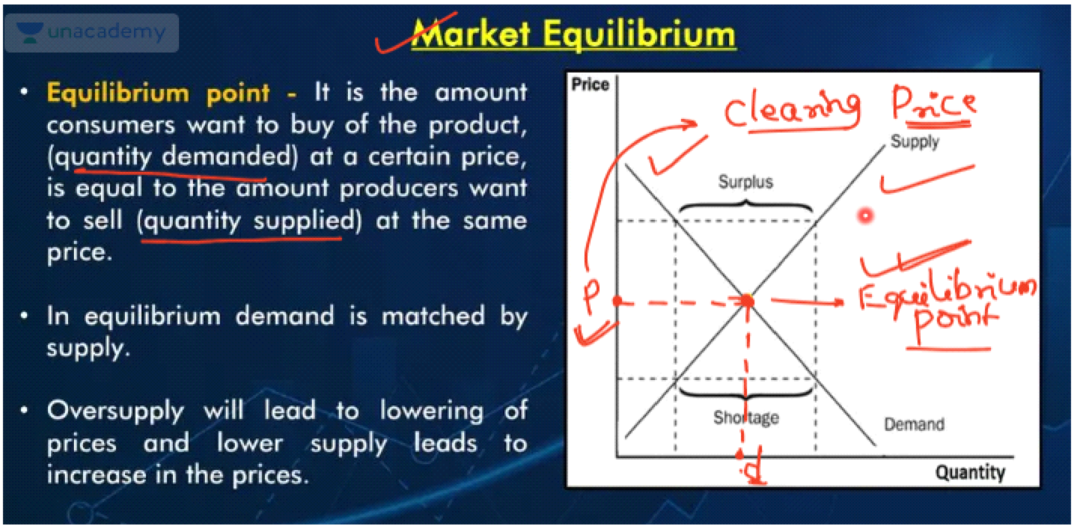
<tr><td>MARKET EQUILIBRIUM</td><td>



- Clearing price : price at the equilibrium point, everything is purchased

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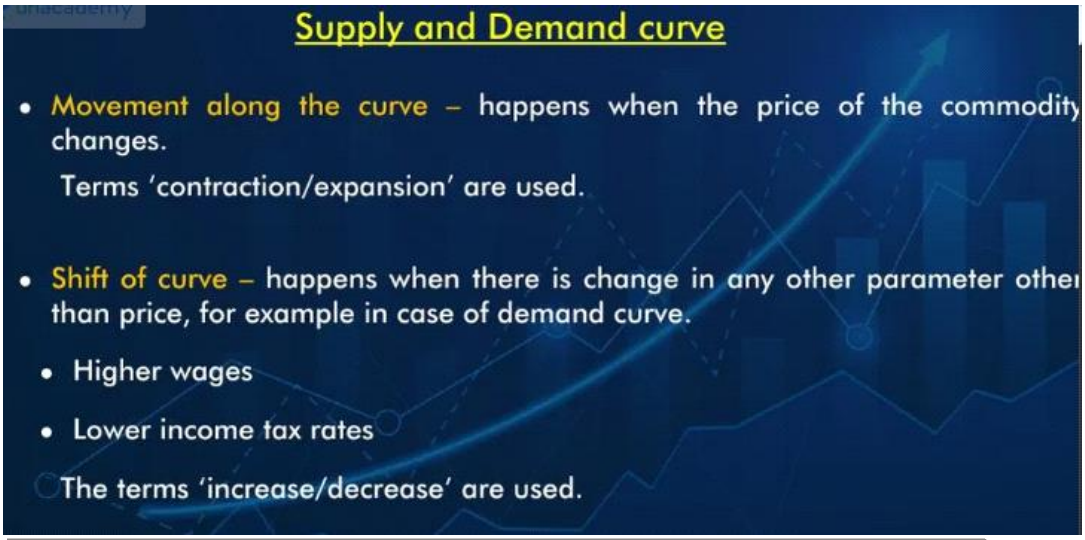
<tr><td>SUPPLY DEMAND CURVE</td><td>



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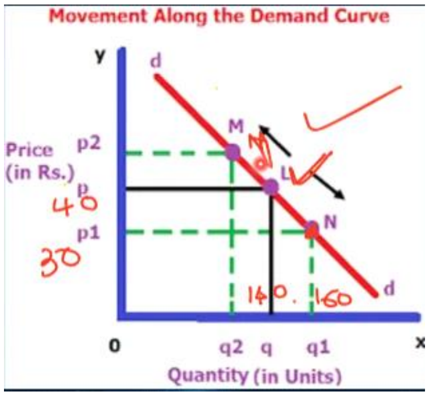
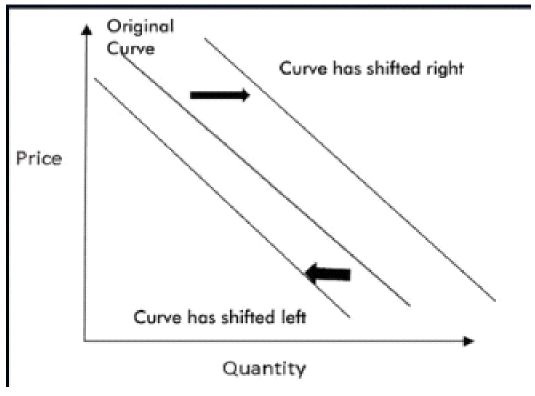
<tr><td></td><td>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TYPES OF GOOD

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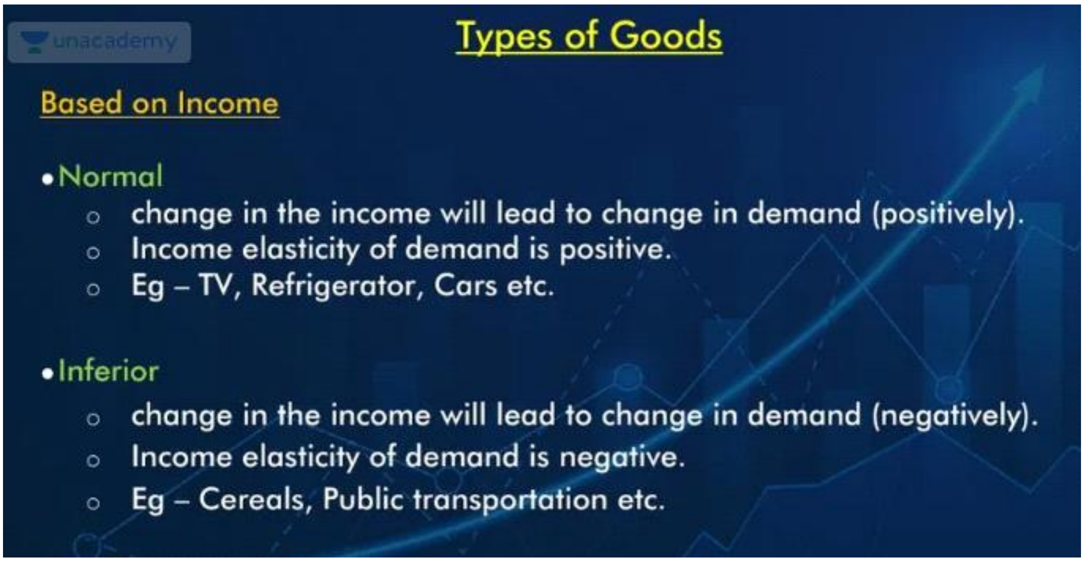
<tr><td>Income</td><td>
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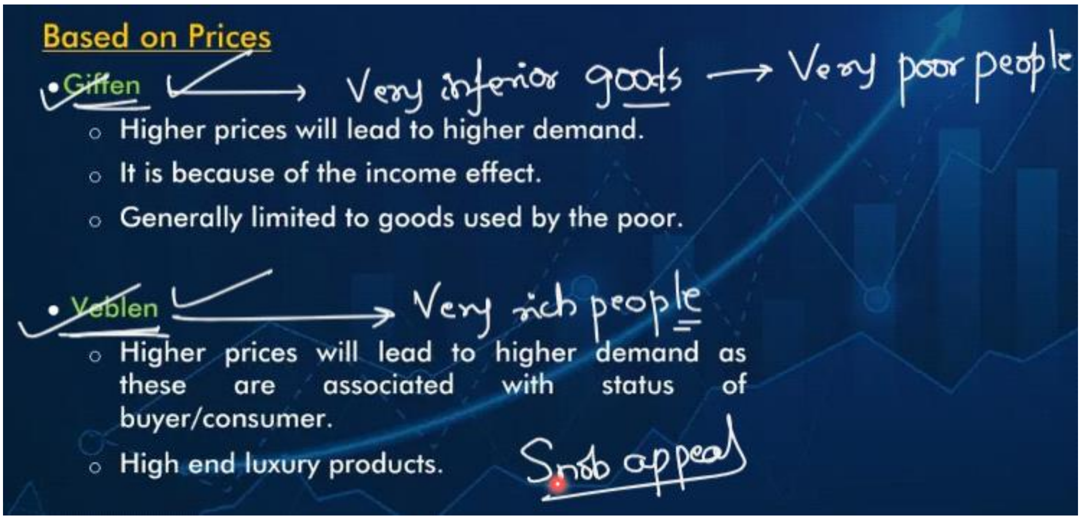
<tr><td>Prices</td><td>
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<td>Utility of Society</td>
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<u>Based on utility to society</u>
• Merit
  o Are the goods which consumption provides benefit to the society (consumers and non-consumers).
  o Govt generally provides or subsidizes in order to promote the consumption.
  o Eg.– essentials, health care, education etc.
• Demerit
  o Creates a negative impact.
  o Negative externality/spillover effect.
  o Alcohol, tobacco etc.
• Externality / Spillover effect : unrelated object affect each other if one is impact,
• Like Russia Ukraine war affected Indian Economy
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<tr>
<td>Producer</td>
<td>
<u>Based on who is the producer</u>
• Public (are non-rival and non-excludable).
  o Non-rivalry (consumption of this good does not reduce the amount available to others).
  o Non-excludable (people cannot be excluded from consumption of this).
  o Defence, streetlight, law and order (police).
• Private – excludable and rival.
  o Rival - Consumption of this good prevents others from consuming this good.
  o Excludable - People can be excluded from consumption of this i.e. people will have to pay to consume

<table>
<tr><th></th><th>Excludable</th><th>Non-Excludable</th></tr>
<tr><td>Rival</td><td>Private Goods
Eg- car</td><td>Common Goods
Eg- Book in a Public Library</td></tr>
<tr><td>Non-rival</td><td>Club Goods
Eg- Netflix</td><td>Public Goods
Eg- Defence</td></tr>
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Economic flow	<u>Based on presence in the economic flow</u>
	• Intermediate
	  ○ Are used in further production.
	  ○ Used as raw materials i.e., are part of supply chain or production process.
	  ○ Steel, aluminum, coal etc.
	• Final
	  ○ Are available in the market for final consumers (for consumption).
	  ○ No value addition process.
	  ○ Car, cell phones etc.

Relative goods	• Substitute goods
	  ○ These are set of goods which consumed individually satisfy a common want.
	  ○ Can be substituted.
	  ○ Demand is affected by change in the prices.
	  ○ Eg – tea and coffee; cold drinks, cars, mobiles etc.
	• Complementary goods
	  ○ Are consumed in combination.
	  ○ Demand is affected by change in the prices.
	  ○ Petrol/diesel car; ink and printer etc.

Elasticities	• Elasticity measures the change in the demand with the change in the variables (ex - price, income etc) or it is a measure of responsiveness of demand with variables such as price, income etc
	  ○ Price elasticity of demand (PED)
	  ○ Income elasticity of demand (IED)
	  ○ Cross elasticity of demand (CED)
	  ○ Price Elasticity of Supply (PES)

PED : Price elasticity of demand

Price elasticity of demand

Price elasticity of demand (PED) – measures the change in the demand with unit change in the price of the product.

$$PED = \frac{\text{\%age change in the demand of good X}}{\text{\%age change in the price of good X}}$$

	Elasticity	Note
PED<1	Inelastic	Essentials
PED=1	Unitary elastic	A unit change in price leads to unit change in demand
PED>1	Elastic	luxuries

- Perfectly elastic = 10/0 = infinity
- Perfectly inelastic = 0/10 = 0

IED : Income elasticity of Demand

Income Elasticity of Demand

Income elasticity of demand (IED) - measures the change in the demand with unit change in the income.

$$IED = \frac{\text{\%age change in the demand of good X}}{\text{\%age change in the income}}$$

	Note	Type of good
IED<0	There is fall in the demand with the increase in the income	Inferior good
IED>0	There is rise in the demand with the increase in the income	Normal good

CED : Cross elasticity of Demand

- Related Goods (Complementary or Substitute)

Cross Elasticity of Demand

Cross elasticity of demand (CED) - measures the change in the demand of one product with unit change in the price of other product.

$$CED = \frac{\text{\%age change in the demand of good X}}{\text{\%age change in the price of good Y}}$$

	Note
CED<0	Complementary goods
CED=0	Unrelated goods
CED>0	Substitutes

PES: Price elasticity of Supply

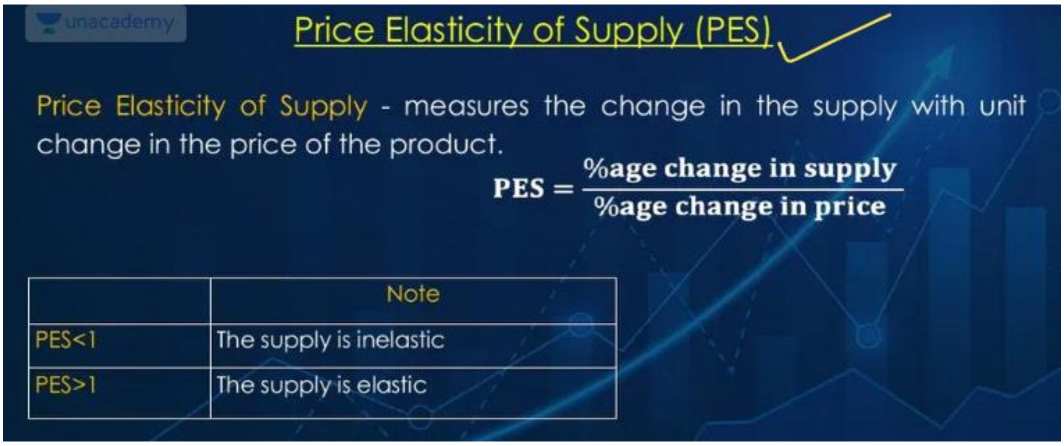
- Only one in Supply side

Price Elasticity of Supply (PES)

Price Elasticity of Supply - measures the change in the supply with unit change in the price of the product.

$$PES = \frac{\text{\%age change in supply}}{\text{\%age change in price}}$$

	Note
PES<1	The supply is inelastic
PES>1	The supply is elastic

<table>
<tr>
<td>elasticity of Supply</td>
<td>

• Elastic : Demand > Supply , It is controllable
• Inelastic : Supply will never match the Demand, as supply arte change is low</td>
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L3 Income, Capital Formation, GDP

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<table>
<tr><td>Income Category</td><td>
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<tr><td>Savings</td><td>• Disposable Income = Income - tax : That you can spend
• Savings = Disposable Income - Expenditure

• We can deposit in bank -> bank can issue the amount as loan -> more goods -> More supply -> More Employment -> Better Economy
• Saving Source : More than 60-70 % savings come from households
• Govt is dis-saver, they spend more than Income

• Savings types:
    • Financial : Savings account, govt prefer more financial
        ○ Can be used in market as loan, add to investment and capital Formation
    • Physical : Physical assets like land or gold</td></tr>
<tr><td>Investment</td><td>• To acquire Capital goods
• Economic agents
• Investment source
    • Foreign Market
    • Domestic</td></tr>
<tr><td>Capital Formation</td><td>• Existing capital what will be added in Financial Year / Fiscal
• Fiscal : FY 1st Appr - 31st March, 3 moths Quarter, Current 2024-2025, Q1+Q2 First half
• April was selected -> Cultivations cycle

• Ex: Q1 (100 Cr) -> Q2 (110 Cr) -> Capital formation = 10 Cr
Rate of capital Formation = Investment /GDP *100

• Gross Capital Formation : GCF = GFCF + Stock
• Gross Fixed capital Formation (GFCF)
    ○ Durable in nature (Will be used for long time), like Building, machine, roads etc
• Stock :
    ○ Recurring in nature, like raw material, inventories, finished/semi-finished goods

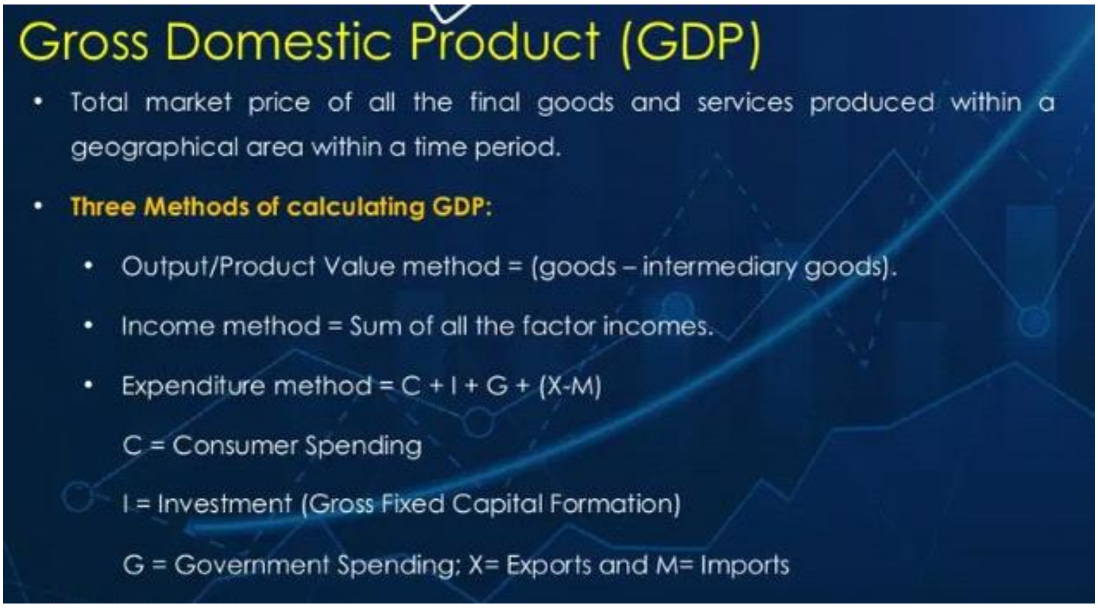
• Capital formation factors
    ○ Need people to save money in economy
    ○ Financial Institution : To control save money, cycle will be disrupted
    ○ Good performing Firms and losses : more flow of Loan</td></tr>
</table>

- Importance of Capital Formation
    - Helps in increasing the production
    - Is associated with increased labour efficiency
    - Is associated with technological progress
    - Better utilization of natural resources
    - Is associated with rising demand and supply of goods and services

- Government going to invest 50K Crores rupees for developing 6 highways
- It is capital formation -> Job Formation + Transportation

NATIONAL INCOME ACCOUNTING

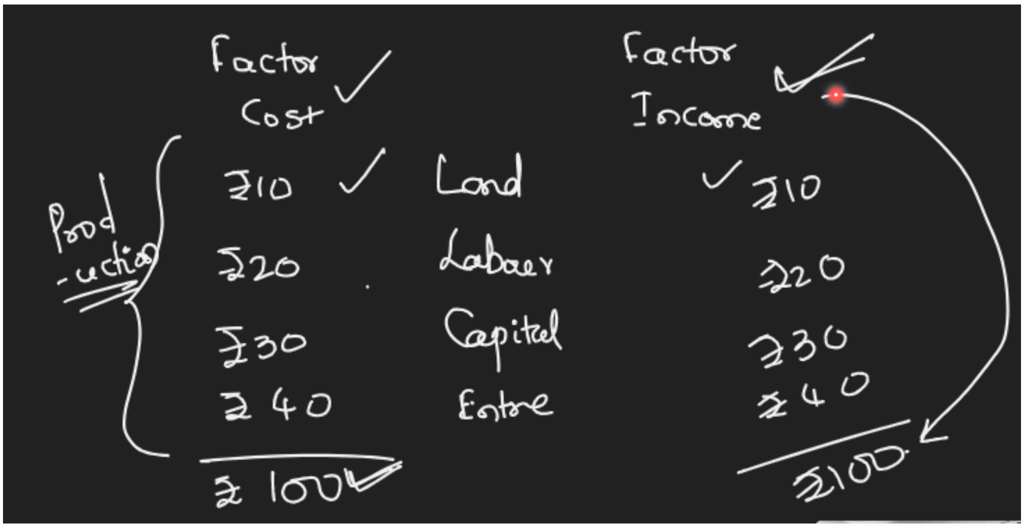
Gross Domestic Product



- GDP = Final Goods + Final Product
- Intermediary goods not counted (To not count double)
    - Final price also include intermediary good and service

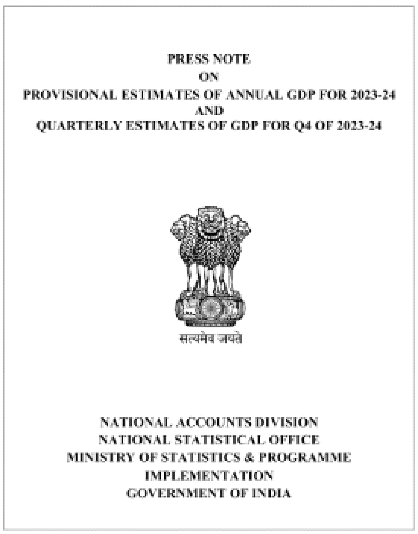
- Output / Product Value Methods / Value Addition = Goods - Intermediary goods
    - Needed to add all Intermediary factors (Like Milk used by factory + Household)
    - EX : 100 litre milk produce (Rs.500)
    - 200 (Restaurant-> 500 Sweets) + 300(Household)
    - Good = 500(Milk) + 500(Sweet) = 1000, GDP = 500-200 (Intermediary) = 300

- Income Method = Sum of all factor Incomes
- Factor Cost = Factor Income, Can be calculated by any one



- Expenditure Method = Govt + Households + Firms - Imports + Exports
- C : Expenditure done by everyone (Consumer Spending)
- C + I + G : How much is consumed in India

- CSO : Central Statistical Office : Calculate GDP of India
- Income will give wrong number, people don't show full income (Black Money)
- Production money is used



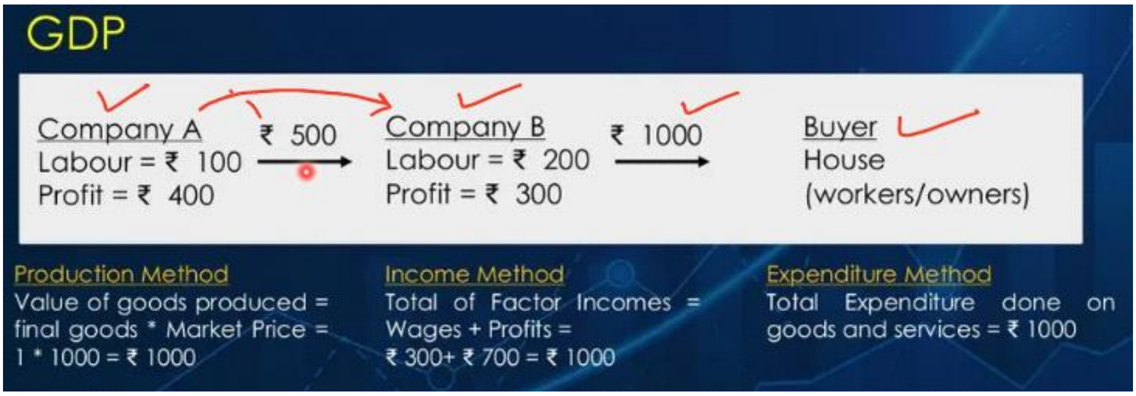
PRESS NOTE
ON
PROVISIONAL ESTIMATES OF ANNUAL GDP FOR 2023-24
AND
QUARTERLY ESTIMATES OF GDP FOR Q4 OF 2023-24

सत्यमेव जयते

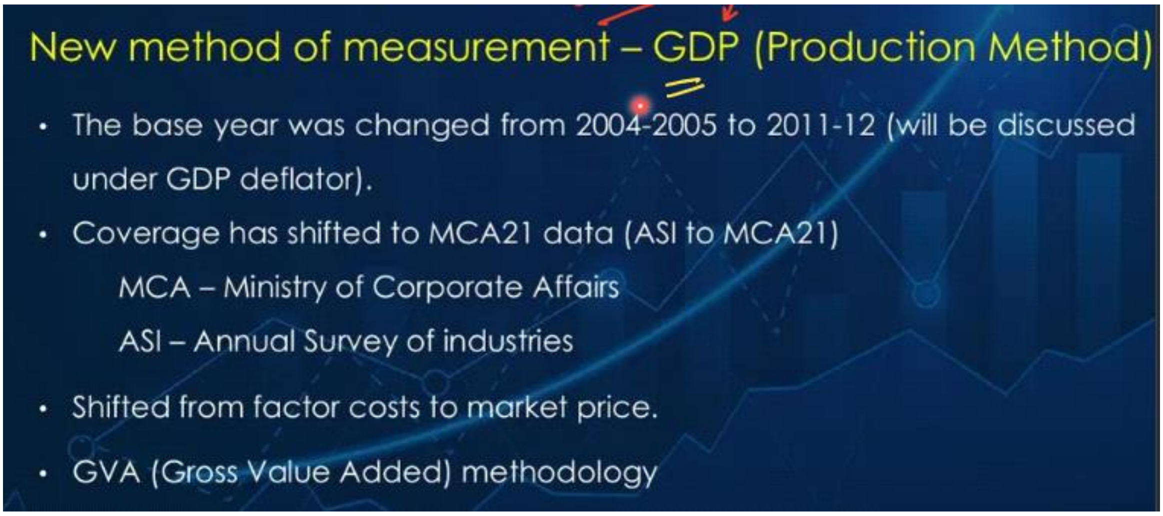
NATIONAL ACCOUNTS DIVISION
NATIONAL STATISTICAL OFFICE
MINISTRY OF STATISTICS & PROGRAMME IMPLEMENTATION
GOVERNMENT OF INDIA

Sl. No.	Item	2021-22	2022-23 (FRE)	2023-24 (PE)	Percentage Change Over Previous Year 2022-23	Percentage Change Over Previous Year 2023-24
	Domestic Product					
1	GVA at Basic Prices	1,38,76,840	1,48,04,901	1,58,73,751	6.7	7.2
2	Net Taxes on Products	11,45,006	12,66,528	15,07,971	10.6	19.1
3	Gross Domestic Product (GDP) @	1,50,21,846	1,60,71,429	1,73,81,722	7.0	8.2
4	Net Domestic Product (NDP)	1,30,66,058	1,39,86,798	1,51,46,589	7.0	8.3
	Expenditure Components #					
5	Private Final Consumption Expenditure (PFCE)	87,32,573	93,23,825	96,99,214		
6	Government Final Consumption Expenditure (GFCE)	14,80,394	16,13,726	16,53,333		
7	Gross Fixed Capital Formation (GFCF)	50,14,263	53,46,423	58,26,880		
8	Changes in Stocks (CIS)	1,60,203	1,83,464	1,94,349		
9	Valuables	2,83,099	2,29,167	2,77,857		
10	Exports	33,93,107	38,47,742	39,48,947		

	(GFCF)			
8	Changes in Stocks (CIS)	1,60,203	1,83,464	1,94,349
9	Valuables	2,83,099	2,29,167	2,77,857
10	Exports	33,93,107	38,47,742	39,48,947
11	Imports	35,43,745	39,19,021	43,47,870
12	Discrepancies	-4,98,048	-5,53,897	1,29,012
13	GDP	1,50,21,846	1,60,71,429	1,73,81,722

- 

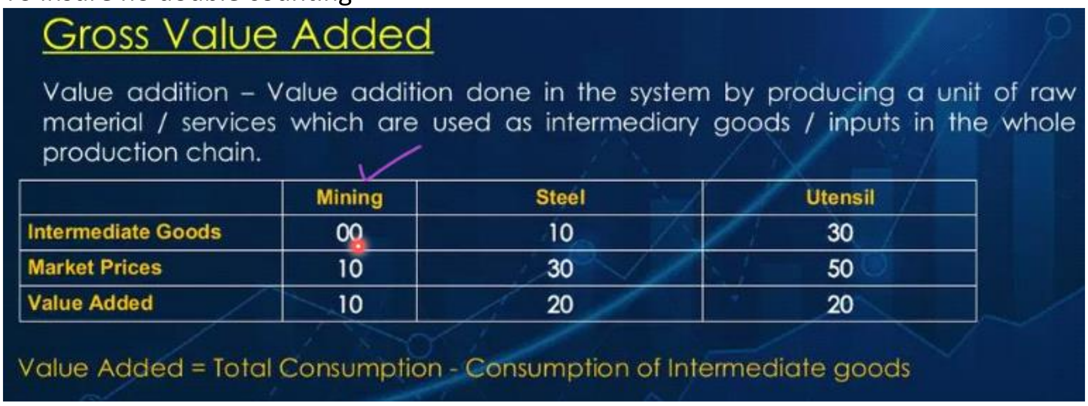
New Method for GDP



- MCA 21 is portal -> 5000 companies submit data for production

- Factor Cost : How much we have spent to create, does not contain tax
  - Taxes increases the cost
  - But Subsidy (Assistance provided by Govt) -> Reduce the cost
- Market Price : Factor cost + Indirect tax - Subsidies = FC + Net Indirect Taxes
- According to UN Systems of National Account (SNA)
  - when we calculate using Market Cost, GDP is more inclusive

Gross Value Addition

- Gross Value Addition :
- Each company (intermediaries) will add some value in the product
- To insure no double counting
- 

• Gross Value added = 10+20+20 = 50

Tax and Subsidies

Production taxes and production subsidies are either paid/received and are independent of volume o any goods produced.

Production taxes - land revenues, stamps and registration fees and professional tax etc.

Production Subsidies - subsidized to Railways transportation, input subsidies to farmers, subsidies given tc small industries, subsidies given to companies etc.

Product taxes or subsidies are paid/received on per unit of product and are dependent of volume o any goods produced.

Product taxes - excise tax, sales tax, service tax and import and export duties etc.

Product Subsidies - petroleum and fertilizer subsidies, interest subsidies given to farmers etc.

Basic Price (BP) - is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any tax payable, plus any subsidy receivable

Basic Price = Factor Cost + Production Taxes - Production Subsidies
Market Price = BP +Product Taxes - Product Subsidies

GDP Final Calculation

GDP Calculation

GVA at FC + (Production taxes – Production Subsidies) = GVA at BP

GVA at BP + (Product Taxes – Product Subsidies) = GDP at MP

S. No	Item	Value
1	GVA at Factor Cost	
2	[Add:] Production Tax	
3	[Less:] Production Subsidy	
4	**GVA at Basic Prices**	(1 + 2) - 3
5	[Add:] Indirect Product Taxes	
6	[Less:] Product Subsidies	
7	**GDP at Market Prices**	(4 + 5) - 6

Some of the items that are excluded
• Services of housewives. : Monitory Value
• Black money. : No Tracking
• Transfer payments. : In return nothing is exchanged, Like Indira Gandhi scheme
• Old goods which are resold. : need to add if middle man earn some value

Real GDP

Nominal (Current) and Real (Constant)

	Price	Goods	GDP @ Current Market Price	Base Year Prices		GDP @ Constant Price
2011-12 Base Year	10	10	100			
2019-20	12	15	180	10	15	150
2020-21	15	20	300	10	20	200

Nominal = based on current market prices

Real = based on prices in base year

- Base year : Very less volatility + Household Consumption and Expenditure Survey (HCES)
- Last time done in 2011
- In 2021 -> Very high volatility was seen due to Covid

L4 National Aggregate, Cycle of Growth

18 September 2024 10:26 PM

Gross National Product (GNP)

Gross National Product (GNP)

- Market Price of all the goods and services by the residents of a country within a financial year.
- Considers the income generated by the citizens of the country present within or outside the country.
- It excludes the income generated by foreign nationals who are residing in the country.
- GNP = GDP + NFIA

NFIA (Net Factor Income from Abroad) = Net Receipts – Net Outflow.

(Gross = Total; Net = what is left out after deducting from gross).

- GDP -> Geographic
  GNP -> Residence

- Net factor Income from Abroad = Indian abroad (Net Receipt) - Foreigners (Net outflow)
- Use : Know importance of Indian residence and Indian Company

GNP - Calculation

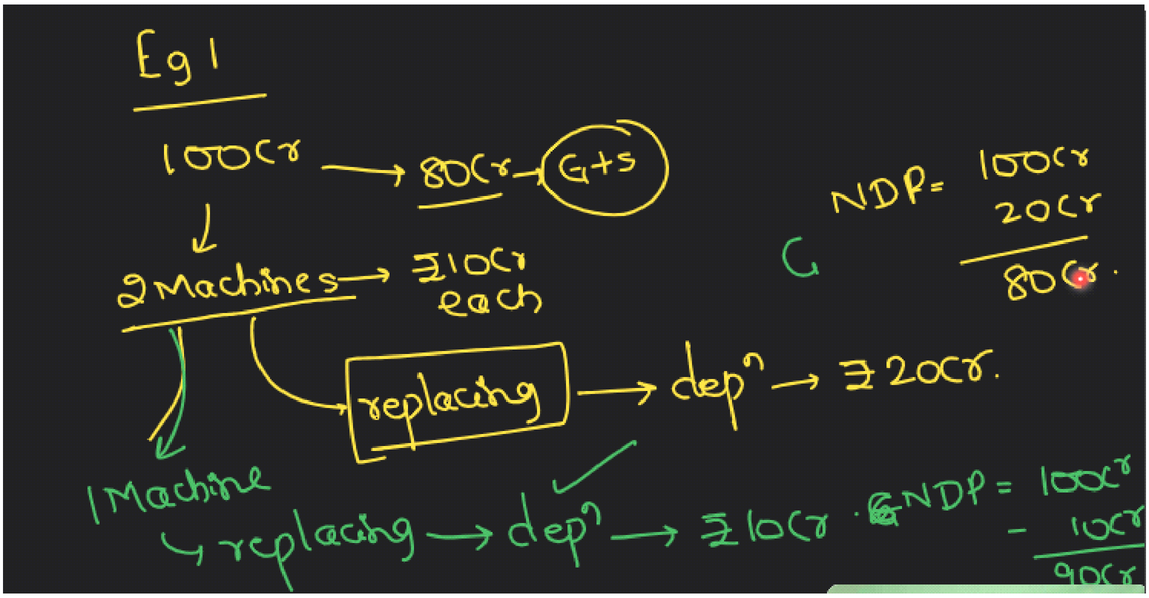
	GDP	GNP
Indian company working in India	Yes	Yes
Indian company working abroad	No	Yes
Indian citizen working abroad	No	Yes
Foreign citizen working in India	Yes	No
Foreign company working in India	Yes	No

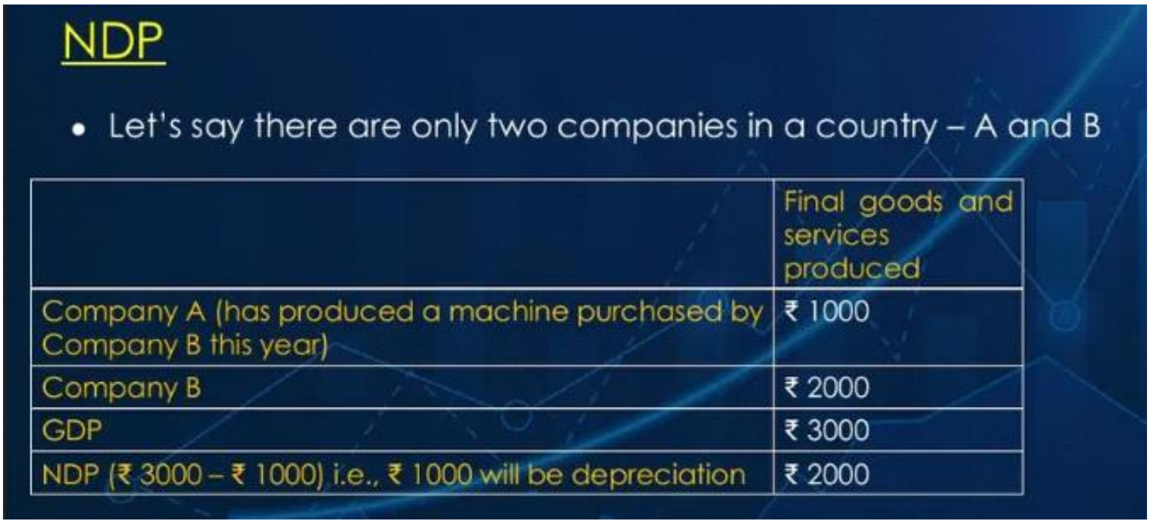
- Indian embassy Comes in GNP, not in the GDP, as they produce abroad

Net Domestic Product

Net Domestic Product (NDP)

- Net domestic product (NDP) is calculated by subtracting the value of depreciation of capital assets of the nation such as machinery, housing and vehicles from the gross domestic product (GDP) i.e., it represents the market value of all the final goods and services produced in a country after accounting for depreciation.
- Depreciation is the expenditure incurred by the companies for replacing the consumed fixed capital.
- NDP = GDP – Depreciation





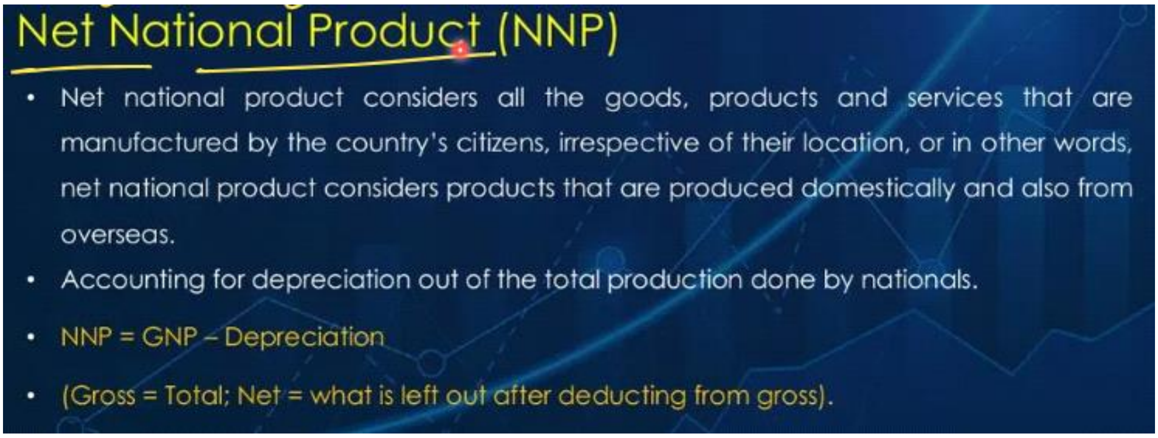
NDP

- Let's say there are only two companies in a country – A and B

	Final goods and services produced
Company A (has produced a machine purchased by Company B this year)	₹ 1000
Company B	₹ 2000
GDP	₹ 3000
NDP (₹ 3000 – ₹ 1000) i.e., ₹ 1000 will be depreciation	₹ 2000

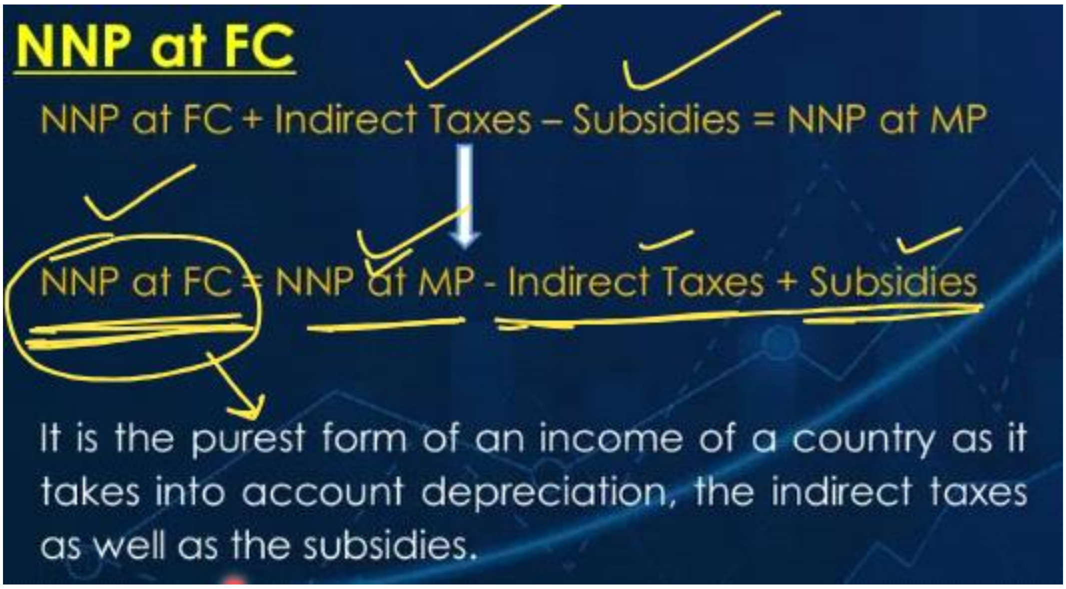
- NDP gives description of capital used for replacing, hence better than GDP

Net National Product NNP

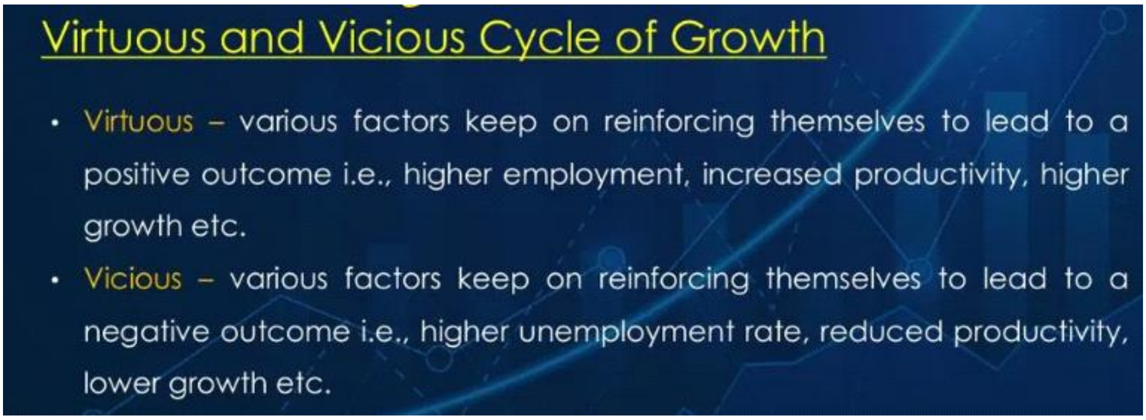


- GDP - Dep -> NDP -> +NFIA -> NNP
- GDP + NFIA -> GNP -> -Dep -> NNP
- NNP will be most imp information : , residence + depreciation

- NNP at MP -> NNP at factor cost (to remove increase in MP because of inc taxes)
- NNP at FC : purest form of income of country

<table>
<tr><td></td><td>
</td></tr>
<tr><td>Limitations / Issue</td><td>
• Is growth benefitting all sections of society?
  • Factor Income Increase -> GDP Increase -> does not mean more development
  • Only Rich become Richer
•Growth from all regions or concentrated?
  • No idea about diversity among states in country
• Existence of non-monetized consumption.
  • Service can be exchanged in non-monetize transaction
• Parallel economy.
  • Black Money
• Doesn't consider development, environmental impact etc.
  • Does not consider impact on well being</td></tr>
<tr><td>Per Capita Income</td><td>
• PCI is the average income/earning per person -> represent standard of living
  • If PCI increase -> better standard of living in country
• Per capita income of India = 1.72 lakh.
• PCI = National Income / Population

• Per Capita Income — Issues
  • It is just an average.
  • Does not provide information about the contribution of various sectors.
  • Standard of living is affected by the govt expenditure also -> transfer payments
  • Does not provide the purchasing power of individuals in different countries.
    ○ need Purchasing Power Parity PPP for this</td></tr>
</table>

<table>
<tr><td>Cycle of growth</td><td>
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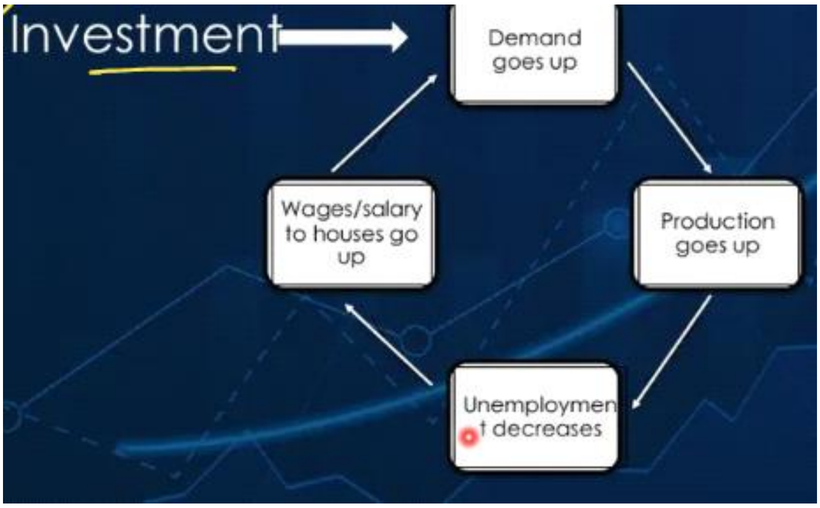
<table>
<tr>
<td>Virtuous Cycle</td>
<td>


- Outcomes Positive :
    - Higher employment + Higher Production + Higher GDP
</td>
</tr>
<tr>
<td>Vicious Cycle</td>
<td>


- Outcomes Positive :
    - Higher Unemployment + Lower Production + Lower GDP
</td>
</tr>
<tr>
<td>Business Economic Cycle</td>
<td>


- If all start earning more and more money -> possibility of Inflation
- Demand > Supply -> Prices Increase -> Inflation

- Recession : Negative growth rate in two consecutive quarter
    - Private sector : Low demand -> lay off ↑ , production ↓ and investment ↓
- Depression : Recession for 3 years + GDP -10%

- Monitory Policy : Formed by RBI
</td>
</tr>
</table>

	• Fiscal Policy : GOI, Policy regarding taxation and expenditure • Expansionary : GOI Reduce taxes -> more flow of money in economy • Contractionary : More taxes -> Money flow ↓
Cyclical Growth	• Counter Cyclical : Changing Cycle, more investment in case of recession • Pro Cyclical : Increase growth if growth is happening. Control investment in case of boom

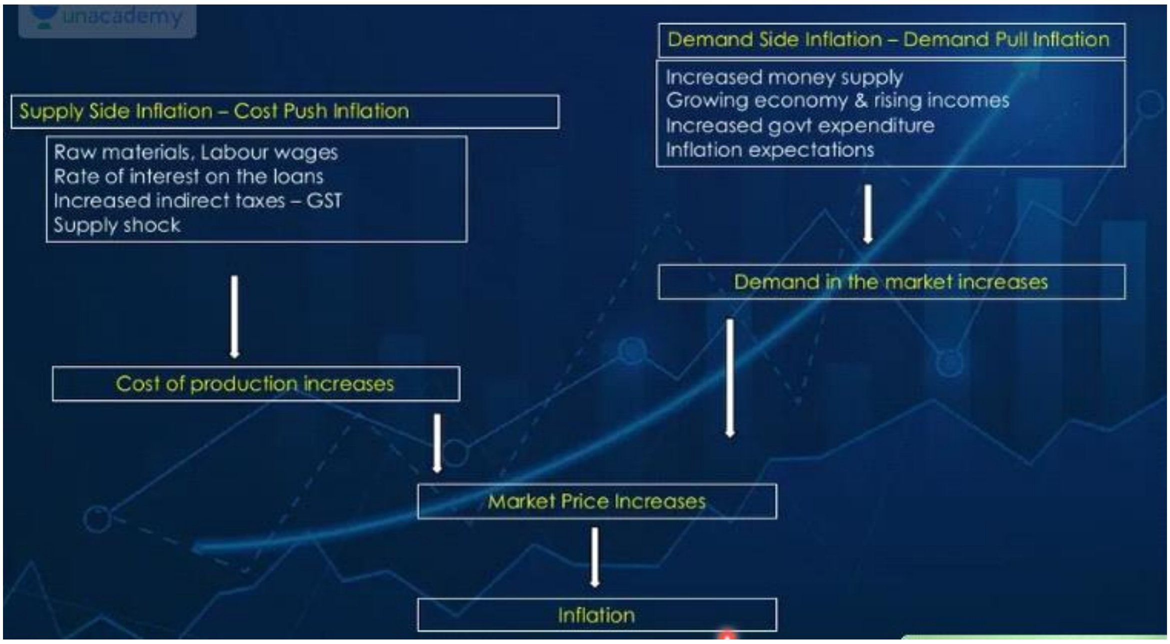
Pro and Counter Cyclical Growth

Fiscal policy (FP) stance	Recession (↓ GDP)	Expansion (↑ GDP)	Outcome
Pro-cyclical	Contractionary FP ↓ Govt. Expenditure or /and ↑ Taxes	Expansionary FP ↑ Govt. Expenditure or/and ↓ Taxes	Deepens recessions and amplifies expansions, thereby increasing fluctuations in the business cycle.
Counter-cyclical	Expansionary FP ↑ Govt. Expenditure or/and ↓ Taxes	Contractionary FP ↓ Govt. Expenditure or /and ↑ Taxes	Softens the recession and moderates the expansions, thereby decreasing fluctuations in the business cycle.

L5 Inflation and its type

19 September 2024 01:03 PM

<table>
<tr><td>INFLATION</td><td>• Inflation is the persistent increase in the price levels of basket of commodities.
• We should talk about basket, not single product as we purchase group of commodity.
• Money loses Purchasing Power
• Inflation must be around 2-4%, But in India Inflation is High</td></tr>
<tr><td>Deflation</td><td>• Negative rate of inflation
• If cost of basket of commodity decrease</td></tr>
<tr><td>Type of Inflation based on rate</td><td>• Creeping : Inflation rate around 2%-3%
• Walking : Inflation is more than Creeping but upto 10%
• Galloping : Very High rate of Inflation, Double - Tripple Digits
• Hyperinflation : Astronomical Number Ex : Zimbabwe</td></tr>
<tr><td>Factors</td><td>



</td></tr>
<tr><td>COST PUSH INFLATION</td><td>• SUPPLY SIDE FACTORS:
    • Cost Push Inflation
    • If cost of production increases -> Prices increase
    • It is the reason of most inflation occurring in India, like : Disaster
    • Supply Shock : Sudden change -> supply disruption

• Structural inflation - due to weaknesses in the economy
    • We do not sell the harvested onion in a single time -> We have to store it
    • There is lack of sufficient storage or proper storage available (Cold Storage)
    • Addressing weakness in economy resolve inflation

• Hoarding - storing more quantity than what is allowed/permissible : Artificial Scarcity
    • Essential Commodities Act 1955 : Govt declare essential product
    • Latest Sanitizer and Mask was declared as Essential Commodities
    • Govt can regulate : Supply, Distribution, Distribution -> Price

• Cartelization - producers/suppliers/sellers coming together to form a group (cartel)
    • Purposely reducing the supply -> to increase Price -> great profit
    • Investigation can be done on this cartel, Competition Commission Act
    • Ex : OPEC (Oil Production)</td></tr>
</table>

DEMAND PULL INFLATION	• DEMAND SIDE FACTORS:
	  • Demand Pull Inflation
	  • Demand is high -> Prices Increase
	  • Inflation expectation -> people start hoarding -> Price ↑
	  • Govt Subsidies -> No exchange -> Money inc -> demand inc -> Price ↑
	
	• RBI -> Monetary Policy : To manage money flow (Promote growth + Control inflation)
	  • Promote growth : Rate of Interest ↓ -> Increase money Supply
	  • Control Inflation : Rate of Interest ↑ -> Demand of money ↓ -> Prices ↓

Measurement of Inflation

WPI (Wholesale Price Index)

- Measures inflation in the wholesale market.
- Does not consider the services.
- Base year = 2011-12
- WPI contain only goods : as developed in 1920, no service was available at that time
  - Counting service is difficult

- Base year revised from 2004-05 to 2011-12.
- The number of items has been increased from 676 to 697.
- Recommendations from Saumitra Chaudhuri working committee.
- Given by Economic Advisor (Commerce Ministry).
- Published for every month.

  - Published on 12th and 13th of every month

WPI

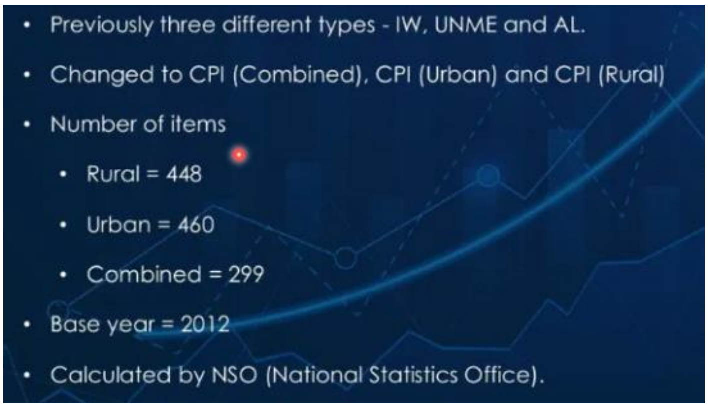
	Base Year (2011-12)	
	Number of items	Weight
Primary Articles	117	22.62
Fuel and Power	16	13.15
Manufactured items	564	64.23
Total	697	100

- Weight according to items are used more offent

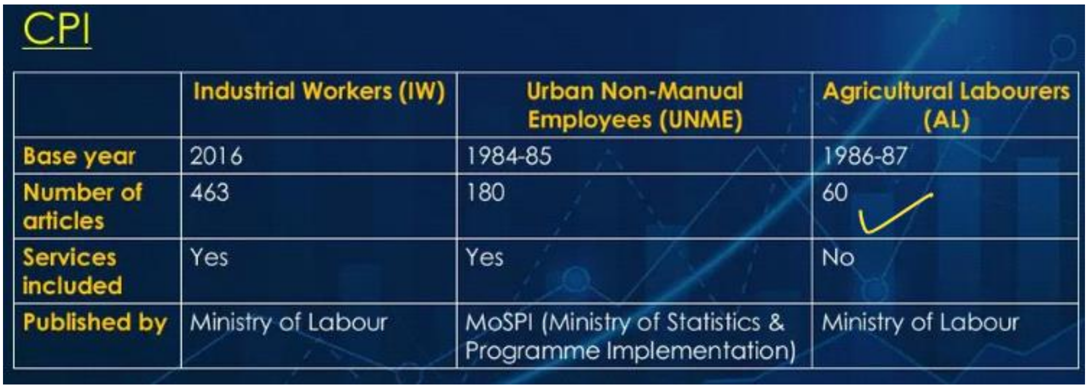
Inflation	Main category	Sub-category
WPI	Manufacturing (64%)	Chemicals, textiles, wood and paper, metals and alloys, Beverages, tobacco etc.
	Primary Articles (22%)	Food articles, non-food articles, minerals (crude petroleum).
	Fuel (13%)	Electricity, coal, mineral oils, LPG.

CPI (Consumer Price Index)

- Measures inflation in the retail market (consumers buy goods/services).
- Includes goods and service
- Base year = 2012



- Earlier

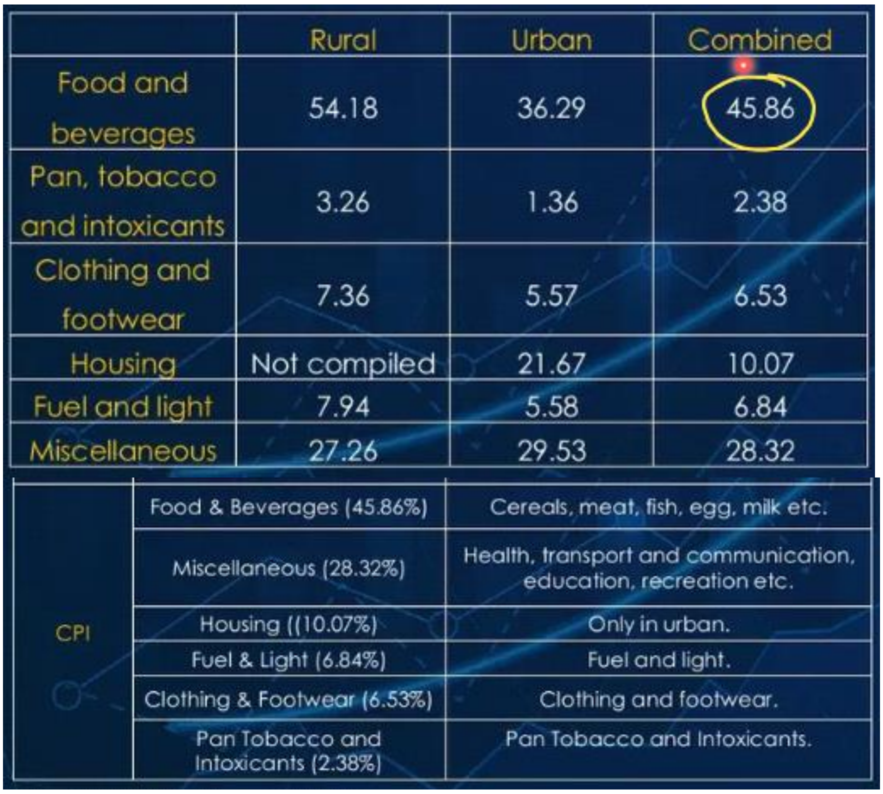


CPI

	Industrial Workers (IW)	Urban Non-Manual Employees (UNME)	Agricultural Labourers (AL)
Base year	2016	1984-85	1986-87
Number of articles	463	180	60
Services included	Yes	Yes	No
Published by	Ministry of Labour	MoSPI (Ministry of Statistics & Programme Implementation)	Ministry of Labour

- CPI IW and AL are still calculated
  - CPI IW -> used to increase Dearness Allowance (DA)
  - CPI AL -> Used to calculate wages like MNREGA

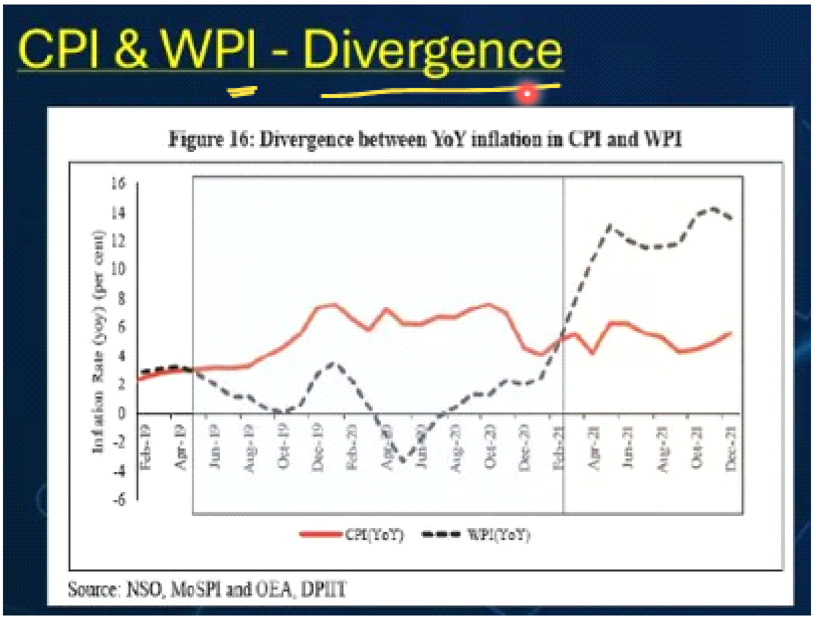
- Current



	Rural	Urban	Combined
Food and beverages	54.18	36.29	45.86
Pan, tobacco and intoxicants	3.26	1.36	2.38
Clothing and footwear	7.36	5.57	6.53
Housing	Not compiled	21.67	10.07
Fuel and light	7.94	5.58	6.84
Miscellaneous	27.26	29.53	28.32

CPI	Food & Beverages (45.86%)	Cereals, meat, fish, egg, milk etc.
	Miscellaneous (28.32%)	Health, transport and communication, education, recreation etc.
	Housing ((10.07%)	Only in urban.
	Fuel & Light (6.84%)	Fuel and light.
	Clothing & Footwear (6.53%)	Clothing and footwear.
	Pan Tobacco and Intoxicants (2.38%)	Pan Tobacco and Intoxicants.

Divergence



- WPI does not include service
- WPI items are d different from CPI Item
- Different weightage added in WPI and CPI

L6 Inflation Targeting

19 September 2024 05:04 PM

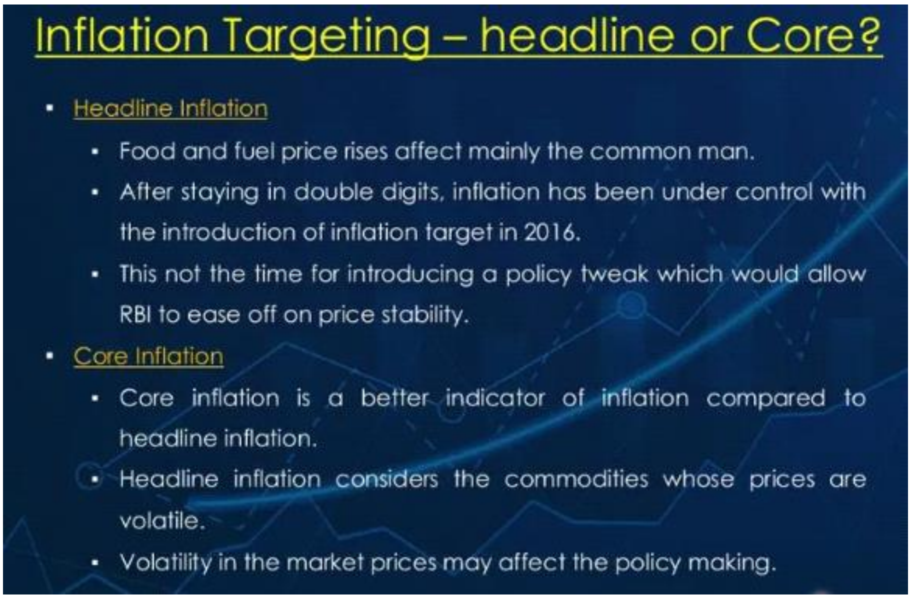
Flexible Inflation targeting

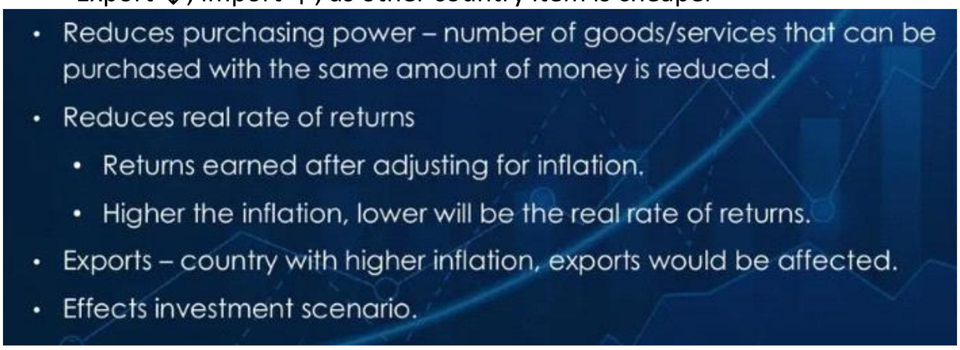
- MPFA : Monitory Policy Framework Agreement
    - RBI control inflation : GOI + RBI : every 5 years decide plan
    - 2021+5 = 2026, 2026 : Target Inflation = 4% ± 200 bps = 4 ± 2 %
    - 100BPS Bases Points = 1%, BP used because percentage increased can be misinterpreted

- RBI Act 1934 : All rule and function for RBI
- MPC : Monetary Policy Committee : 6 member (3 RBI + 3 Experts)
    - RBI Governor casting vote in case of tie
    - Meet at least 4 times
    - Currently meeting once every two months,

- RBI Doesn't have power related to Supply sided factor, Cannot control cost in supply side
    - Most time In India, Inflation is dure to supply side
- RBI can control Demand side factor

<table>
<tr><td></td><td>
</td></tr>
<tr><td>Types</td><td>• Headline : Include inflation of all the item in the basket, could be high bc of less item with volatile rate, like inc in inflation due to increase in price of onion only.
• Core : Remove Item with high volatility, calculate inflation for remaining commodities in the basket. Ex : We remove food and fuels items.
• RBI use Headline CPI. -> for policy making in India
    • Food and fuel price affect the majority population of India.


</td></tr>
<tr><td>Shrinkflation</td><td>• Quantity will be reduced for same price</td></tr>
<tr><td>Effect of Inflation</td><td>• Advantage :
    • If Inflation -> Indicate Demand -> Ensure growth
    • If Price of remain is constant -> No incentive to increase the Production
    • If Deflation -> Demand reduce -> Postponement of demand -> wait for reducing the price before purchasing the item.

• Disadvantage :
    • Inflation tax : reducing of purchasing power, losing value of money
    • Real Rate of Returns RRR = Nominal Return Rate NRR - Inflation
    • Export ↓, import ↑, as other country item is cheaper

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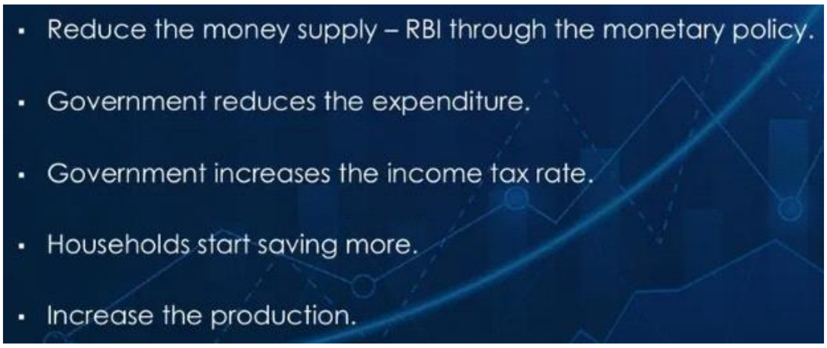
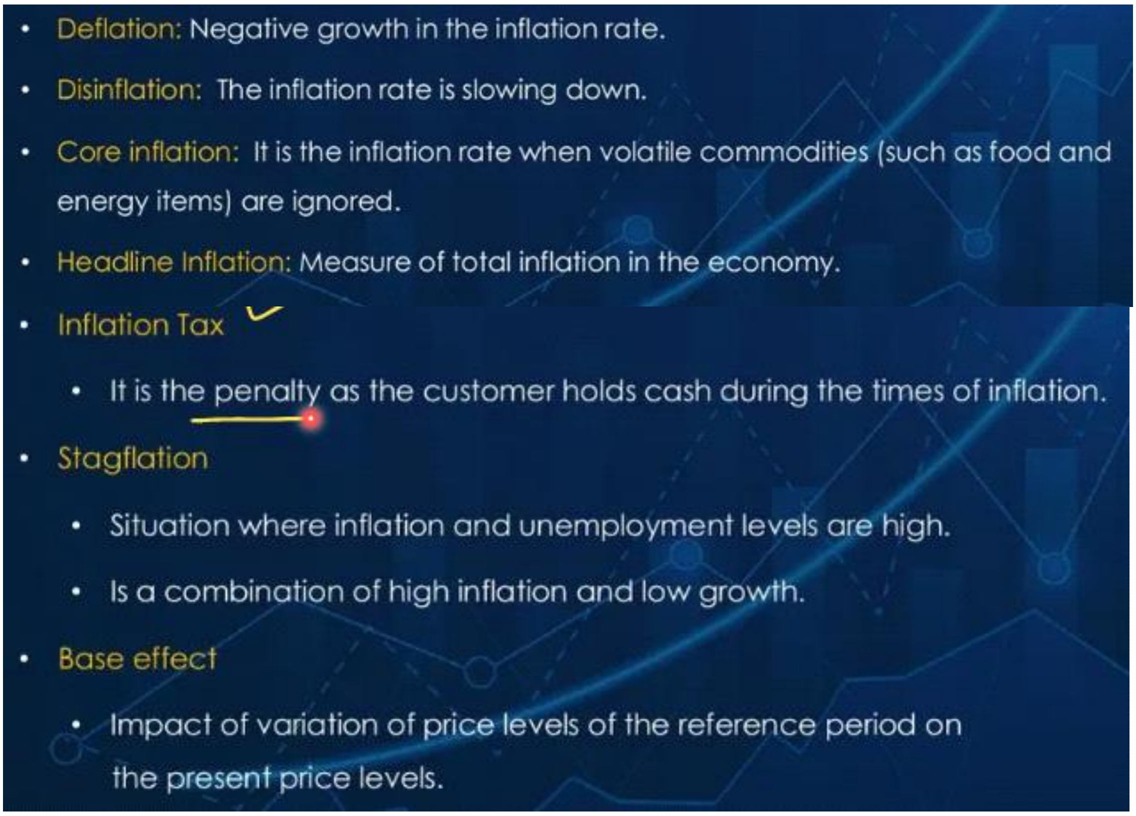
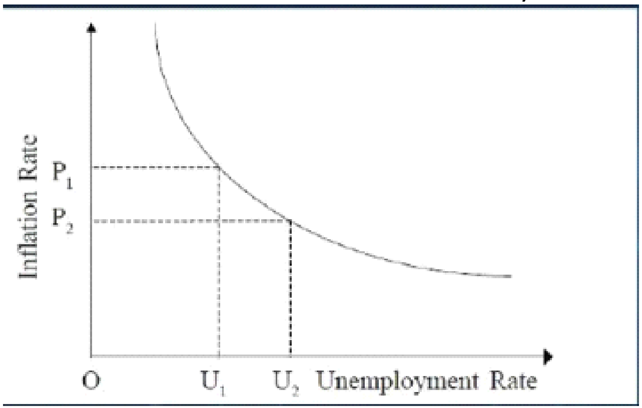
</table>

	• Investment in gold is Hedge against inflation • Supply of gold is limited, confidence is high

How to control Inflation	• If demand is high -> reduce Money supply by increasing interest rate
	• Saving ↑ -> expenditure ↓
	
	• Production of pulses, edible oils to reduce the import and increase import
	• Essential Commodities Act, ECA 1955
	• Export restriction -> Domestic Supply will increase
	    • Quotas given / Minimum export price / Complete Ban
	• Open Market sales Scheme OSS:
	    • Foos corporation of India stores food for govt scheme
	    • FCI -> Sell Auction -> Traders -> Supply ↑
	• Subsidized Sales : Govt buys commodities and sell it a very less price
	    • Bharat Aata, Bharat Pulses.

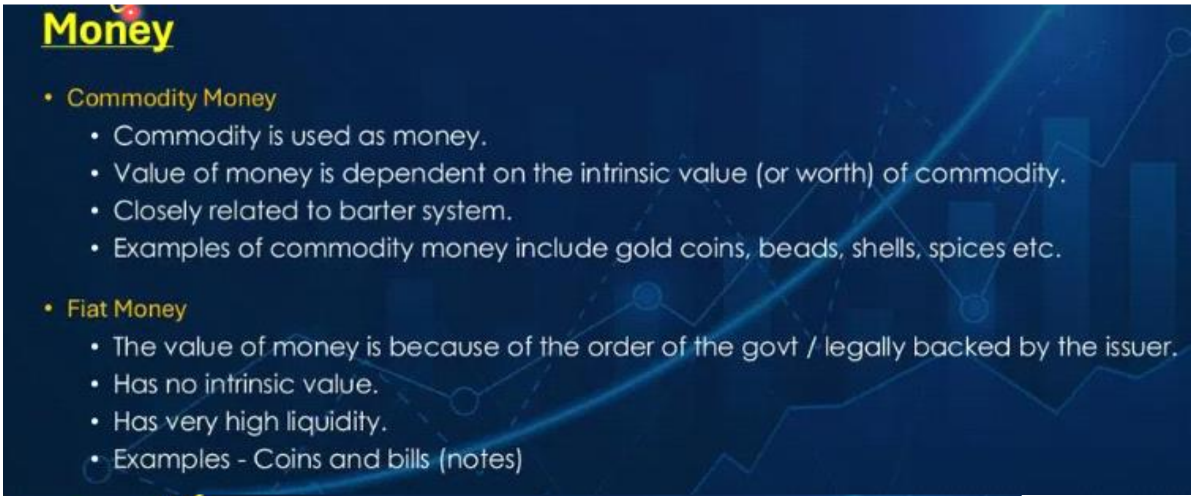
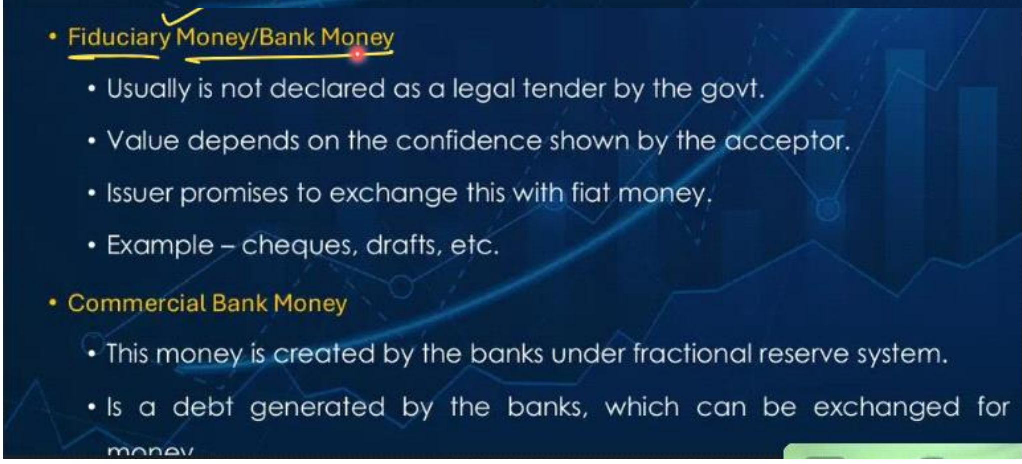
	Skewflation
	• Refers to a situation wherein in some of the commodities there is inflation rate and in some other either no inflation or deflation.
	• Was used in context of India in last decade.
	
	Reflation
	• Usually refers to the policy of the govt to increase the production or expand the production to ensure that the economy recovers from a slowdown or a contraction.
	
	• **Imported inflation**
	  • Inflation caused by imports.
	
	• **Wage price spiral**
	  • Rise in inflation leads to rise in wages and the circle repeats.

Phillips Rate	• Represents the inverse relationship between the inflation and unemployment rate.
	• Demand ↑ -> Higher Inflation ↑ -> More and more people Hired -> Unemployment rate ↓
	• Recession Demand ↓ -> Low Inflation -> Lay off -> Unemployment rate ↑
	
	
	• Exception :
	  • Stagflation = Stagnant growth and Inflation
	  • During pandemic, Demand ↑ Unemployment ↑

GDP Delfator	• GDP Deflator = Nominal GDP / Real GDP • **GDP Deflator** • GDP deflator is also referred to as Implicit Price Deflator. • Used to adjust for inflation. • The ratio gives information about to what extent the GDP has increased on account of price increase. • Coverage of goods and services is much more comprehensive.

L7 Money, Banking and RBI

19 September 2024 09:02 PM

Money	• Money is medium of exchange • Before Money : Barter System : Directly exchanging goods and service • Double coincidence of one, need to find person who will sell what I want to purchase and vis-à-vis • Difficult to sell anything with less shelf life (Perishable good) • Divisibility : many products are difficult to fungible • Commodity Money : Intrinsic value of Money (Gold coin has value of its own) • Fiat Money : Value of money by legally backed (Monetisation) (Fiat : Giving order) (Ex Indian Note) • Commemorative coins : only for collection not for circulation. • Fiduciary Money : Legally but value depend on trust of seller, Ex: Cheque • Commercial Bank money : Loans or credit created by banks.  

Commercial Bank Money

Money – Commercial Bank Money

			Reserves	Loan	Remarks
Step 1	A = ₹ 100	Bank = ₹ 100	₹ 10	₹ 90 (company X)	X purchases raw material from B
Step 2	B = ₹ 90	Bank = ₹ 90	₹ 9	₹ 81 (Company Y)	Company Y purchases machine from D
Step 3	D = 81	Bank = ₹ 81	₹ 8.1	₹ 72.9 (Company Z)	

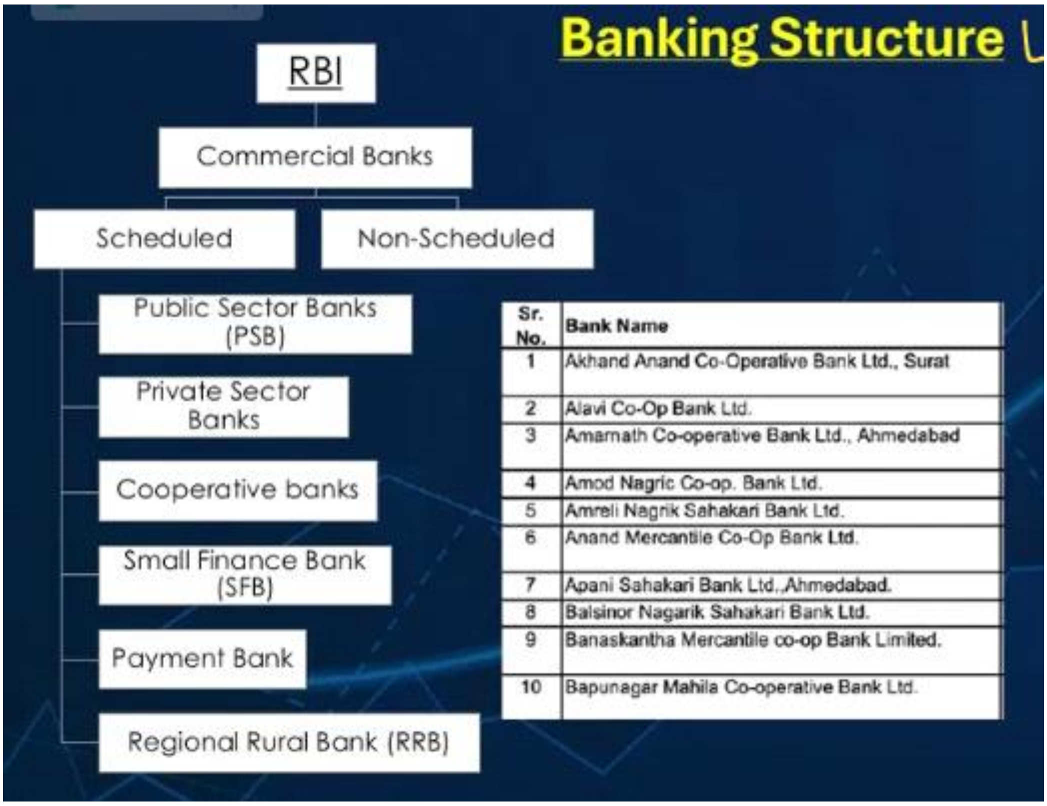
Fractional Reserve System (FRS) – part of the deposits collected will have to be kept with the bank and rest can be used for lending purposes.

Bank

- Primary Function of Banks
  - Mobilizing of deposit: Collection of money
  - Lending Money
- Secondary Service
  - Bank Insurance, Locker facility, etc

- Universal Banks : All function allowed by RBI
  - Ex: SBI, ICICI
- Differentiated Banks : Not all function allowed by RBI, like Collect deposit but less than 2 lakh
  - Ex : Paytm Payment bank

Banking Structure

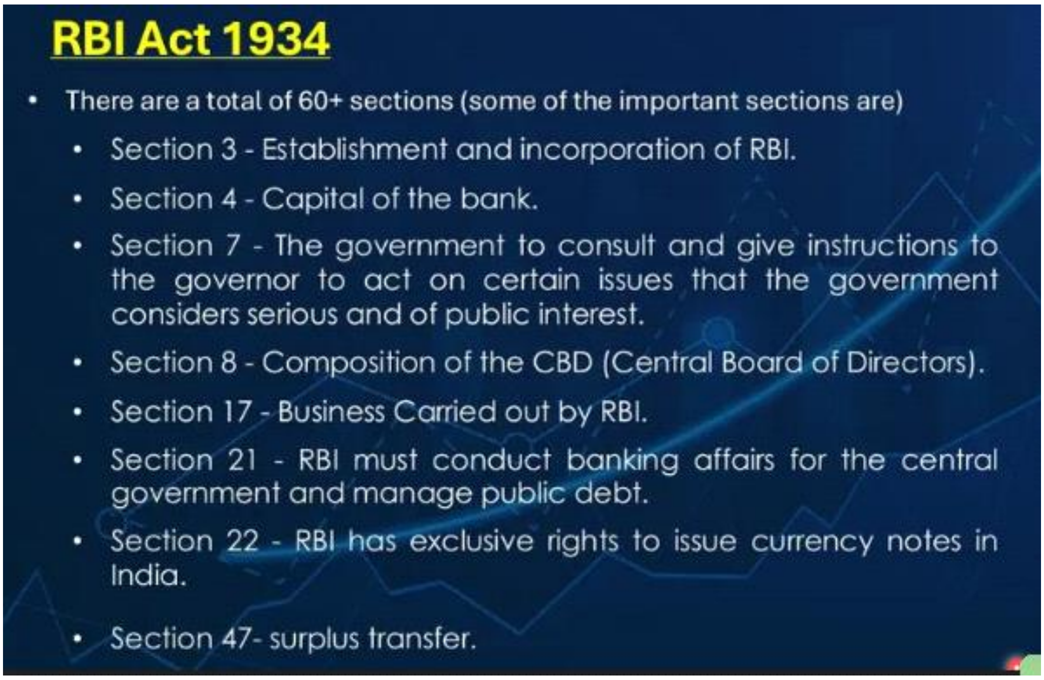


Sr. No.	Bank Name
1	Akhand Anand Co-Operative Bank Ltd., Surat
2	Alavi Co-Op Bank Ltd.
3	Amarnath Co-operative Bank Ltd., Ahmedabad
4	Amod Nagric Co-op. Bank Ltd.
5	Amreli Nagrik Sahakari Bank Ltd.
6	Anand Mercantile Co-Op Bank Ltd.
7	Apani Sahakari Bank Ltd.,Ahmedabad.
8	Balsinor Nagarik Sahakari Bank Ltd.
9	Banaskantha Mercantile co-op Bank Limited.
10	Bapunagar Mahila Co-operative Bank Ltd.

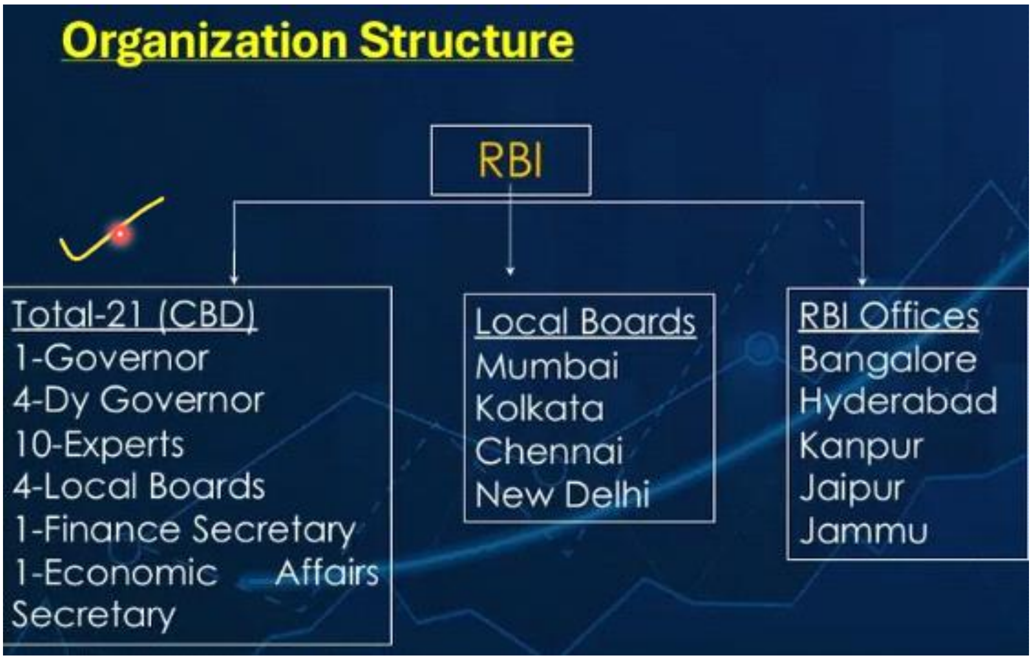
- All commercial bank come under regulation of RBI
  - RBI : Regulator of Banks in India
- Scheduled : Registered under RBI Act 1934, Schedule II
  - Most banks are Scheduled like SBI, HDFC, etc
  - Regulatory rules are very high

<table>
<tr><td></td><td>
RBI always ready to assist bank like lending
Non Scheduled : Not registered
</td></tr>
<tr><td>Reserve Bank of India</td><td>

Government of India established
RBI was only regulatory
RBI was nationalised 1949
RBI Kolkata -> Mumbai



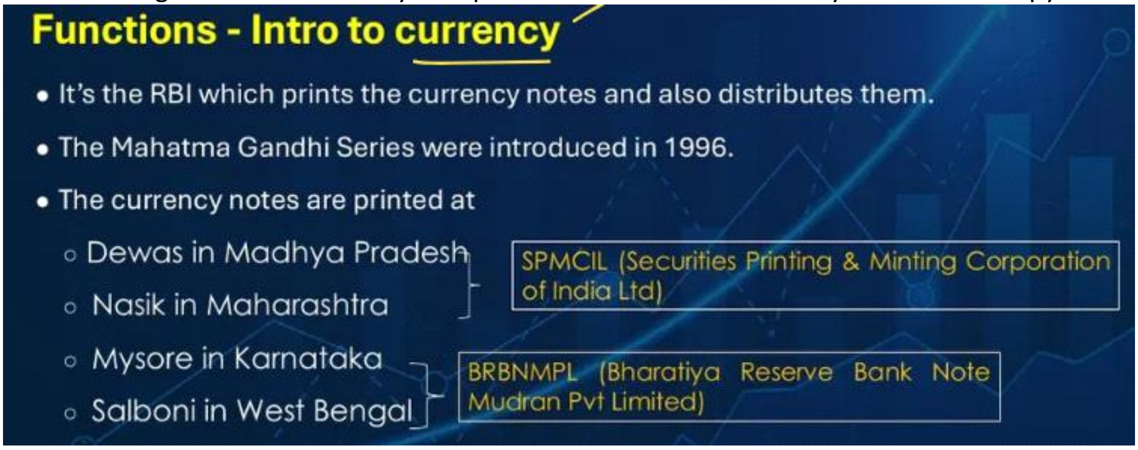
Section 8 : Central Board of directors : Decision makers



</td></tr>
<tr><td>RBI Function</td><td>
Inflation control (covered under Inflation).
</td></tr>
</table>

- MPFS Monitory Policy Framework agreement

- Printing of currency notes.
  - Notes Printed by RBI (Except : 1Rs Note) + Minting Coin under GOI
  - Replacing soiled currency
  - Printing new feature money to replace old -> Counterfeit money take time to copy

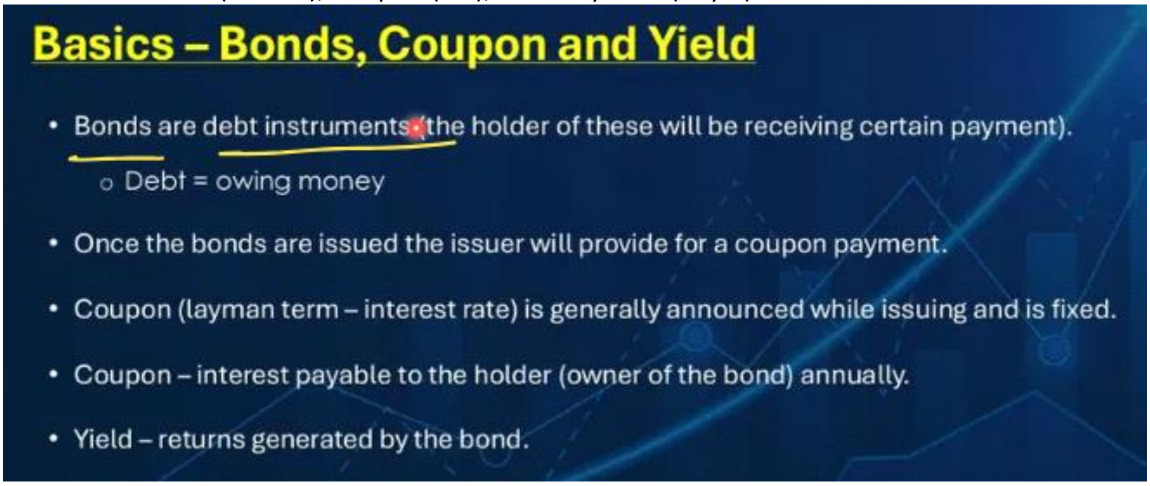


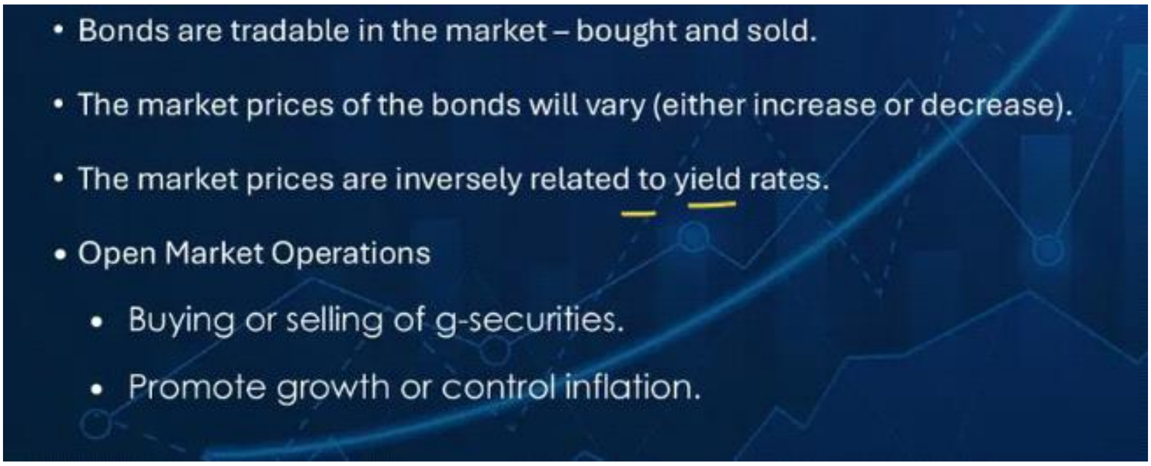
- Banker to the government.
  - Income collected and Payment done of govt
  - Loans : Ways and Means Advances
  - Borrowings : Budget Expenditure > Income -> Deficit borrowed by Market
    - Externally : External Debt
    - Internally : Most Debt 95 % -> Bonds (Centre), State Development Loans (State)

- Credit control / Monetary Policy.
- Banker to Banks.
- Manager of Forex.

Bonds

- Bond : Face value (Ra 100), Coupon (3%), Maturity date (10yrs)

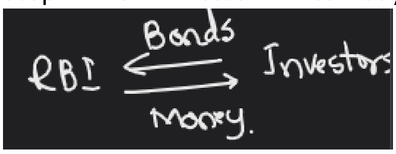




- GOI -> Govt Bond -> RBI -> sell on behalf of govt -> Investors (insurance, Retail investors, Mutual Fund, banks, Foreign Investors
    - Primary Market : Investor buying directly from issuer
    - Secondary Market : Holder (Owner) sell to Buyer, Existing instrument traded

- Fiscal Responsibility and Budget Management (FRBM Act)
    - RBI can sell on behalf of RBI
    - RBI cannot buy directly from Govt -> similar to printing money (Direct Monetization)
        - Can lead to inflation
    - RBI is not allowed to participate in Primary Market
        - Can lead to inflation
    - Indirect Monetization -> Tool : Open Market Operation
        - Step 1 :

        - Step 2 :From Investor RBI can buy the bond



- Since independence -> no default during payment of bond
    - High Security -> more demand -> Market price increases
- If outside market boom -> People want to sell Bond
    - More bond in market -> Supply ↑ -> MP ↓
- Yield Value : If Selling price of bond changes -> Lead to change in Yield rate.
    - MP inversely proportional to Yield Rate
    - MP ↑ -> YR ↓
    - 

- Govt Bond also known as gilts
- Anyone can buy bonds on e-Juber or Retail Direct Gilt Scheme (For Retail Investors)

RBI Function

- Licencing System
- On tap Licensing : Approach RBI, Submit document and get banking licence
- Licence given as step by step -> Evolving over period of time -> universal bank
- Bank of last resort : Bank have any king of emergency -> RBI can help bank by giving money

- Exchanging money

Money Supply

- Parameter to decide money supply

    - Demand motive = Transitionary + Precautionary + Speculative
    - Supply control = Central Bank + Commercial Bank

    - Narrow : High Liquidity. Ex : cash, SBD
    - Broad : less Liquidity. Ex : FD

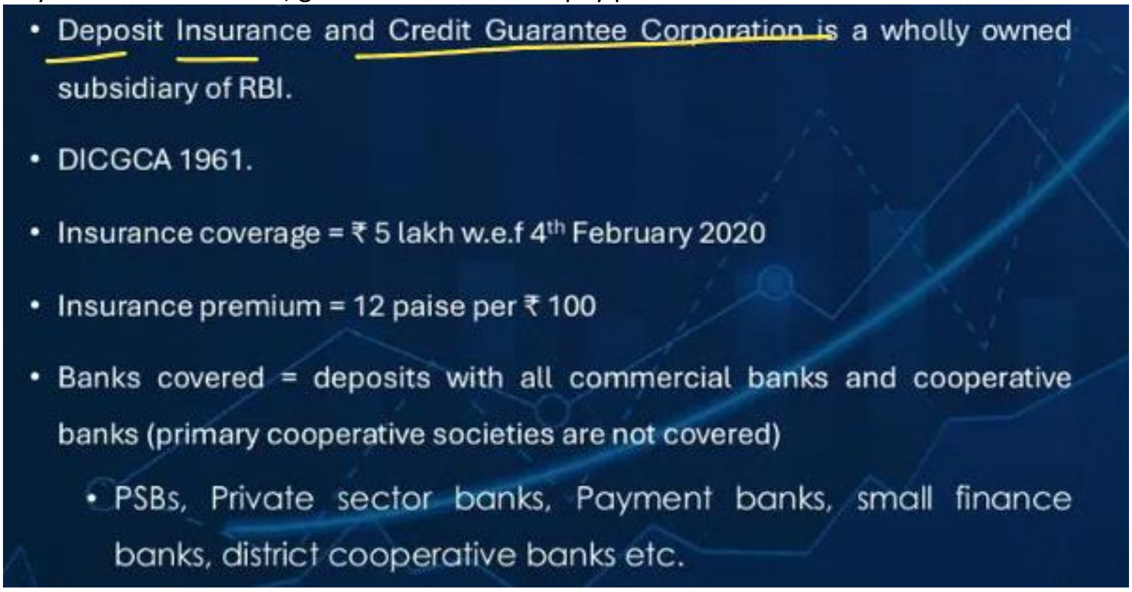
- Money Supply/Monetary Aggregates

M0	• High Powered Money/ Monetary Base • Currency in Circulation (printed by RBI) • + banker's deposit & other deposits with RBI. • Money printed as issued by RBI

M1	• Narrow Money
	• Currency held by public (Not deposited in bank)
	    • + demand deposits with the banks (High Liquidity)
	    • + other deposits with RBI.

M2	• Narrow Money • M1 + Post-Office Savings deposits.
M3	• Broader Money • M1 + Time Deposits with the banks.
M4	• Broader Money • M3 + Post office savings deposits.

- If M1 ↑ -> More growth ↑ -> Could lead to inflation -> RBI repo rate ↓

<table>
<tr><td></td><td>
• Money Multiplier = M3/M0
    • If RBI change money supply -> how much change is in the economy
    • M4 not include Loans has not used in multiplier.
</td></tr>
<tr><td>DICGC
Deposit Insurance and Credit Guarantee Corporation</td><td>
• Any Bank under the RBI, gets insurance if bank pay premium


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<tr><td></td><td></td></tr>
</table>

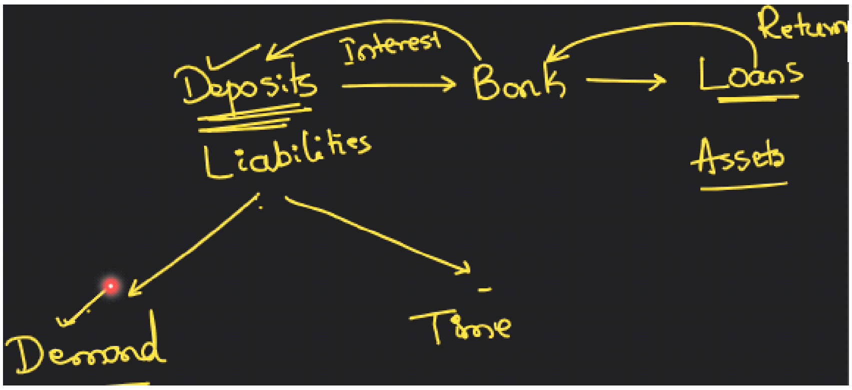
L8 RBI Credit Control Tool

21 September 2024 12:19 PM

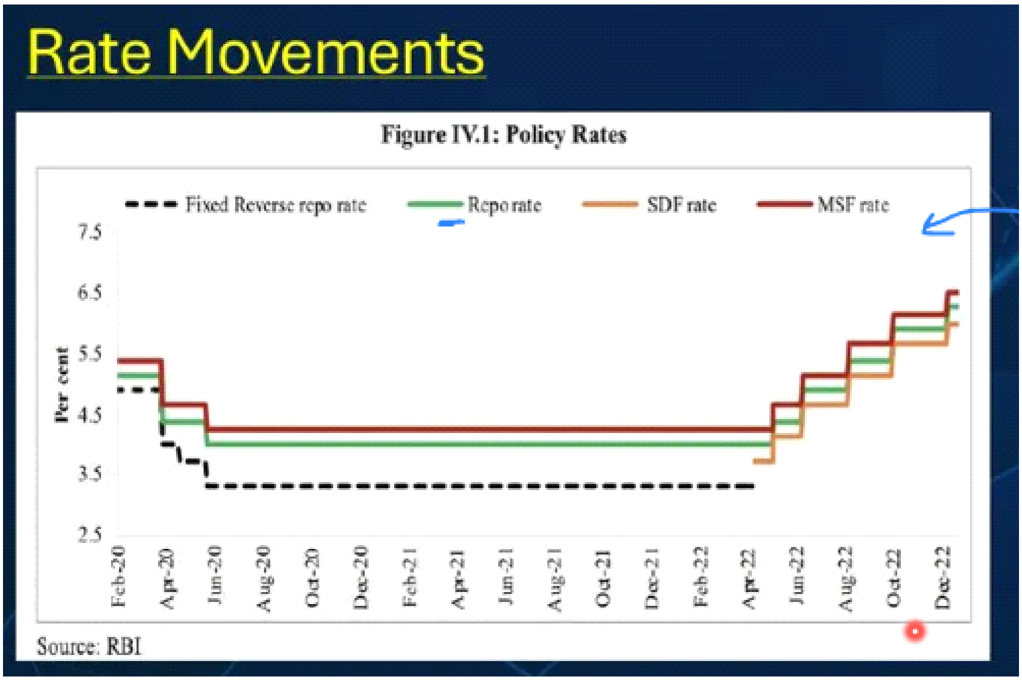
Credit control tool	

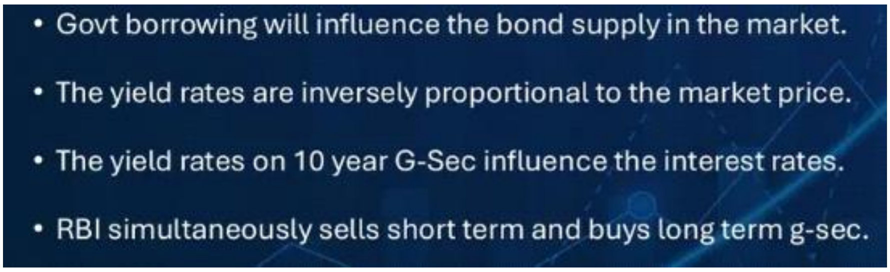
Marginal Standing Facility	• Lots of withdrawal : certain emergency (During festivals) -> Bank need money • Banks are allowed to borrow money for very short duration • RBI Charges higher rate > Repo rate

Liquidity Adjustment Facility	• How much money is with bank for lending purpose
	• Liquidity issue : No money left to lend from bank side
	
	• Lazy banking : taking money from
	    • Retail : FD (usually long term)
	    • Corporates : Larger in value, Bulk Deposits (Short Term)
	• Every Bank have target to collect Money -> meet target using Corporates
	• Focusing on small number of depositor from large number
	• Govt wants run behind retail (for longer time period)

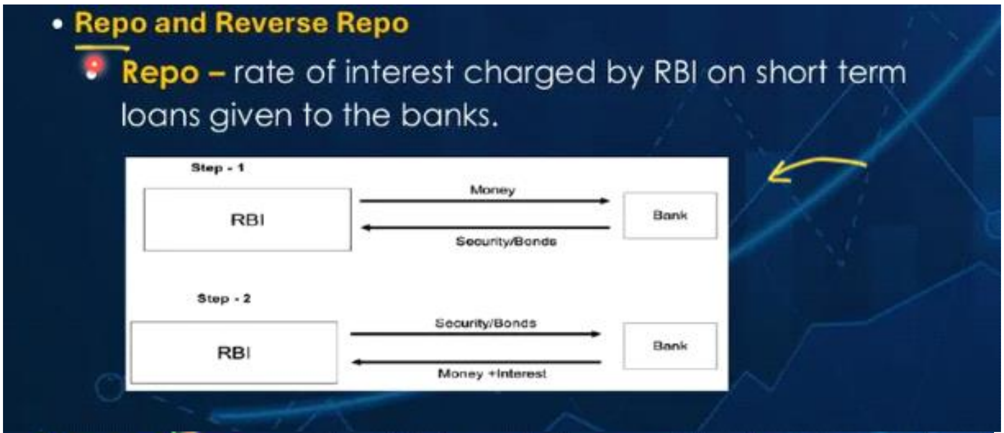
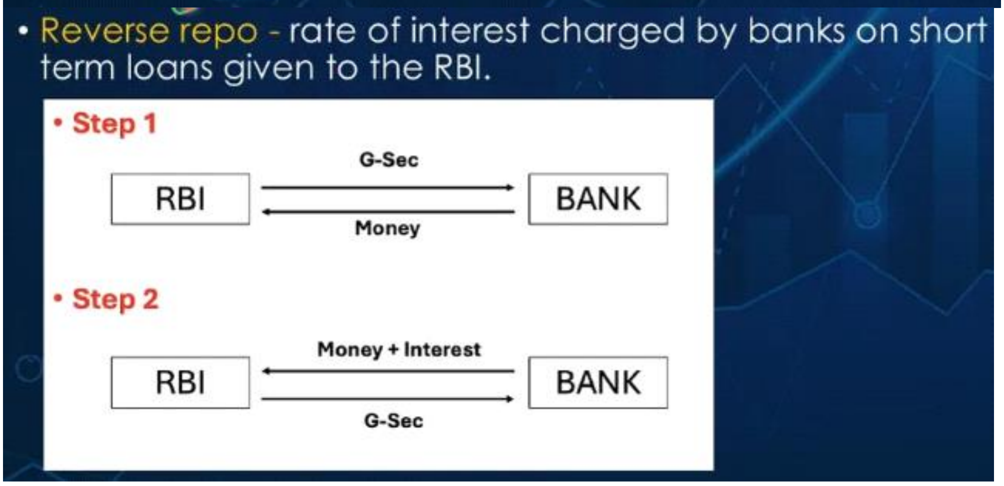
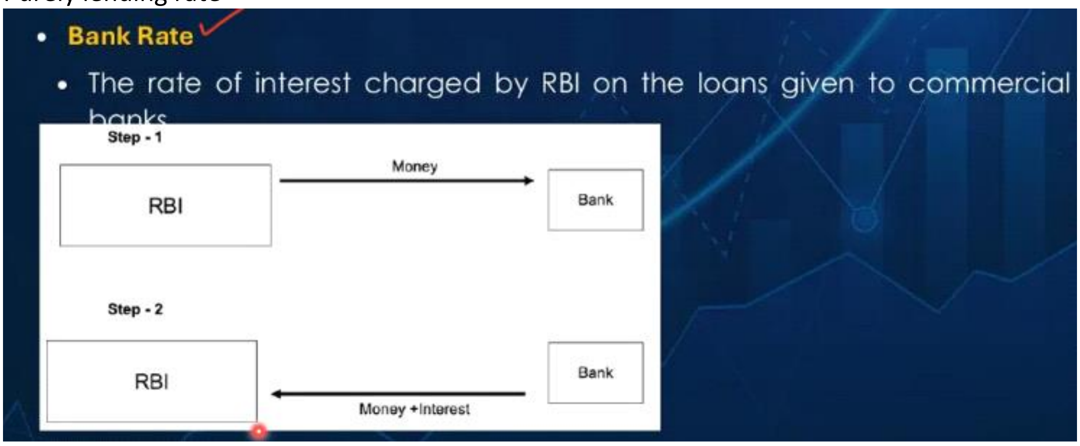
Net Demand and Time Liabilities NDTL	 • Demand : Which bank have to pay whenever customer demands , Ex :Savings account • Time : Constrained by time, Ex : Fixed Deposit • Inter Bank Deposit : Amount of bank saved in another Bank • Gross DTL - Inter Bank Deposit = NDTL

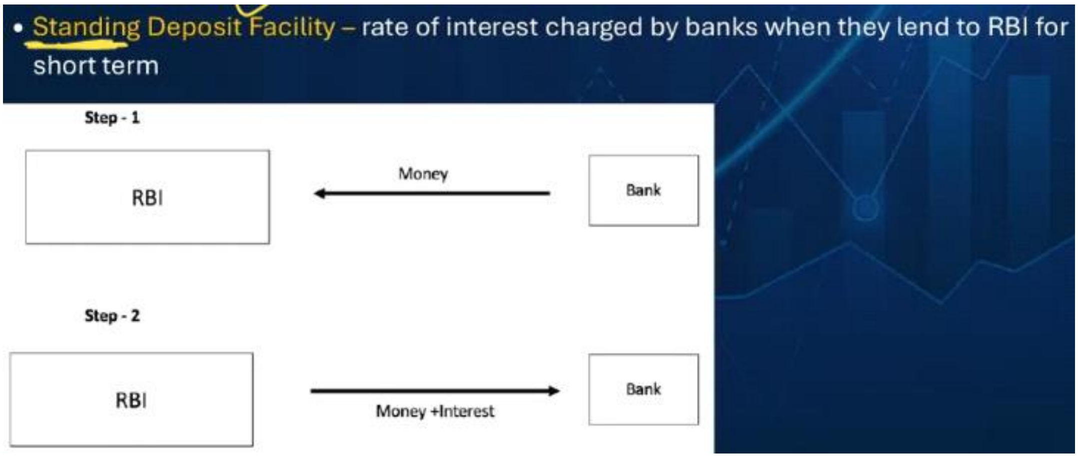
QUANTATIVE REGULATION	• General Monitory tools • Regulate Overall Monet Supply • Bank Rate > Repo > SDF > Rev Repo rate

	• Repo rate is most important -> if Repo rate changes all other rate changes  • Liquidity Corridor = Highest gap between rates and Repo rate, it should be symmetric

Operation Twist	• Type of Open Market Operation
	• Money Supply ↑ and Growth ↓ -> to promote growth we cannot supply more money -> inflation ↑
	    • RBI sells (Short Terms) and buy (Long Term) bonds of same value, money supply remain same
	    • Demand for long term ↑ -> Price ↑ -> YR ↓ -> IR ↓
	
	

OMO Open Market	• Repo

Operation	• Rate of Interest by RBI on Short term loan (Less than 1 Year) : Short Duration • Repurchasing Order : 1 Entity sells assets with promise of repurchasing within certain time, • it is a contract, there is exchange of collateral • Outright Market Operation • Bank will sells Govt Securities to RBI and collects money • Money supply change is Durable
Repo	• Repo : RBI gives loan • Reverse Repo : RBI takes loan   • If bank collect lots of deposit -> risk of spending on all loan (Defaulting on Payment) • In reverse repo -> RBI takes money and then after some duration return with interest
Bank Rate	• Purely lending rate 
Standing Deposit Facility	• In case RBI doesn't have govt securities for exchange • No exchange is done, only money is transaction • Opposite to Bank Rate • Standing : Facility available throughout year

<table>
<tr><td></td><td>
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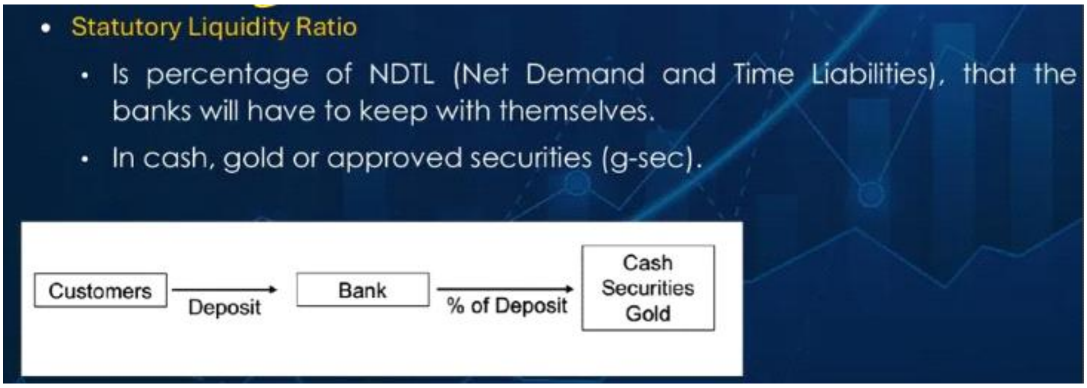
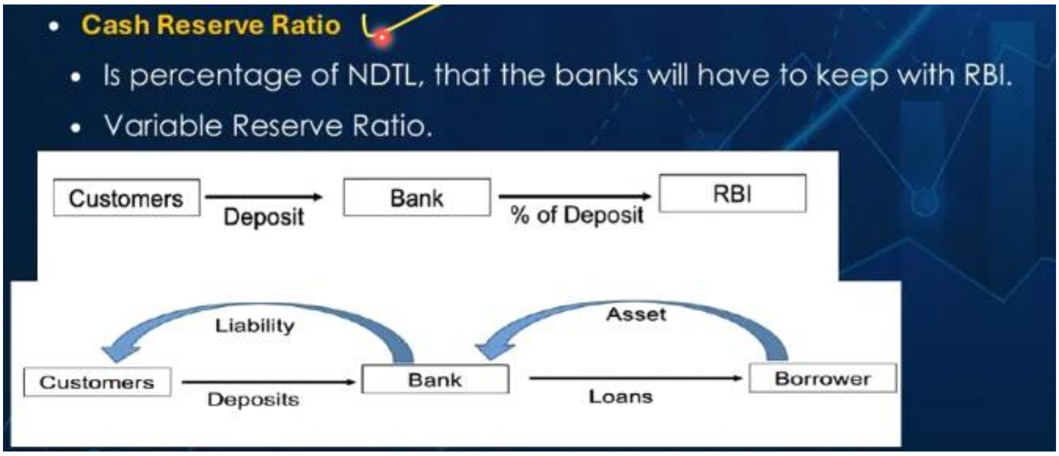
<table>
<tr><td>Statutory Liquidity Ratio (SLR)</td><td>

• Gold prices are volatile and hence bank generally uses g-Sec</td></tr>
<tr><td>Cash Reserved Ratio (CRR)</td><td>• No interest Deposit
• Cost of CRR : Bank will have to pay interest on whole amount, but bank will not earn anything on CRR

</td></tr>
<tr><td>Use</td><td>• If RBI want to promote growth -> Inc SLR CRR
• If Rbi want to control inflation -> Reduce SLR CRR
• Can only target particular sector</td></tr>
</table>

QUALITATIVE REGULATION	• Regulate Money supply in specific Sector

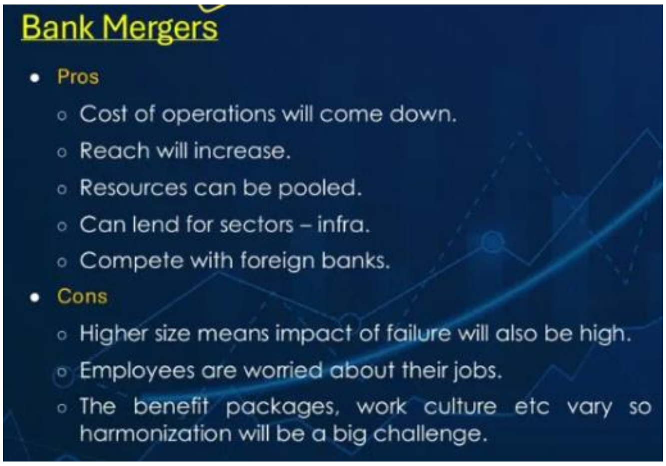
Rationing of Credit	 • Distribution of credit : 40% loan to special 8 sector. • Govt impose to for High Risk Sector in getting loan from Institution • Priority Sector Lending : Highest to Agriculture (18%)
Regulation of consumer credit	• May change the EMI and reduce the number of instalments. • Regulating Emi to boost 2 wheeler purchase
Variation of margin requirements	• Only certain percentage of asset is given as loan -> Other is down payment (margin) • Margin = asset value - loan given = Down payment • Low Margin price -> Demand increases, • After Pandemic Gold loan margin ↑ (margin : Only percentage of gold was given as loan) • Safety/collateral that has to be kept for borrowing.
Moral suasion	• RBI will ask the banks to cooperate and implement the credit policies. • RBI telling banks to follow rules and regulation • Recently wrong gold type (24K, 22K, 18K) was used in bank, RBI sent Suasion
Publicity	• promote an effective public opinion for the policy implementation
Direct action	• If Moral Suasion is violated • RBI may start penalising these banks by charging higher Rate of Interest (RoI).

L9 Banking Function and Basel

24 September 2024 12:04 PM

<table>
<tr>
<td>Nationalization of Bank</td>
<td>

• Issue of Bank not penetrating rural areas of India
• Then move to consolidation -> merging of banks



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<tr>
<td>LENDING RATE</td>
<td>

• 2010 Base price
• 2016 MCLR
• 2019 External Benchmark

• Monitory Policy Transmission :
    • If RBI reduce Repo rate ↓ -> Bank reduce Interest rate ↓

• Marginal Cost of funding based Lending Rate (MCLR)

<table>
<tr><td>Marginal cost of funds</td><td>• Small change on cost of funds (Interest given on deposit)</td></tr>
<tr><td>Negative carry on account of CRR</td><td>• Part of amount in RBI on which no interest is gain</td></tr>
<tr><td>Operating costs</td><td></td></tr>
<tr><td>Tenor premium</td><td>• Duration ↑ -> Risk ↑</td></tr>
</table>

• External Benchmarking
    • Recommendations of the Janak Raj Committee.
    • Linked to Repo rate, 91 or 182 days treasury bills, FBIL etc.
    • Ex : Repo rate (External parameter uncontrol by bank) + 6% (For -ve CRR + other factors)

</td>
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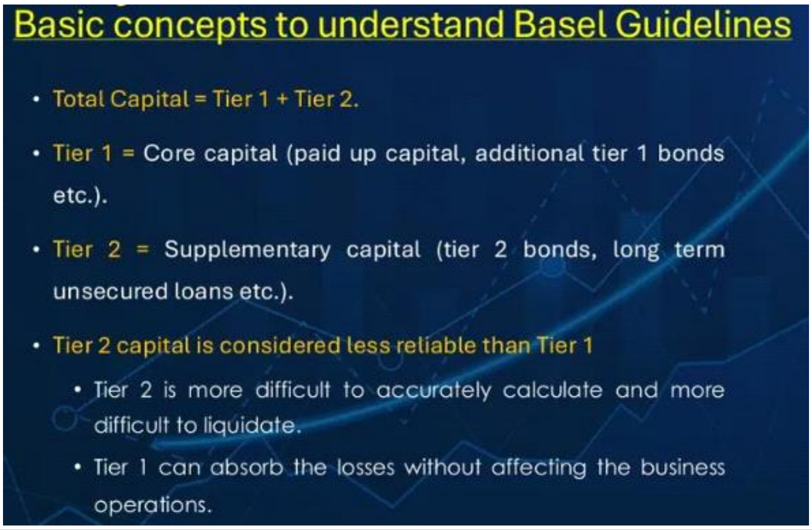
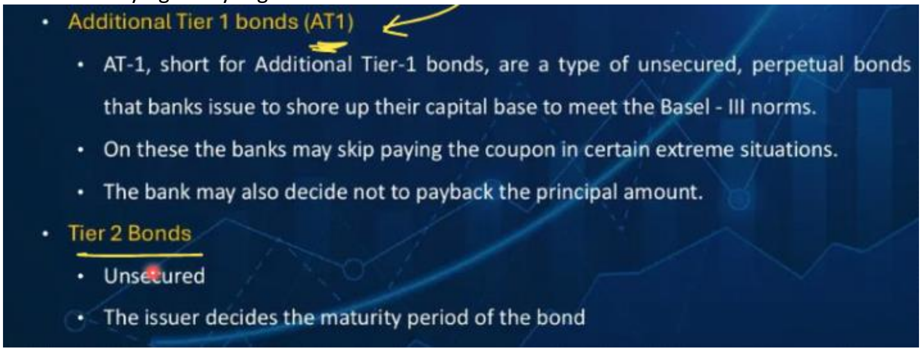
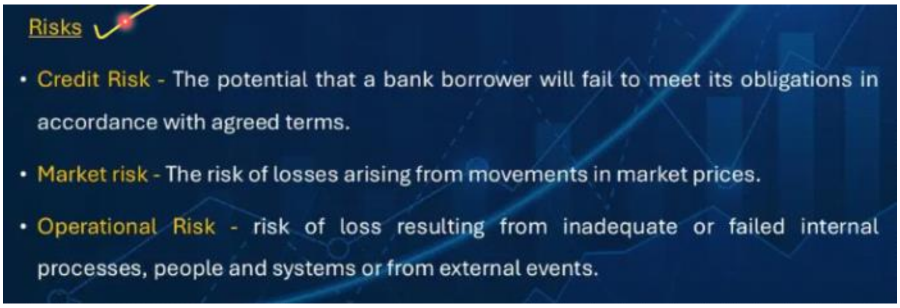
</table>

<table>
<tr>
<td>BASEL GUIDELINES</td>
<td>• Bank will use tier1 the tier2 to absorb losses</td>
</tr>
</table>

<table>
<tr><td></td><td>


</td></tr>
<tr><td>Capital</td><td>
• Unsecured : no collateral taken while giving loan
• Perpetual : No time limit given in bond
• Bank can decide if it not wang to give valiue back
• Reason of buying : Very High Interest Rate


</td></tr>
<tr><td>Risk</td><td>


</td></tr>
<tr><td>Risk Weightage</td><td>
• Loans are assets and different sector have different risk (Chances of default)
• Ex: Credit Card loan : High Risk -> High risk weightage


• CAR = Total Capital / RWA = Tier 1 + Tier 2 / RWA
</td></tr>
</table>

RWA and CAR

	Loan value	Risk Weightage	Risk weighted assets	Total risk weighted assets
Loan 1	₹ 50000	0%	0	₹ 31000
Loan 2	₹ 30000	50%	₹ 15000	
Loan 3	₹ 20000	80%	₹ 16000	
	₹ 100000			

	Situation 1
Tier 1 Capital	₹ 2000
Tier 2 Capital	₹ 1000
Total Capital	₹ 3000
Risk weighted assets	₹ 31000
CAR (let's say it's kept at 9%)	9.67%

- If Risk ↑ , RWA ↑, CAR ↓, Bank will have to manage for capital -> Bank charges more Interest
- -> Demand ↓ -> Risk ↓

Basel Norms

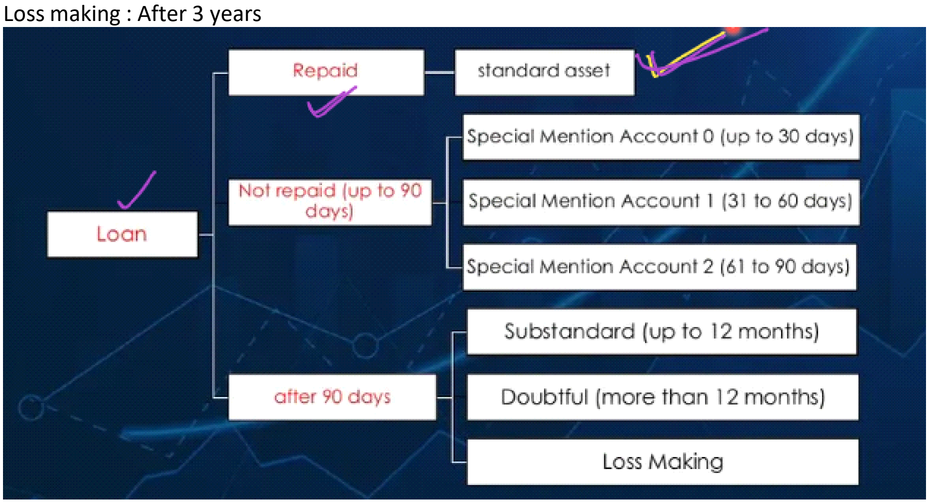
- Basel come up with guidelines for banking community
- For different banks different guideline is issued by RBI

- Supervisory :
  - System of borrowers is centralized to check defaulting
  - Special Mention Account : After Default of 90 days -> classified as NPA
    - NPA : (Non Performing Asset)
    - Line of credit : Loan not given in lump sum

<table>
<tr><td></td><td>


• LCR = 100% of cash outflow, If not Bank will go to bankruptcy
    • High Quality Liquid Assets : Government Bank
• Currently we are in process of implementing Basel III
</td></tr>
</table>

<table>
<tr><td>Non-Performing Assets</td><td>
• After 90 days -> NPA classification
• Loss making : After 3 years



</td></tr>
<tr><td>Cause of High NPA</td><td>
• Lower global demand.

• Slowdown in domestic economy.
    • Twin Balance sheet problem (Loan > Repaying)
    • Capital and Labour Intensive industry
    • Recently Diamond Market has effected Surat industry (Labour Intensive)
    • Semiconductor (capital Intensive) not Labour intensive

• Increasing number of wilful defaults.
    • Earlier no system of insolvency and bankruptcy code, no cases done -> High no. case
    • Now we can lose ownership of the company

• Inefficient functioning of DRT (Debt Recovery Tribunals)
    • If Individual/ Retail default of payment -> DRT -> Within 6 month case resolved
    • If company fails -> National Company Law Tribunal
    • Number of case ↑ , Number of judge are less, Only 20% solve in same year

• Governance issues
    • Old Party cancels project, Invested money is wasted (Which was taken as loan -> No repayment)
    • Any tribal issue occur

• Evergreening of Loan
    • Taking second loan to repayment of first loan
    • Asset Quality Review : classify the asset in balance sheet -> NPA number increased
</td></tr>
<tr><td>Impact of High NPA</td><td>
• Lower liquidity and profitability.
• Lower quantity of loans are offloaded and at a very higher cost.
• Erosion of investor confidence.
• Higher cost of credit will impact the retail and industrial borrowers.
</td></tr>
</table>

	• Various investment decisions of industries will be put on hold. • Will be limiting the growth.

L10 IBC, NARCL, Other Banks

25 September 2024 12:44 AM

<table>
<tr>
<td>Insolvency & Bankruptcy Law</td>
<td>

- Insolvency : Selling the company to new buyer, maybe in lesser amount
    - Preserve the captial
- Liquidation : Sell the assets, company destroyed, people lose jobs

- ARC Asset Reconstruction Companies
    - Do the work of selling, or liquidating
    - Very old model, created in 1990
    - Bad Bank : Purchase all NPA and sells it.

</td>
</tr>
<tr>
<td>IBC Critical Evaluation</td>
<td>

- 330 days resolution -> But many times takes more than 3 years
- RBI report -> earlier recovery rate was in single digits -> Now 30%

</td>
</tr>
</table>

NARCL

- NARCL is a Bad Bank, 51% Owned by the Private Sector bank (GoI)
- IDRC is used as majority of owner is private sector banks
    - If Realized amount less -> Contingent Liability (Depends upon Buyer)
    - Government has created Contingent Liabilities, and extra money is taken from it.

<table>
<tr>
<td>Evaluation</td>
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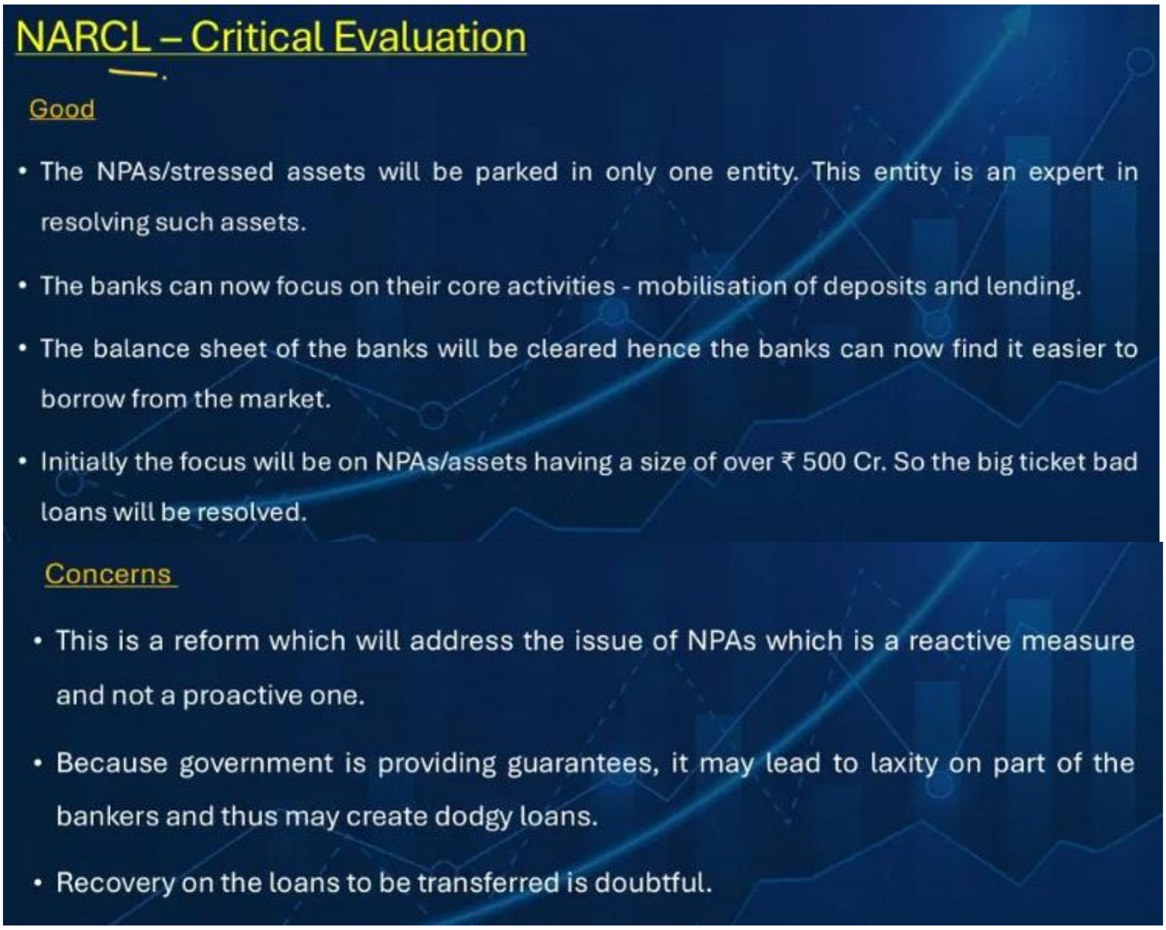

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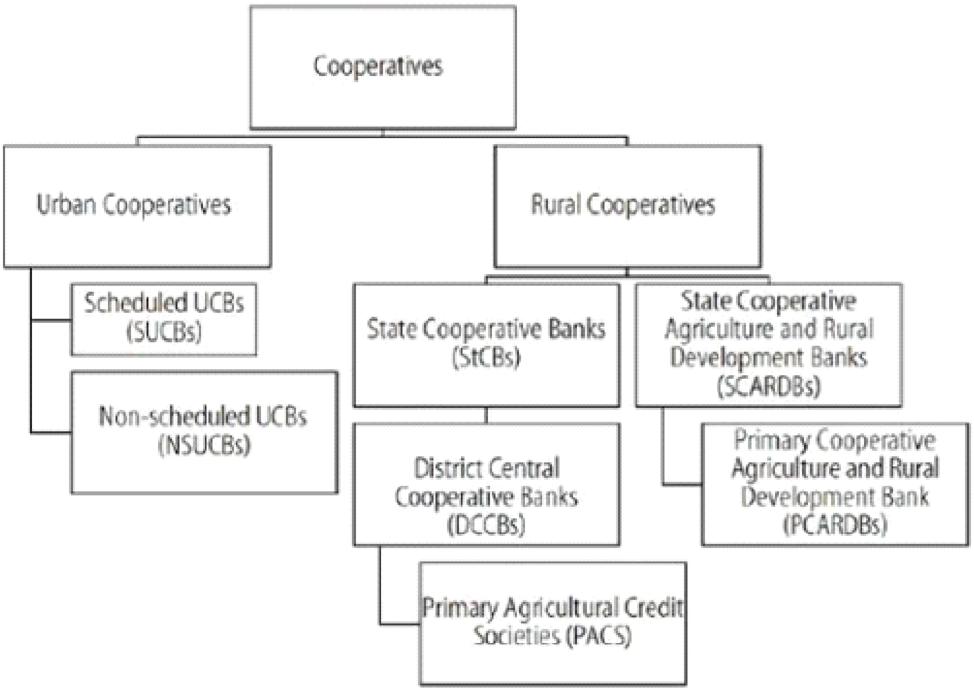
<table>
<tr>
<td>Cooperative Banking</td>
<td>

• Group of 10 or more than 10 -> to achieve common goal or objective, One shareholder one vote
• Election for Board of directors
    • Single state -> Under regulation of registrar of Cooperative Societies of same state
    • Multiple State -> registrar of Cooperative Societies of Centre
• Dual Regulation = RBI + Registrar



Source: Compiled from RBI.
</td>
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</table>

- Reason of not working
    - Most of time elected member don't have Banking Knowledge
    - Lending is not transparent, Given to relatives and friends

Recent Changes

- Givimg more power to Rbi to grant control over cooperative banks
- +Board of Management, member approved by RBI
- Because of Crash of Punjab maharahrtsa Corporation Bank PMC Bank

Regional Rural Banks

- Can only be open in nearby villages with max of 3-4 branches
    - Not to make it profit oriented -> but as welfare
- 50% Centre + 15% State Govt + 35% Sponsored Banks (Most are Public Sector Bank)
    - Sponsored Bank : Chairman and decision making
- Most of them are incurring losses -> Merged multiple RRB

- Concerns/issues
    - Slow mobilization of deposits. : Compete with other scheduled banks (more confidence)
    - Non-performing assets (NPA) and losses.
    - Large number of branches.

Examples

List of Scheduled Regional Rural Banks

Sr.No.	Name of the RRB
1.	Andhra Pragathi Grameena Bank
2.	Andhra Pradesh Grameena Vikas Bank
3.	Arunachal Pradesh Rural Bank
4.	Aryavart Bank
5.	Assam Gramin Vikash Bank
6.	Bangiya Gramin Vikas Bank
7.	Baroda Gujarat Gramin Bank
8.	Baroda Rajasthan Kshetriya Gramin Bank
9.	Baroda UP Bank
10.	Chaitanya Godavari Grameena Bank

- SBI – as of 31st March 2022 – 14 RRBs - Andhra Pradesh Grameena Vikas Bank, Arunachal Pradesh Rural Bank etc Concerns/Issues
- PNB - Sarva Haryana Gramin Bank; Himachal Pradesh Gramin Bank etc

NABFID

- Difficult to for Simple bank to give Infra loans (Long Term + Large Value)
    - Lead to asset liability mismatch
- Created Development Finance Institution DFI to provide Infra loans
- Govt setup new DFI -> NaBFID
    - National Bank for Financing Infrastructure Development.
    - Initially the govt will have 100% ownership and later will be reduced to 26%.
    - Functions of NaBFID include
        - Extending loans and advances for infrastructure projects.
        - Attracting investment from private sector investors and institutional investors for infrastructure projects.
        - Organising and facilitating foreign participation in infrastructure projects.
        - facilitating negotiations with various government authorities for dispute resolution in the field of infrastructure financing.
        - Providing consultancy services in infrastructure financing.

Critical Evaluation

Benefits

- Infra financing has multiplier effect.
- Burden on the banking will come down.
- Is expected to promote virtuous cycle.

Concerns/issues

- Land acquisition issues.
- How to find bankable infra (risks are known, measures taken to reduce them).
- Bond markets are not deep enough.
- Government clearances.

L11 Finance Bank, NBFC,

25 September 2024 12:49 AM

<table>
<tr>
<td>Financial Inclusion</td>
<td>

• Banking facility provided to all people in cost effective manner
    • Making documentation easy
    • Reducing Minium Balance

• PMJDY, PAY, PMJJBY, PMSBY : Govt scheme for financial inclusion
    • Only Aadhar needed as Document
    • Zero Balance allowed without any penalty

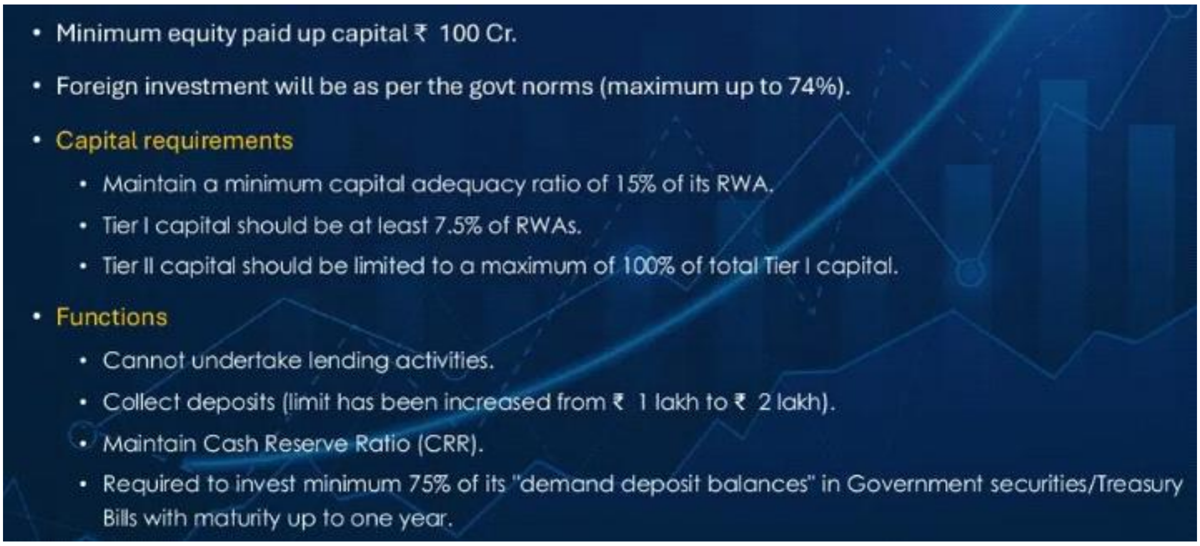
• RBI -> Bank Saathi (Banking Correspondent)
    • Basic Banking facilities, Micro Atm
    • Pension, Scholarship, providing service in exchange of small charge

• Need of promoting Digital Financial Inclusion
    • Using UPI, Net Banking for ease of transaction
    • IIRDAI : Regulator of Insurance -> proposed -> One website to compare different website

</td>
</tr>
<tr>
<td>Small Finance Bank SFB</td>
<td>

<table>
<tr><td>Farmers Type</td><td></td></tr>
<tr><td>Marginal</td><td>Upto 1 hectare, 2.5 Acres</td></tr>
<tr><td>Small</td><td>Upto 2 hectare</td></tr>
<tr><td>Semi Medium</td><td>Upto 4 hectare</td></tr>
<tr><td>Medium</td><td>Upto 10 hectare</td></tr>
<tr><td>Large</td><td>More than 10 hectare</td></tr>
</table>

</td>
</tr>
</table>

Payment Banks	• Loans giving not allowed, unless with help for second source
	• Earning govt securities and putting money in other bank
	• Remittance service : Pay in and Pay out, transferring money without bank account
	    • Could be used to money laundering (Black Money)
	    • RBI made rule to collect every details using KYC
	

Narasimha Committee (1991)	• Interest rate deregulation
	    • RBI should not regulate Ineterst Rate
	• Recapitalization of banking sector
	    • Inclusion of capital
	• PSI- to be brought down to 10%.
	    • Currently 40 %
	• Liberalization in the banking sector
	    • Deregulation of bank
	• A 4-tier structure of the banks
	• Increase Capital adequacy requirements
	• Merger of strong banks to make a mega bank.
	• Weak banks should be asked to conduct narrow banking.
	    • Limit Activity to govt securities for banks who are incurring losses
	• Review government ownership in the banks
	• Phased reduction of SLR & CRR.

NBFCs	• Non-Banking Financial Companies
	    • Can collect only Time deposit (12 month -6 years)
	    • No Deposit Insurance
	    • Registered under Companies Act 2013 (Not Banking Regn Act 1949)
	    • Not a part of payment and settlement system PSS
	        ○ Do not issue Cheques
	        ○ Cannot use Cheque, FD Transfer, etc

<table>
<tr><td></td><td>• Financial institutions which provide banking services but without meeting the legal definition of the bank.
• These are registered under the companies act 1956.
• These have been kept under the regulatory control of RBI from 1997.
• Have been classified into deposit taking and non-deposit taking.
• The deposit taking NBFCs must be registered with the RBI and some of the NBFCs are regulated by other agencies.</td></tr>
<tr><td>Importance</td><td>• Promote Finance Inclusion
• Some NBFCs are specialised, Gives loan to particular sectors like agriculture etc
• Cerate demands by providing EMI and Loans

• Lending to those unbanked or risky.
    • Even to risky as Interest rate is higher
• Many of the NBFCs are specialized to lend to specific sector
• Unbanked borrowers become bank borrowers.
• Have been helpful in creating demand and capital formation.</td></tr>
<tr><td>Issues</td><td>• Funding issue.
• Because of slowdown and recession, they have been facing repayment issues.
• Asset liability mismatch.
• The credit issuance has also slowed down.</td></tr>
<tr><td>Regulation on NBFC</td><td>• Scale Based Regulation
• Most of the NBFC are in the Base layer
• No NBFC are in top layer

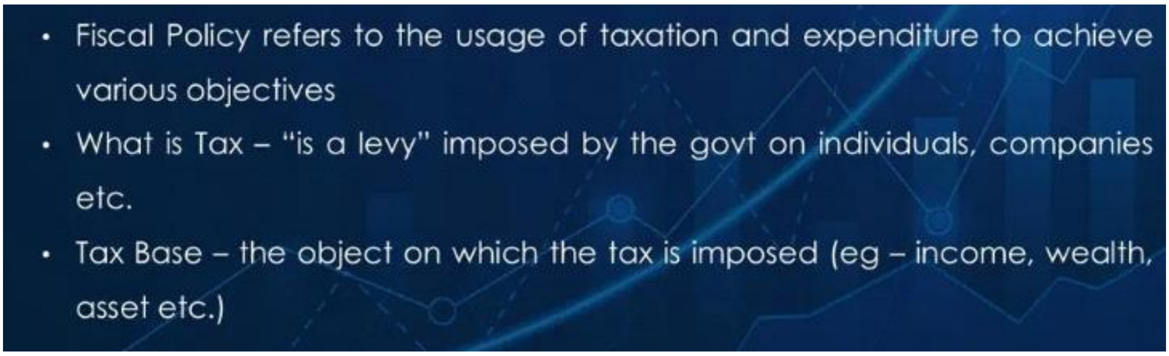
Table 11: Classification of NBFCs
<table>
<tr><th>Layer</th><th>NBFCs</th></tr>
<tr><td>Base layer</td><td>Non-deposit taking NBFCs with asset size less than Rs 1,000 crore</td></tr>
<tr><td>Middle layer</td><td>All deposit taking NBFCs; non-deposit taking NBFCs with asset size of at least Rs 1,000 crore</td></tr>
<tr><td>Upper layer</td><td>NBFCs identified by RBI as warranting enhanced regulatory requirement</td></tr>
<tr><td>Top layer</td><td>NBFCs contributing to substantial increase in the potential systemic risk</td></tr>
</table>
Sources: RBI; PRS.</td></tr>
</table>

L12 Taxation and its Type

26 September 2024 04:12 PM

<table>
<tr><td>TAXATION</td><td>

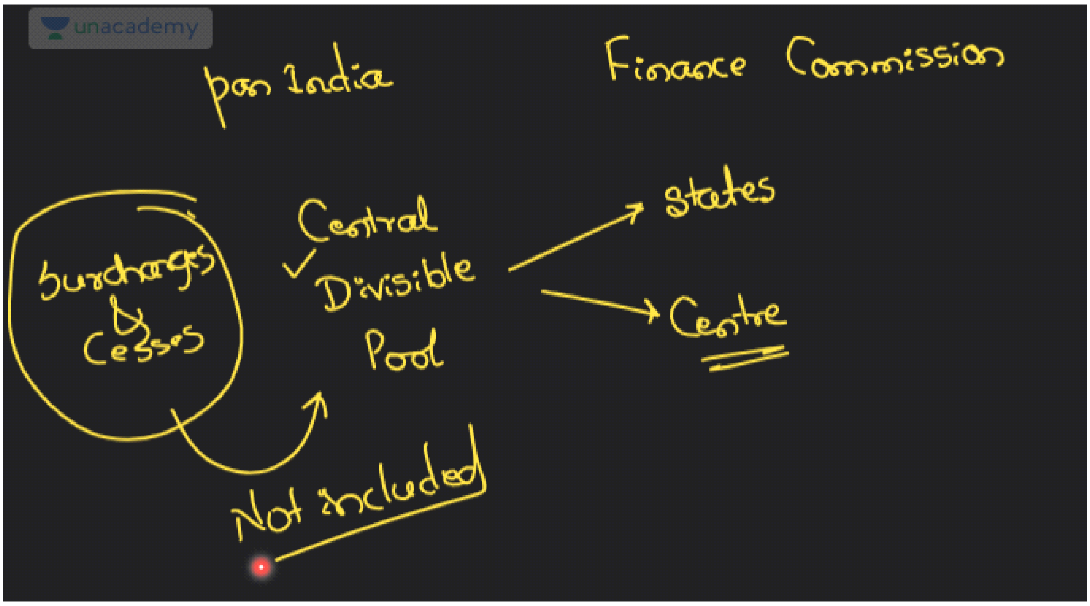
• Compulsory levy/charge imposed by the government, which is income of government



</td></tr>
<tr><td>Types of taxation</td><td>
<table>
<tr><td>Direct taxes</td><td>• Directly given by us to the govt
• Income tax, Corporate tax, Property tax.
• Can be targeted, for example based on income</td></tr>
<tr><td>Indirect taxes</td><td>• Institution take care of transfer of tax, Movie treater GST
• Burden Shifted : VAT, excise, GST etc.
• Universal in nature, same tax for everyone</td></tr>
</table>
<table>
<tr><td>Progressive</td><td>• Tax rate increases with taxpayer's income.
• Depends upon the taxpayer's capability to pay.
• Ex : income tax.</td></tr>
<tr><td>Regressive</td><td>• Tax rate decreases with the income.
• Is not associated with income or ability of the taxpayer.
• Ex : Indirect taxes are generally regressive in nature.</td></tr>
<tr><td>Proportional</td><td>• The tax rate remains the same for every taxpayer.
• Ex : corporate tax rate is same for all the companies (i.e., 22%).</td></tr>
</table>
</td></tr>
<tr><td>Taxation System</td><td>
<table>
<tr><td>Ad Valorem</td><td>• Ad valorem tax is imposed on the value (monetary value) of the product/item.
• VAT (Value Added Tax) or excise etc.</td></tr>
<tr><td>Specific</td><td>• Taxes are imposed based on physical attributes such as length, volume etc.
• Also known as Per Unit Tax
• Ex on cars (sub 4 meters and over 4 meters etc), excise duty by the central government on petrol etc.</td></tr>
<tr><td>Petrol</td><td>• Centre : Excise duty : Specific tax : Per Litre
• State Ad Valorem tax : as per purchasing cost
• Govt says they have deregulated market price of fuels in market
    • But due to centre + state tax, price of fuel is regulating
    • 100% tax (state + centre)</td></tr>
</table>
</td></tr>
</table>

- Surcharge
  - It is an additional tax that is levied over the existing applicable tax rates. These are usually permanent in nature (cesses are temporary).
  - It is calculated in terms of percentage of the income taxes paid.
  - The revenues earned by the centre through surcharge is solely retained by the centre and is not distributed with the states.
  - These are used to make the taxation system more progressive.
- Cess
  - It is a tax imposed central govt on tax, for a specific purpose.
  - Some cesses are imposed as a percentage of the tax and in some cases it is imposed on value.
  - Proceeds from each cess are first collected in the Consolidated Fund of India, and then transferred to the dedicated fund for that cess.

• Cess to promote education -> Education cess



Counter measure tax

Anti-dumping	• It is imposed to correct the impact of dumping. • Dumping : If some country export at lower rate to influence local market
Countervailing	• Anti Subsidy Duty • To address lower prices on account of assistance/subsidy given by the exporting country.
Safeguard	• When there is a sudden unexpected flow Of imports injuring the domestic manufacturers • Protection io domestic companies

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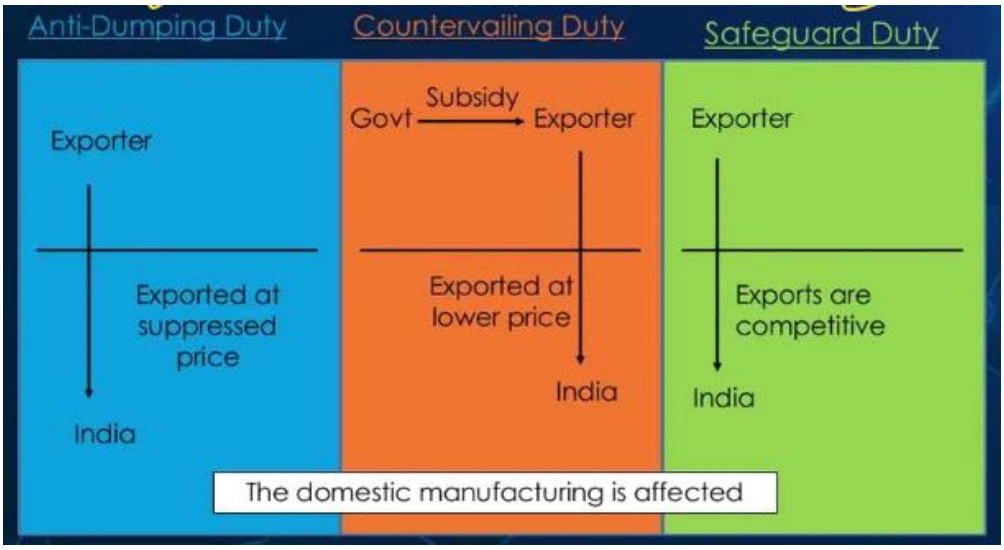

• Anti-dumping and anti-subsidies & countervailing measures in India are administered by the Directorate General of Trade Remedies (DGTR) functioning in the Dept. of Commerce in the Ministry' of Commerce and Industry.
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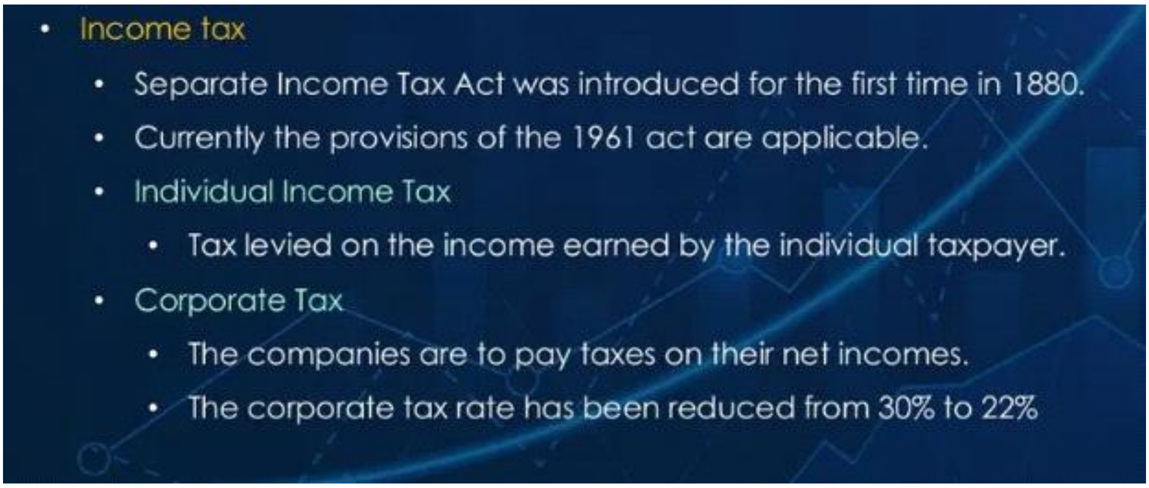
DIRECT TAXES

<table>
<tr><td>Income Tax</td><td>


• Need to revamp taxes, we are currently using 1961 Act
  ○ In 2017 Indirect Tax -> GST
  ○ But Direct Tax -> Direct tax code was not implemented by new govt
• We do not pay tax in Whole Income (Gross Income)

• Corporate Tax reduced in 2019 : 30% -> 22%
• Lakh Crores rupees lost because of reducing tax.
</td></tr>
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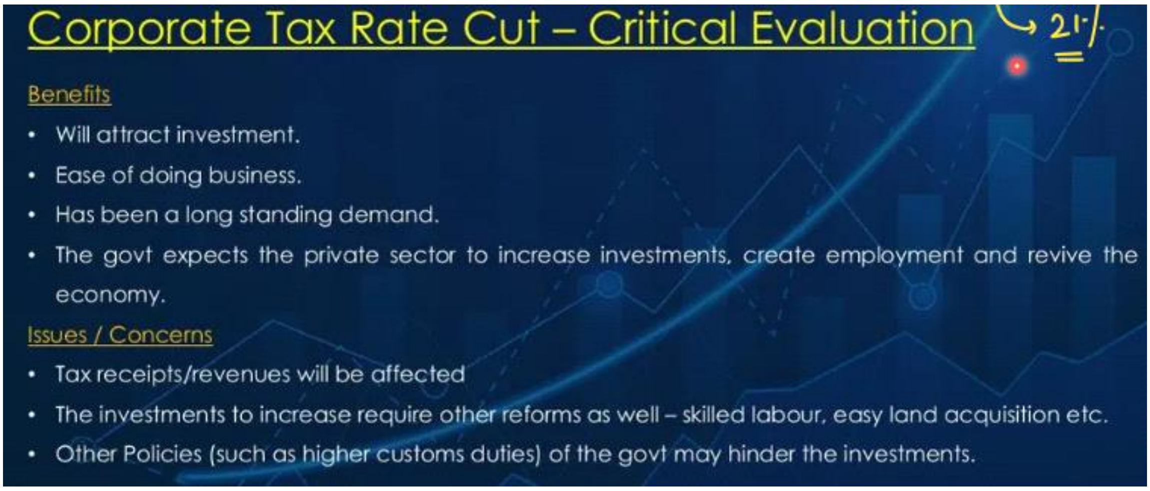
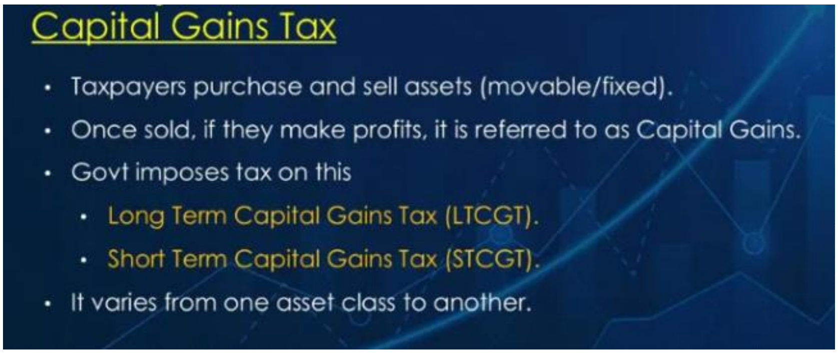
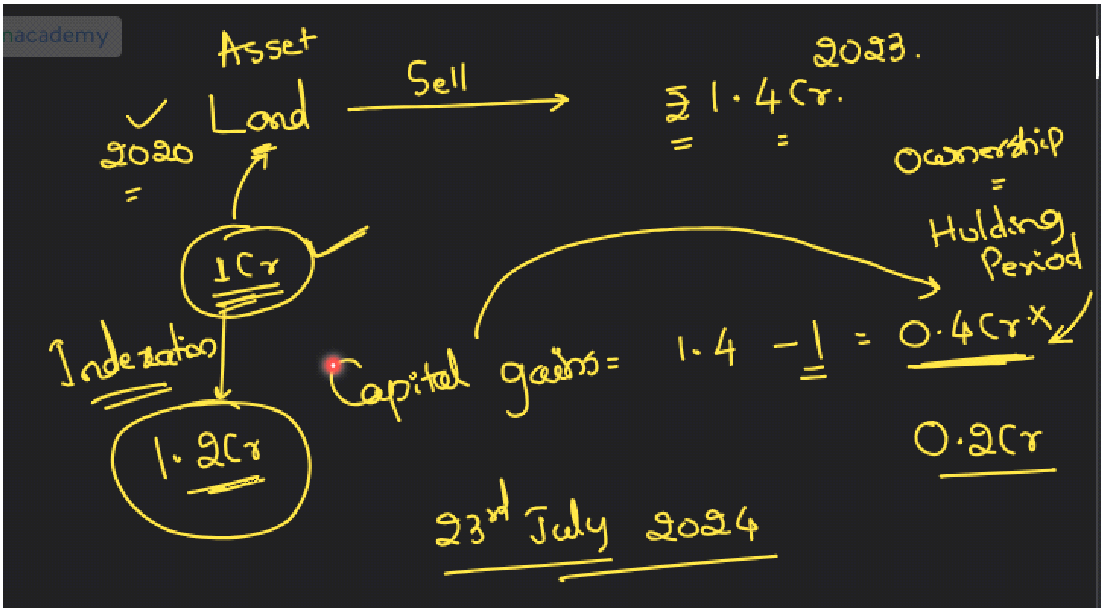
<tr><td></td><td>
</td></tr>
<tr><td>Capital Gain Tax</td><td>

- Capital Gains : Profit on selling assets
- Indexation : Price Increase of assets, due to indexation capital gains increase, more tax is applicable.
- Assets : Movable (Gold) , Immovable (Land)



- Holding Period : Ownership time
    - Short Term STCGT : Selling house for less than 2 years
    - Long Term LTCGT : Both depends on assets to assets</td></tr>
</table>

Tax Planning	• To reduce tax, we use exemption and deduction using Income Tax Act provisions • It is ethical
Tax Evasion	• Unethical and illegal • Like under-reporting Income

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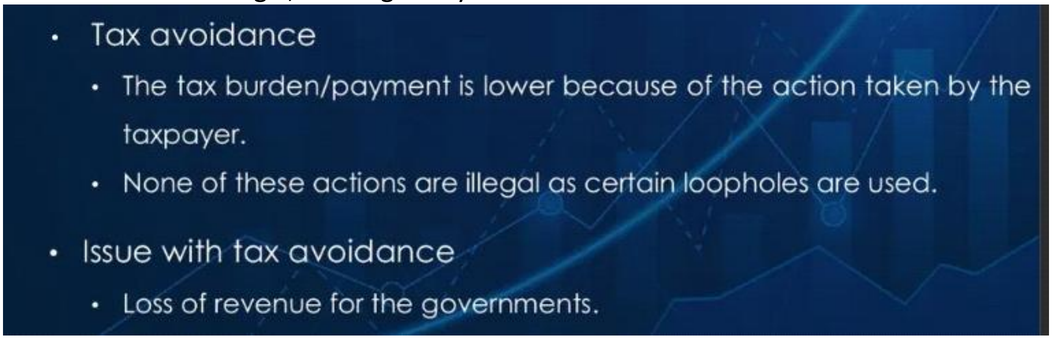
<tr>
<td>Tax Avoidance</td>
<td>

• Unethical but not illegal, abusing tax system to reduce tax



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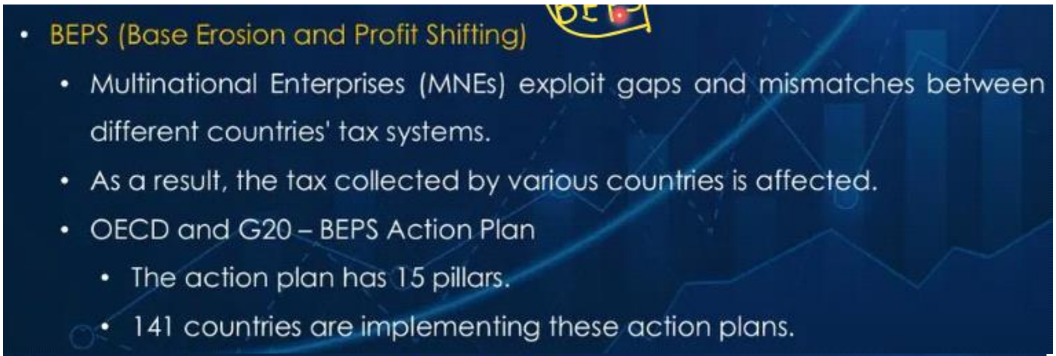
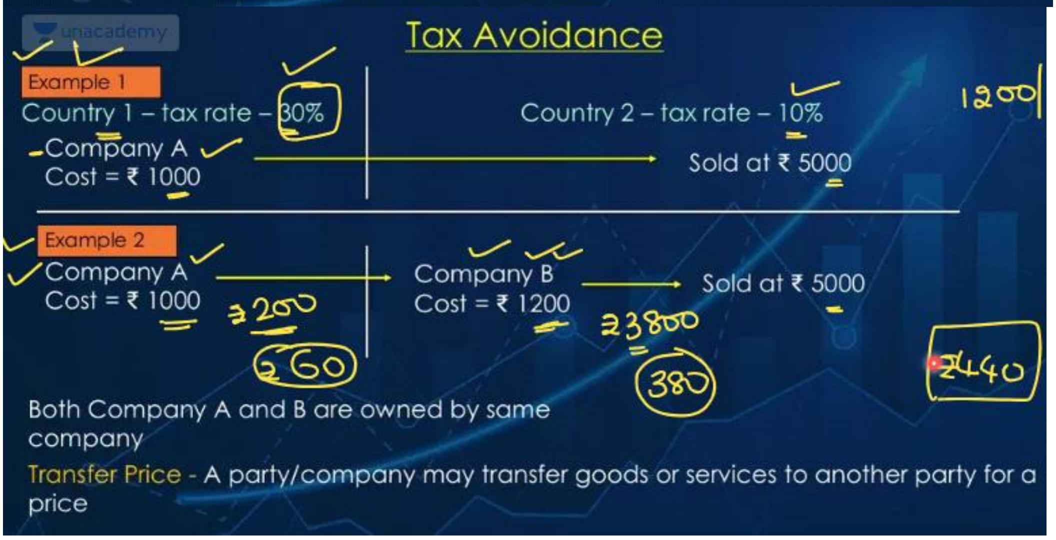
<tr>
<td>BEPS</td>
<td>

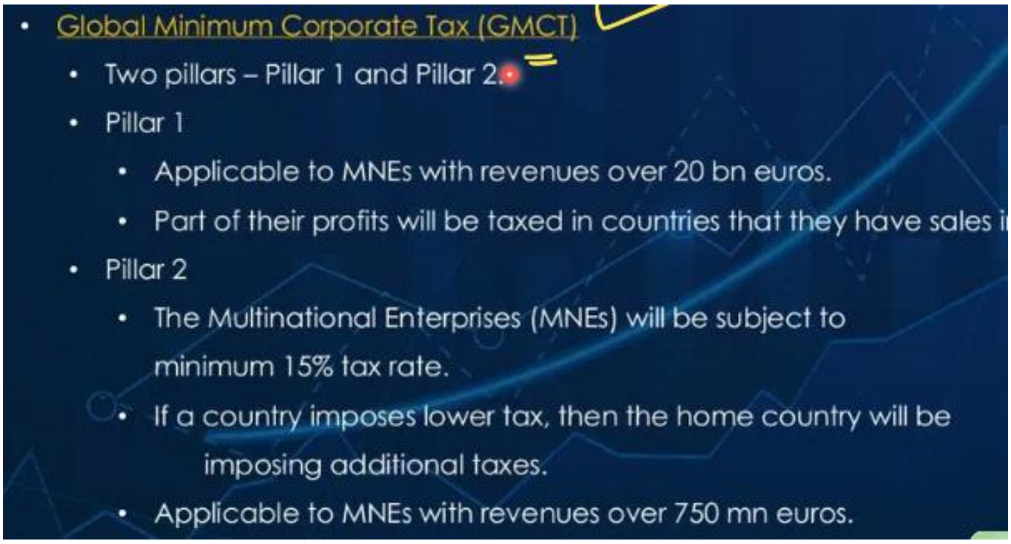




• Second company is called as Tax Heaven, where tax is negligibly low or zero
• Arm's length : Transparent deal of transfer price bw company

• Advance Pricing Agreement : Approval from tax authorities on transfer price, to decide if it is at ALP

</td>
</tr>
<tr>
<td>GMCT</td>
<td>



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TAX IN THE TIME OF DIGITAL

■ OECD released a statement in October 2021 providing an agreement of **Inclusive Framework member jurisdictions on "Two-Pillar" solution**

■ Pillar 1 is about **re-allocation of taxing rights**; it aims to re-allocate a portion of non-routine profits of MNCs to the markets where they operate

■ Pillar 2 aims to **introduce a global minimum corporate income tax** of 15%

■ Together, **the proposals can generate $150 bn in additional global tax revenues** annually

■ The **global minimum taxation** is necessitated by BEPS, or base erosion and profit shifting, which refers to tax planning by MNCs to benefit from the gaps in tax rules

■ This has become exacerbated in the modern digital era, in which **MNCs can earn substantial revenue in a country without having a physical presence**

■ **Emerging economies have a high reliance on corporation tax** and therefore suffer from tax planning by MNCs

■ Pillar 2 also calls for **adoption of a new subject to tax rule (STTR)**, a treaty-based regulation that can protect developing nations' ability to tax some intragroup payments

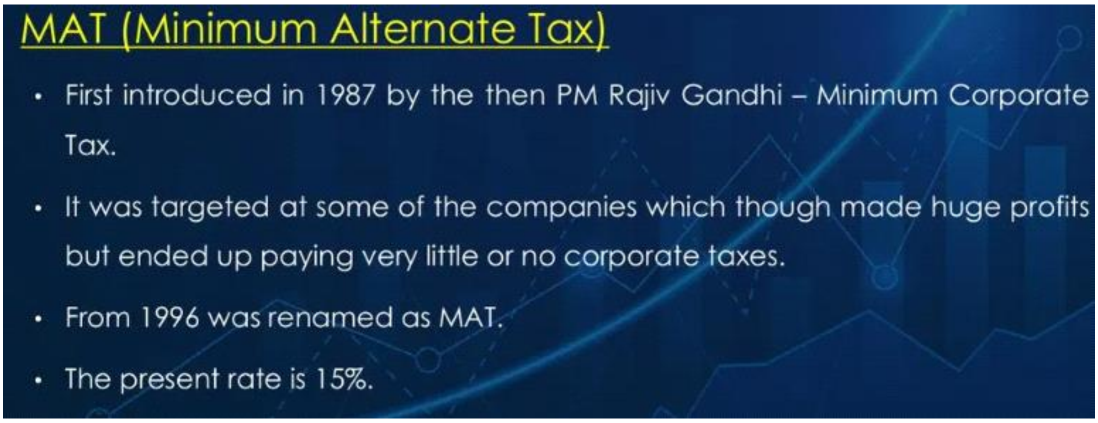
■ In July this year, **138 countries agreed on an Outcome Statement, an** agreement on addressing the tax challenges related to digital economy

■ **Several countries are already implementing the global minimum tax framework** under Pillar 2

■ Starting January 2024, **MNCs will have to comply with Pillar 2's global minimum tax**

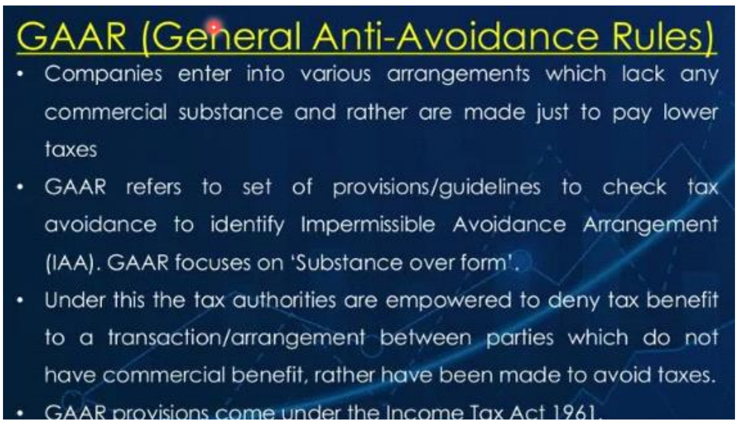
Minimum Alternate Tax

- Corporate Taxes : Profit and Loss statement (P&L A/c)
  - Book Profit : R > E
  - Book Loos : R < E
  - If Deduction > Book Profit -> 0 tax Company



GAAR

- Special Economic Zone SEZ : No Tax for first 5 years on profit
- Domestic Terrif Area DTA : Area excluding SEZ
- GAAR Implemented in 2017 to stop arrangement bw companies in SEZ area for tax avoidance (as no commercial benefit was present, just to avoid tax)
  - Tax benefit in SEZ is removed



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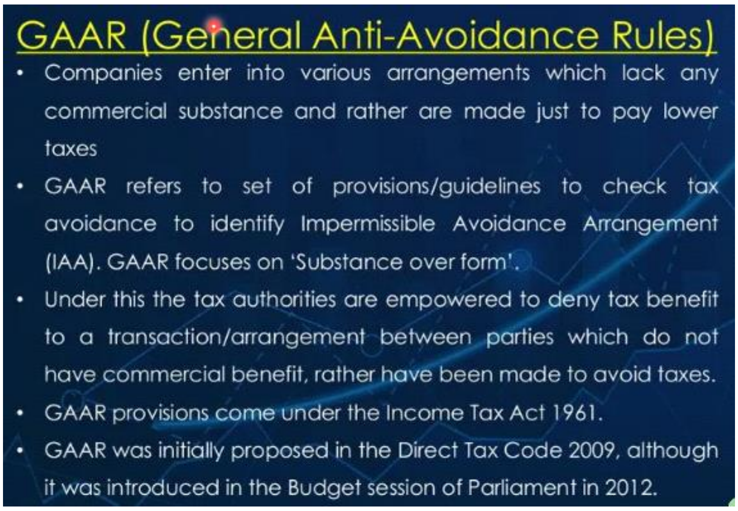

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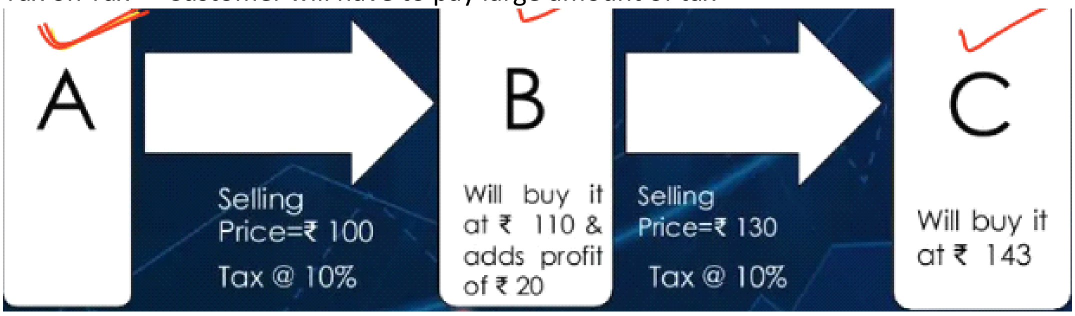
<table>
<tr><td>Cascading Effect</td><td>
• Tax on Tax -> Customer will have to pay large amount of tax


</td></tr>
<tr><td>VAT Value added Tax</td><td>
• Earlier Central (Excise) + State (Sales Tax) : Lot of cascading effect in system
• VAT System was Introduced
• To remove cascading -> ITC Input tax credit is returned back
• Destinations Based Taxation -> Tax Collected at consumption step
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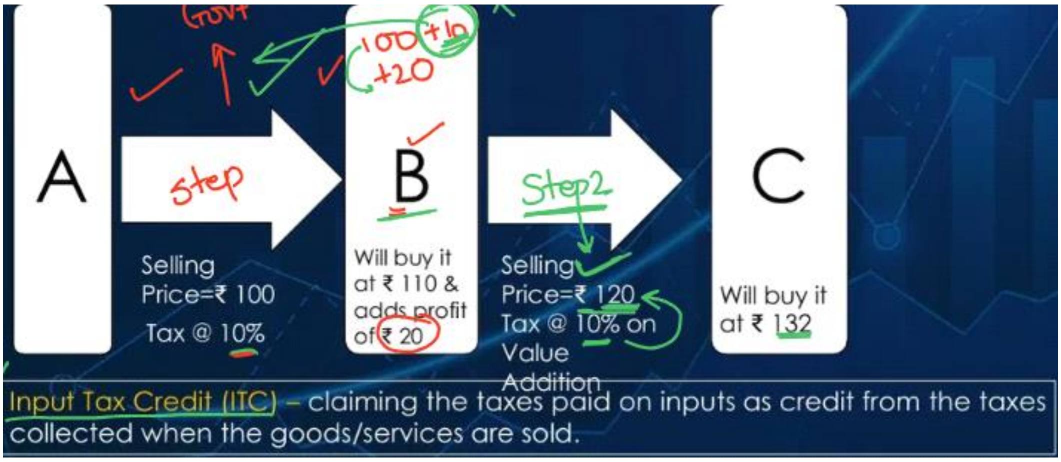
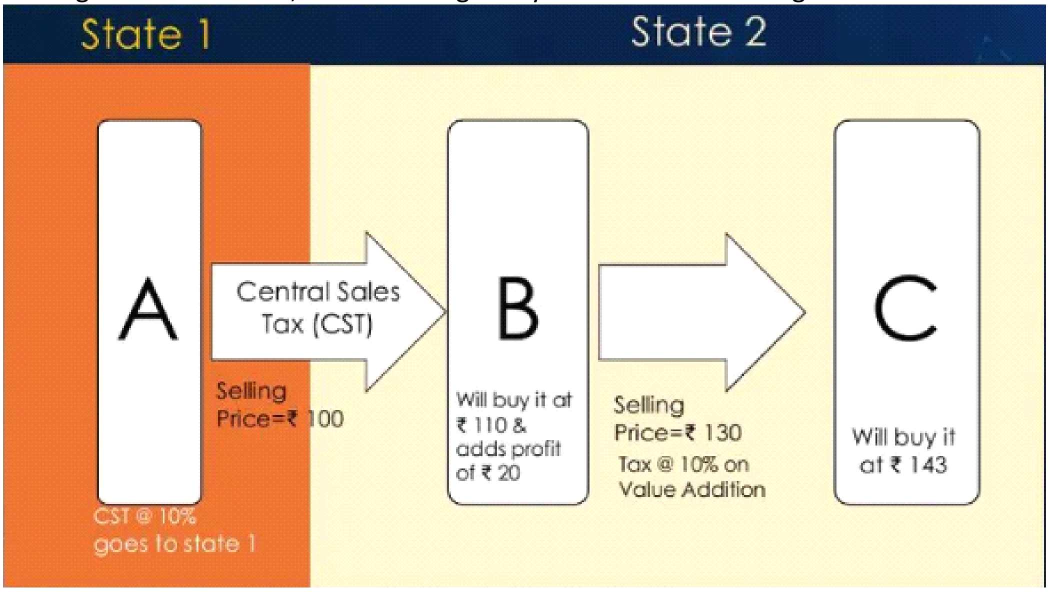
<tr><td></td><td>
</td></tr>
<tr><td>Inter State Sales</td><td>• CST introduced by Central govt, CST collected by State Govt
• B is registered in State 2, so B will not get any ITC back -> Cascading Effect

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L13 GST and Tax Reforms

30 September 2024 09:06 AM

Goods and Service Tax (GST)

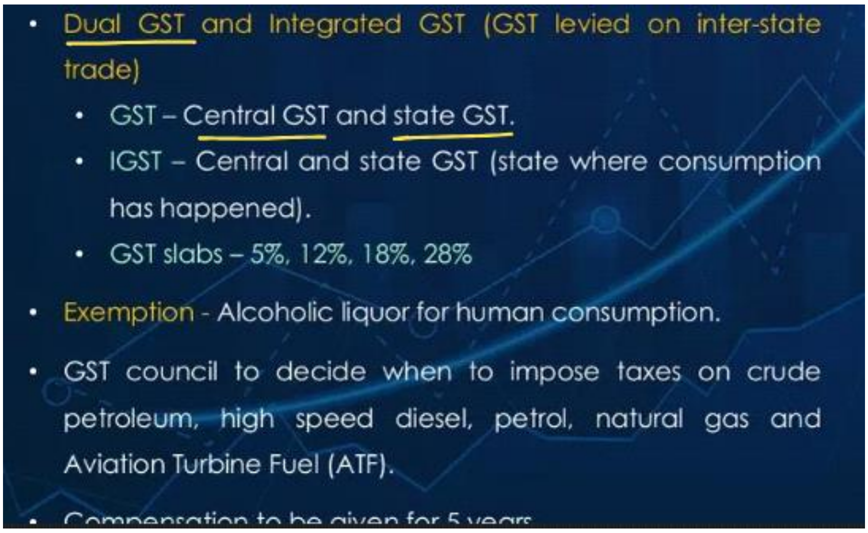
- Objective
    - One nation, One tax, One margin
- Cascading effect.
- Multiplicity of indirect taxes.
- To widen tax base and increase government revenues (tax base = assets/revenue/income on which govt imposes and collects the tax).
- The transportation costs will add to the costs.
- To make it easier to do business.

- Earlier Transportation time was very high -> because of check post documentation process
- Now with GST Check post is eliminated -> saving time in transportation -> reducing cost

Reason	Time taken out of the total
Transportation time	40%
Check posts	25%
Other official stoppages	35%

GST

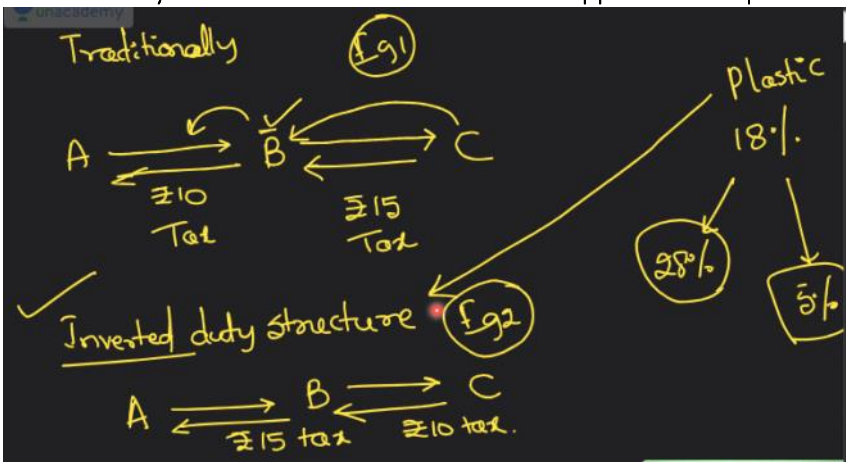
- Streamlining/subsuming all the indirect taxes- One Nation One Indirect tax.
- The constitutional amendment empowers both central and state governments to take decisions/make laws regarding taxes.
- GST council
    - Constituted by the President of India .
    - Article 279A
    - Union Finance Minister + State Finance Ministers.
    - Union Finance Minister will be the chairperson
    - Functions- Model GST laws, taxes/surcharge/cess to be levied by the centre and state, exemptions to be given etc.
    - Quorum is 50% of the total members
    - Voting weightage
        - One third – centre
        - Two thirds – states
    - Decision of the GST council is taken with at least 75% of majority



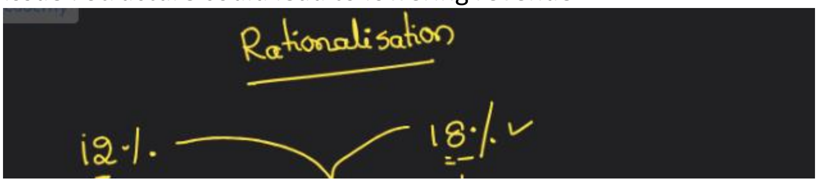
- Dual GST borrowed from Canada , 150 Counties are using GST
- Exception on Liquor as it huge source of tax collected by state govt and
  On fuel as currently 100% tax is imposed on fuel and highest slab in GST is 28
- IGST : Production in one state, Consumption is in Other state, GST is given to state of consumption

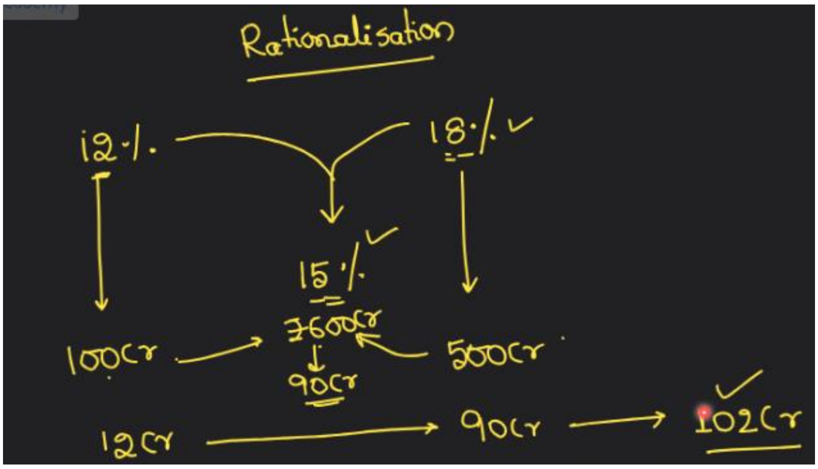
Multiple Tiers

- Inverted Duty Structure : Plastic used to make slippers or audi parts



- Solution : Rationalization -> reduce complexity 12% 18% -> Avg 15%
- Issue : Structure could lead to lowering revenue



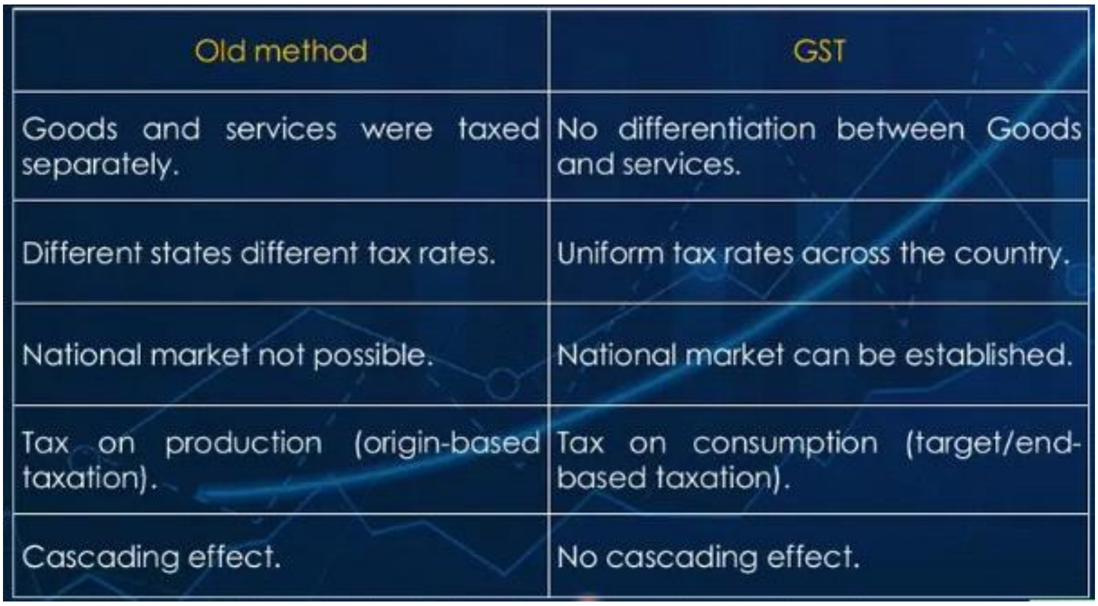


- NIPFP recommendation
    - 12+18 -> 15%
    - 5% -> 8%
    - 28% -> 30%

Compensation

- Compensation for 5 years after initiation of GST (1St July 2017)
- 2015 and 2016 was taken as base
- 100% revenue loss will be paid by the centre
    - Centre kept some product under 28% tax + cess (GST Compensation cess)
    - Even today some cess is still going on
        - GST collected ↓ during covid -> Compensation > Cess
        - Central Govt take loan to provide compensation
        - Till 2026 Govt will take cess to repay loan

Comparison



Old method	GST
Goods and services were taxed separately.	No differentiation between Goods and services.
Different states different tax rates.	Uniform tax rates across the country.
National market not possible.	National market can be established.
Tax on production (origin-based taxation).	Tax on consumption (target/end-based taxation).
Cascading effect.	No cascading effect.

GST Example

GST Example – Intra state

	Pre – GST	GST
Sold from A to B	Price = ₹ 1000	Price = ₹ 1000
	Service Tax @ 10% = ₹ 100	GST @10% = ₹ 100
	Total cost = ₹ 1100	Total cost = ₹ 1100
From B to Customer	Cost Price = ₹ 1100	Cost Price = ₹ 1000
	Profit = ₹ 1000	Profit = ₹ 1000
	Selling price = ₹ 2100	Selling price = ₹ 2000
	Tax @ 10% = ₹ 210	GST @10% = 200
	Final Price = ₹ 2310	Final Price = ₹ 2200

Total GST Collected by centre = ₹ 200
CGST = ₹ 100
SGST (collected by same state) = ₹ 100

GST Example – Inter state

	Pre – GST	GST
A (state 1) to B (state 2)	Price = ₹ 1000	Price = ₹ 1000
	CST @ 10% = ₹ 100	IGST @10% = ₹ 100
	Total cost = ₹ 1100	Total cost = ₹ 1100
Company B to Customer	Cost Price = ₹ 1100	Cost Price = ₹ 1000
	Profit = ₹ 1000	Profit = ₹ 1000
	Selling price = ₹ 2100	Selling price = ₹ 2000
	Tax @ 10% = ₹ 210	GST @10% = 200
	Final Price = ₹ 2310	Final Price = ₹ 2200

Total IGST Collected = ₹ 200
CGST = ₹ 100
SGST (State 2) = ₹ 100

GSTN
GST Network

- Setup by Govt of India, for handling GST documentation
- Non-profit : profit is utilized for running company
- Setup under Section 8 of Companied Act 2013

	• It is non-profit organization. • Will provide IT Infrastructure to all the stakeholders. • Functions - Taxpayer profile analysis. - Registration of taxpayers. - Filing of returns etc. • GSTN Ownership - 50% each held by GoI; and State Governments and UTs
Anti Profiteering Measures	• Profiteering : Not providing benefits of lowering of rate of tax for illegally gaining more profit • Anti-Profiteering Measures ○ Profiteering - making unfair excessive profits ○ Set of rules/guidelines that prevent the companies from making excessive profits with introduction of GST. ○ Were cleared by GST council on June 18, 2017. ○ A National Anti-Profiteering Authority will be set up. ○ Has a sun-set clause of two years (extended by two more years).
Concern	• Compliance burden - costs incurred to follow the guidelines • Tax rate - multiple tax rates • Revenue protection • Exempted goods

Taxation	• Tax Buoyancy • Measures growth rate in tax revenue collection as a response to growth rate. • % change in tax / % change in GDP > 1 : Better -> more tax revenue • Pre GST 0.9988 -> Post GST 1.0603 • Tax Elasticity • Measures growth rate in tax revenue collection as a response to change in tax rate. • Tax Expenditure • It is the tax revenue foregone by govt as result of exemptions, rebates by govt. • Amount of tax not collected, Sacrificed / Exemption • Tax-to-GDP ratio • Ratio of total tax revenue to value of GDP. • Tax / GDP ↓ = Increase dependency on borrowing from market • If Tax Buoyancy ↑ -> Tax to GDP Ratio ↑

Issues	• Loss of revenue
	    • Tax evasion
	    • Tax Avoidance
	• Most of the economy is not covered under taxation.
	• Government provides tax exemptions to corporates.
	• Issues related to GST.

Reforms	Transparent taxation - Honouring the honest • Was launched in August 2020. • Objective is to impart, transparency, efficiency and greater accountability and to eliminate "human interface". The key features of the platform • Usage of technology, data analytics and Artificial Intelligence. • Recognizing taxpayers as partners in nation-building. The platform stands on 3 pillars • Faceless assessment. • Faceless appeal. • Taxpayer charter. • Faceless -> Complete Transparency Faceless assessment • Earlier called as e-assessment Scheme and renamed in August 2020. • The scheme established National Faceless Assessment Centre (NFAC), as a sole point of contact between the department and the taxpayer. • To further streamline the process there are Regional Faceless Assessment Centres which are vested with power to make assessment. Faceless appeal • Established National Faceless Appeal Centre.

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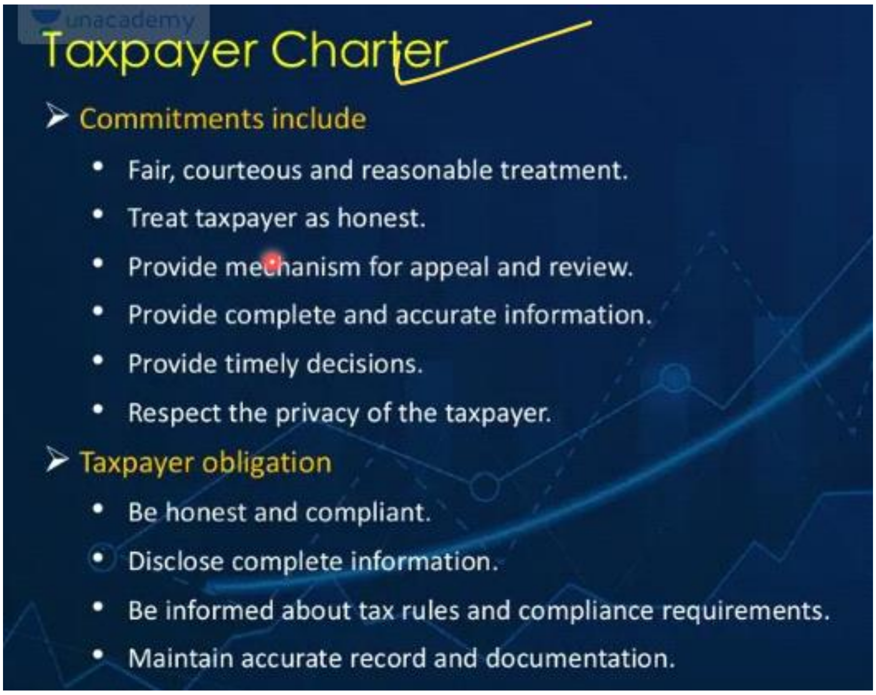
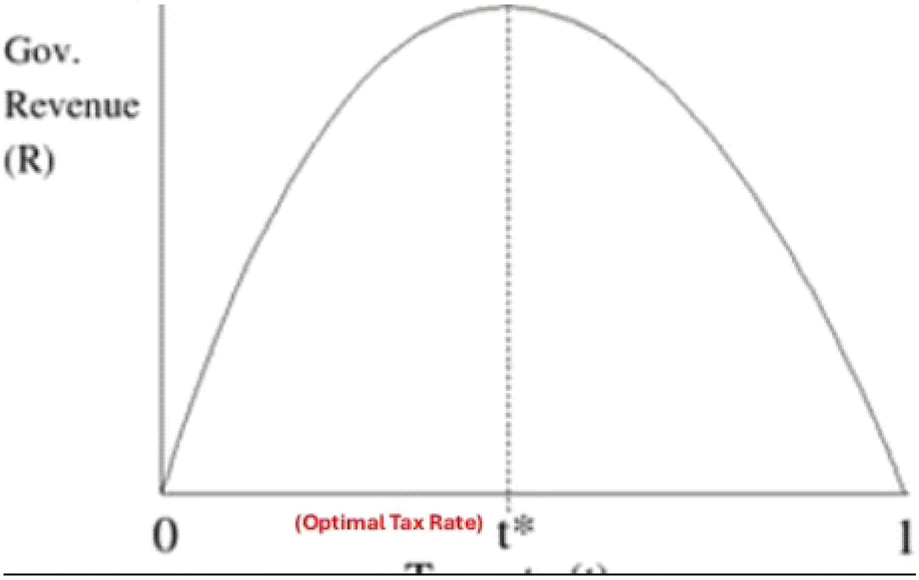


</td>
</tr>
<tr>
<td>Laffer Curve</td>
<td>
• Given By Arthur Laffer
• Optimal Tax Rate -> highest revenue (No formula to calculate optimal tax rate)
• If tax rate ↑ -> lead to Burden of Tax -> Work -> Leisure



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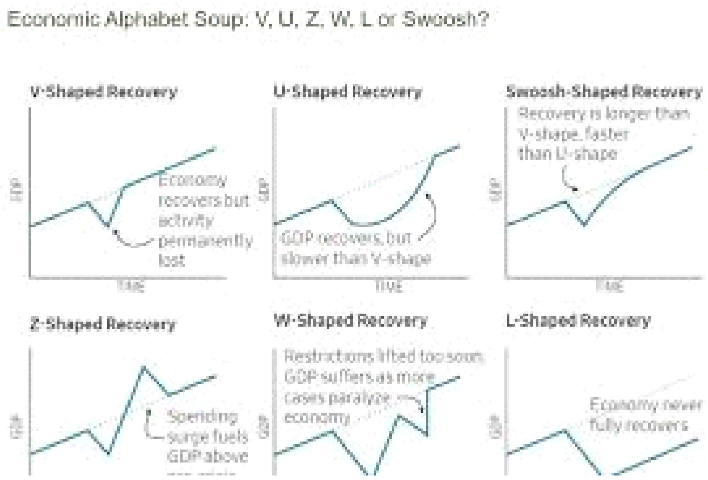
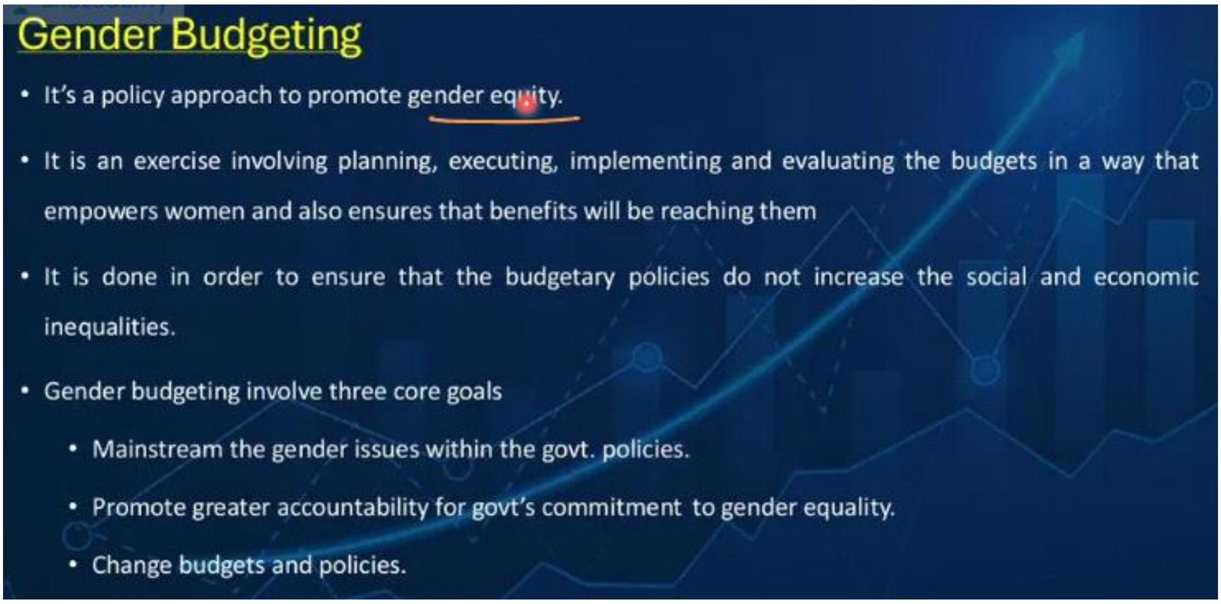
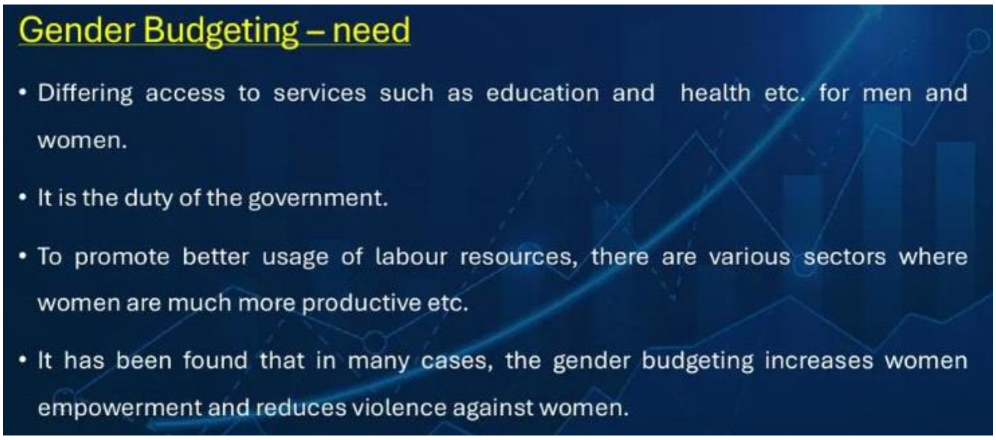
L14 Budget, Capital and Expenditure

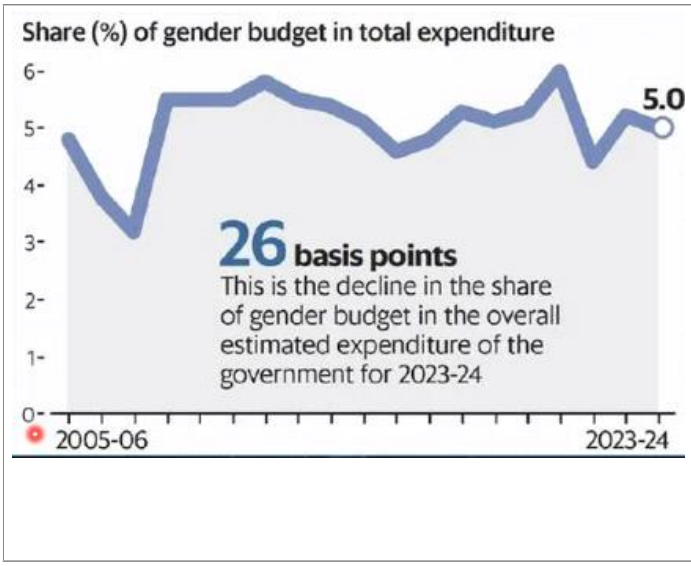
01 October 2024 09:20 AM

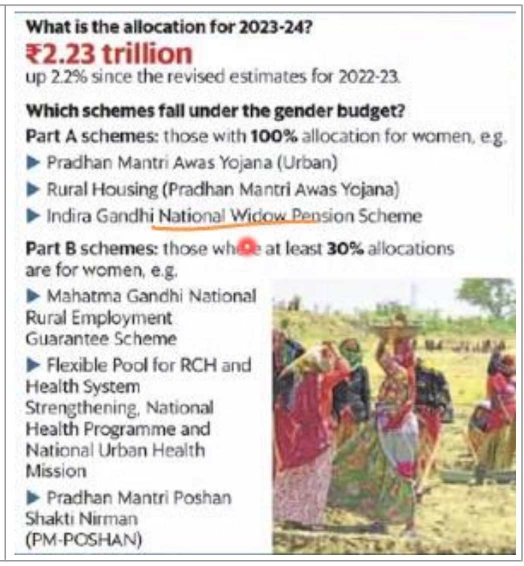
Economic Recovery	• All Country want their GDP should be increasing. Our India argue we have V or K type recovery. • V Shape : Sudden down in GDP (Due to recession), then quick recovery, look like V shape • K Shape : Some part of economy increases and some part decreases, creating K Shape of GDP • W Shape : Double dip, Contraction -> little recover -> Contraction -> Recovery 

Budget	• Mention in Article 112 : As Annual Financial Statement
	• Earlier Presented Last Working day of Feb -> Now first working day of Feb
	    • Appropriation Bill : Expenditure : Withdrawing money from Consolidated Fund of India
	    • Finance Bill : Income / Receipt : making changes in taxes or revenue
	    • Earlier bill passing take till may, now it is completed in
	• Railway bidet is not combined to Annual Budget.
	    • Earlier Railway minister include biased project in his area
	    • Transportation committee can take care of Railways
	
	• Surplus Budget : Expenditure < Revenue -> middle East country based on crude oil export
	• Balance Budget : Expenditure = Revenue
	• Deficit Budget : Expenditure > Revenue -> Indian and USA, Govt depend on market borrowing

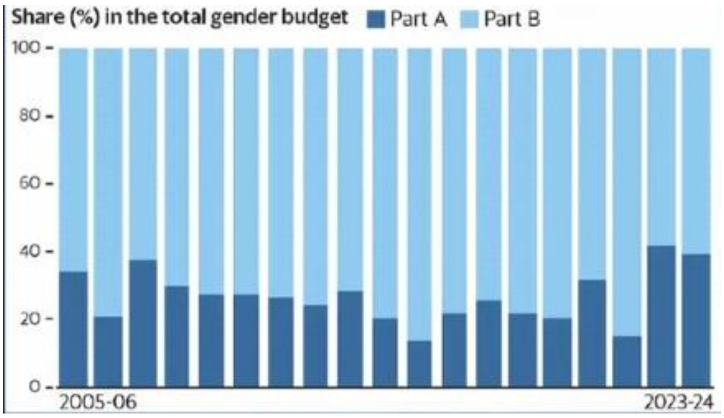
Gender Budgeting	







- Part A Scheme : Only Women are Beneficiaries
- Part B Scheme : 30% allocation of scheme is reserved for women

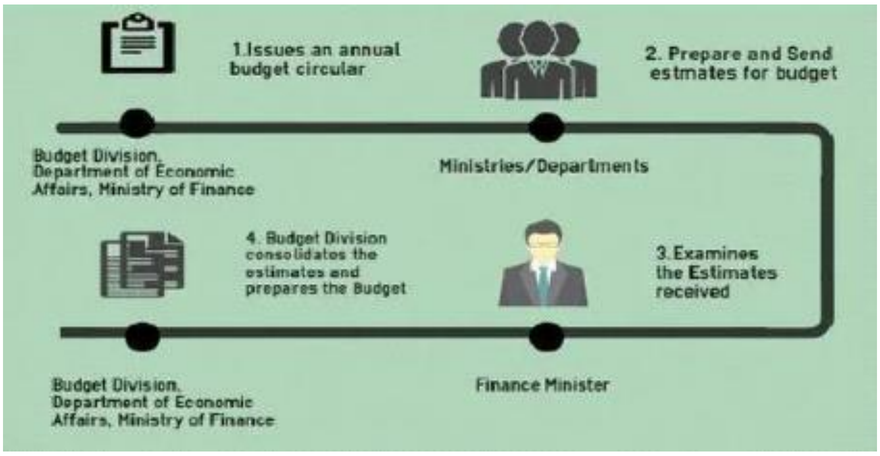
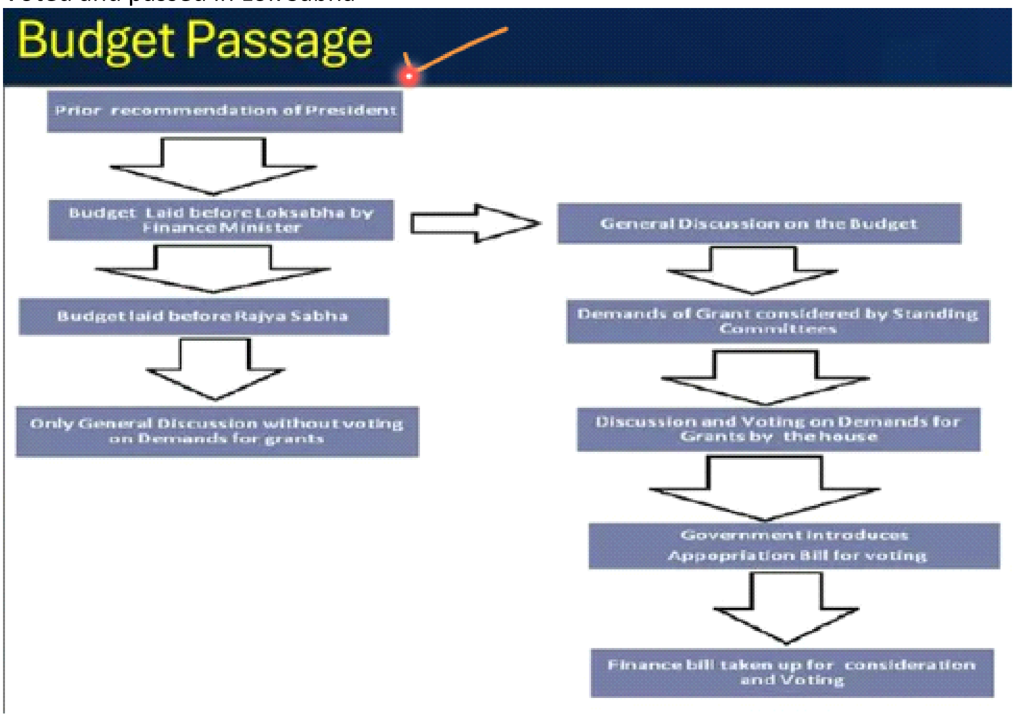


Outcome Budgeting	• What we have achieved from allocate budget -> Allocation is measured in terms of Result • Budget is limited and need to allocate it efficiently • Transparent to hold govt of India accountable

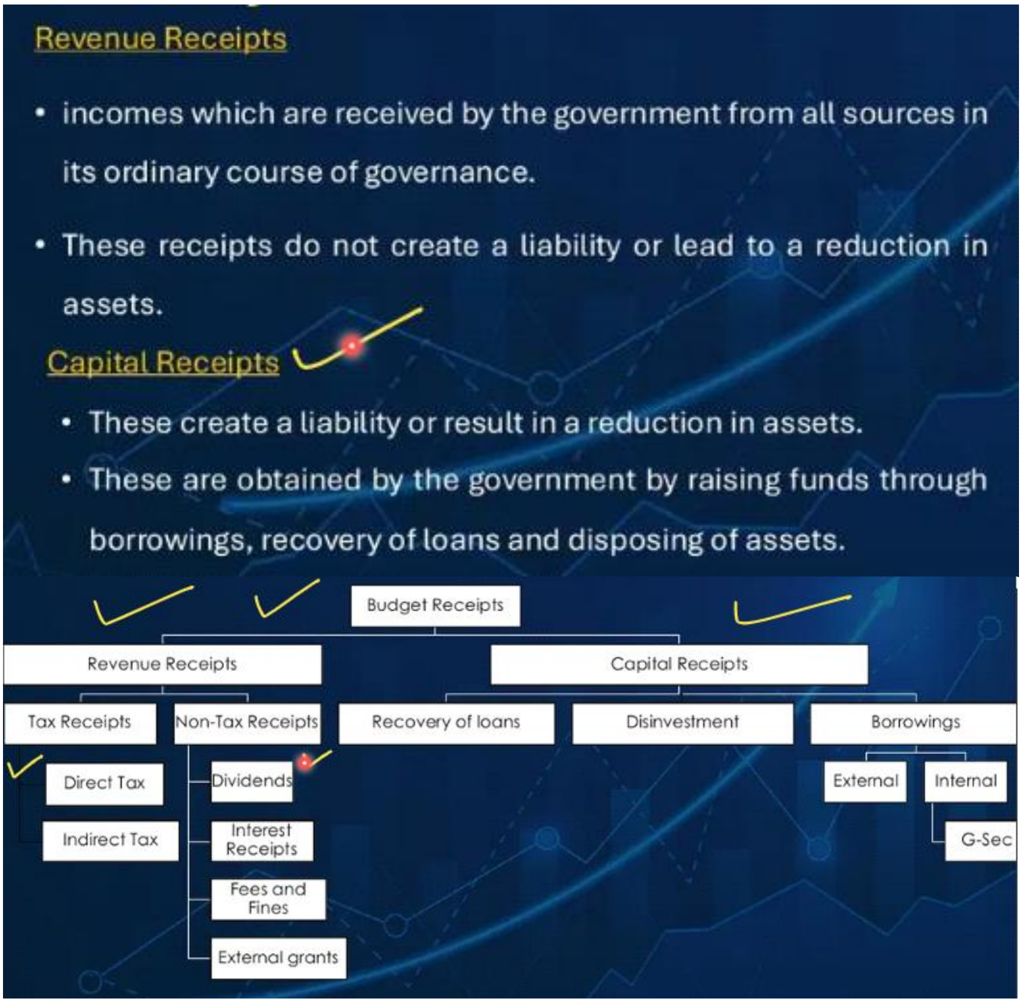
	Outcome Budgeting • The budget expenditures are presented in terms of functions, programmes, performance units etc, which reflects the governmental output and its cost. • Under this it establishes the relationship between output and inputs. • The budgets are developed based on the relationship between funding and expected results. • It enhances the visibility into how the govt policies are translating or yielding the results or outcomes. • In this the budget allocations are always measured in terms of outcomes - which could be monetary terms or in terms of physical assets.

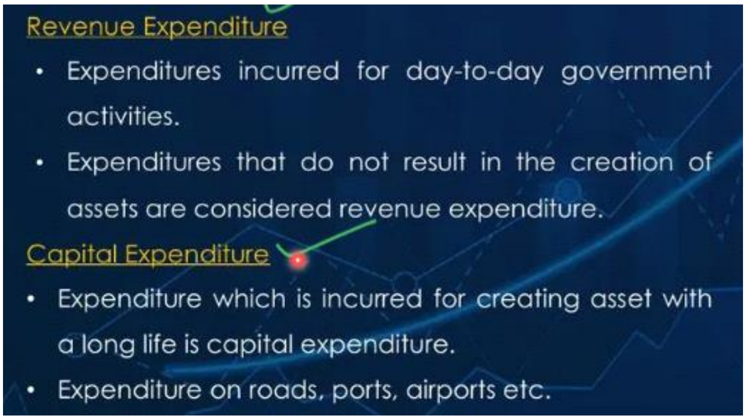
Zero Based Budgeting	• Incremental : Increase the allocation as percentage on last year allocation as base
	    • Priority is not used
	• Zero Based : Last year allocation is not considered, Explain expenditure from 0 to allocation amount
	    • Allocation is measured in terms of Breakup
	    • More accountability and efficient utilization of money
	
	• In case of zero-based budgeting every programme is started at a zero base and every allocation has to be justified.
	• Under this each year's allocation is done independent of allocation done in previous year.
	• It covers both the existing and new programmes.
	• It will provide a mechanism using which govt can use the resources efficiently and will also help the govt in making credible and rational allocations.
	• Objective
	    • Ensure that important tasks are given importance.
	    • Allocations are justified.
	    • No wastage of resources.
	    • Tasks/activities always will be under constant watch and review.
	• In India concept of Zero Based Budgeting was introduced post 1980s.

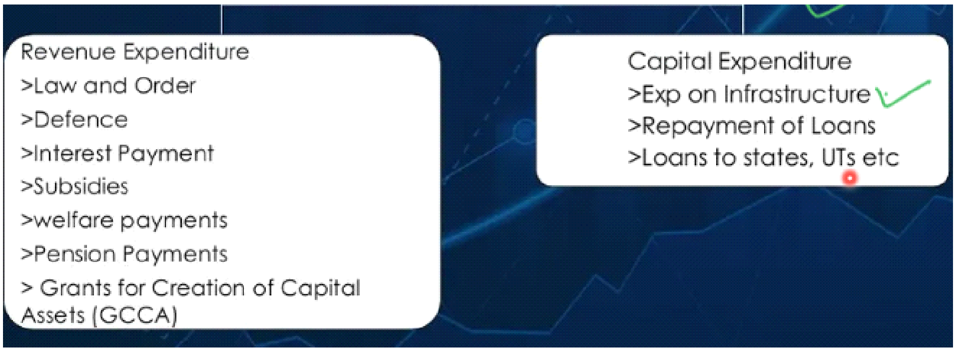
Preparation	• By Budget Division, under Department of Economic Affair, under Ministry of Finance

of Budget	 • Demand for Grants : Budget allocation for ministries which will be taken from Consolidated Fund of India • Standing Committees : Detailed review of demands -> Submit back to Parliament • Voted and passed in Lok Sabha 

Capital and Revenue	• Capital Account
	    • When Assets and Liabilities are changing
	    • Capital receipts -> Sale of Airport (Capital Decreases)
	        ○ Assets ↓ Liabilities ↑
	    • Capital Expenditure -> Creating Airport (Capital Increases)
	        ○ Assets ↑ Liabilities ↓
	
	• Revenue Account
	    • Assets and Liabilities are not changes
	    • Revenue Expenditure : Welfare Expenditure, Maintaining Law and Order
	    • Revenue Receipts : Tax, Charges and fees on using Govt Service

<table>
<tr>
<td>Receipts</td>
<td>


• Borrowing : Creates Liabilities, Debt Creating Receipts
• Non Debt Creating receipts : Revenue, Recovery of loan, Disinvestment
• Assets
</td>
</tr>
<tr>
<td>Expenditure</td>
<td>




• GCCA : Central govt gives Grants to State (For development of Infrastructure)
  ○ In this increase is in assets of state govt not centre
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L15 Deficits and Finance Commission

01 October 2024 07:23 PM

Deficits

- Revenue Deficit
    - RD = Revenue Expenditure — Revenue Receipts.
    - Borrow money from Market should only be used for Capital not revenue
    - Reduce Revenue deficit to 0%

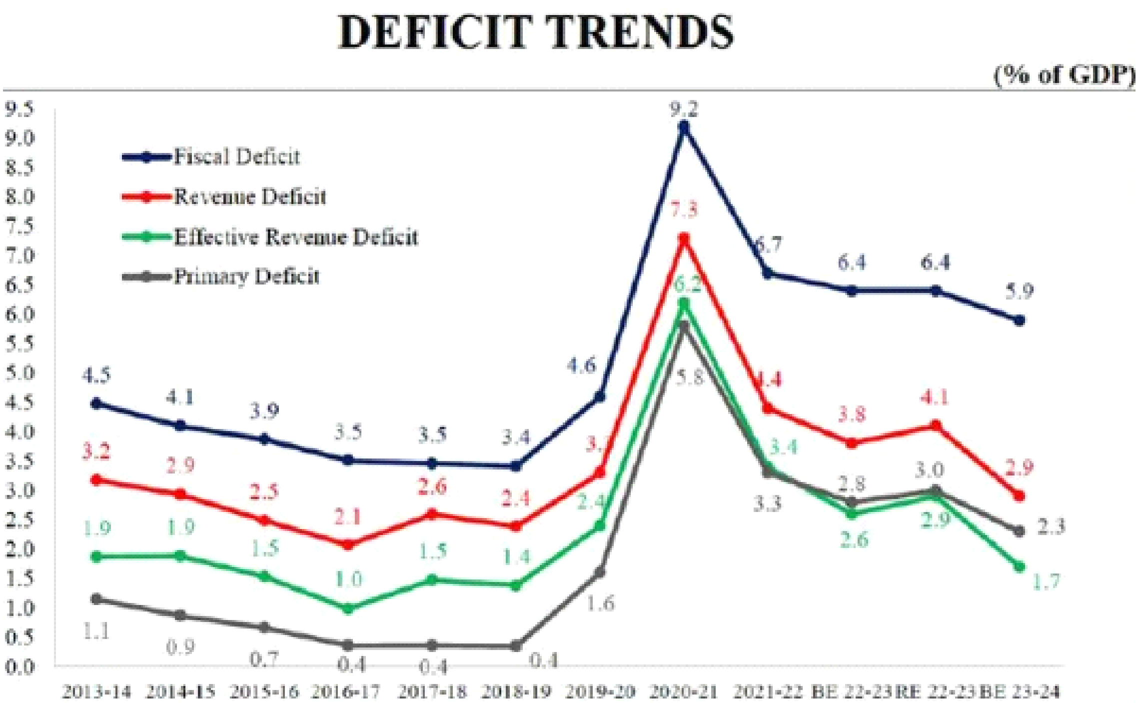
- Effective Revenue Deficit
    - ERD= Revenue Deficit — Grants for Creation Of Capital Assets.
    - Rangarajan Committee in 2011

- Fiscal Deficit
    - FD= Total Expenditure — Non debt creating receipt
    - Borrowing done by Govt

- Primary Deficit
    - PD = Fiscal deficit — Interest Payment.
    - Better because it shows better number of current year expenditure

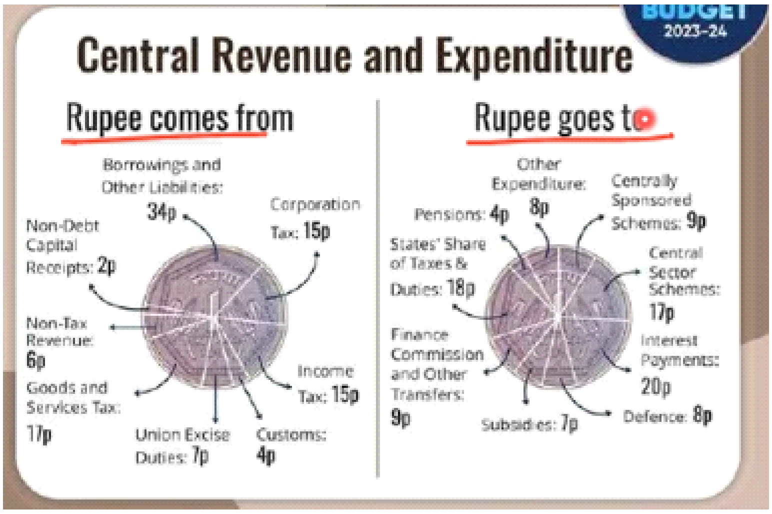
- Budget Deficit (Not used)
    - BD = Total Expenditure — Total Receipts.
    - Gap bw Expenditure and Receipts Borrowing
    - This gap is collected by selling bonds : Monetized Deficit

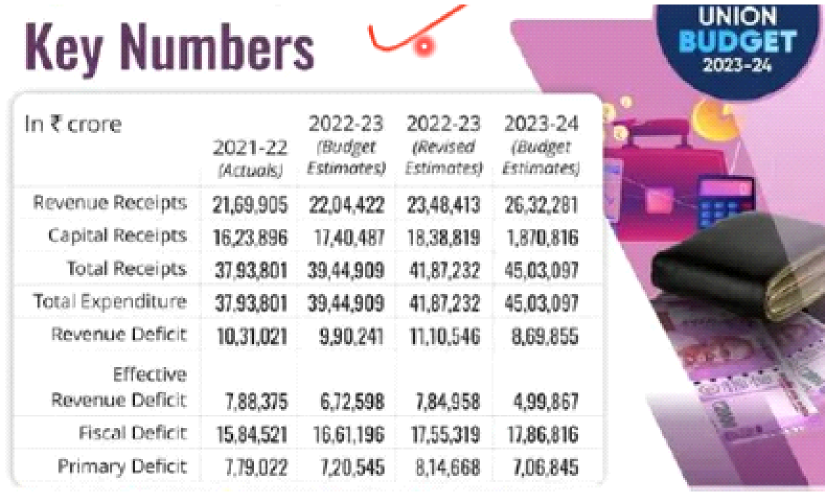
- Monetized Deficit (Not used)



    - Post 1997 Fiscal removed, Budget Introduced
    - Ost 2003 Monetized Deficit removed
    - FD target -> 3% (Borrowing for capital creation)
    - RD Target -> 0%

Trends





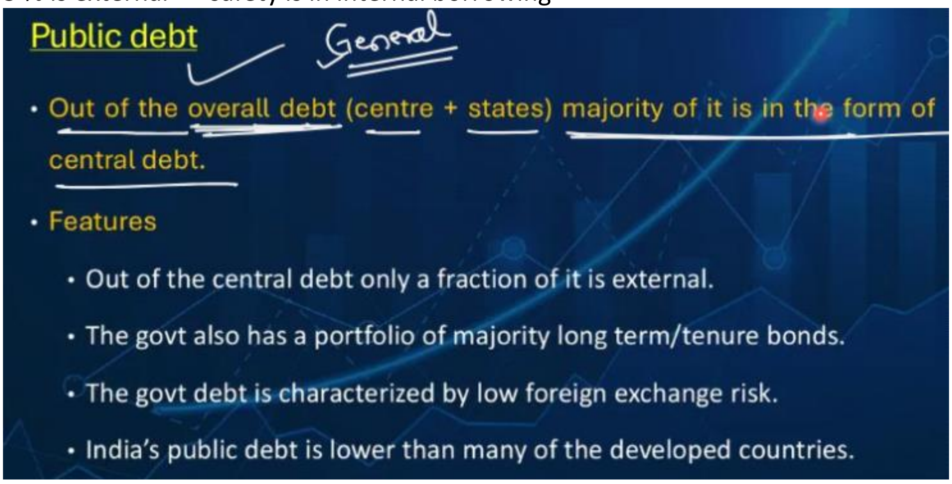
Key Numbers

UNION BUDGET 2023-24

In ₹ crore	2021-22 (Actuals)	2022-23 (Budget Estimates)	2022-23 (Revised Estimates)	2023-24 (Budget Estimates)
Revenue Receipts	21,69,905	22,04,422	23,48,413	26,32,281
Capital Receipts	16,23,896	17,40,487	18,38,819	1,870,816
Total Receipts	37,93,801	39,44,909	41,87,232	45,03,097
Total Expenditure	37,93,801	39,44,909	41,87,232	45,03,097
Revenue Deficit	10,31,021	9,90,241	11,10,546	8,69,855
Effective Revenue Deficit	7,88,375	6,72,598	7,84,958	4,99,867
Fiscal Deficit	15,84,521	16,61,196	17,55,319	17,86,816
Primary Deficit	7,79,022	7,20,545	8,14,668	7,06,845

Concepts

- Public Debt
  - How much money Govt of India need to repay and is charged on consolidated fund of India
  - Internal (RBI) and External (Money from Asian Development Bank, World bank)
  - Over period accumulation of fiscal deficit which are yet to repay
  - 5 % is external - > safety is in internal borrowing



- Extra Budgetary Resources
  - Off Budget Borrowing / Liability : Extra Budgetary Resources (Not from budget)
  - Can be used to show lower number in Fiscal Deficit / Receipt
  - Government will have to repay this Liability

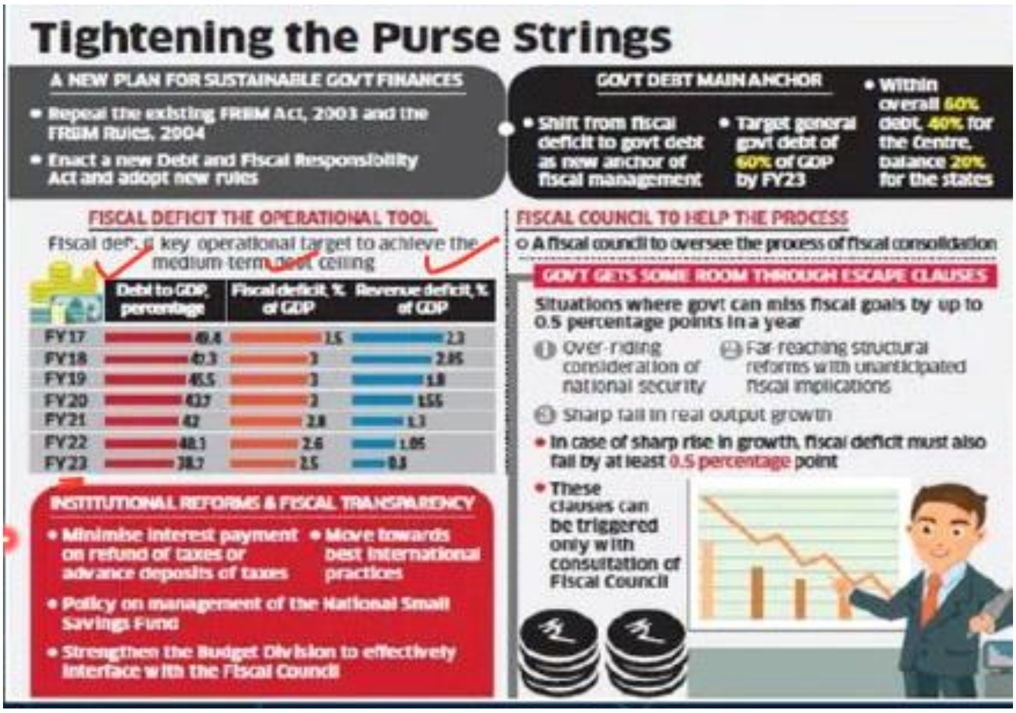
- Public Account
  - No Parliament approval needed to take money out
  - EX : Sukanya Samrddhi Yojna, PPF

	• Government has liability to pay it • Total Liability = Public Debt + Extra Budgetary Resources + public Account

FRBMA	**FRBM (Fiscal Responsibility & Budget Management Act)**
	• Reduce the FD to not more than 3% and RD = 0%
	• Reduce the FD and RD by 0.3% and 0.5% per year
	• The deficits are allowed to exceed targets only under certain circumstances
	• The Reserve Bank of India must not subscribe to the primary issues of g-sec
	
	• Inter Generational Parity : Control to not overloading Deficit for next generation
	• FRBM started in 2002
	
	• Macroeconomic Framework Statement
	  • Assess growth prospects for the economy.
	  • The statement contains an overview of the economy.
	  • Includes assessment regarding the GDP growth rate, fiscal balance of the central government and the external sector balance of the economy.
	  • Monetary management and financial intermediation, banking sector, agriculture and industry are also covered by the statement.
	• Fiscal Policy Strategy Statement
	  • Strategic priorities of the government in the fiscal area relating to taxation, expenditure, lending and investments, administered pricing, borrowings and guarantees.
	
	• Medium Term Fiscal Policy Statement – 3 year rolling targets
	  • Fiscal Deficit
	  • Revenue Deficit
	  • Primary Deficit
	  • Tax Revenue
	  • Non-tax Revenue
	  • Central Government Debt
	
	• Rolling Target : Revising target as er time

N K Singh Committee Recommendation	• FRBM Review Committee in 2016 -> Revamp and revise FRBM (Old 2002) • Recommended using debt as the primary target for fiscal policy and a debt to GDP ratio of 60% should be targeted by 2023 (40% limit for the centre and 20% limit for the states). • To achieve the targeted ratio, yearly targets have been proposed to progressively reduce the fiscal and revenue deficits till 2023. Autonomous Fiscal Council • Preparing multi-year fiscal forecasts. • Recommending changes to the fiscal strategy.

- To review effect of new policies on deficit
- Not appointed any council till now -> Can impact policies of india



L16 Financial Commission, Financial Market

02 October 2024 10:18 AM

Financial Commission

- Constitutional Authority, Appointed through President of India, Advisory in nature
- 14th FC -> 2015-2020
  15th FC -> 2020-20201 & 2021-2026
  16th FC -> Arvind Panagariya (Chairman of FC)

- Set up under article 280.
- Set up by the President every fifth year.
- Consists of 5 members
  - 1 chairman+4 members
- Terms of reference (ToR)
  - Distribution of taxes between centre and states.
  - Principles governing grant-in-aid to states by the centre.
  - Measures needed to augment consolidated fund.
  - Any other matters referred to it.

- 7th Schedule -> Tax Distribution
  - Cesses Surcharges -> (C 59% + S 41%) Vertical Devolution formula
    - Central Divisible Pool
    - Vertical Imbalance : Centre collecting more tax
    - 14th Commission : To reduce dependency of State on Centre 32->42
    - 15th -> Adjusted as JK -> 2 UTs
    -

Finance Commission	Share of states out of central divisible pool
11th	29.5%
12th	30.5%
13th	32.0%
14th	42.0%
15th	41.0%

  - S (41%) -> 29 States (Horizontal devolution Formula)
    - Horizontal Imbalance : among the states

Formula for Horizontal Devolution

- Horizontal Devolution
- Gross domestic Income of State for last 3 years and distance calculated from rank from top to bottom

Criteria	12th FC	13th FC	14th FC	15th FC
Population (1971)	25%	25%	17.5%	
Population (2011)			10%	15%
Area	10%	10%	15%	15%
Forest Cover			7.5%	10% (F&E)
Income Distance	50%		50%	45%
Fiscal Capacity Distance		47.5%		
Tax effort	7.5%			2.5% (T&FE)
Fiscal Discipline	7.5%	17.5%		
Demographic performance				12.5%
Total	100%	100%	100%	100%

15th FC – recommendations - Horizontal devolution

Criteria	Weight (%)
Population	15.0%
Area	15.0%
Forest & Ecology	10.0%
Income distance	45.0%
Tax & fiscal efforts	02.5%
Demographic performance	12.5%
Total	100%

15th FC – How the funds would be given

Total transfer to states	₹ 100 Cr
Population	Weightage = 40% (₹ 40 Cr)
Area	Weightage = 60% (₹ 60 Cr)
State 1	Population of 30% (₹ 12 Cr); Area of 20% (₹ 12 Cr)
State 2	Population of 70% (₹ 28 Cr); Area of 80% (₹ 48 Cr)

Grants and Roadmap

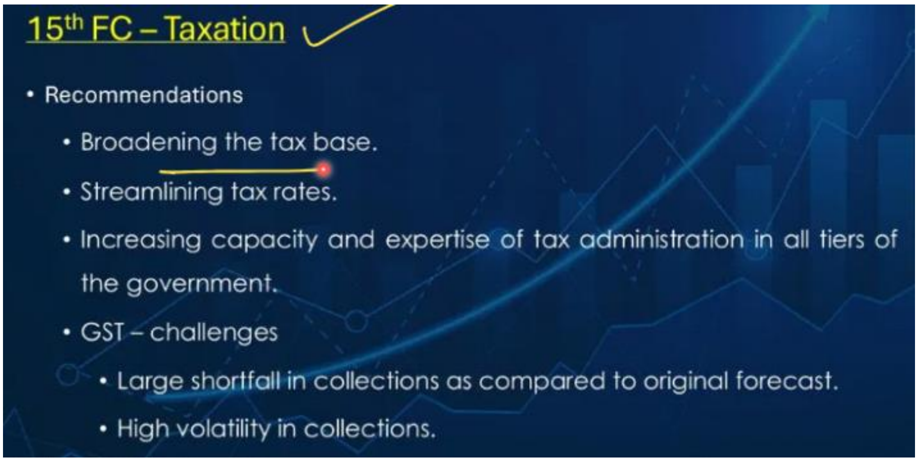
15th FC – Grant in Aid

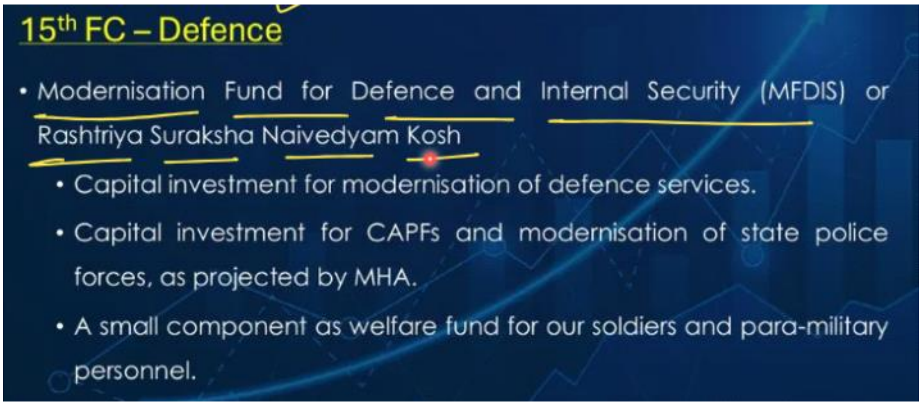
- Revenue Deficit Grant – ₹ 2.9 lakh Cr for 17 states
- Sector Specific Grant – ₹ 1.3 lakh Cr for 8 sectors (Health, school & higher education Agriculture, PMGSY roads, judiciary etc.).
- State Specific Grant – ₹ 49599 Cr
- Grants to local bodies – over ₹ 4.3 lakh Cr
- Grants for Disaster management – ₹ 1.6 lakh Cr

- Asked to give recommendation to State to reduce deficit

15th FC – Fiscal Roadmap

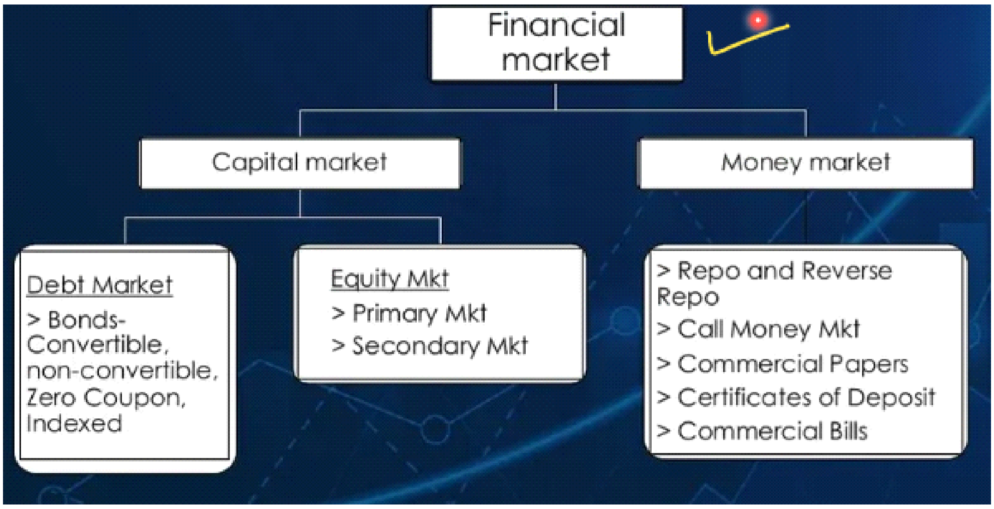
- The states and centre should stick to the debt levels recommended by the FRBM act.
- Full disclosures and elimination of extra budgetary borrowings.
- Expert panel to recommend framework for sound public financial management system.



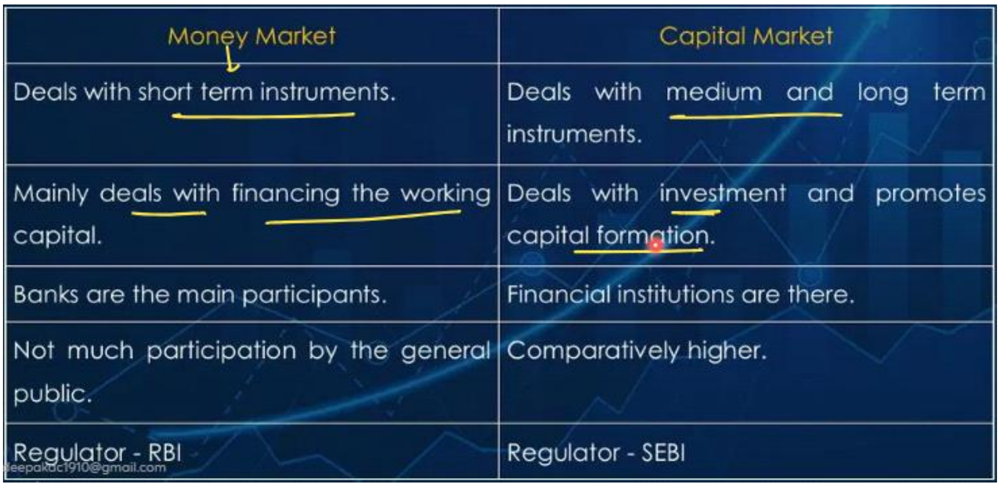


Financial Market

- Place where money will from one side (Surplus) to other side (Deficit)
- Financial Market where Financial instrument are issued and traded



- Working Capital : Day to Day Expenditure (Like Raw Material, Wages)
    - Money Market -> Borrowing done for shorter duration (less than 1 year)
- Capital Expenditure : Investment : Durable in Nature (Like Machines)
    - Capital Market -> Borrowing for more than 1 year borrowing



Money Market	Capital Market
Deals with short term instruments.	Deals with medium and long term instruments.
Mainly deals with financing the working capital.	Deals with investment and promotes capital formation.
Banks are the main participants.	Financial institutions are there.
Not much participation by the general public.	Comparatively higher.
Regulator - RBI	Regulator - SEBI

Money Market

- Short Duration

- Repo : RBI give Short Term Loan to Bank
  Reverse Repo : Bank gives short term loan to RBI

- Call Money Market : Bank gives short term loan to other Bank
    - Duration 1 night : call money, 7 days : Notice Money
    - Interest Rate = Call money Rate
    - Call money rate ↑ -> Bank prefer Certificate Deposits ↓

- Commercial Papers : Borrowing money for months, Less rate -> Borrow short term Instrument
    - Only allowed for company with very good credit rating
    - Unsecured Instruments
    - Bridge Financing : a short-term loan that helps bridge the gap between when funds are needed and when long-term financing is available

    - Zero Coupon Instruments : Issued at discount and redeemed at Par
        - Face value is given upon maturity, Interest is not calculated
        - Ex : Treasury Bills, Commercial Papers

- Certificate of Deposits : Borrowing done by Banks
    - Negotiable instrument : transferable / Tradeable

- Commercial Bill : Tarde is done by Credit basis
    - Bill discounting : Bank take commercial bill before mature at less price
    - TReDS Trade Receivable e-Discounting System

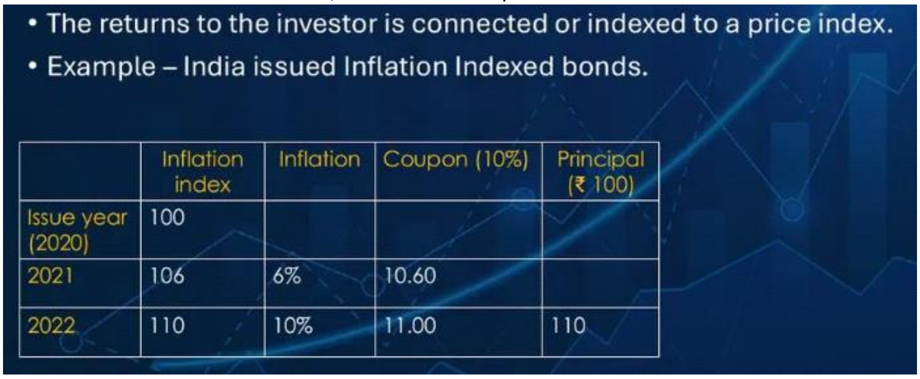
Debt Capital Market

- Company Borrows Money -> Company is in Debt (liability)
- Bonds, Coupons etc

- **Convertible Bonds** : Can convert into debt to Equity,
    - Sells Bond Instrument -> It can be converted into share
- **Non-Convertible Bonds** : Issued as Bond -> Can only matured as Bond
    - Example Govt Bonds

1. Zero Coupon Bonds : Sells at Discount price -> redeemed at face value

2. Indexed Bonds : inflation adjusted bond
    - Deflation is not calculated, base value is kept



	Inflation index	Inflation	Coupon (10%)	Principal (₹ 100)
Issue year (2020)	100			
2021	106	6%	10.60	
2022	110	10%	11.00	110

3. Sovereign Gold Bonds : Instrument value is connected to gold
    - India is 2nd largest consumer of gold
    - Maturity -> return average gold price of 3 preceding dates
    - Locking Period : After period you can sell it

- Are G-Secs issued in the form of gold
- Invest in gold bonds rather than physical gold.
- Are issued in grams of gold (minimum 1 gram of gold).
- Bonds are sold through offices or branches of Nationalised Banks, Scheduled Private Banks, Scheduled Foreign Banks, designated post offices etc.
- The bonds bear interest at a fixed rate of 2.50% per annum on the amount of initial investment.
- These securities are eligible to be used as collateral for loans from banks, financial institutions and Non-Banking Financial Companies (NBFCs).

4. Sovereign Green Bonds : related to environment friendly project
    - Greenium = Green + Premium : Lesser Interest rate
    - Premium Value : High Value paid than Face value which decrease the Maturity value

- Are debt instruments used to raise funds for green/environment friendly projects.
- These instruments can be issued by
    - Government
    - Government owned entities
    - Private sector companies
    - Multilateral organizations
- Funds raised through this route is earmarked for only such projects.

- Usage
    - Renewable and sustainable energy (wind, solar etc.)
    - Clean transportation (mass transportation)
    - Sustainable water management (clean and/or drinking water, water recycling etc)
    - Climate change adaptation
    - Energy efficiency (efficient and green buildings)
    - Sustainable waste management (recycling, waste to energy etc.)
    - Biodiversity conservation etc

5. Masala Bond :
    - Some Indian Company can attract FDI -> External Commercial Borrowing ECB
    - Can borrow in domestic / foreign Currency
    - Better use domestic -> Rupee lost value bc of depreciation
    - Masala name represent India, hence the name

- Bonds issued in the overseas market.
- These are issued and repaid in rupee (rupee denominated).
- RBI mandates that the original maturity period is of three years for investment up to $ 50 mn equivalent in INR per financial year and five years for above $ 50 mn equivalent in INR.
- The exchange rate risk is borne by the investor.

- Issues
    - Corporate bind is not well established -> As govt bond are more secured and reliable
    - Resell value of govt bond is high as compared to the corporate bond in secondary market

	
Capital Equity Market	• Equity Money • Company collect money by sharing ownership • Primary market and secondary markets

L17 Equity Market

03 October 2024 09:24 AM

<table>
<tr>
<td>Capital Equity Market</td>
<td>

- Equity Money
    - Company collect money by sharing ownership
    - Primary market and secondary markets

</td>
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<tr>
<td>Share and Equity</td>
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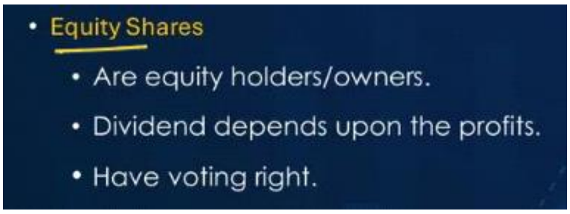
- Share -> Sell the ownership of company and collect funds from market
- Equity / Stake -> Percentage of ownership in company, as holding shares
    - More than 51% stakes -> You can take decisions

- Shares Types :



- Profit ↑ Dividend ↑

- First preference to this holders, to give fixed dividends
- Hybrid Instrument : Mix of feature Equity + Debt

- Equity Types
    - Plain Vanilla : All are equal
    - Differential : Different voting right

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<td>IPO Initial Public Offering</td>
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- Sell the share for the first time in public
- Primary Market : Where new Instrument are issued
- Company become Listed Company / Publicly Traded Company

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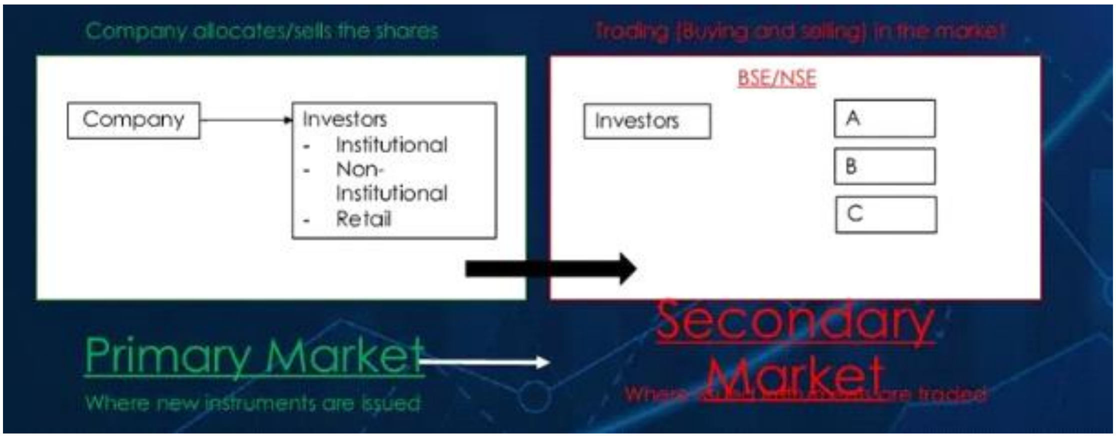
• an unlisted company issues shares for the first time to the public
• Once this is done, the company will be referred to as a listed company



• ASBA : Application supported by Block Amount
Used in case share is allocated to person and he does not have amount to pay in moment
This amount is later deducted from the account

• Minimum Public Float Requirement :
    • When going for IPO, Minium 25% of share need to be make public.

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<tr>
<td>FPO Follow on Public Offering</td>
<td>

• Subsequent issue after IPO is completed -> Secondary Market
• Listed company issues shares

• Traditionally : Profit is booked when Buy at Low -> Sell at High
• Short Selling : Profit is booked when Sell at High -> Buy at Low
    • Borrowing of shares
    • Covered : Borrow the share and short selling
    • Naked : Yet to borrow and share, Banned

• Share Pledging : Loan from bank in return of share

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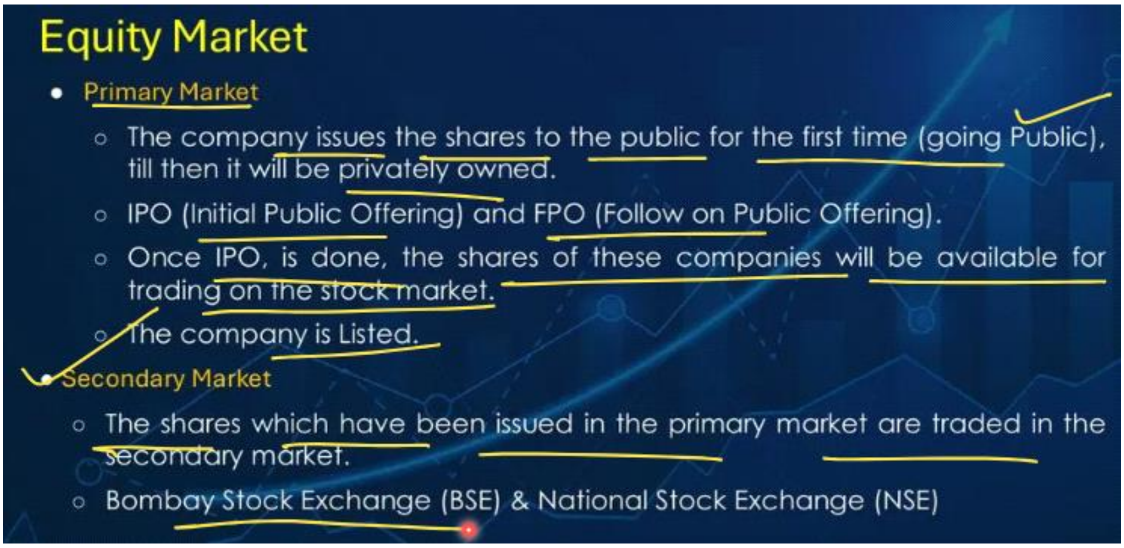
<tr>
<td>Equity market</td>
<td>



• BSE : Sensex (Sensitivity Index)
    ○ Very old and comprise of 30 Companies of Market Capitalization
    ○ Use Base year to compare and gives point
• NSE : Nifty (NSE + Fifty)
    ○ Use 50 Companies

</td>
</tr>
</table>

	• Bulls : Traditional Traders, Profit when rising Market • Bears : Short Seller Traders, Profit when dropping market

Derivative	• Instruments which do not have individual value, drive value from some underlying assets
	• Gold, metal, Agriculture can be assets
	
	• Futures and Options :
	    • Market price of commodity at time of maturity derives the price of instrument,
	    • Formally traded in the market
	• Informal OTC :
	    • Traded bw two parties informally without help of market

T+1 Settlement	• Investor and company agreed transfer is settled • In next 24 hours the transaction has to settled • Before it was T+3, t+2 -> planning to move to T+0 (Instant Settlement)
P2P	• P2P : Peer to Peer lending market place • Buyer and service provide will meet • e-commerce companies use P2P

ECB External Commercial Borrowing	• ECB refers to the debt taken from the external market from borrowers from India.
	• The borrowing (issuing bonds, taking loan can be in the form of domestic and foreign currency
	• All the entities which are eligible to receive foreign direct investment (FDI) can use this route
	• Eligible borrowers can raise up to $750 mn or equivalent per year under the ECB.
	• Advantages
	    • It allows the Indian companies access to capital.
	    • The rate of interest is also lower compared to domestic rates.
	    • Will help the companies to import machinery
	• Masala Binds are part of ECB
	• Disadvantages
	    ◦ Volatility in the exchange rate is a concern.
	    ◦ As the credit is available at cheaper rates, the companies may not use the funds efficiently
	    ◦ Will increase the dependency on such foreign funds.
	    ◦ Very high borrowings in the form of debt is usually viewed negatively in the market.

P Notes	• Participatory notes also referred to as P-Notes, or PNs. • These are financial instruments used by the foreign investors to invest in Indian securities market. • These foreign investors need not register with the Securities and Exchange Board of India (SEBI). • P-Notes are among the group of investments considered to be Offshore Derivative Investments (ODIs).

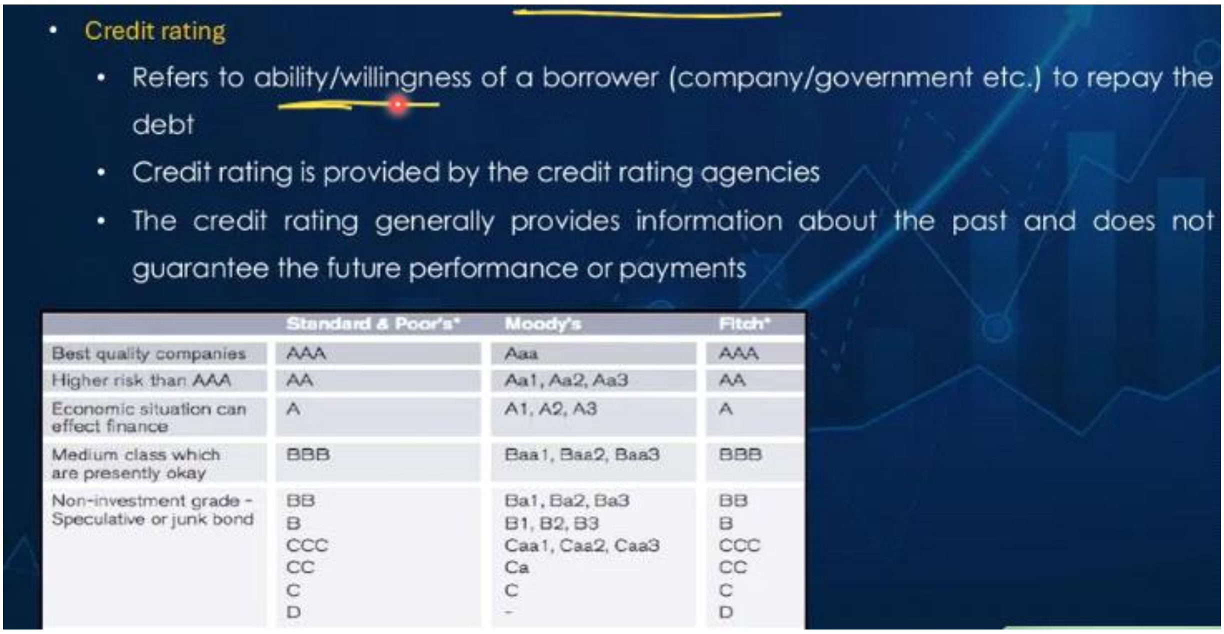
	X Investments P - Note Foreign Institutional Investor Invest in Indian stock market

L18 Credit rating, MF, ETF

03 October 2024 11:56 AM

Credit Rating

- Individual : Cibil Score
- Corporate : Credit Score
    - High Rating -> Good Borrower, Risk is lesser
    - Investment Grade : AAA, AA, A, BBB
    - Junk Grade : BB, B, CCC, CC, C , D



- Credit rating
    - Refers to ability/willingness of a borrower (company/government etc.) to repay the debt
    - Credit rating is provided by the credit rating agencies
    - The credit rating generally provides information about the past and does not guarantee the future performance or payments

	Standard & Poor's*	Moody's	Fitch*
Best quality companies	AAA	Aaa	AAA
Higher risk than AAA	AA	Aa1, Aa2, Aa3	AA
Economic situation can effect finance	A	A1, A2, A3	A
Medium class which are presently okay	BBB	Baa1, Baa2, Baa3	BBB
Non-investment grade - Speculative or junk bond	BB B CCC CC C D	Ba1, Ba2, Ba3 B1, B2, B3 Caa1, Caa2, Caa3 Ca C -	BB B CCC CC C D

- GOI Bonds has very low score
    - Chief Economic Advisor : Wrote to Scorer
        - India GDP high, Repaid all bonds, debt of govt is low
    - Sovereign credit rating company is biased toward developed country
        - Fiscal Deficit is high
    - Future issue in India
        - Underground water level decreasing

- Use of Credit Rating
    - Investors look for High rating Instrument for minimizing risk
    - Shows History of instrument in the market

- Criticism :
    - They are reactive not proactive
    - Down grading and Upgrading is done after the event took place

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<td>Mutual Funds</td>
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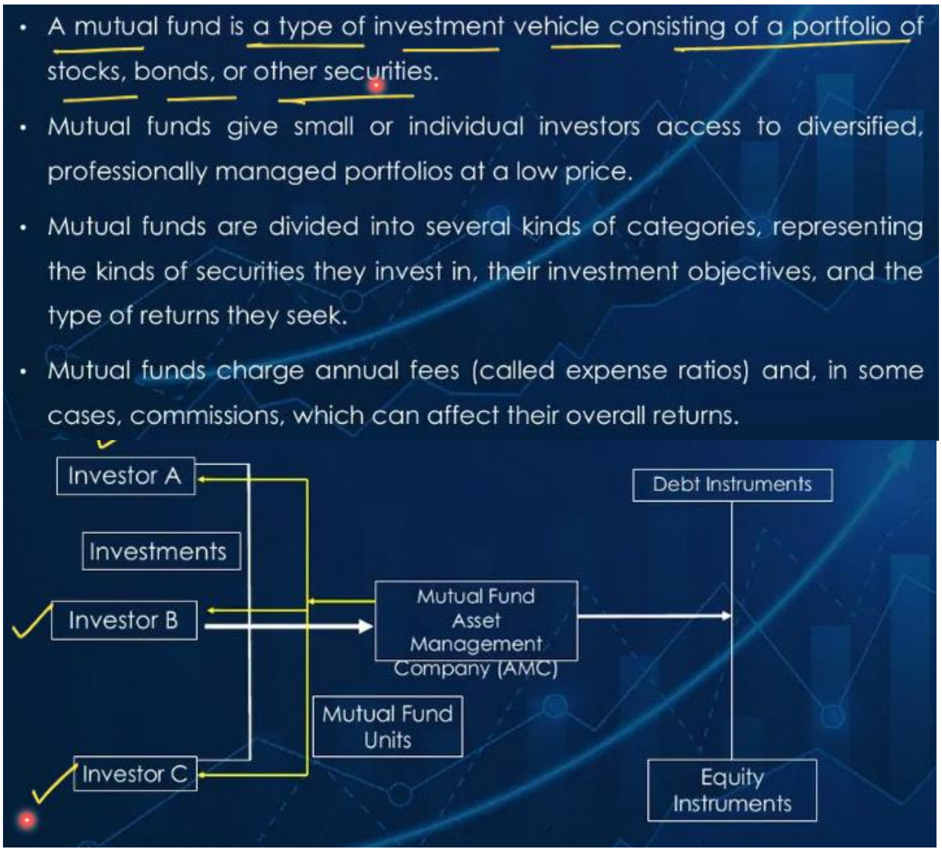

• Redemption : Open MF -> Closed MF
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<tr>
<td>Exchange Traded Funds ETF</td>
<td>
• Different shares packages as one product (Basket of Securitas)
• Equity ETF : Basket of Shares
• Debt ETF : Basket of Bonds
• Listed in the Market

• Equity ETF : Managed by AMC Assets Management Companies
• Central Public Sector Enterprise ETF and Bharat ETF

• Bond ETF : Club Bonds which have same maturity date.
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</table>

Bharat Bond ETF → debt = Bonds → PSEs

- BHARAT Bond ETF has fixed maturity period.
- It invests in high quality 'AAA' rated bonds of Public Sector Companies.
- It holds the bonds till their maturity and reinvest the coupons received.
- The fund will be managed by Edelweiss MF.
- 4 maturities - 2023, 2024, 2030 and 2031. C

L19 International Trade & PPP

03 October 2024 07:18 PM

International Tarde

- Indian Economy is Open Economy, Need to convert Domestic to Foreign currency and vis a versa

		What happens in India
Situation 1	Inflow of dollars 1) Exports 2) Foreign Tourists 3) Remittances 4) Inflow of Foreign investment	Dollars will have to be exchanged with rupees Dollar supply increases – value decreases Rupee demand increases – value increases
Situation 2	Outflow of dollars 1) Imports 2) Indians touring foreign countries 3) Foreign investors taking out money	Rupees will have to be exchanged with dollars Rupee supply increases – value decreases Dollar demand increases – value increases

Nominal Exchange rate NER

- Forex Marlet help in exchanging money
- Ex : Airport and Banks

- The conversion of one country's currency into that of another
- It is the minimum number of units of one country's currency required to purchase one unit of the other country's currency
- Types – Fixed and Floating
- Terms used
  - Fixed - Devaluation & Revaluation
  - Floating - Depreciation & Appreciation

1. Fixed Exchange :
   - Gold Standard Exchange Rate : Linking Currency amount to the gold rate
     - Not used anymore, Gold exchange and reserve was difficult
     - Now minimum Gold reserve is used
   - Devaluation : Value of rupee going down because govt changed the exchange rate
   - Revaluation : Government of India increasing the value

2. Floating : value depends on Supply and Demand
   - Appreciation and depreciation : moving of value of money

3. Mixed : Modified exchange rate : Combination of Fixed and Floating,
   - Example : India

	Today	After 1 year	Market forces	Done by the government
Example 1	$1 = ₹ 50	$1 = ₹ 60	Value of rupee has decreased (depreciation) Value of dollar has increased (appreciation)	Value of rupee has decreased (devaluation) Value of dollar has increased (revaluation)
Example 2	$1 = ₹ 50	$1 = ₹ 40	Value of rupee has increased (appreciation) Value of dollar has decreased (depreciation)	Value of rupee has increased (revaluation) Value of dollar has decreased (devaluation)

- Allegation on China -> To devalue its currency
    - China export -. Devaluation increases the exports
    - Net trade increase for chins

Exchange rate impact

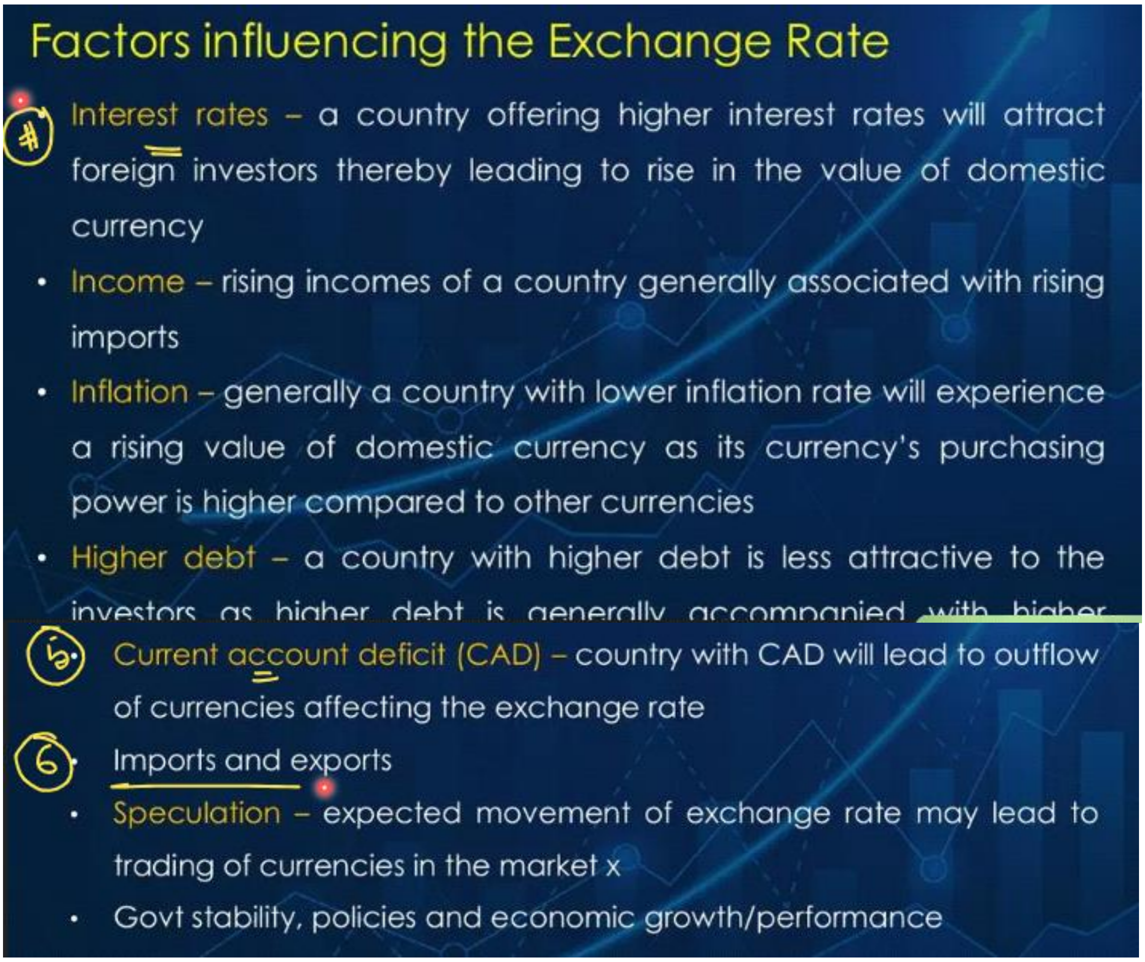
	Rupee Appreciation (or Revaluation) Today ($1 = ₹ 50) After 1 year ($1 = ₹ 40)	Rupee Depreciation (or Devalued) Today ($1 = ₹ 50) After 1 year ($1 = ₹ 60)
Imports	Will become Cheaper	Will become Costlier
Exports	Competitiveness will come down	Competitiveness will go up

- Modified Exchange Rate :
    - Stabilize the changes due to floating by managing exchange rate
    - Stabilizing -> leads to rise in money in Market -> Inflation
        - To suck out liquidity -> Govt sells bonds OMO
    - Also called as Dirty Float Method

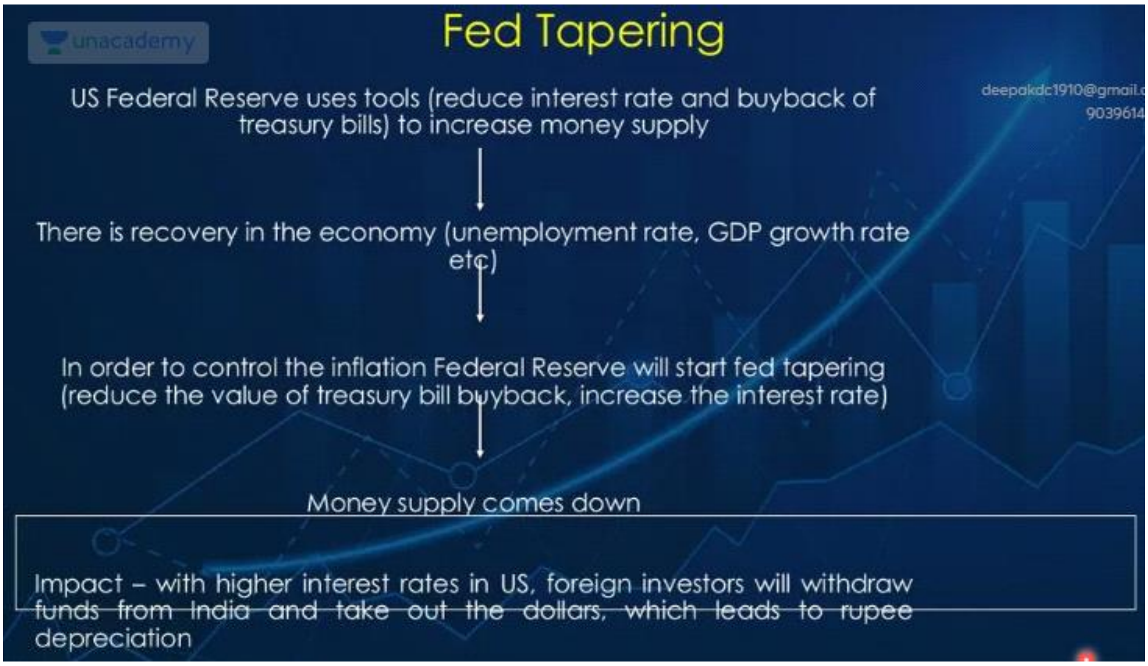
How does RBI stabilize the exchange rate

	Context	What does RBI do?	Impact
Rupee is Depreciating	Rupees are being exchanged with dollars; there's a continuous outflow of dollars	RBI sells dollars to the banks and purchases rupees from them for certain duration	1) Dollar supply increases 2) Rupee depreciation will be controlled 3) Excess liquidity will be taken out by RBI
Rupee is Appreciating	Dollars being exchanged with rupees; continuous inflow of dollars	RBI buys dollars from bank and gives it rupees for a certain duration	1) Dollar supply comes down 2) Rupee will be stabilized

Influence

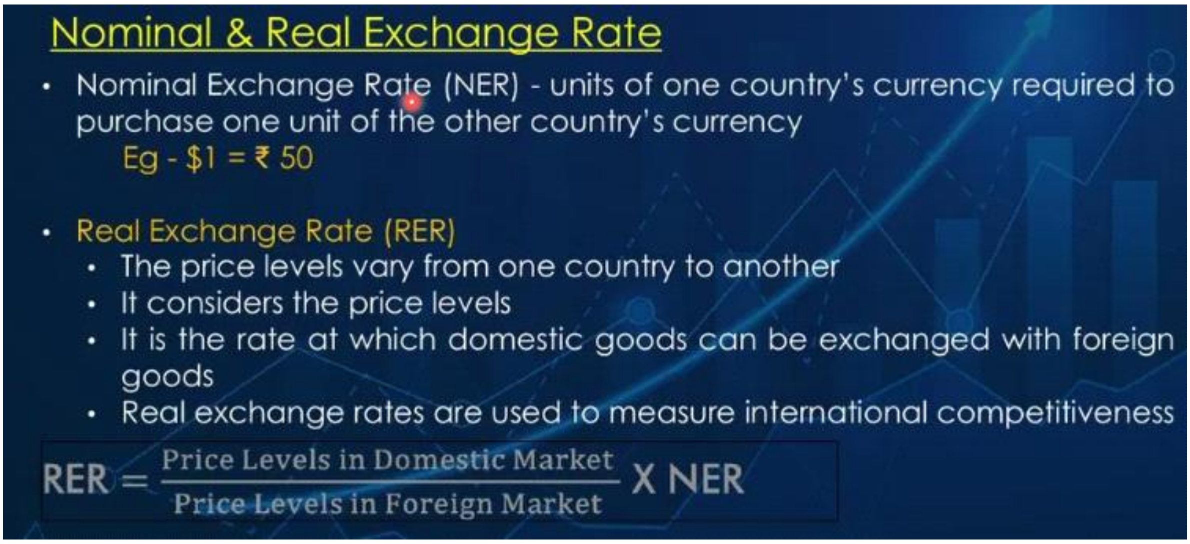


- Interest ↑ -> attract lots of investment
- Earn more Money ↑ -> Import ↑

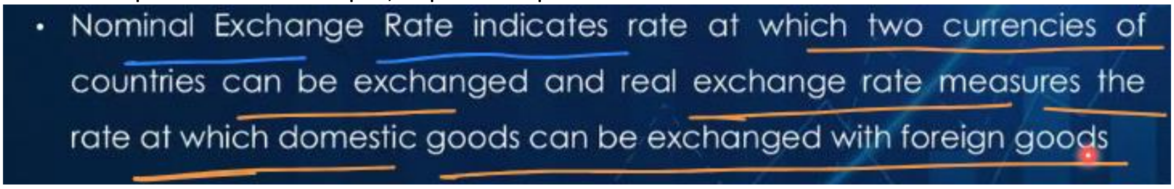


- Quantitative Easing : Monitory policy tools used to increase money supply
    - USA : Federal Funds Rate (Repo Rate in India)
    - Federal Funds Rate effect the Exchange arte in India

NEER & REER



- RER ↑ 1P India = 3P USA -> 1P India = 4P USA
- -> Import become cheaper, export competitiveness ↑



- If Conversation rate between Dollar and pound changes -> Effect NER and RER in India
- As India does trade with several different countries
- Calculated by giving weight to different country

- NEER : Nominal effective exchange rate : Always compare one currency to basket of currency
- REER : Comparison to Basket of several countries

- NEER Index ↑ -> Indian Money Appreciated
- REER Index ↑ -> Export is losing Competitiveness

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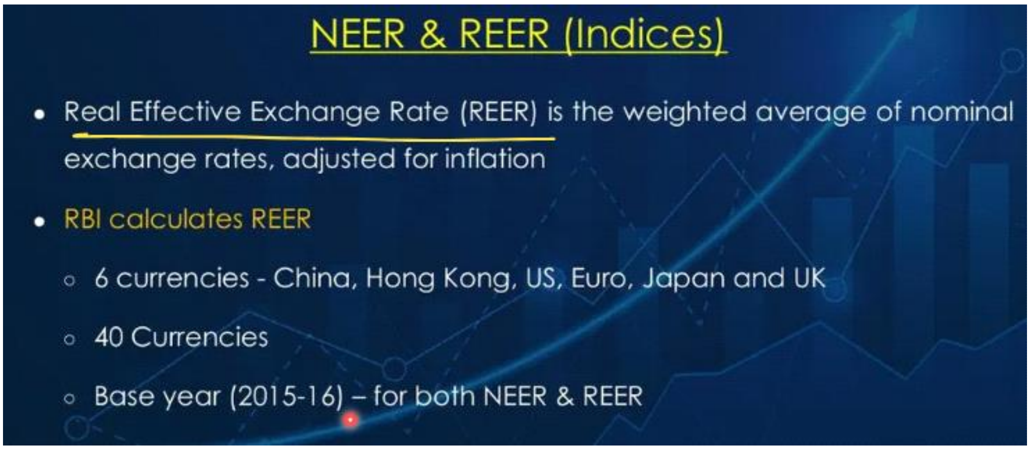

- 6 Currency Important, 40 All the currency

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<td>Purchasing Pawer Parity</td>
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- RER = 1 : Currency are at parity,
  - if Product cost 1 dollar in USA and 82 Rs in India
- PPP can be used to compare quality of life in different country -> Represent Quality of Life

- GDP :
  - 5th In country according to NER
  - 3rd largest according to PPP Exchange Rate

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L20 Balance of Payment

05 October 2024 08:37 PM

Balance of Payments

- India is Open Economy, -> large number of Import and export is happening
- Rbi is authority to keep all records of transaction -> Bop
- IMF also suggest 3rd Financial Account
  - RBI merge Financial account in Capital Account

	Revenue ($ coming in)	Expenditure ($ going out)
Current Account	Exports Investment Income Employee Compensation In remittances	Imports Investment Income Employee Compensation Out remittances
Capital Account	Foreign Loans Foreign Direct Investment (FDI) Foreign Institutional Investment (FII)	Foreign Loans Foreign Direct Investment (FDI) Foreign Institutional Investment (FII)

Current Account

- Export : Income from Merchandise and Services
- Investment : Bonds and Stocks
- Employee compensation : Employee working inside country and bringing money back
- Remittance : Sending back money to family
  - Visible : Merchandise
    Invisibles : Remittance, Investment, Compensation

Overall Trade

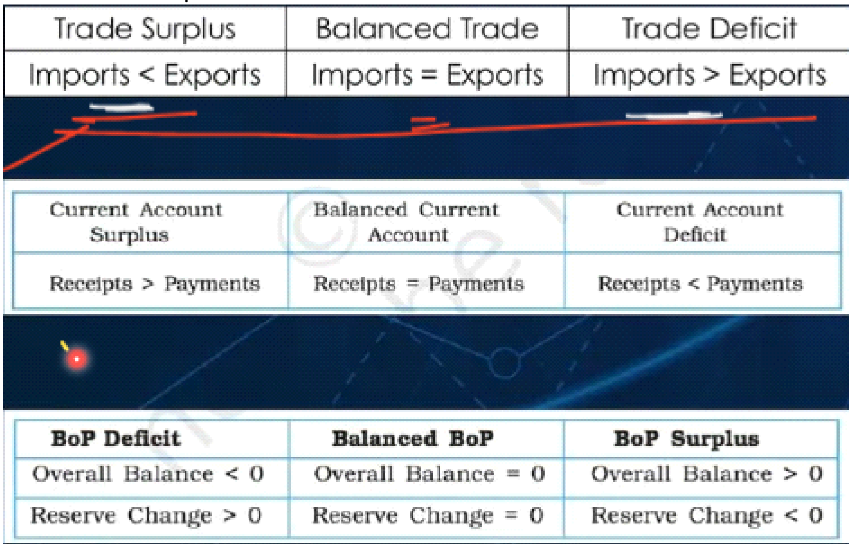
		April-February 2021-22 (USD Billion)	April-February 2020-21 (USD Billion)	April-February 2019-20 (USD Billion)	Growth vis-à-vis April-February 2020-21 (%)	Growth vis-à-vis April-February 2019-20 (%)
Merchandise	Exports	374.81	256.55	291.87	46.09	28.42
	Imports	550.56	345.54	443.24	59.33	24.21
	Trade Balance	**-175.75**	**-88.99**	**-151.37**	**-97.51**	**-16.11**
Services*	Exports	226.96	185.29	195.63	22.49	16.02
	Imports	132.45	105.26	118.18	25.83	12.07
	Net of Services	**94.51**	**80.03**	**77.45**	**18.09**	**22.03**
Overall Trade (Merchandise+ Services)*	Exports	601.77	441.84	487.50	36.19	23.44
	Imports	683.01	450.80	561.42	51.51	21.66
	Trade Balance	**-81.24**	**-8.95**	**-73.92**	**-807.24**	**-9.90**

** Note: The latest data for services sector released by RBI is for January 2022. The data for February 2022 is an estimation, which will be revised based on RBI's subsequent release. (ii) Data for 2019, 2020 and April to September 2021 are revised on pro-rata basis using quarterly balance of payments data.*

- India suffers from Merchandise trade deficit : We import more than export

	• India Experience surplus in Services • Overall : Trade Deficit, CAD Change ↓ -> Domestic currency depreciate↓ • RCEP : Trade agreement, regional Comprehensive Economic Participation • Because of China we moved out of, 15 country are part • BRICS : We joined only with no restriction and independence to choose with whom we can trade in domestic currency -> Due to presence of China • Essential : Lithium, Crude oil • Non Essential : Toys, Plastic electronic products

Capital Account	• Foreign Loan : ECB
	• Foreign Investment :
	    • FDI : Foreign Direct Investment : Physical Assets, Like Manufacturing
	    • FII : Foreign Institutional Institution : Financial assets like Financial Asset, Shares Bond

BOP Surplus / Deficit	• BOP Surplus : Expenditure > Revenue -> Forex reserve inc
	• BOP Deficit : Exp < Revenue -> Forex Reserve decreases
	
	
	• BOP Crisis -> Not having sufficient dollar in Forex reserve to pay from Forex reserve
	• Fault in payment -> Need to take loan from Other country or IMF International Monetary Fund
	• Generally Country adopt policy -> Devalue Currency
	    • Export become more competitive
	    • Import become costly -> demand ↓ -> Less rely on imports
	    • Foreign people can buy more assets in country -> more Income of dollars
	• Last time India -> 1991 Devaluation was used -> 1993 Floating Exchange rate you cannot devaluate currency (Only market value control the value)
	
	• Import Cover : Forex reserve / Import
	• Number of days we can import
	• Import Cover ↓ -> Cause of concerns could be because of inc in Import or dec in Forex reserve
	
	• Autonomous Transaction :
	    • Economic in nature (Done for earning Profit), Independent of BOP
	• Accommodating Transaction :
	    • Transaction done to adjust disequilibrium in BOP,
	    • EX : Sell dollars (Sale of official Forex Reserve by RBI)

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<tr><td>BOP Deficit</td><td>


• Promote Export > Decreasing Import

○ More development of Country , GDP ↑, More production -> more jobs

• Bretton Woods conference :

○ India participate during Currency war / Trade war

○ Create authority to control regulation -> Est. IMF and World Bank
</td></tr>
<tr><td>Convertibility</td><td>
• Allowed to current domestic <> Foreign currency

• No restriction -> Full Convertibility / Complete Convertibility

• Some restriction -> partial Convertibility

• LERMS : Dual Exchange Rate

• 60% Market Determined + 40% Govt Notified rate

• Now -> Floating Exchange Rate

• Full Convertibility (100% Market rate)

• Partial Account Convertibility : as If no restriction :

• Tax evasion

• Money laundering of Black money

• External Changes (Like : Fed rate) can affect -> To reduce Volatility of market

• We will slowly move to Complete capital account convertibility

• FAR : Fully Accessible Route (1 policy to move toward full)

○ Identify govt Bonds (5y, 10y, 30y, 14y) -> No Restriction

○ Govt will remove 30y and 14y as low number of people are interested

• Global Bond Indices : Multiple indices to track, By Bloomberg and JP morgan

• One with global bond of emerging economy-> India Bonds was not involved

• When Bonds will be included in EMBI

○ More investors will invested in passive funds

○ Some passive funds (Funds following the index) will move to India

○ More diversification of investors in India

○ More Forex Reserve -> Indian rupee appreciate

• Problem : Foreign investor are not relaible
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<tr><td>Import Export Policy</td><td>
• Policires created to control Import and Export with sunset provision

• Duration inc from 1 year -> 3 year -> 5 year
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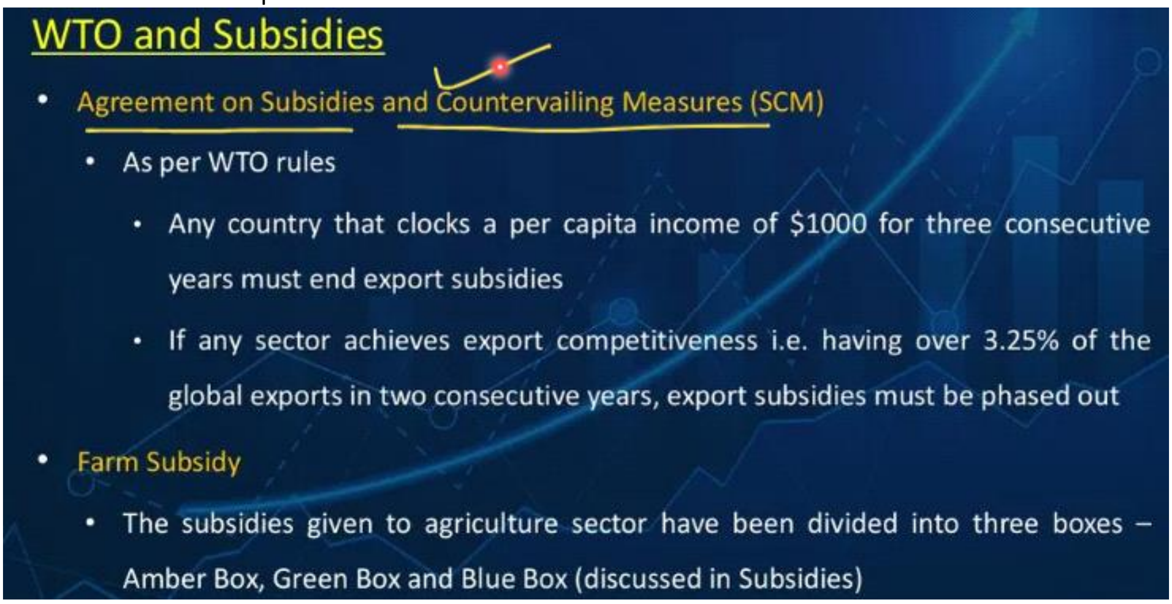
Foreign Trade Policy 2023	• Now there is no duration (No Sunset Provision) • Provide certainty in the market, Less Volatility -> no provision will endns after 5 years • Changes will be made at time of need of changes 

Incentivisation of Remission	• Export linked Subsidy : Subsidy depend on quantity of exports
	    ○ MEIS : Merchandise Exports from India Scheme
	    ○ SEIS : Service Exports from India Scheme
	
	• We are not allowed to provide Subsidies as India crossed GDP limit in 2013
	• India was forced to discontinue MEIS and SEIS -> MP ↑ -> Export Competitiveness ↓
	
	• India Started -> RoDTEP -> return of taxes on fuels -> MP ↓
	○ Remission of duty and taxes on Export Product
	○ USA Objected -> They think it is kind of Subsidies
	    ▪ But it is not export linked subsidies -> its returning the tax paid by them
	○ Not returning cash -> Use Duty Credit Script (Value has money)
	    ▪ Can be redeemed to pay customs to govt of India during import
	    ▪ Hard Copy -> Digital Duty Script with Expiry dates
	    ▪ Transferrable : Could be sell

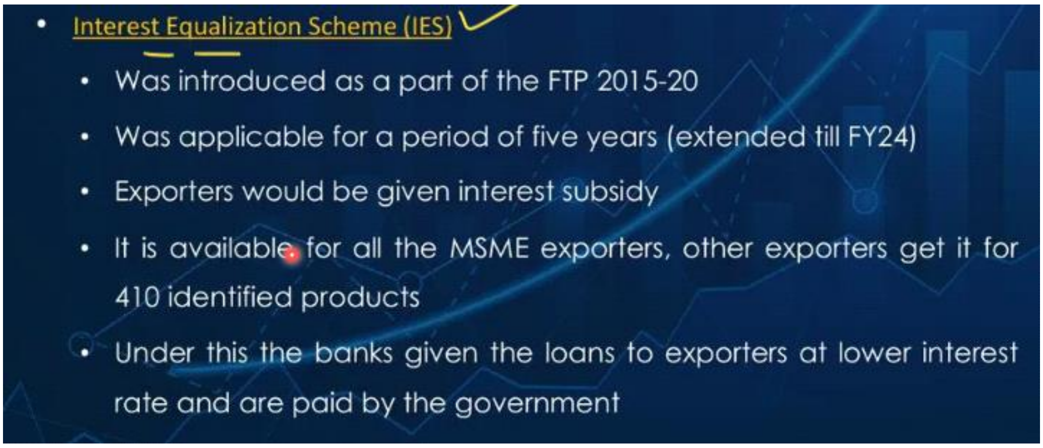
Key Pillars

- Ease of doing Business
    - Like land reforms
- Boost Manufacturing
    - Make in Idnai, Startup india
- Export Promotion Initiative
    - Facilitating Export from Districts
        - GI tag
        - One District One Product : Surat for diamond
    - Facilitating E commerce Exports
- Streamlining SCOMET Policy
    - Special Chemicals, Organisms, Materials, Equipment and Technologies

- PLI : Monetary Incentive by govt on meeting target

- Initially 3 -> expanded to 14 industries (Mobile, Solar Panels etc)
- Problems with PLI
    - Import Dependency and Govt India Tarif Policy on Import
    - Strict high level condition
    - Manufacturing or Assembling

- IES : Reduction of Interest rate as govt pay certain interest rate -> Interest rate ↓ -> MP ↓


Interest Equalization Scheme (IES)
Was introduced as a part of the FTP 2015-20
Was applicable for a period of five years (extended till FY24)
Exporters would be given interest subsidy
It is available for all the MSME exporters, other exporters get it for 410 identified products
Under this the banks given the loans to exporters at lower interest rate and are paid by the government

L21 World Trade Organisation

06 October 2024 02:36 AM

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<td>Bretton Woods Conference</td>
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- The two major accomplishments of the Bretton Woods conference were the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank.
- Twin Organisation : WTO + IMF
- International Tarde Organisation ITO : Not Established

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<td>GATT</td>
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- General Agreement on Tariff and Trades
- 1995 GATT -> WTO

- Moved away from GATT to WTO
  - It was a temporary agreement -> WTO was full-fledged organisation
  - WTO has wider aspect (more country)

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<td>World Trade Organization WTO</td>
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- Creation during Bretton woods Conference

- Structure
  - Ministerial Conference :
    - Meets every two years, every country will have representation
    - Come up with Charter (Highest Decision makers)
  - General Council :
    - Representation of all member country, For day to day issues
    - Act as Dispute settlement body or trade policy review Body

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<td>WTO Trade Barriers</td>
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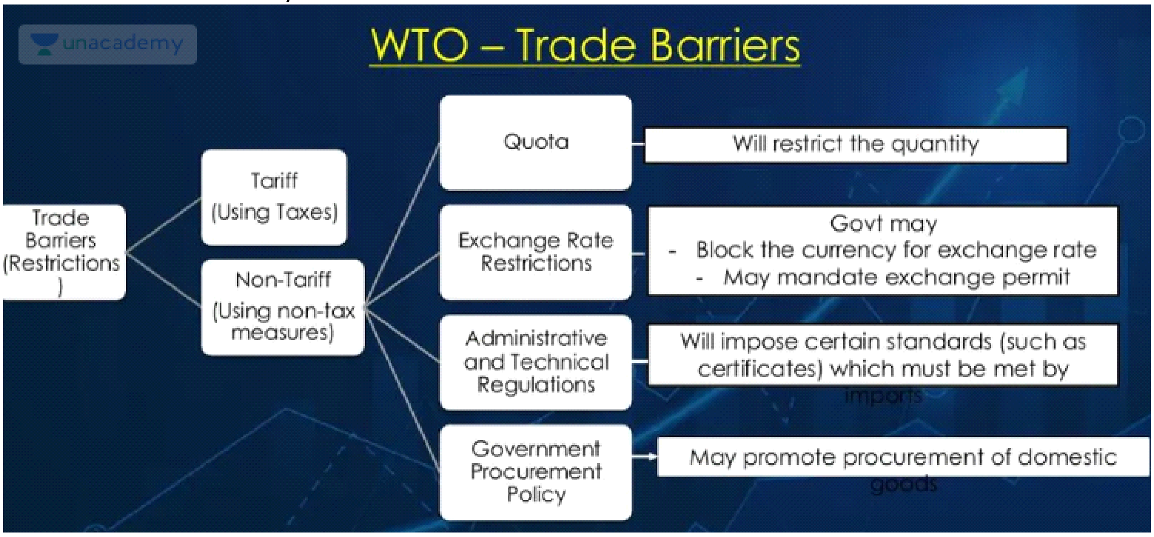
- Trade Barriers : There should be no restriction in trade
- Tariff : Imposing more taxes -> Restrict the trade
    - Onion Export -> Govt added tariff bc of concern of supply in India
    - Tariff -> Does not affect import -> just increase price
- Non-Tariff : Are more restrictive in nature
    - Adm. reg : QCO Quality Control Orders -> Certificate of non-harm
    - Govt Procure Policy : Promote domestic markets



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<td>WTO Principles</td>
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- GSP : Generalised System of Preferences
- Developed country -> extend certain benefit to developing country (reducing MFN rate)
    - Donor Country -> Beneficiary Country
    - Not Compulsory : Discretionary power of Developed Country
    - It violate MFN, but it is allowed
    - Trump withdraw GSP provided to India
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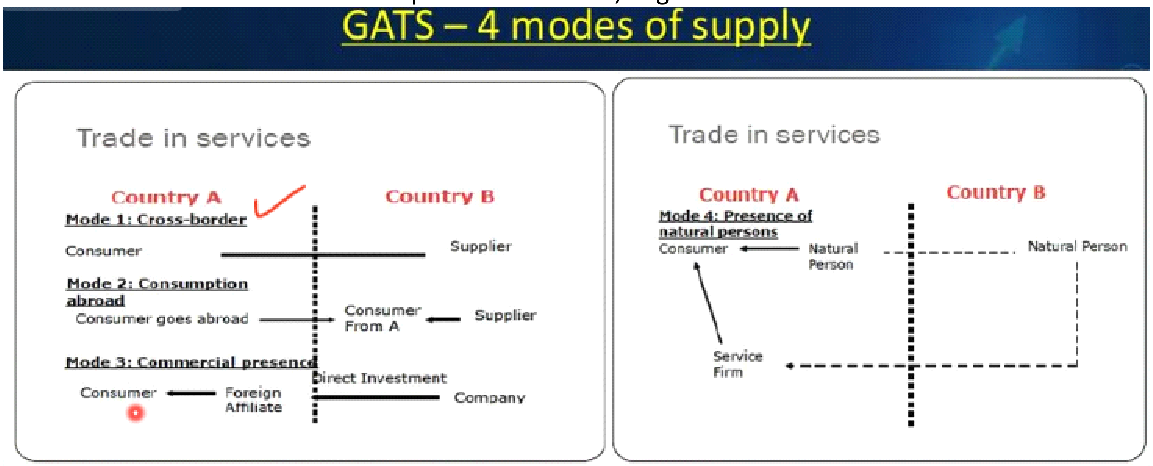
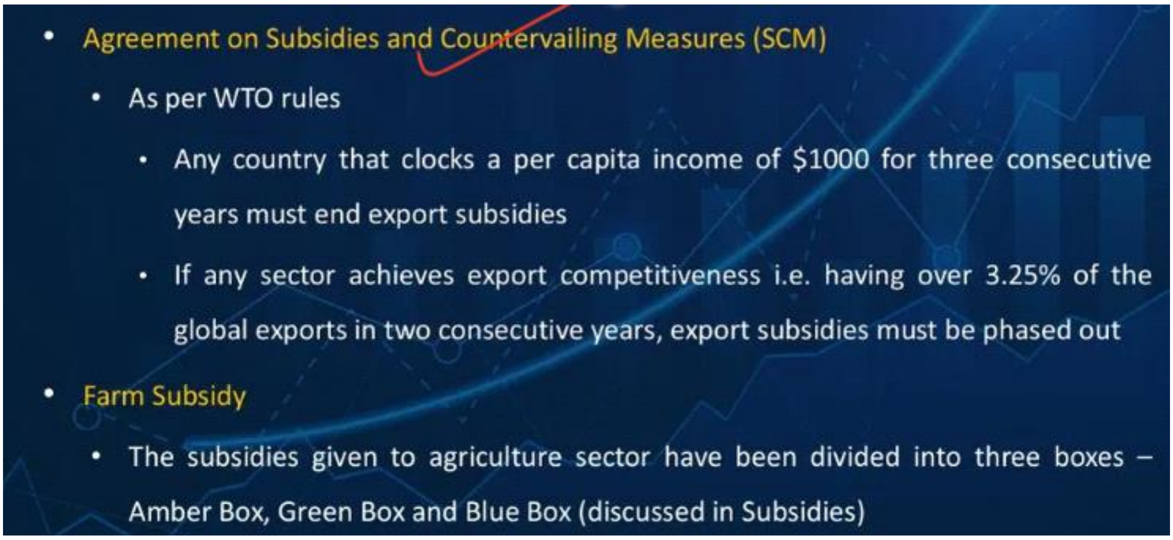
WTO Agreements

- GATS : National Treatment after crossing border
- 4 modes of International Service trades
  - Mode 1 : Cross Border -> Only services crosses border
  - Mode 2 : Consumption abroad -> Consumer cross border and consume
  - Mode 3 : Commercial Presence -> Provider cross border
  - Mode 4 : Presence of Natural persons -> Doctor, Yoga Chef work as individual

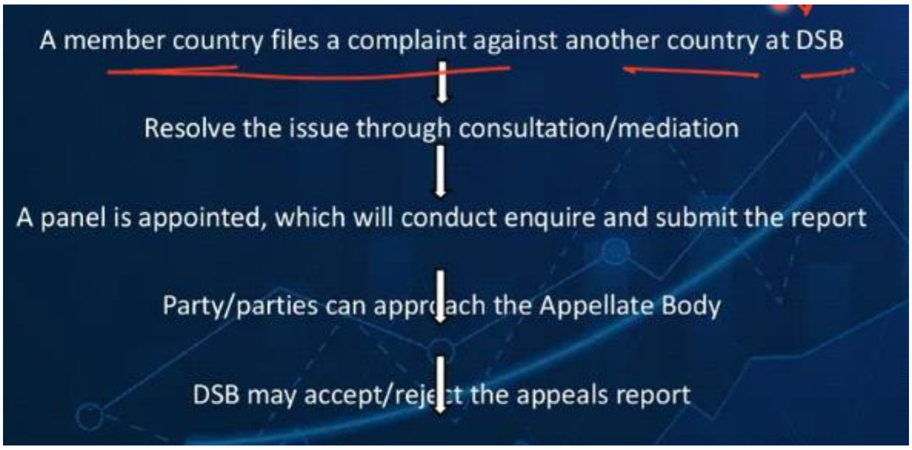


WTO Subsidies



Dispute Settlement

- General Council works as Dispute Settlement Body
- Appellate Body : If one of the country is not happy with report submitted
  - 7 Judges body with consensus of member
  - USA Against : Judge always favour developing country
- Negative Consensus -> All Country in against the report -> report rejected

	 • Report approve -> Lead to amending the policy

Problems in WTO	• Dispute Settlement not working
	  • Appellate Body crisis : United States has blocked the appointment of new judges to the Appellate Body for almost two years
	  • Longer case durations
	
	• Issues of Trade agreement : Individual member signing trade agreement with each other
	  • Disbalance the global trade
	  • Noodle Bowl : Agreement criss cross
	
	• Issues of Ministerial conference :
	  • Grouping happening between countries
	  • No final outcome -> Everything postponed
	
	• No proper classification of Developed or Developing Country
	  • Self-declaration is not reliable

L22 Economic Integration

06 October 2024 02:26 PM

ECONMIC INTEGRATION	• Grouping and eliminating barrier. Provide benefit inside group
	• Bilateral (2) or Multilateral
	
	• India has PTA with Chile and Afghanistan, etc. Benefit only on certain amount of trade
	• India has FTA with UAE, Australia, etc. Benefit on most of the trades
	
	• Positive List : Item under benefit of tarrif
	• Negative list : Not under benefit or tarrif
	
	• Early Harvest Trade Deal : With Australia
	    • Easy to arrive in agreement on certain amount which are not complex -> Easily Done
	    • Difficult to agree items takes time and will be taken after certain time
	
	• Comprehensive Economic Partnership Agreement CEPA
	• Comprehensive Economic Cooperative Agreement CECA
	    • Beyond the trade -> can include investment

Union	
India and FTA	• 16-18 Signed agreement -> But most of them have benefit to other countries - > India Trade Deficit ↑

- NITI Aayog has reported that
  - India's trade deficit with ASEAN increased from \$5 bn to \$10 bn between 2011 to 2017 and in the same duration the trade had increased from \$50 bn to \$70 bn
  - The trade deficit worsened in 13 out of 21 sectors
- Other issues
  - The FTAs have made the imports cheaper, thereby affecting domestic manufacturers
  - The imports have been much higher than exports

Issues faced by Indian exporters

- Higher cost of logistics
- Higher interest rate in domestic market compared to other countries
- Rising trade barriers
- Global slowdown and inflation in western markets

Success of FTA depends upon

- Competitiveness of the sector covered under it
- Removal of Non-Tariff Barriers (NTBs)
- Income of the countries with which the agreements are signed
- The relaxations provided under the trade agreement and MFN for other countries

- Rules of Origin : If want the benfiit, there should ve some value addition
  - Cannot just import and export same prodcut with benefit
  - India and UAE with Silver imported from UAE

L23 Subsidies

06 October 2024 05:46 PM

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<td>SUBSIDIES</td>
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- Subsidy - It is a benefit (cash/kind) provided by the government to a company/individual/family.
- Ex : PM Kisan Scheme, PMGKAY (5Kg of free food grains)

- Need : Promote social welfare, quality inputs

- MSP : announced for 27 crops (Cereals +pulses)
- Cereals have better return than pulses -> farmer produce more cereals (Water intensive / drain nitrogen)
- Whereas pulses fix nitrogen

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<td>Types</td>
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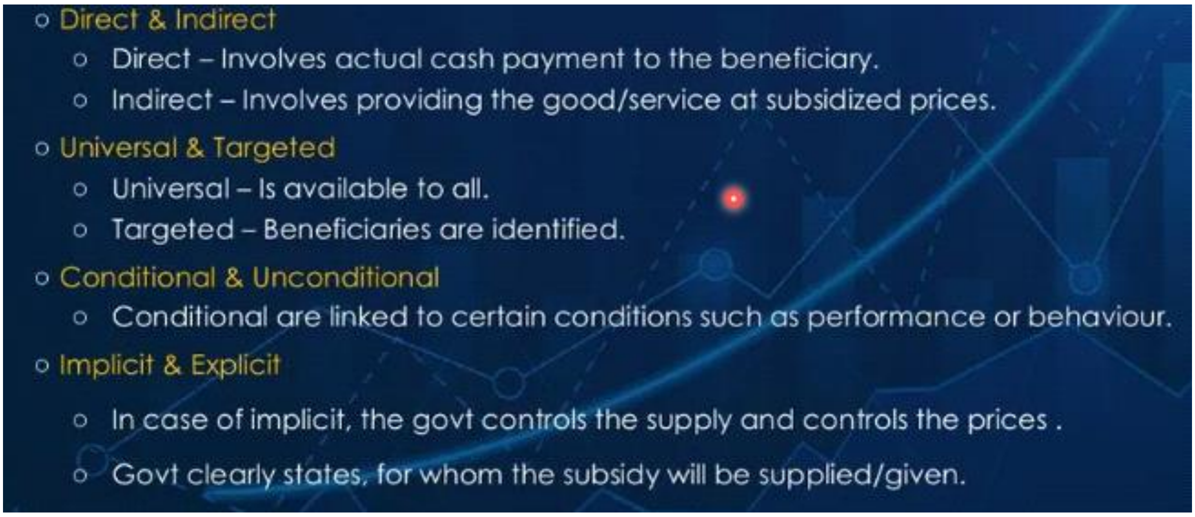

- Implicit : Money Is given, All Poor people schee where money is given
- Explicit : Govt reduce the price of commodity to assist poor people, Ex : General Class Ticket

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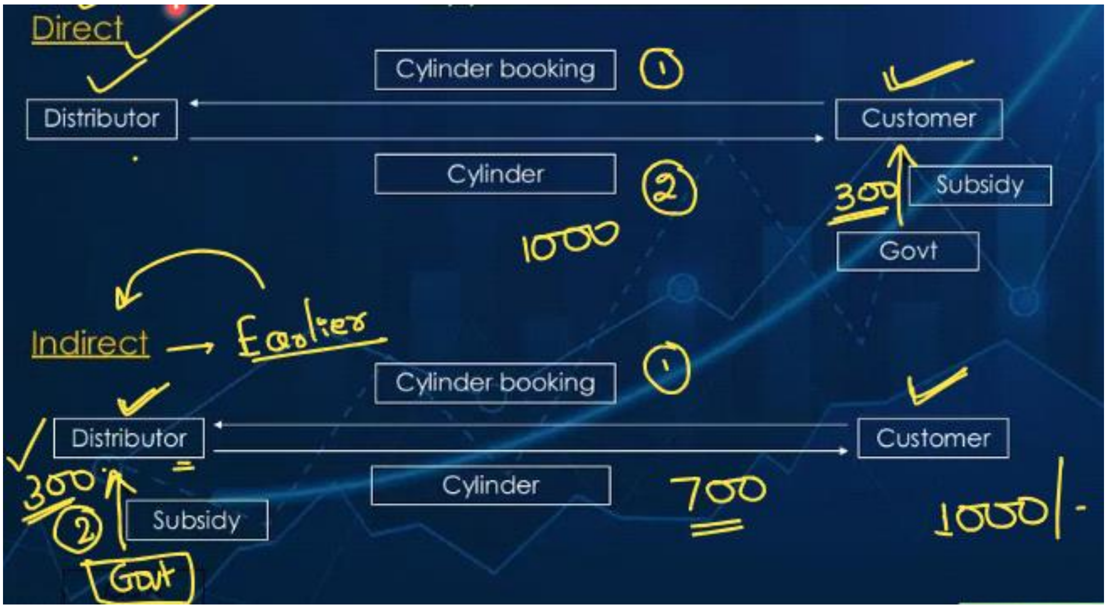

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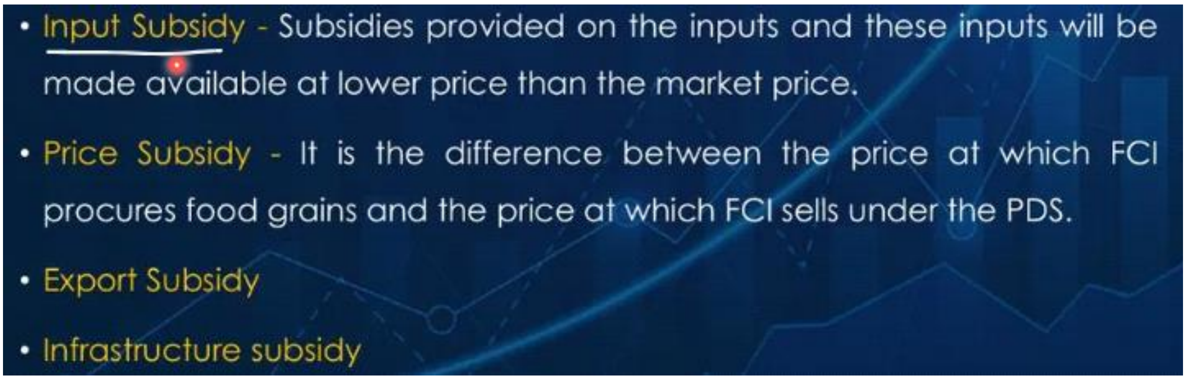
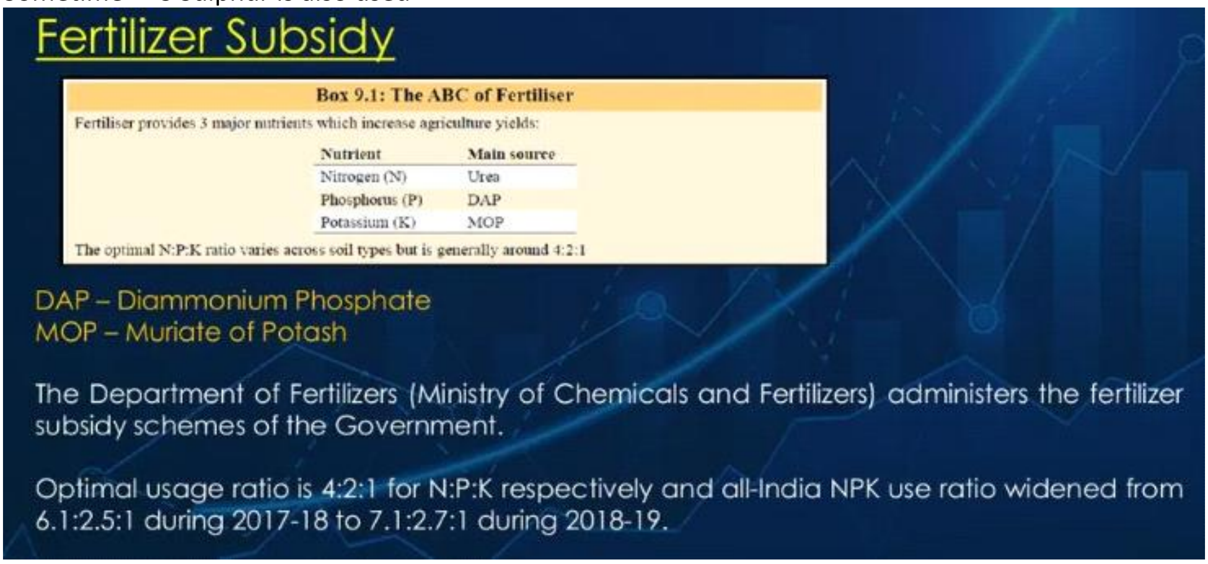
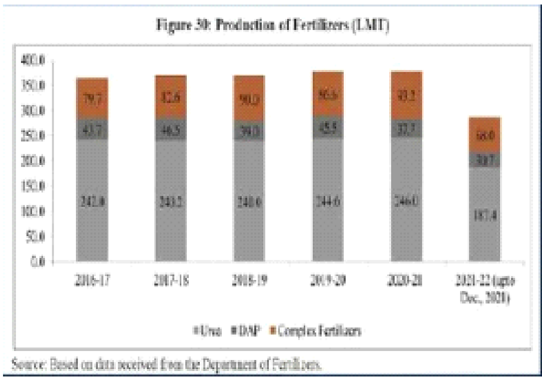
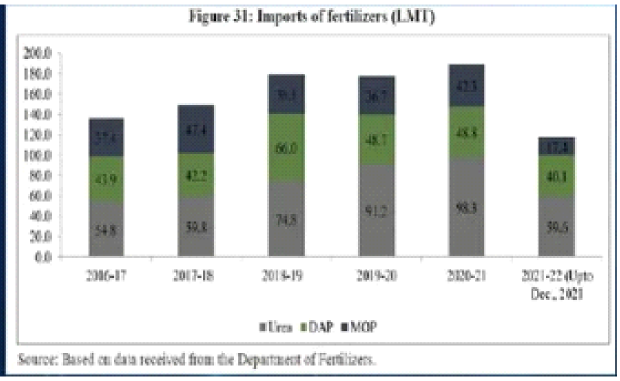


Fertilizer Subsidies

- NPK : Nitrogen, phosphorus, Potassium
- Sometime -> S Sulphur is also used







Fertilizer Subsidy

In case of Urea – Based on production cost

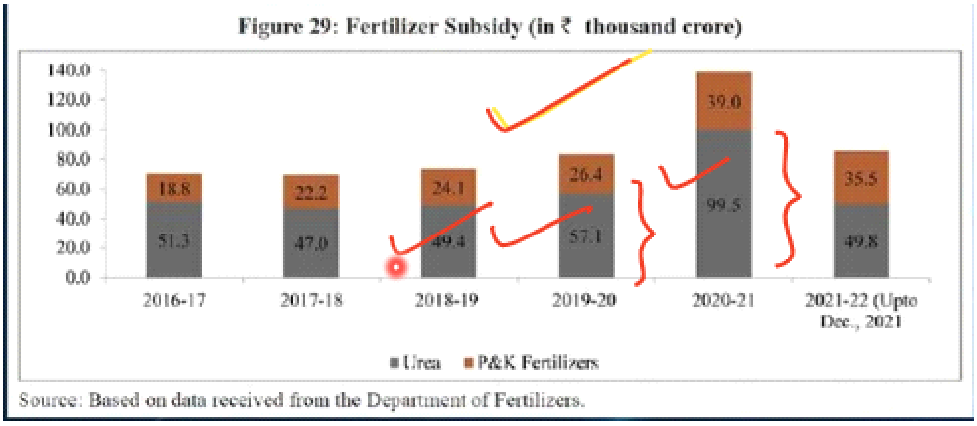
	Per bag
Production cost of Urea	₹ 900
MRP decided by the govt	₹ 300
Subsidy provided by the govt	₹ 600

In case of DAP & MoP – Nutrient Based Subsidy (NBS)

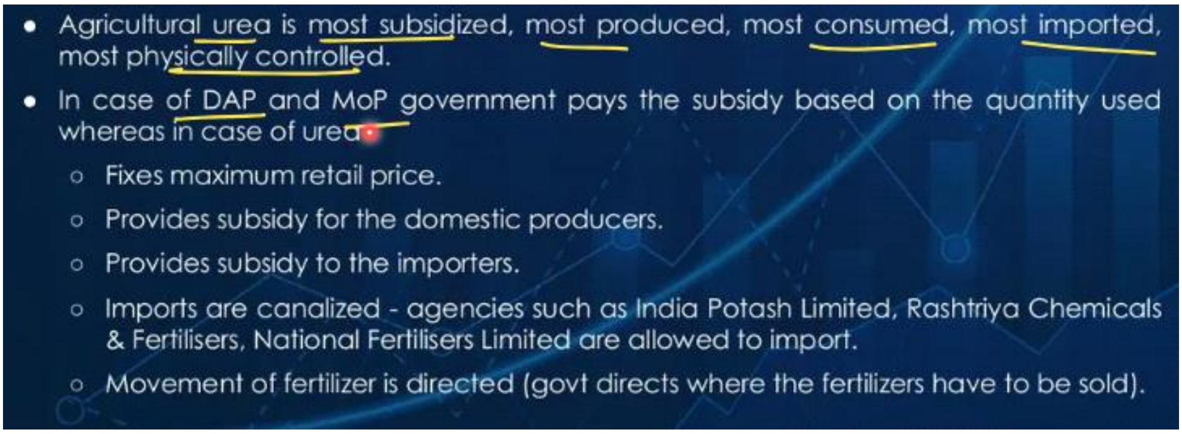
- ₹ 18.789/kg for N
- ₹ 14.888/kg for P
- ₹ 10.116/kg for K
- ₹ 2.374/kg for S

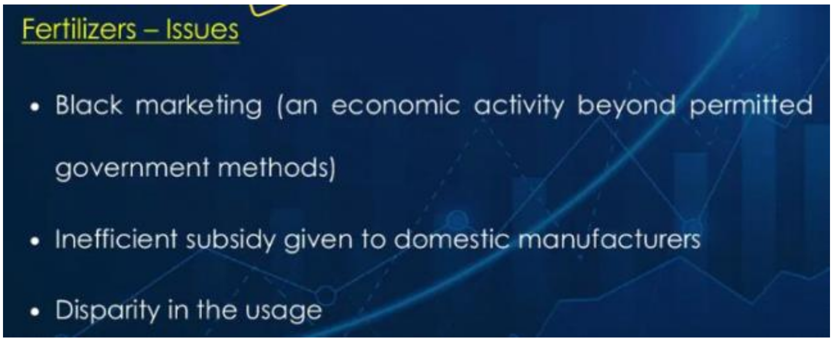
Type	Components	100 Kg	Subsidy per 100 kgs
DAP	18% N & 46% P	(18*18)+(46*14)	₹ 958
MoP	60% K	60*10	₹ 600

Note – the subsidy provided by the government can change



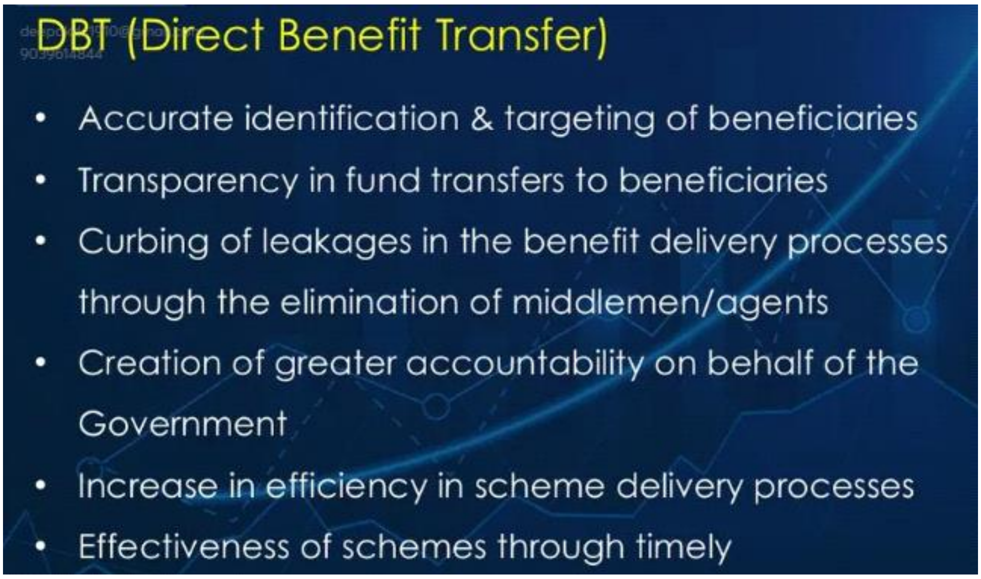
- Agricultural urea is most subsidized, most produced, most consumed, most imported, most physically controlled.
- In case of DAP and MoP government pays the subsidy based on the quantity used whereas in case of urea
  - Fixes maximum retail price.
  - Provides subsidy for the domestic producers.
  - Provides subsidy to the importers.
  - Imports are canalized - agencies such as India Potash Limited, Rashtriya Chemicals & Fertilisers, National Fertilisers Limited are allowed to import.
  - Movement of fertilizer is directed (govt directs where the fertilizers have to be sold).

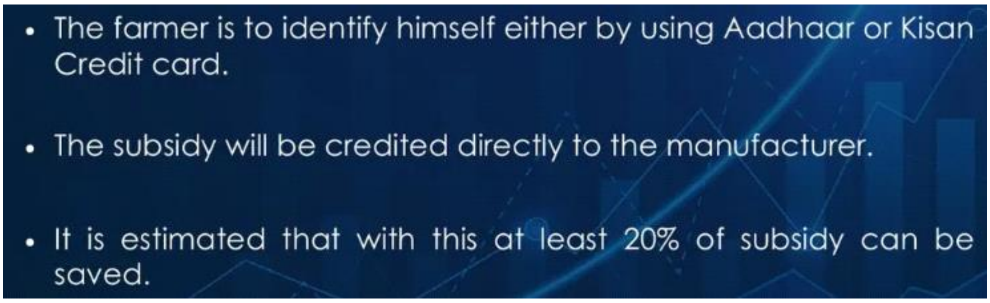




DBT in fertilizer

- Direct Transfer the subsidy to farmer is not possible, As we cannot point out who are true cultivator
- So in DBT -> Govt provide Subsidy to Producer on basis of data (Famer Aadhar) present in Shops





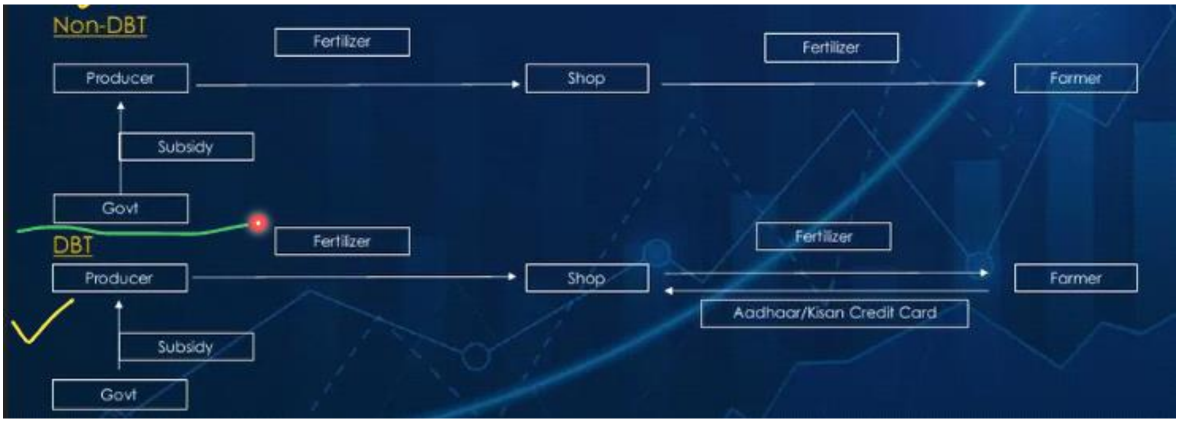


Table: Overall DBT Progress Report

	2013-14	2016-17	2018-19	2019-20	2020-21	2021-22	2022-23 (Till 5 Jan 2023)
No of DBT Schemes	28	142	440	426	316	313	310
Total Funds Transferred (in ₹crore)	7,368	74,689	3,29,796	3,81,632	5,52,527	6,30,265	3,80,380
Cash schemes	7,368	74,689	2,14,092	2,39,729	2,96,578	2,68,139	1,71,842
In-kind schemes	-	-	1,15,704	1,41,902	2,55,950	3,62,126	2,08,538
Eligible Beneficiaries [non-unique] (in crore)	10.8	35.7	129.2	144.7	179.9	178.9	159.5

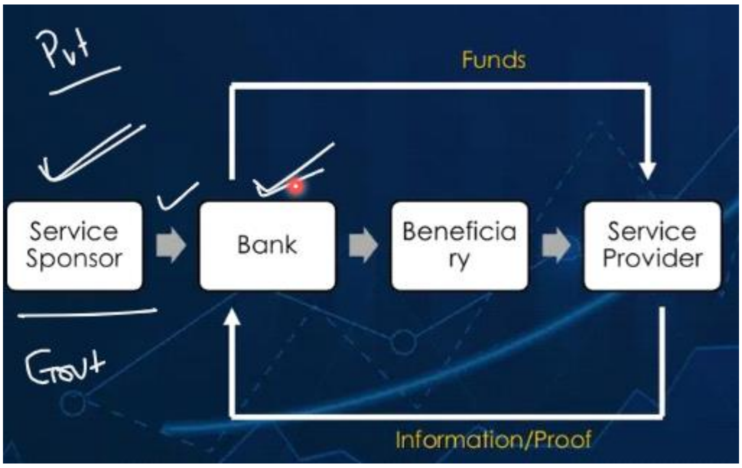
- JAM Trinity :
  - Aadhaar : Identification of beneficiary
  - Transfer : Open bank account
  - Coverage : Mobile connectivity -> Account access

e-Rupi	• Digital Voucher System -> Transferring money for specific purpose only .

e-₹UPI

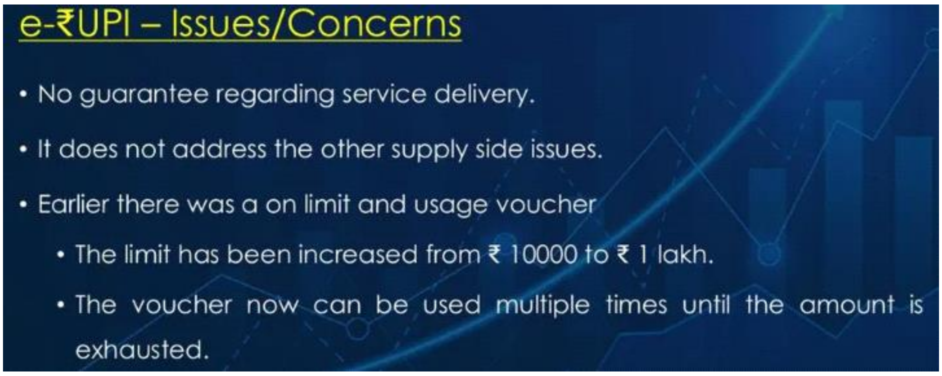
- It is developed by NPCI (National Payment Corporation of India)
  - DFS (Department of Financial Services)
  - MoH&FW (Ministry of Health & Family Welfare)
  - NHM (National Health Mission)
- Cashless, contactless, person specific, purpose specific.
- It is an electronic voucher based digital payments system.
- Mobile phones of the beneficiary will be used.
- 4 participants
  - Service Sponsor (Government/Private Sector)
  - Service provider
  - Bank
  - Beneficiary

Working



e-₹UPI – Benefits/advantages

- No need of bank account.
- Ensure the money is used for the right purpose.
- Privacy of the beneficiary is protected.
- The voucher redemption can be tracked by the issuer.
- Voucher has a verification code.
- Can be used by the private sectors also.
- Will promote financial inclusion, move towards digital economy.



WTO Subsidies

- Some subsidies distort the trade : Reduce the market price to significant level

- AoA Agreement on Agriculture
    - Market Access — eliminate the non-tariff barriers
    - Export Subsidies — reduction in export subsidies
    - Domestic Support — reduction in domestic subsidies

- Traffic Light Approach. : Division of Domestic Support
    - No use of red colour in agriculture
    - Blue box = Amber box subsidies + Limitation

    - MSP : Amber box subsidies ->
        - USA Point -> Cn reduce MP and create hindrance in market of USA
        - India Sense -> New approach : Public Stock Holding (PSH) : Food Security
            - Accessibility + Availability + Affordability
            - Not for trade distortion
        - 2013 : 9th Ministerial Conference in Bali
            - Agreement TFA (Tarde Facilitation agreement) -> Consensus
            - India didn't accept -> India wanted some relaxation in Amber box

- De minimis level :
    - Limit the aggregate measure of support (AMS) to 10% and 5% of value of production in case of developing and developed countries respectively.
    - Cannot provide trade distorting subsidies more than 10%

India's Opposition	

L24 MSP, PDS and Food Subsidy

07 October 2024 11:42 PM

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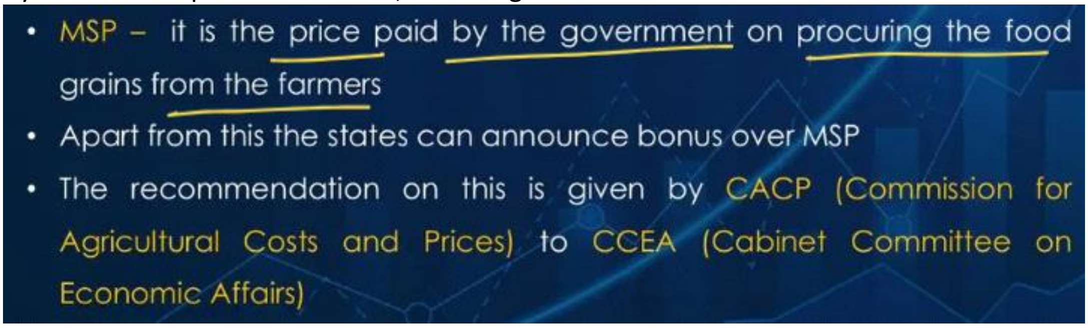
<tr>
<td>MSP Minimum Support Price</td>
<td>

- By FCI Food Corporation of India , or state govt



- High yield Variety Seed -> More production -> Lesser Price -> MSP for
- Total Earning : Centre -> MSP + State -> Bonus
- MSP depend on many factor like : Cost of production, Demand, Supply etc

- MSP = 150 % Cost of Production
- Announce before the announcement of Sowing Season
    - Farmer -> To be aware and then make decision what to produce

</td>
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<tr>
<td>MSP Coverage</td>
<td>

- Sugarcane :
    - Complex Process
    - Based on CACP announces two price
        - FRP Fair and remunerative Price
        - State Advisory Prices
        - Larger one of the two is paid by Mill owner
- Reason : To reduce abuse as sugarcane loose sucrose very quickly
    - If too much supply -> Lower price -> FRP delayed
    - Sugarcane diverted into ethanol production

</td>
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<tr>
<td>Calculation</td>
<td>

- MSP= Cost of Production (Three types of Costs)
- There around 9 types of calculation done by CACP

- A2 = All cost
    - Covers all input expenses incurred by the farmers on seeds, fertilisers, labour, power supply, and water

- A2+FL = All Cost + Family Labour
    - which in addition to A2 comprises an imputed value of family labour
    - Used by India Govt to calculate

- C2 : A2 + FL + opportunity costs

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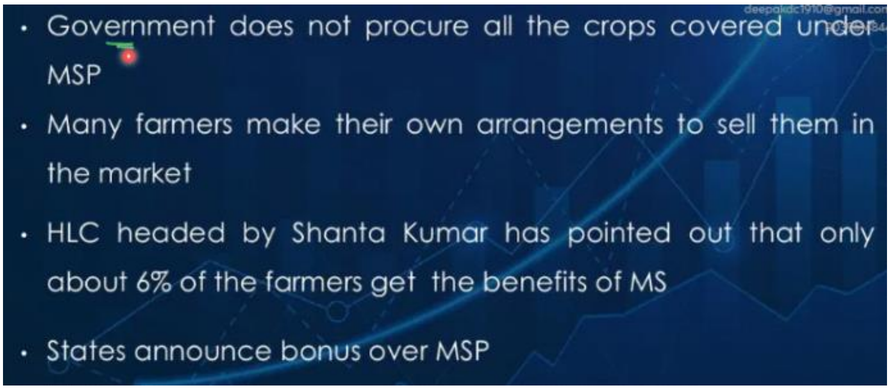
• Comprehensive costing, : adding opportunity cost (Additional revenue)
• which also factors in the land rentals and interest forgone on owned land and fixed capital assets


• PDS : Pulses + Millets + Rice +Wheat
• Surplus state and Deficit State -> Main procurement from Punjab and Haryana
• Parboiled Rice : Partial boil -> Easy remove husk off grain without breaking it
• Once centre have already procured parboiled rice
• Centre cannot procure crop cultivate by the Telangana -> KCR went on strike
</td></tr>
<tr><td>Legalization</td><td>
• Not provided with backed up by Law
• In future govt can change the MSP


• Open ended Procurement : Unlimited amount of Prcurement
</td></tr>
</table>

<table>
<tr><td>Food Subsidy</td><td>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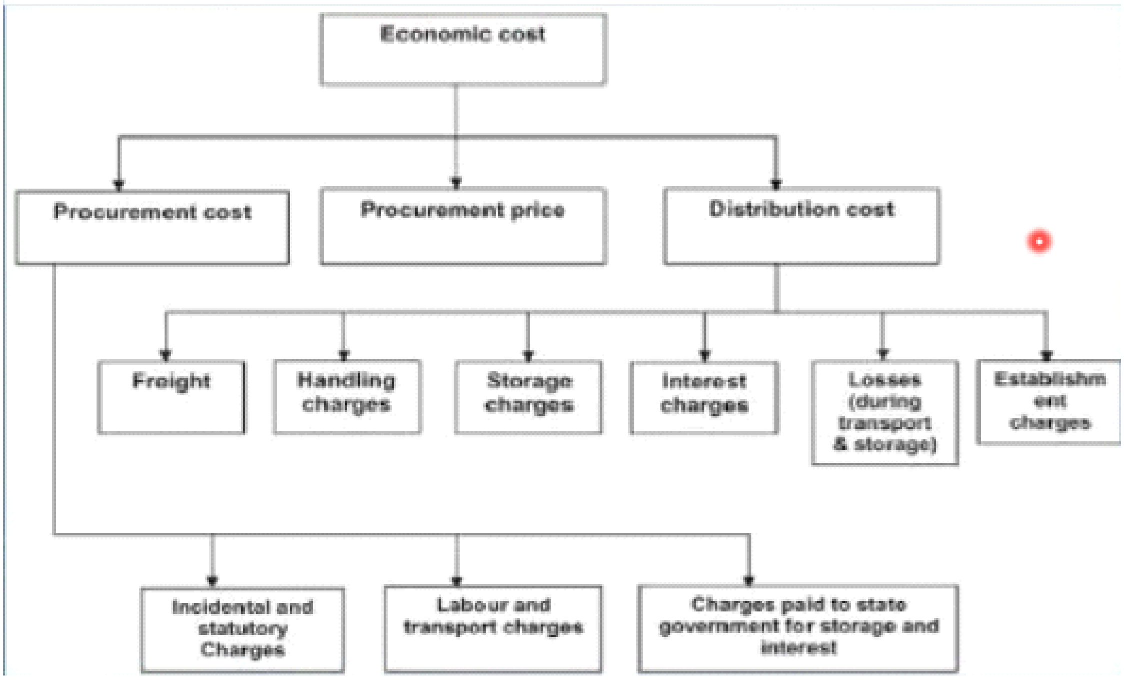
</table>

Table 5.8 : Economic Cost of Rice and Wheat					(₹/quintals)
Year	2010-11	2011-12	2012-13	2013-14(Prov.)	2014-15 (RE)
Rice					
Pooled cost of food grains	1446.53	1512.20	1633.83	1788.96	1925.52
Procurement incidentals	313.09	350.00	383.76	435.13	462.13
Distribution cost	223.49	260.74	287.28	374.26	430.26
Economic cost	1983.11	2122.94	2304.87	2598.35	2817.91
Wheat					
Pooled cost of food grains	1064.32	1119.18	1219.41	1273.57	1346.64
Procurement incidentals	212.38	235.68	263.35	331.81	339.00
Distribution cost	217.65	240.39	269.81	326.87	361.92
Economic cost	1494.35	1595.25	1752.57	1932.25	2047.56



- APMC : Mandi of FCI
- Procurement price : MSP

Figure VIII.10: Total Food Subsidy released by the Government of India since 2014-15. (In ₹ thousand crore)

Source: Based on data received from DFPD

NFSA

- Legalized Entitlement from 2013
- Identification is done by State Govt

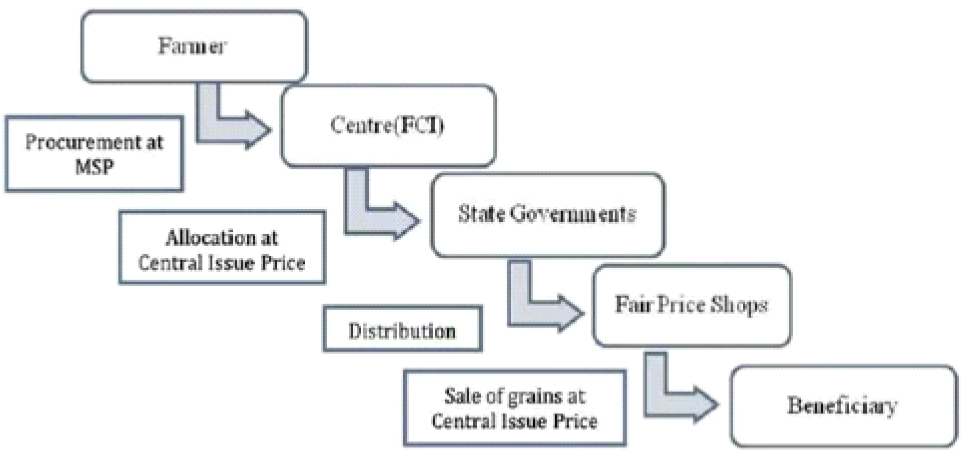
- Types :
    - AAY : Antyodaya Anna Yojana : Each house hold 35 Kg per month
    - PHH : Priorities House Holds : Each one member 5kg of of grain

- Issue Price
    - Rice 3 Rs, Wheat 2 Rs, Coarse grain 1 Rs

- ONORC : Ration Card Portability by Aadhaar identification

PDS Public Distribution System

- Network System Were Ration Shop and Pay shop, established before independence
- Earlier Universal -> 1998 Targeted PDS System TPDS
  - APL : Above poverty Line
  - BPL : Below Poverty Line
    - By Planning commission -> Defined Poverty line
      - Calorie Consumption : Urban (2100) or Rural (2400) or Expenditure
    - Niti Aayog introduced MPI Multi Dimension Parameter Index
      - 12 Parameters to calculate poverty line



- Centralized Procurement : FCI + State GA -> Centre Pool -> State / Inter State
- Decentralized Procurement : State Govt Agencies Procure -> Store + Distribute

	• Money will be paid by central govt • Buffer Stock : Extra amount for food security and emergency cases

Reforms	
Jan Poshan Kendras JPK	• Ration shop only work for 10 days, do not create profit after • Allowed to sell -> FMCG Fast moving Consumer good • All item provided in Kitchen like Cereals, oils etc
Food Grain ATM	• Despenser of food grain • To remove the cheating of underweighting the food grains • Less time for distribution

L25 Agriculture Credit, Warehousing

08 October 2024 07:22 PM

<table>
<tr><td>AGRICULTURE CREDIT</td><td>

- Loan given for Agriculture Sector
- Most time -> Informal (moneylender : High Interest Rate 24-36%) : Easily accessible
    - Bank (Interest rate 7%) will take certain time and will require collateral

</td></tr>
<tr><td>Loan Waiver</td><td>

- It is not loan cancellation -> Some part of loan paid by government
- Solve Distress in farmers and Promote saving in famer which he can invest in agriculture sector

- Concern : Only consider Institution loan, In Formal loan is not covered
- More expenditure -> Burden on Govt and expectation is created
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<tr><td>Reforms</td><td>


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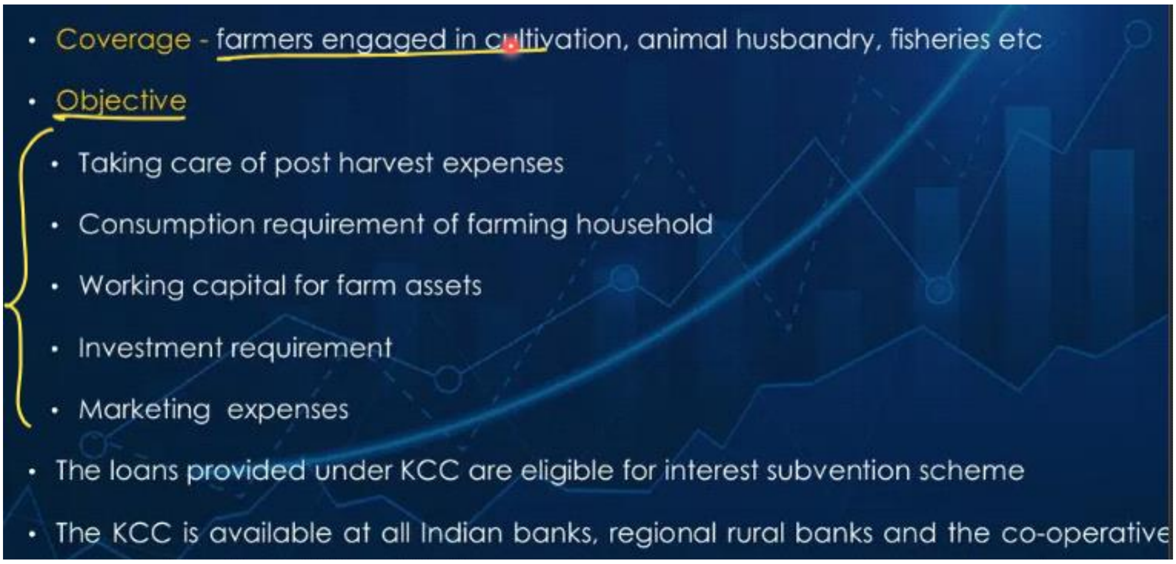
<tr><td>Kisan Credit card KCC</td><td>


- Interest Subvention Scheme : Some interest will be paid by the govt
- If repaying on time -> Can get more subvention on interest rate
</td></tr>
<tr><td>PSL Certificate</td><td>

- Condition tool : Some of the loan can only be for specific sector
</td></tr>
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	• Overachieved target -> Can share PSL Certificate -> To underachieved banks • In exchange of certain amount of Premium • Loan are not transferred, Just only certificate • Similar to Carbon trading certificate

Warehousing	• Uses / Need ○ Price stabilization ○ Scientific storage reduces wastage ○ Continuous supply • Criticism ○ Not enough storage ○ Storage by FCI does not include storage of commodities such as oilseeds ○ Location disadvantages ○ Lack of knowledge amongst the farmers ○ Lack of credit accessibility on the produce stored
NWRS	• Negotiable warehouse Receipt System • Farmer can take a loan by showing receipt received from Warehouse • Transferable receipt, Regulated by RBI in e-document format

Shanta Kumar Committee Report	• FCI must transfer procurement operations to states which have made considerable expenditure in infrastructure • There must be rationality and uniformity in procurement operations • Centre not to accept additional/surplus food grains from states announcing bonus over MSP • Encourages NWRS (Negotiable Warehouse Receipt System) • Reduce coverage under NFSA from 67% to 40% • Prioritize pulses and oil seeds and their MSP • 6 months advance food grains to be issued so that the cost of storage comes down • End to end computerization • Cash transfers in PDS to be operationalised in cities with population over 1 million
	• Cash Subsidies instead of Kind Subsidies -> Choice • Let say person already have grain -> he can buy oil • In some BUT, this has been implemented • Govt Burden will reduce -> Planning, procurement. • Concern : Market Prices will keep fluctuating (Cash subsidies need to change frequently)

	• Issue of misuse of cash for wrong purpose

L26 Market and technology in agriculture

08 October 2024 09:40 PM

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<td>APMC</td>
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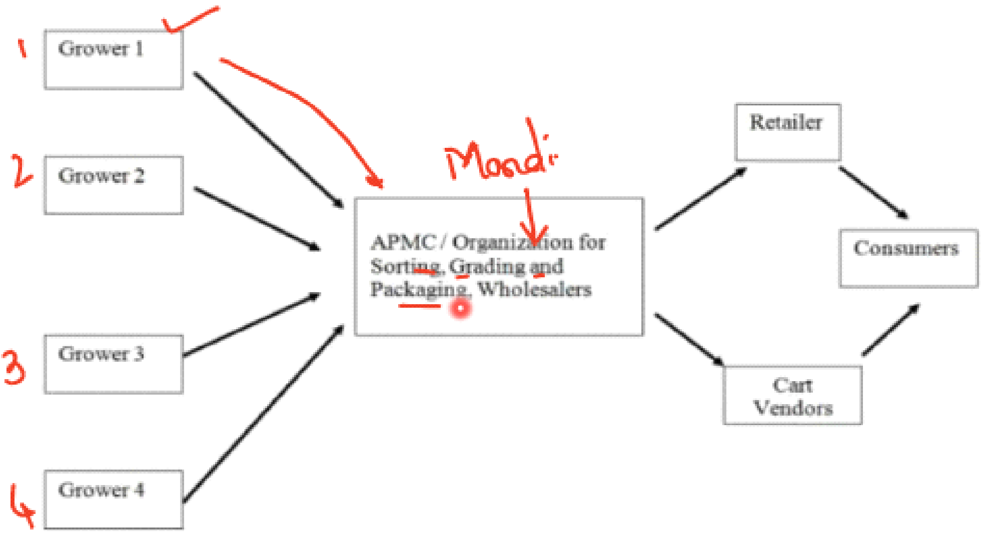
- Agri Culture marketing is covered under the state List
    - Regulation is done by State Govt, Individual Govt established APMC law

- Cops under APMC can only be sell it I the Mandi Only
    - Regulation, Surety of Payment,
    - Licencing of buyer and seller
    - Transparent Efficient : Price Discovery -> Large number of buyer and seller



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<tr>
<td>eNAM</td>
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- Electronic National Agriculture Market : Linking all APMC Mandi on platform
    - Single Licencing
    - Interstate trade can be done
- Small Farmers Agribusiness Consortium (SFAC) has been selected as the lead agency to implement it
- The Scheme is being funded through Agri-Tech infrastructure Fund

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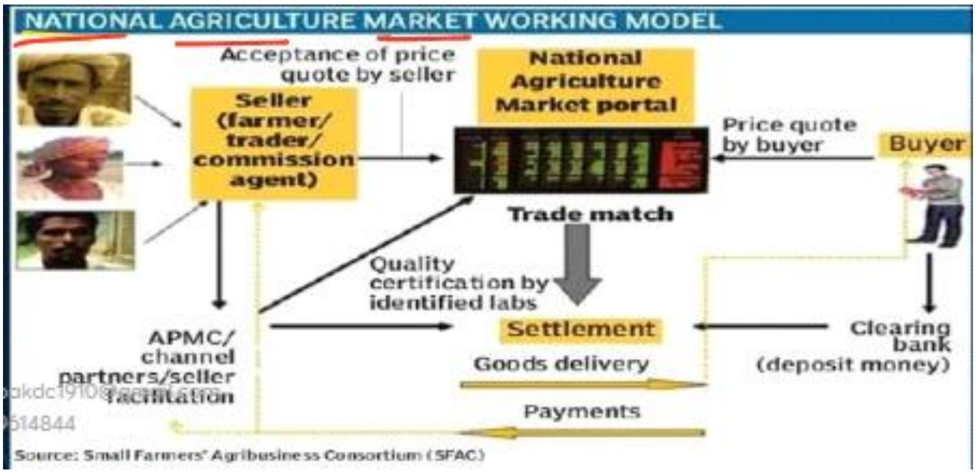

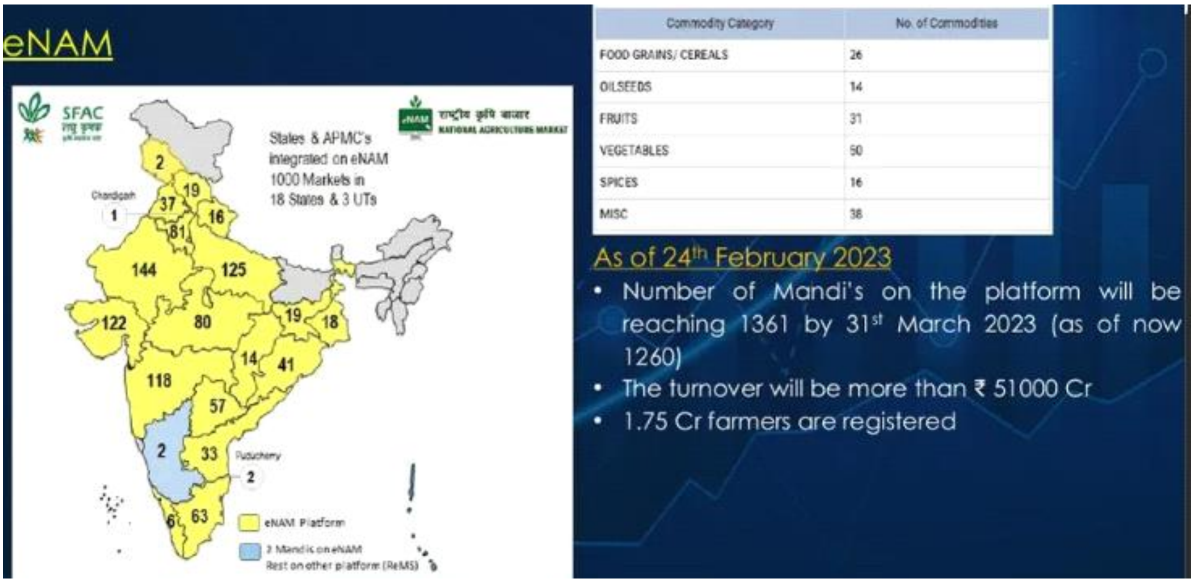

- 1.75 crore benefitted out of total 40+ crore Farmers
    - Many farmer still like traditional mandi, (ease)
- ReMS Rashtriya e-Market Services (ReMS) is established as a joint venture of Government of Karnataka

Technology in agriculture	• High Production High Productivity
	• Correct Decision (Ex: predicting)
	• Food Security
	• Better Income
	• Reduce dependency on Human Labour
	  • More people are there in agriculture than it is required
	  • Disguised Employment : Not required, and removing people does not affect productivity
	
	• Ex :eNAM, ONORC

GM Corn	• Genetic Modification Corn • To achieve the supply of corn for Pulses + Ethanol Production + Poultry Farm
Agri Stack	• Multiple data of farmers are arranged in stack

	• Farmer, Banking (loans and duration) • Equipments (Custom Hiring Centre : Lease eqp) • Help in targeting services • Like providing weather prediction to affected area • Providing Loans to needed area
Silos for storage	unacademy Silos for storage  • Silos – large structures used for storage • Benefits • These are cost effective, helps in bulk storage and efficient logistics • A silo of 50000 tonnes capacity is likely to cost ₹ 84 per tonne, conventional warehousing will cost about 4 to 5 times of this • The operational costs are low because of the large scale • The requirement of labour is low as they are mechanised and help in rapid handling • They also help in protecting from vagaries of the nature, spillage and rodents • Govt is promoting development of silos under PPP route
Nano Urea	• World's 1st Nano Urea Liquid is introduced for the farmers across the world by Indian Farmers Fertiliser Cooperative Limited (IFFCO) • A 500 ml bottle of IFFCO Nano Urea Liquid will replace at least one bag of conventional Urea • In terms of cost, it is comparatively cheaper • Now we can start exporting nano urea • Absorption of nano urea > Pellets crystalized urea ○ More productivity • Concerns : • There is chance of still using of crystallized urea ○ Liquid area cannot be applied at beginning stage of planting • Convincing farmer to use nano urea
Drone usage	• Benefits • Cost effective and time efficient • A drone can spray pesticide on nearly a 2.5 acre area during a 15 minute flight • Less reliance on human labour • Can be used to assess yield, assess crop of the plant, stress in the filed etc. • Govt under SMAM has announced financial support for adoption of drone technology • SMAM : Sub Mission on Agri mechanisation • Govt ask this provided by Custom Hiring Service, Cooperatives, Universities • Create a job for people who can operate drones
Svamitva	• Property cards to Land Owners, Land property titles are not clear in India • Resolve Land Disputes

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<td>FOOD PROCESSING</td>
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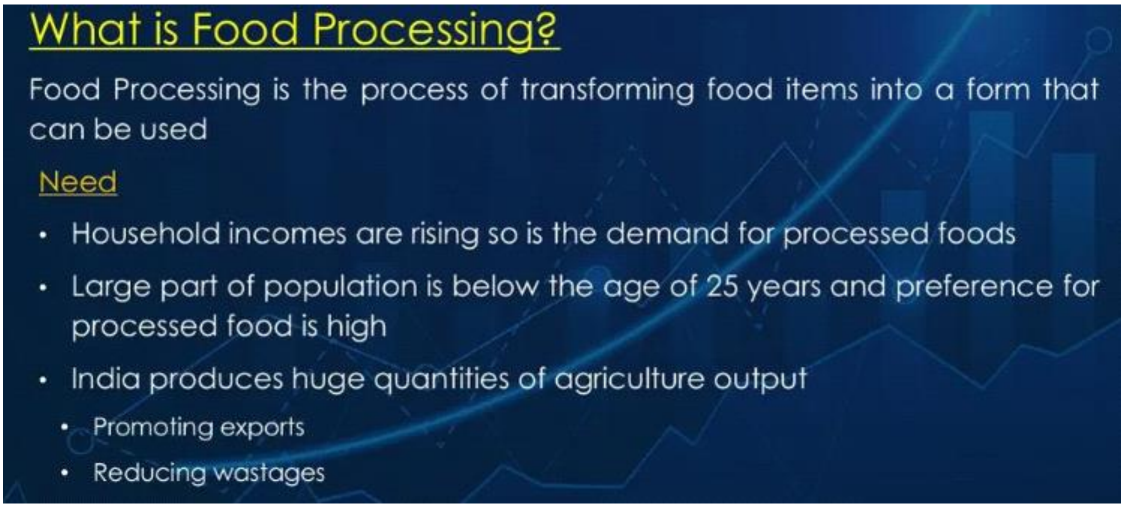
• Process of converting one food to other food
  • Increasing shelf life and value addition



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<td>Mega Food Park</td>
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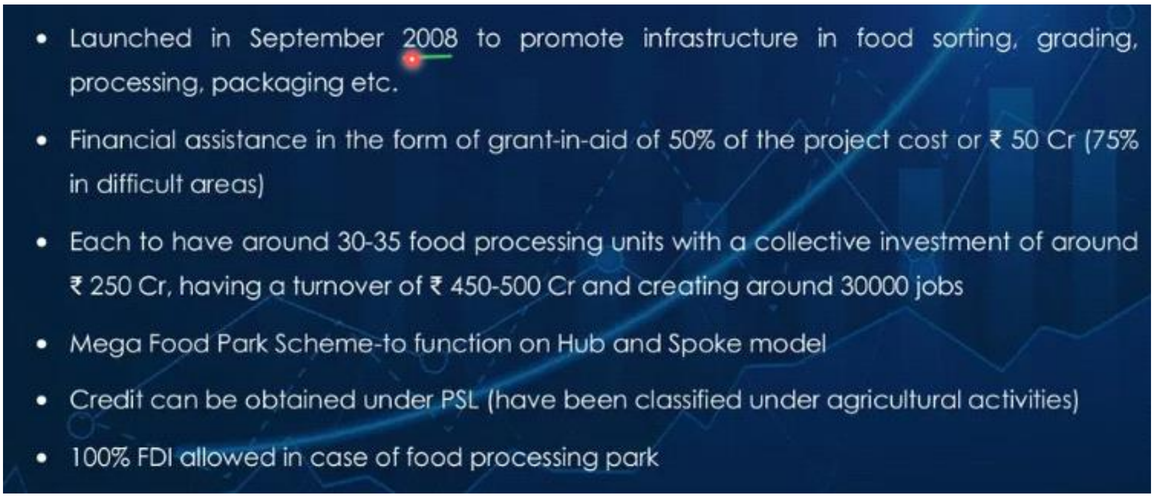
• Hub And Spoke Model : Supply Chain System
  • Incoming Multiple spokes : Collection centre
  • Central Hub : Primary Processing Cetre in middle and Mega food Park
  • Outgoing Multiple spokes : Sell in domestic market



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	• Not worked properly - >Discontinued • Acquiring Land issues • Acquiring Funds
Cold Chain	• Production, Transportation, Selling need negative temperature. • Like : Ice-cream, meats, Medicines • Reaper Vehicle : For transportation • Cold Storage for Storing in negative temperature • Financial aid for setting up integrated cold chain and preservation infrastructure facilities up to a maximum of ₹ 10 Cr per project • Setting up of cold chain infrastructure is assisted by the Agricultural and Processed Food Products Export Development Authority (APEDA), National Horticulture Board (NHB) and the National Centre for Cold Chain Development (NCCD) • Cold chain projects have been given infrastructure status. • Cold chain – set of activities/supply chain involving cold temperatures
Foreign Direct Investment	100% FDI in Marketing of domestically produced goods • Previously allowed 100% FDI through automatic route in processing sector • Has the ability to attract big players like Walmart, Tesco, Amazon, Alibaba etc apart from also promoting domestic players such as big basket, future retail etc. • The reforms will lead to - procurement, storage and distribution • Videshi Money & Swadeshi Infrastructure
PM - FME	• Micro : Investment is upto 1 Cr and turnover is upto 5 Cr • Most of the Micro Enterprise are not registered with the govt • Tax Evasion and data for policy making PM - Formalisation of Micro Food Processing Enterprises (PM-FME) • Issues with micro enterprises • There are over 25 lakh food processing units in the unorganised sector (consist of all the unincorporated private entities with less than 10 workers that engage in sale or production of goods and services) • More than 60% are located in rural areas and more than 80% are family based • Outlay of ₹ 10000 Cr over a period of 2020-25 • Is expected to benefit 2 lakh micro enterprises • Capital Linked Subsidies

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<tr><td></td><td>
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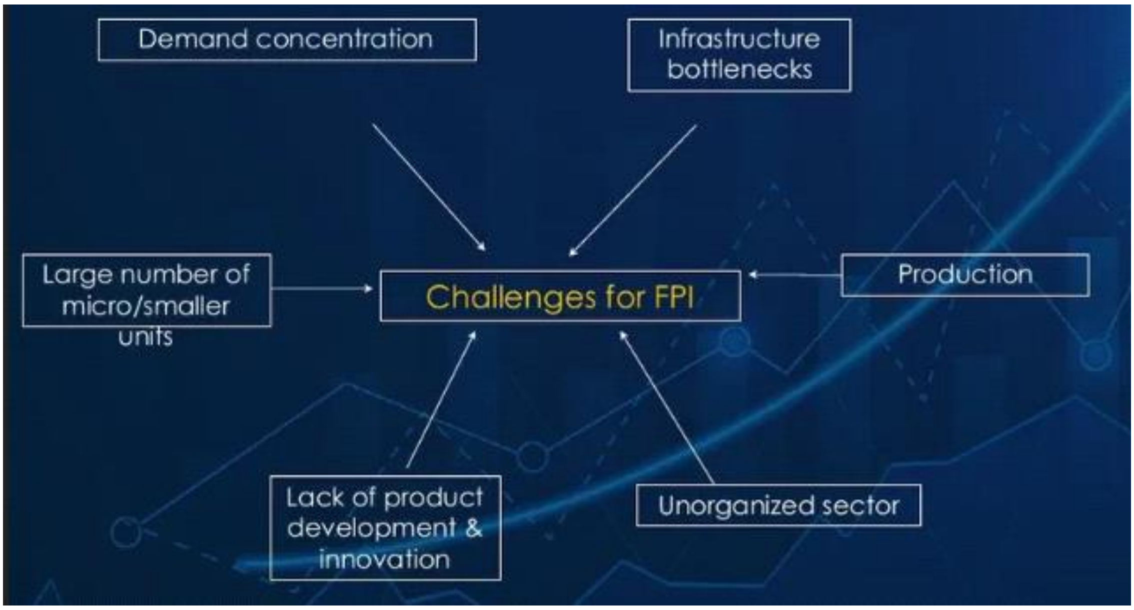
<tr><td>Production Linked Incentive</td><td>• Based on performance -> Govt Provide Subsides
• Govt has included food processing sector
• PLI -> Has provided for 10900 Cr for FPI</td></tr>
<tr><td>AIF</td><td>
</td></tr>
<tr><td>Challenges of FPI</td><td>
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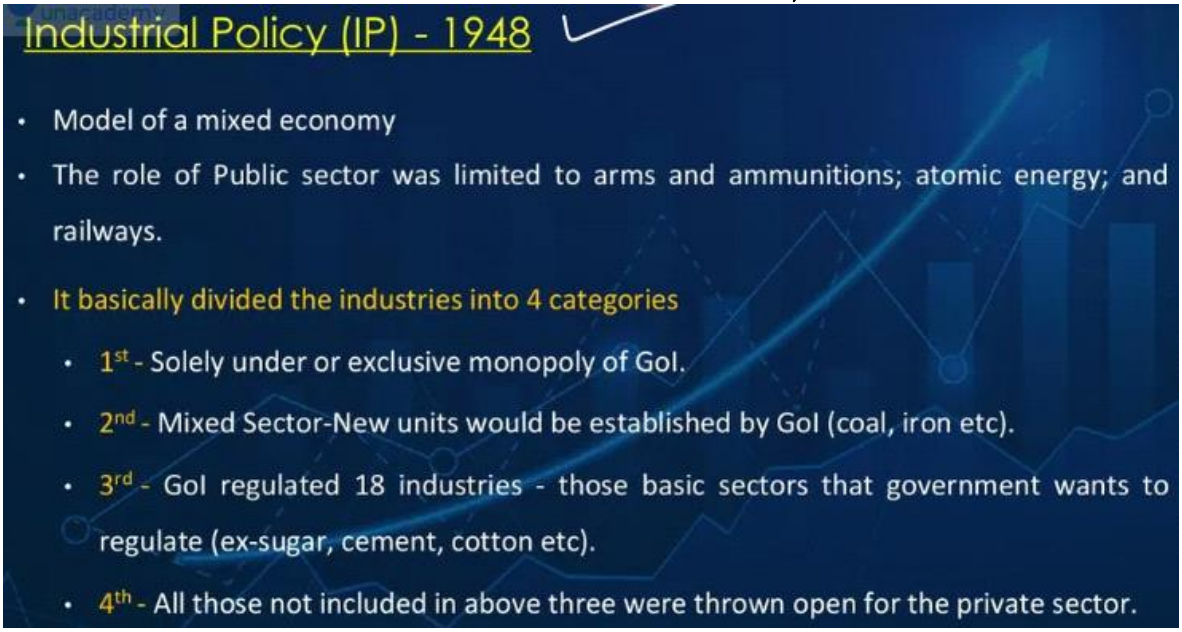
L27 Industries, Services and LPG (IP)

08 October 2024 11:52 PM

Industrial Policy IP	• Who should control Industries -> lead to creation of Industrial Policy 
IDRA 1951	• In 1950 Planning commission is established 

IP 1956	• Most Important, Created after 5 Year Planning Commission II
	• 2nd FYP : Heavy Industrialisation Plan / Mahalanobis Plan
	    • Trickle Down Theory : Promote heavy industries (Heavy Investment)
	    • Model didn't worked
	        ○ No Savings for investment
	        ○ No Labour Policy : How many jobs we need to create
	        ○ No Machinery for manufacturing -> lead to import dependence

	The industries were divided into three categories. • Schedule A - included 17 industries wherein only the GOI could set up (arms and ammunition, atomic energy, iron and steel, coal, mineral oils etc.). • Schedule B - included 12 industries where development of new units would be taken by GOI but private participation was also allowed (aluminum, chemical industries, fertilizers etc.). • Schedule C - included all the remaining industries wherein establishing and development of units would be undertaken by private sector. • Promotion of cottage and village industries (by differential taxation reservation fo goods etc) • Remove the regional disparities etc • Inclusive growth (Pace and pattern of development for promoting growth)

IP 1991	• Background
	• Gulf Crisis - Inflow of remittances was affected & Crude prices increased.
	• Fiscal deficit had increased to 8.4% of GDP.
	• Interest liability became 36.4% of total government expenditure.
	• Increase in inflation.
	• Adverse Balance of Payment - The forex reserves were sufficient to pay for imports of 15 days.
	• Poor Performance of some Public Sector Units.
	
	• Overarching Reforms : LPG Economic Reforms
	    • **Liberalization** : Deregulation
	    • **Privatisation** : Selling ownership
	    • **Globalisation** : Integration with Global

Liberalisation	It means to free the economy from direct or physical controls imposed by the government.
	• Industrial sector
	    ○ Industrial licensing was abolished.
	    ○ Industries reserved for PSEs were reduced.
	    ○ The markets were allowed to determine the prices.
	    ○ Some goods which were reserved for SSI were de-reserved.
	• Financial sector
	    ○ Banks were allowed to raise the funds from the market by issue of shares.
	    ○ Setting up of private and foreign banks.
	    ○ Entry of FIIs was allowed.
	    • Licence required for : Liquor, Hazardous chemicals etc
	    • Licencing System abolished -> Permission System
	    • Essential commodities act was established
	    • Infant Industry Protection :

<table>
<tr><td></td><td>○ Our Domestic companies could not compete with Foreign Companies


</td></tr>
<tr><td>Privatisation</td><td>

• Disinvestment : Process in which govt will sell ownership and govt will get money in exchange

• Advantage
○ Assets and resource are scarce in nature, No need to let it locked in Govt
○ Utilisation / Efficiency is increased
○ Govt of India will have to flow money in Loss making companies
○ Govt will earn income -> less Borrowing
○ Business of the govt to be in business

• Disadvantage
○ How many assets will govt keep on selling -> shows weaker finance
○ Timing of sale
○ Welfarism is lost, Private companies aim for profit
○ These assets are like family jewels.
○ Reduced Employee benefit and losing jobs</td></tr>
<tr><td>Globalisation</td><td>

Some of the reforms undertaken by the govt to promoteglobalization
• Foreign investment reforms — FDI and FPI.
• Exchange rate reforms.
• Controls imposed by the government have been removed.</td></tr>
</table>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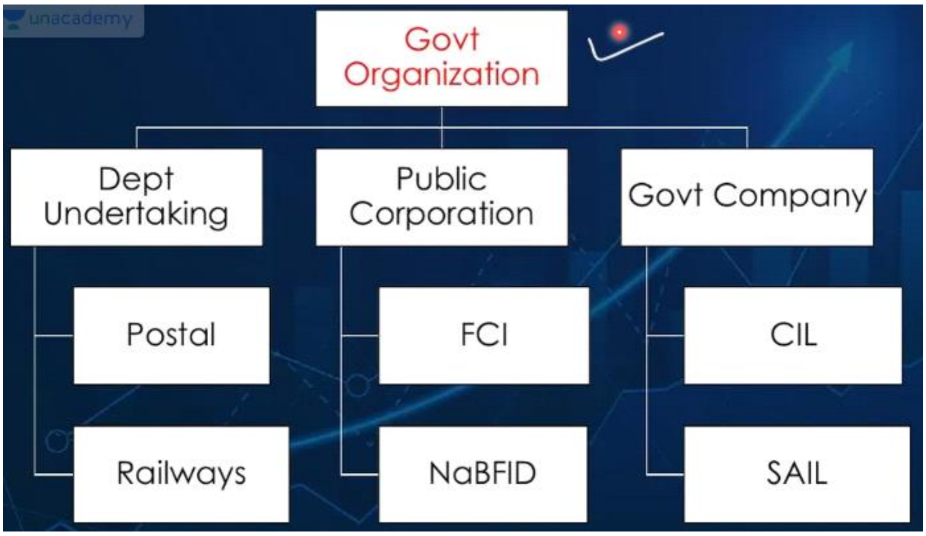
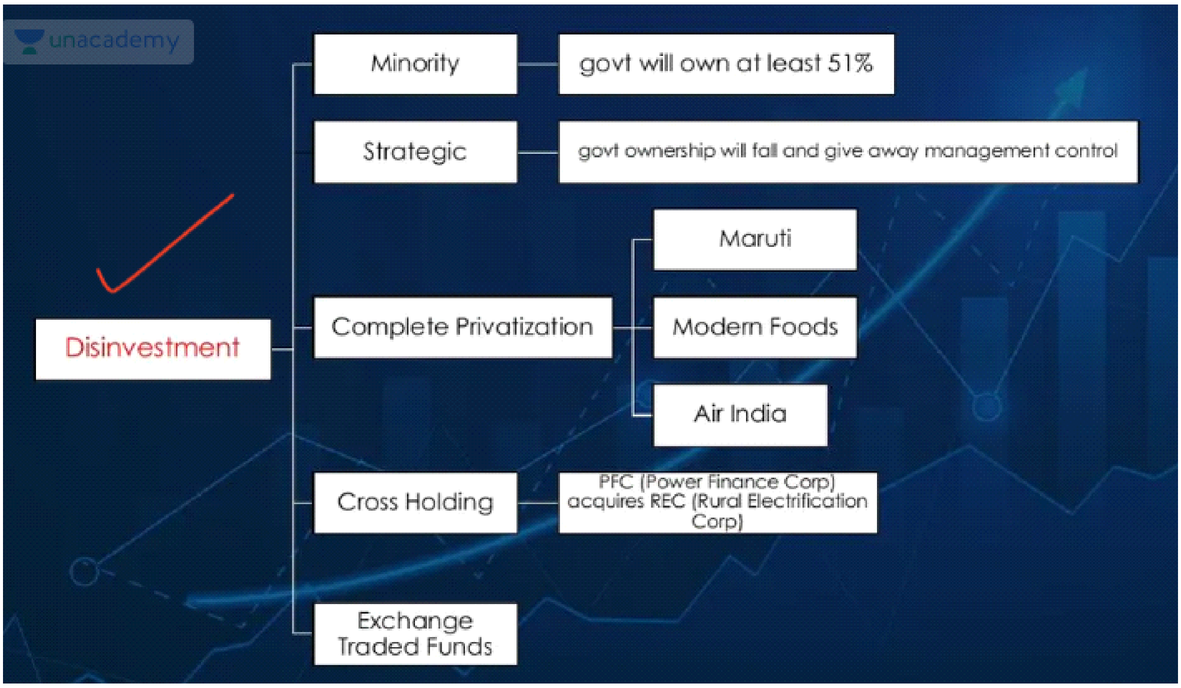
Globalisation – Evaluation
Benefits
Access to more markets, goods and services, labour pool/talent.
Higher investment and Growth.
Employment generation.
Increased standards of living.
Access to technology and innovation.
Issues/concerns
Tax avoidance by the MNEs.
Exploitation of the workers.
Concentration of wealth, increasing inequality.
Loss of jobs in the home countries.
Environmental impact.
Host
India
Home
USA

L28 Government Organisation

09 October 2024 10:01 AM

Govt Organisation	
Departmental Undertaking	• Also known as Govt Undertaking / Ministerial Undertaking • This industry is managed as part of govt itself : Railways, Postal • Government employees and expenditure is part of budget • For welfare and not profitability
Public Corporation	• Established by passing a bill -> creating as provision of Act • 100% Funding by Government, appointment by govt • Own by Government but are not listed in stock market • Focus on development
Govt Company	• Registered under companies act 2013 • Companies with 51% ownership of government, but lowest interference • These are Listed in the stock market / exchange as well • Focus is own model and generate revenue

Disinvestment	

Minority	• Govt after selling will still have management control • Govt will own 51% ownership after selling

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<tr><td>Strategic</td><td>• Govt will have 26 % of ownership -> Help in voting
• Private companies was not interested as government can hamper voting
• Govt later went for complete Privatisation 100%</td></tr>
<tr><td>Cross Holding</td><td>• Government will sell Company A to B, where both are under govt, In exchange of money
• Government want to generate revenue but at the same time it does not want complete privatisation
• Government -> B -> A, Ex : PFC acquired REC</td></tr>
<tr><td>Exchange Traded Funds</td><td>• ETF : Government will share funds to private to sell,
• Ex : CPSE ETF, Bharat ETF</td></tr>
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<tr>
<td>After Disinvestment</td>
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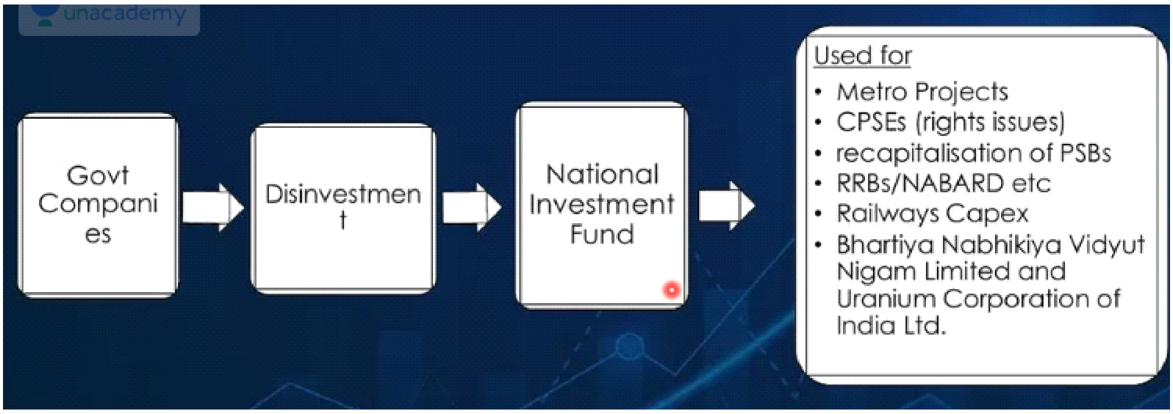
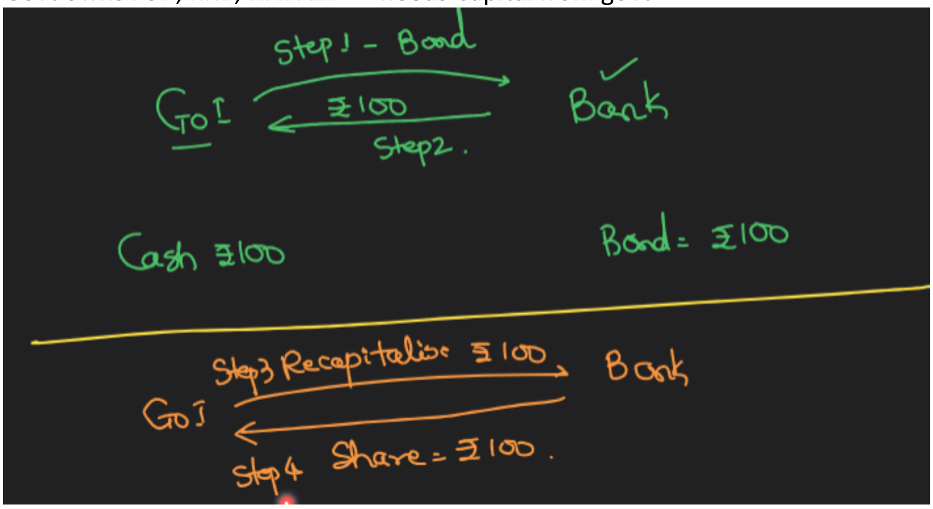


- Money is saved in National Investment Fund (Public Account)
- Rights Issue -> Existing shareholders, First option to buy the new share is given to shareholders
  - To maintain ownership in the company
  - Govt will use NIF Funds to buy share for 51% equity to retain ownership

- Recapitalisation :
- Govt owns PSD, RRB, NABAED -> needs Capital from govt



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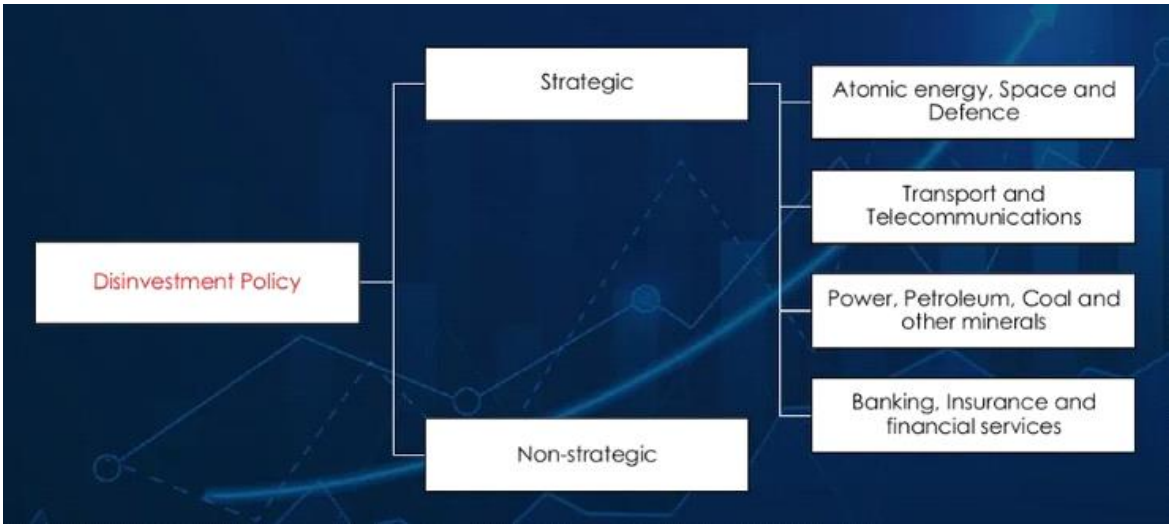
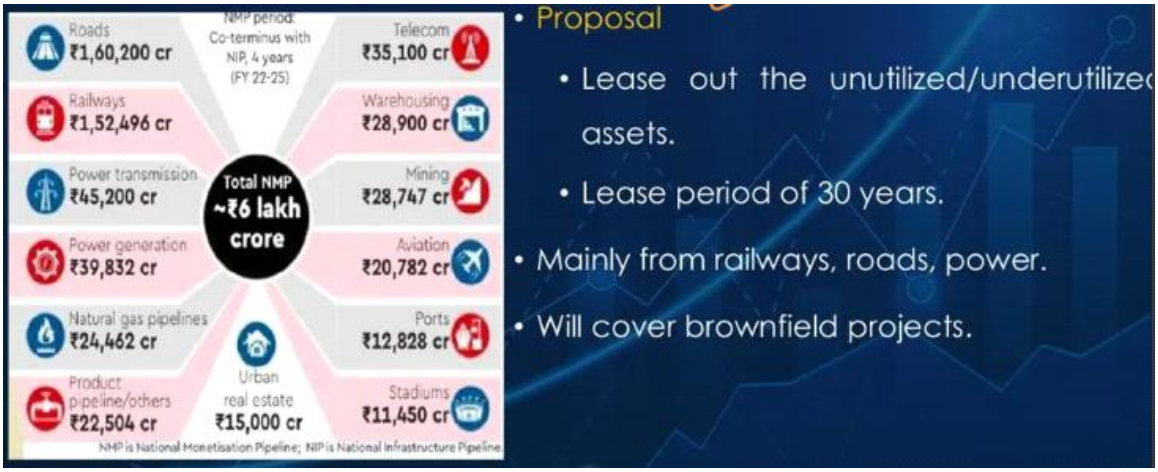
Disinvestment Policy



Strategic	• National Importance : For Supply, Welfare, Service and safety
Non-Strategic	• Agriculture, Textile etc

National Monetization Pipeline NMP

• Lease assets : Ownership is not transferred, only usage is transferred



Advantages

Concern	• How to identify the value of the asset? And how the assets will be allocated? • What about the security of the workers? • If the private sector spends under this, it's capex will be limited in other projects. • How to ensuring the quality and cost of services provided by the private sector • In what shape/form the asset will be returned to the govt?

L29 MSME, Indexes, Make in India

09 October 2024 12:09 PM

MSMEs

- MSME – Micro, Small and Medium Enterprises
- MSME Act 2006 - All the three forms of industries were merged and MoMSME was formed in 2007.
- The importance of MSME
    - There are more than 6.3 Cr MSME units which employ more than 11 Cr employees.
    - MSME contributes 29% to the GDP.
    - It accounts for 40% of the total exports.
    - It accounts for 45% of the manufacturing output.
    - After agriculture sector, it is the MSME which is the largest generator of employment.

- Earlier called as SSI (Small Scaled Industries)
    - For development of rural part of India

	Investment in Plant and Machinery or Equipment	Annual Turnover
Micro	< ₹1 crore	< ₹ 5 crore
Small	< ₹ 10 crore	< ₹ 50 crore
Medium	< ₹ 50 crore	< ₹ 250 crore

Issues with MSME

- Disruptions in the economy – the pandemic has affected the functioning of the MSMEs.
- Credit related issues
    - Demand for the credit is high .
    - Large number of units are informal and its difficult to assess the creditworthiness of these borrowers.
    - They lack collateral.
- Delayed payments
    - The working is affected as payments by the buyers are delayed.
    - This puts a constraint on the working capital of these units.

- MSME Act -> Buyer has to pay within 45 days
    - If delay -> Buyer not allowed to pay certain deduction in tax for that year

Reforms

- Micro Units Development and Refinancing Agency MUDRA

- MUDRA Yojana
  - Loans up to ₹ 20 lakh and are collateral free.
  - Non-corporate non-farmer small and micro enterprises
  - These loans are given by Commercial Banks, RRBs, Small Finance Banks, NBFCs etc.

    Three products are Shishu – up to ₹ 50000.

    Kishor – from ₹ 50000 to ₹ 5 lakh.

    Tarun – from ₹ 5 lakh to ₹ 20 lakh (was ₹ 10 lakh until July 2024).

• 59 Minute Loan : Within 59 min Loan is accepted or rejected

- 59-minute loan portal - In principle approval (for loans with or without collateral)
  - Borrower can choose the lender
  - Value of loans from ₹ 1 lakh to ₹ 5 Cr
  - Platform is integrated with CGTMSE portal.

- Public Procurement Policy - Every Central Ministry /Department / PSUs shall set an annual target for 25% procurement from MSE Sector.
- CGTMSE – Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE). Has been set up by Government of India and SIDBI for Micro and Small Enterprises. Under this Credit guarantees in the range of 75% to 85% will be provided.
- TReDS (Trade Receivables e-Discounting System)
- Pre-Pack Insolvency Resolution (PIRP)

• PPIRP : Credit repayment is restructured, Plan is submitted to NCLT

IIP Index of Industrial Production

- Published by NSO (National Statistical Office)
- Measures changes in output of 3 sectors – Electricity, Mining, Manufacturing
- Importance - Used for policymaking and used for advance estimates of production.

	New series (2011-12)	
	Item groups	weight
Mining	1	14.37
Manufacturing	405	77.63
Electricity	1	8
Total	407	100

<table>
<tr><td>ICI Index of Wight core Industries</td><td>

- Has industries taken from IIP.
- The 8 industries-Cement, Coal, Crude oil, Electricity, Fertilizers, Natural gas, Refinery products and Steel.
- Has a total weight of 40.27% of IIP.
- Published by OEA - Office of the Economic Adviser (with base year 2011-12).

- Every Month it is published

<table>
<tr><th>Item</th><th>weight</th></tr>
<tr><td>Refinery products</td><td>28.04%</td></tr>
<tr><td>Electricity</td><td>19.85%</td></tr>
<tr><td>Steel</td><td>17.92%</td></tr>
<tr><td>Coal</td><td>10.33%</td></tr>
<tr><td>Crude oil</td><td>8.98%</td></tr>
<tr><td>Natural gas</td><td>6.88%</td></tr>
<tr><td>Cement</td><td>5.37%</td></tr>
<tr><td>Fertilizer</td><td>2.63%</td></tr>
<tr><td>Total</td><td>100%</td></tr>
</table>
</td></tr>
<tr><td>Lagging leading</td><td>

- Leading Indicator : what will happen in the future (PMI)
- Lagging Indicator : Past trends
</td></tr>
<tr><td>PMI Purchasing Managers Index</td><td>

- PMI : Leading Indicator, released in beginning of the month
  - <50 : Less production than last survey
  - =50 : Equal Production
  - >50 : More Production
- It was started in 1948
- It is used to watch the business activity
- It is a survey-based index
- Respondents are asked about changes in their perception of some of the key business variables in the past month (Indicators - output, new orders, employment etc.)
- Inference - A figure of above 50 denotes an expansion in business activity and below 50 a contraction
- PMI is released at the beginning of the month. Hence becomes a good indicator of economic activity
</td></tr>
</table>

SERVICE	• Tourism, Foreign banking, Accenture etc

SECTOR

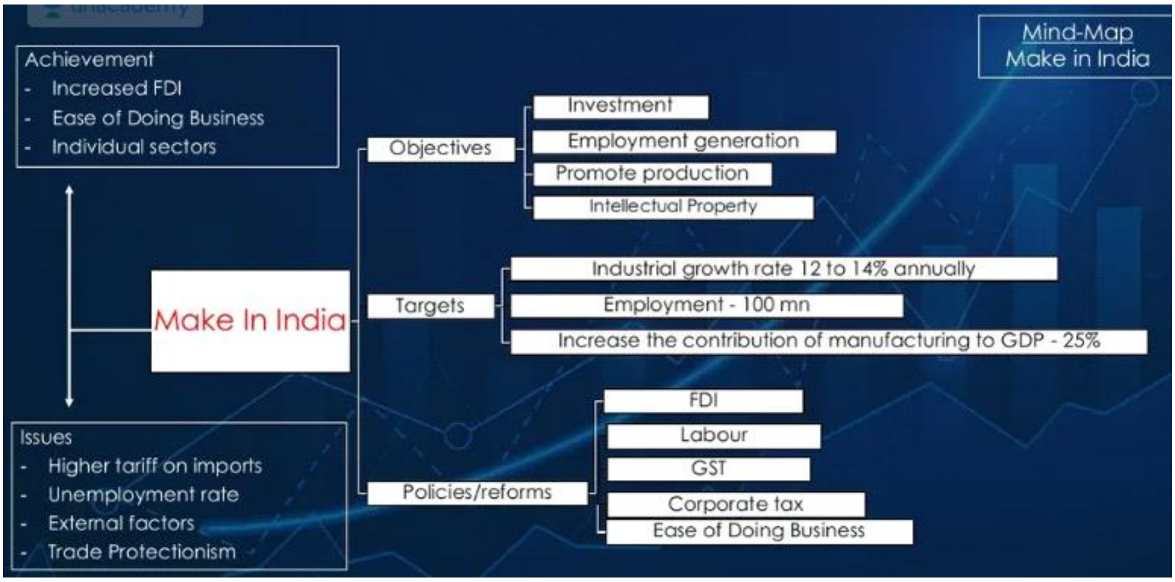
IT	Financial Services	Business Services	Software Services
Hotels & Restaurants	Transport	Real Estate	Defence
Telecommunication	Information & Broadcasting	Trading	Tourism
Education	Consultancy	Hospital & Diagnostics	Agriculture

Growth Of Service Sector

Challenge / Issues

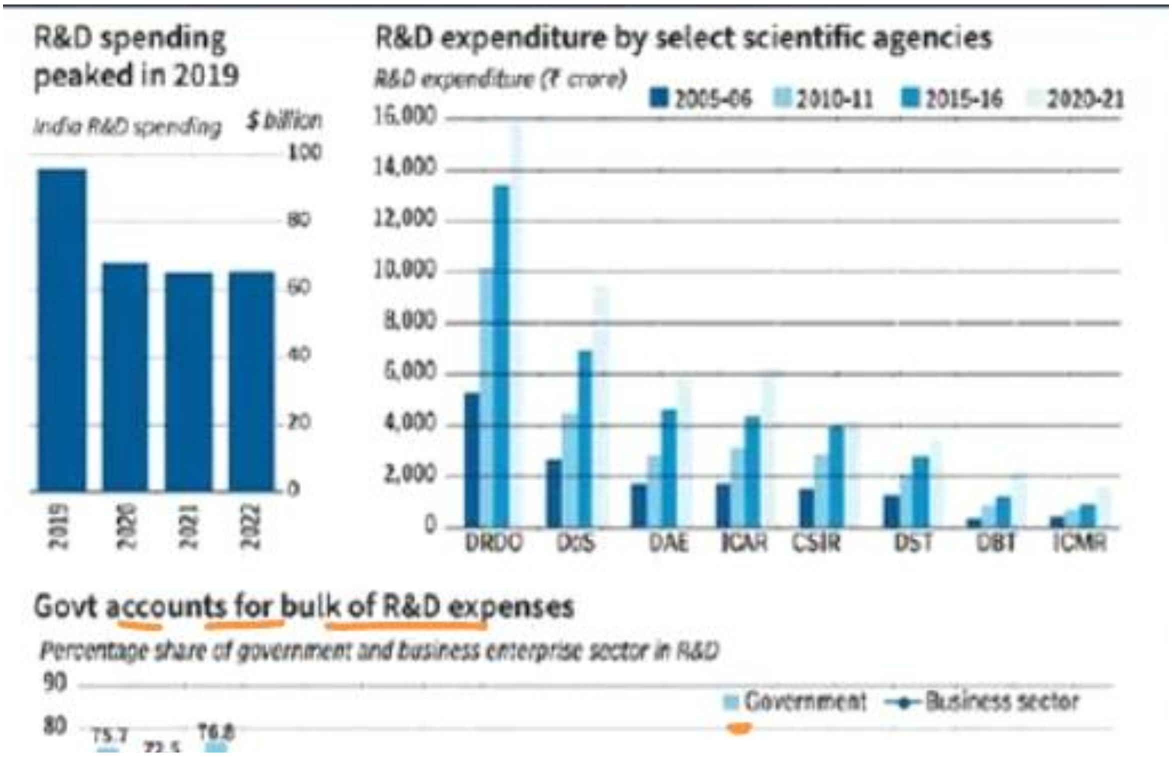
Service Reforms	• Startup India • SESI : Incentive given for export • FDI Reforms • GST.

Make in India



- Investment in Manufacturing 15 and Service 12

Manufacturing	Service



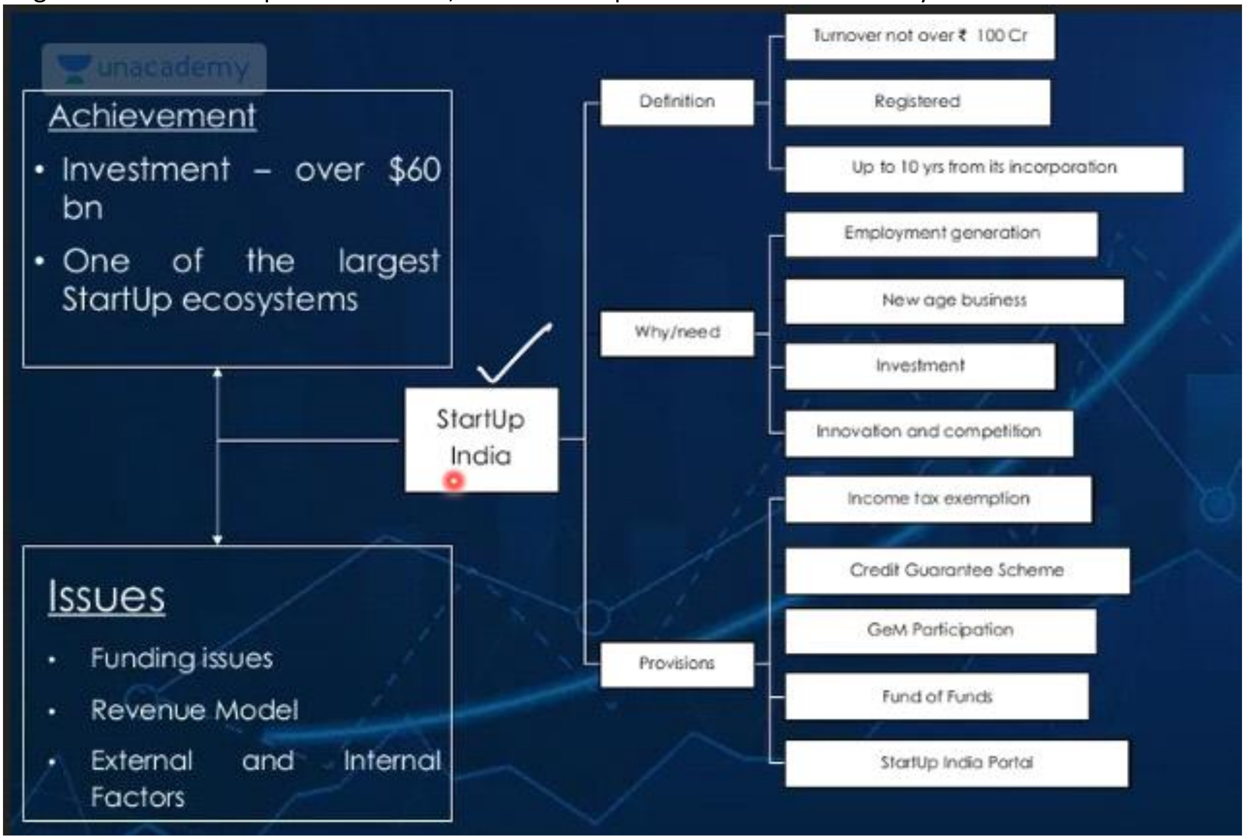

Government
Business sector
Source: Statista, IBEF, Ministry of Science and Technology

L30 Startup and Foreign Investment

11 October 2024 07:52 PM

<table>
<tr><td>Startup India</td><td>

- DPIP Will recognize the Startup
- Registered under Companies Act 2013, or Partnership Addct or Limited Liability Act 2013



- Number of patent has increased
- India has largest number of Startups, Big Ecosystem

- Funding Winter : No Funding

</td></tr>
<tr><td>Benefit</td><td>

- Income Tax Exemption for consecutive 3 finance year after registration
- Credit Guarantee Scheme : Funds and guarantee of loans

- GeM Participation : Govt e market Place
  - Making Bids and online marketing
  - This reform can increase transparency of system

- Fund of Funds : Alternate Investment Funds (Same as model of Mutual funds with High network Individuals)

- Startup India Portal : Information needed for start-ups, like promotion activity, Incentives etc

</td></tr>
</table>

<table>
<tr><td>MRTP vs CCI</td><td>

- MRTP : Monopoly restrictive trade Practices Act
  - Preventing Monopolisation

- CCI : Competition Commission of India
  - Allow dominant position, but not allow miusing dominant power
  - Preventing unfair trade practise

</td></tr>
</table>

MRTP Vs CCI

MRTP (1969)	CCI (2002)
Based on pre-reforms scenario	Based on post-reforms scenario
Objective is to prevent concentration of economic power	To prevent practices having adverse effect on competition
MRTP commission was only advisory in nature	CCI can take up suo moto action
Cease and desist orders were issued	Can pass order to prevent and punish
Entity having dominant position is considered bad in itself	Abuse of dominant position will not be allowed
Reactive and rigid	Pro-active and flexible
Dealt with Unfair Trade Practices (UTPs)	UTPs transferred to consumer courts

FERA vs FEMA

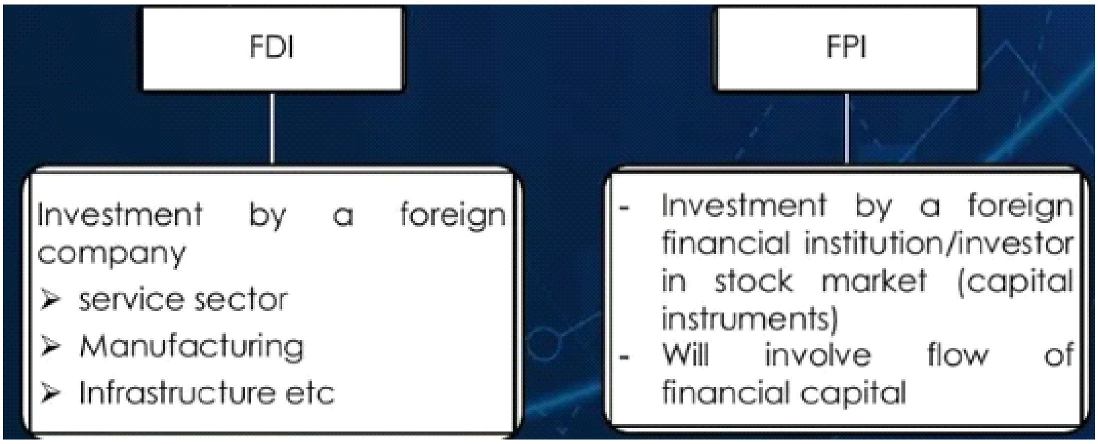
- FERA : Foreign Exchange Regulation Act
    - Draconian Act : Very Strict rules for using Forex Exchange
    - Context of high volatility in 1973, for stabilizing exchanges
- FEMA : Foreign Exchange Management Act
    - Liberalized Remittances Scheme : Using 250,000 Dollar

	FERA (1973)	FEMA (1999)
When it was promulgated	The forex reserves were dwindling	The forex reserves were very stable and increasing
Objective	Was to conserve the forex reserves	Was to promote foreign trade and assimilate forex reserves
Basis for evaluation/regulation	He/she should be a citizen	He/she should be a resident
In case of violations	Criminal offence	Civil offence
One line verdict	everything was prohibited unless specifically permitted	everything was permitted unless specifically prohibited

INVESTMENT MODEL

Foreign Investment

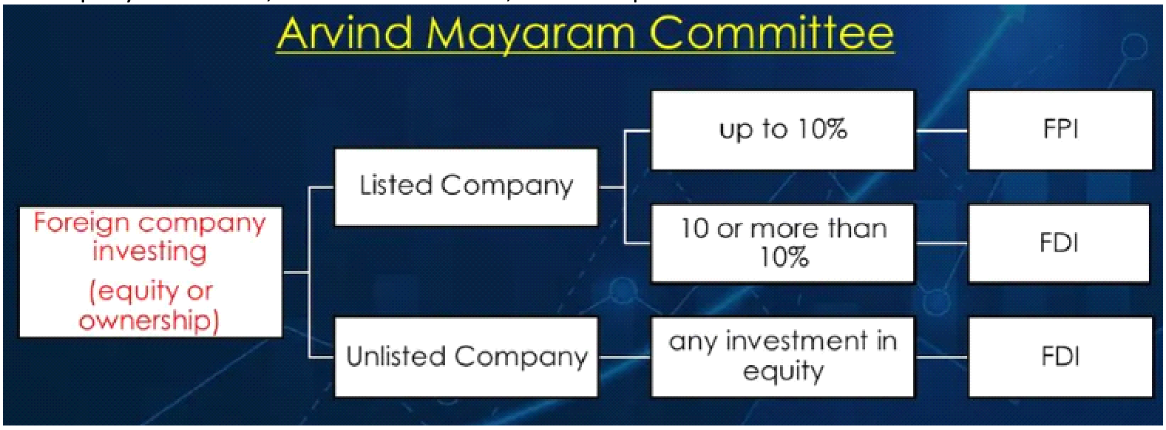
- Types : FDI / FPI



FDI	FPI
Foreign Direct Investment	Foreign Portfolio Investment
Usually for longer term	Comparatively for shorter term
Invest in physical assets	Invest in financial assets
Are associated with multiplier effect	Will increase the capital availability in the market
Investments are done in order to earn profits	Investments tend to be speculative
Comparatively difficult	Easy to enter and exit

Arvind Mayaram Committee

- Govt uses this recommendation for Differentiation bw FPI and FDI
- If Company is unlisted , not in stock market, FPI is not possible



FDI Foreign Direct Investments

- Definition – investment by a foreign company in purchasing ownership in a host country
- Routes
  - Direct (Automatic)
    - Foreign companies are allowed to bring in capital without any requirement of approval
    - Within a month the foreign company will have to intimate RBI
    - Govt decides which sectors would be covered under this
  - Approval (Government)
    - Up to ₹ 5000 Cr – approach the respective ministry (through Foreign Investment Facilitation Portal – Single Window Clearance)
    - More than 5000Cr : Get approval from CCEA Cabinet Committee on Economic Affairs
    - Any FDI coming from neighbouring county Govt approval is required

Allowed	Prohibited
Civil aviation	Gambling and Betting
Telecom	Lottery
Defence	Sectors not open to private sector participation – atomic energy etc.
Insurance	
Pension etc	

- India is one of the country with huge inflow of FDI
- Post 2000, the service sector has attracted the largest FDI
- Singapore, Mauritius are top FDI sourcing economies

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<tr><td>Depository Receipts</td><td>
• Indian Depository Receipt : Foreign shares listed in India


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</table>

L31 FPI, SEZ and PPP

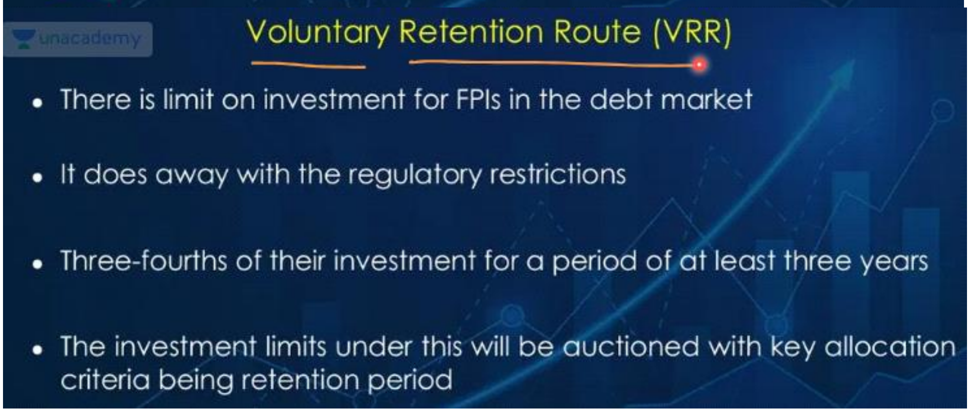
15 October 2024 06:12 PM

FPI Foreign Portfolio Investments

- FPI : Collection of Invetments

- Ex : FII Financial Institution Investments

- Medium term Framework : By RBI, Process with certain restriction for foreigner
  - Concentration Limit : Adding Limitation on buying government bond, shares etc



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<td>SEZ Special Economic Zones</td>
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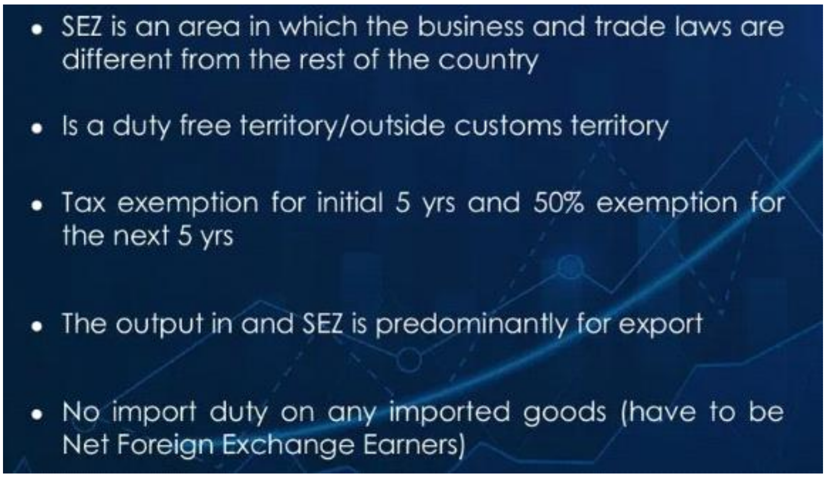

- Domestic Tariff Area DTA : Outside area
- IFCS : International Finance Service Centre
    - Multiple cities all over world,
    - Any foreign Investor can invest in their foreign currency directly
    - No tax, No registration from SEBI required
    - Governed by IFSCA Authority
    - Ex : GIFT City

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<tr>
<td>SEZ so far</td>
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</tr>
<tr>
<td>Issues with SEZ</td>
<td>

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<tr>
<td>Baba Kalyani</td>
<td>

- Model : Focus on Export -> Focus on Invetment, Employment etc

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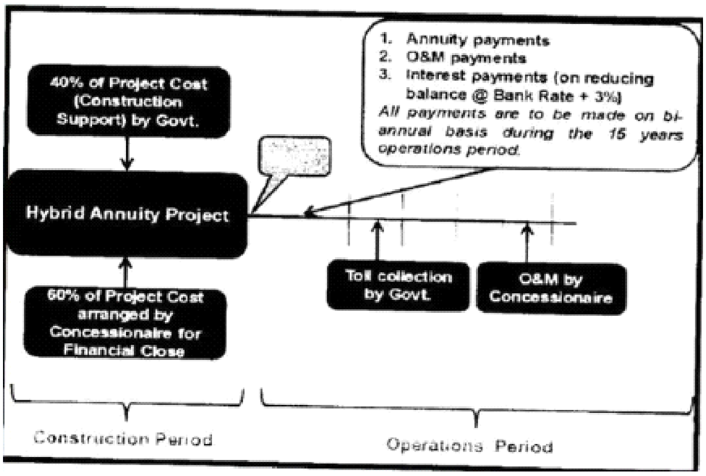
</table>

Report	• SEZs to EEEs (Employment and Economic Enclaves) – will lead to policy shift • Incentives to be linked with employment generation, investment etc • Sunset clause to be looked into, tax incentives to increase • Promote other services • Formulation of separate rules and procedures for manufacturing and service SEZs • Enabling framework for Ease of Doing Business (EoDB) • Increasing the competitiveness by enabling ecosystem development by funding high-speed multi-modal connectivity, business services, and utility

PPP Public Private Partnership	• Two parties (Government and Private) enter into a contract to build/operate/provide certain goods/services • Both enter into a legal binding agreement (CA - Concessionaire Agreement) • Both parties agree to share responsibilities related to implementation and/or operation and management NIP • Why PPP ○ Expertise of both the parties can be used ○ The government is short of resources ○ Increased efficiency because of involvement of private partner ○ Access to latest/advanced technology
Types	• Build Operate Transfer (BOT) – private sector builds, operates and transfers the infrastructure after the contract period Pvt Se • Lease Develop Operate (LDO) – govt owns the infrastructure, leases out the infrastructure to the private sector for certain period • Service contract – private sector player provides some of the services for a specific period of time • Engineering Procurement and Construction EPC: ○ Private company create and handover to govt in exchange of payment. ○ Roads in the cities (Contractor Work) • Hybrid Annuity Model HAM :

- Under this a fixed payment is done for a period of time and then a variable amount is paid for the remaining period
- HAM is a mix of EPC and BOT
- The government will contribute to 40% of the project cost in the first five years through annual payments
- The remaining payment will be done on the basis of the assets created and the performance of the developer. The developer has to make the 60% of the payment by raising loans/equity

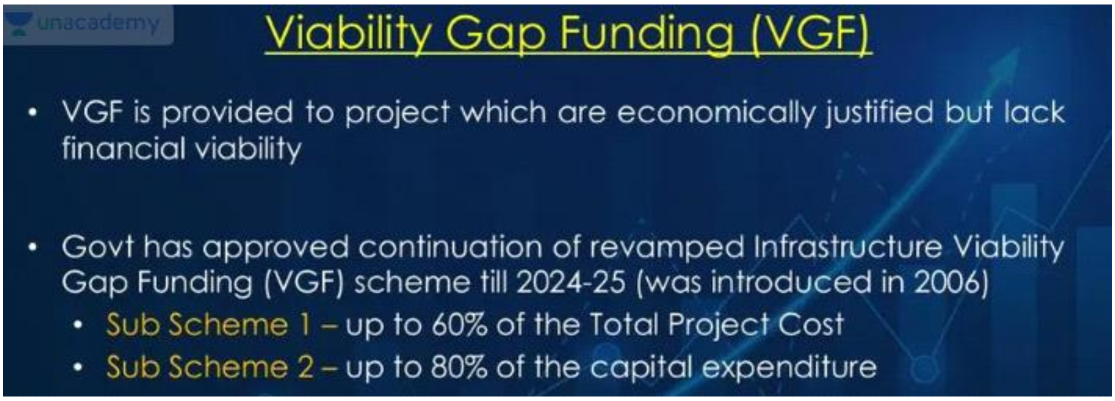
- Govt : Incentive
  - No immediate payment liability
  - Burden of Private sector
  - Spreading the payment : relax and flexible financing
- Private : Incentive
  - No traffic risk (Govt take tolls)
  - Interest payment



Issues

- Long term investment/finance is a problem
- Existing contracts focus more on financial returns than providing service
- Private developers lose bargaining power in long term projects with policy changes
- Issues with land acquisition
- Issues related to government clearances (such as environmental clearances)
- Private sector is not interested in investing in all the sectors
- The NPAs in infra projects have increased
- Delays in developing infrastructure projects

Kelkar Committee



Infrastructure Investment Trust InvITs	 • REIT : Real Estate Investment trust

L32 Infrastructure, Power Structure

15 October 2024 11:09 PM

Infrastructure	• Infrastructure provides supporting services in the main areas of industrial and agricultural production, domestic and foreign trade and commerce. These services include • Roads • Railways • Ports • Airports • Power etc. • Infrastructure is also divided into-social (healthcare, education etc which provide the basic needs of the society) and physical (airport, port, roads etc are directly concerned with the needs of the production) • Objective : Physical / Social / Digital • DPI : Aadhar, UPI, Digilocker
Feature	• Investment requirements are high Sunken Cost • Long term loans are required • Usually, the sector is sensitive to policies of the government • The services that are produced have to be consumed and cannot be stored • Associated with demand, growth, employment etc • Sunken Cost : Cost that will not be able to recover
PM Gati Shakti	• Approved by the cabinet in 2021 • It is a digital platform to bring 16 ministries • This is for integrated planning and coordinated implementation of infrastructure projects • It will provide integrated and seamless connectivity for movement of people, goods and services from one mode of transportation to another

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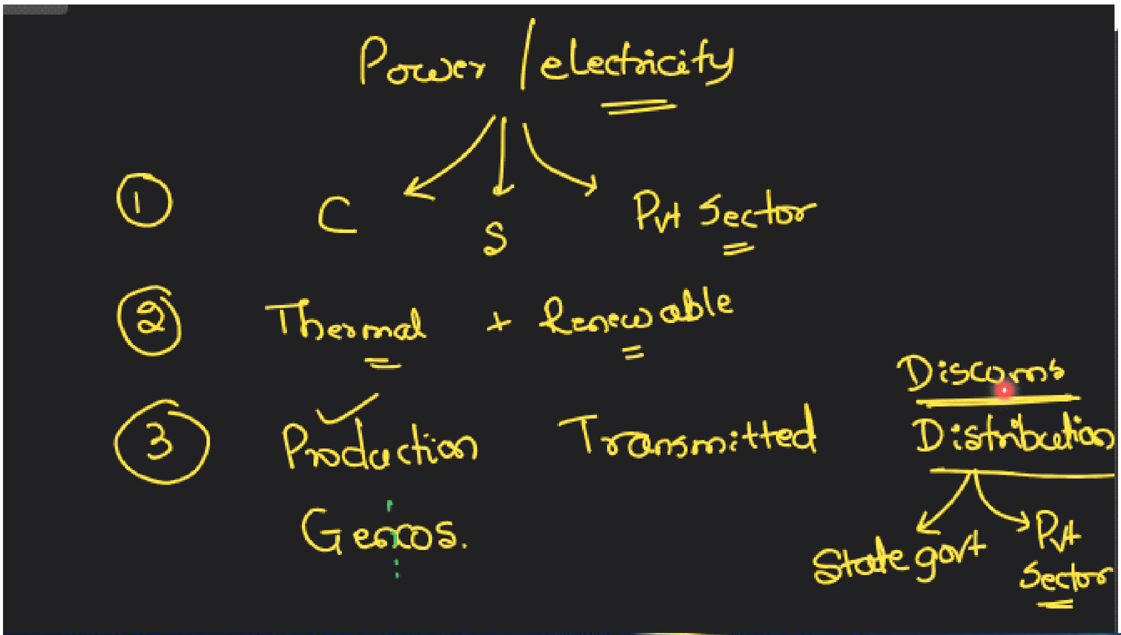
<tr><td>Power Sector</td><td>


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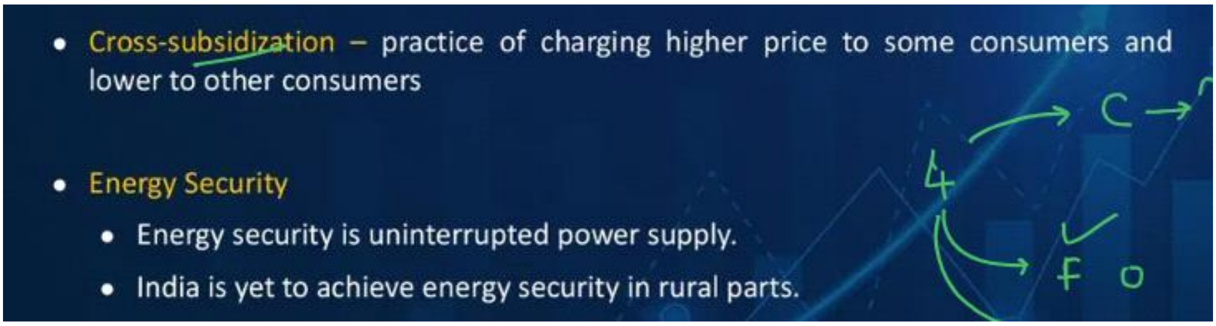
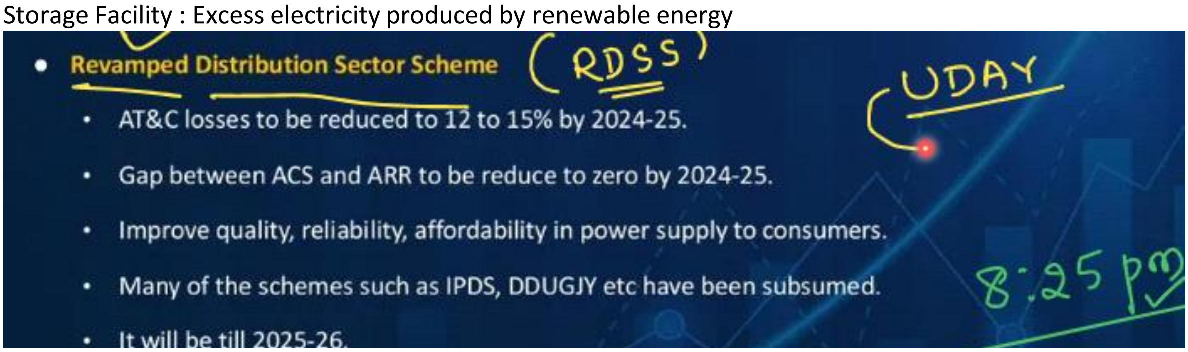
<tr><td>Issues</td><td>


• Renewable Enregy : Duck Curve Problem
</td></tr>
<tr><td>Solution</td><td>
• UDAY : Ujjwal Discom Assurance Yojna : Issuing bond to repay debt
• Storage Facility : Excess electricity produced by renewable energy


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</table>

- **Revamped Distribution Sector Scheme** (RDSS)
  UDAY
  - AT&C losses to be reduced to 12 to 15% by 2024-25.
  - Gap between ACS and ARR to be reduce to zero by 2024-25.
  - Improve quality, reliability, affordability in power supply to consumers.
  - Many of the schemes such as IPDS, DDUGJY etc have been subsumed.
  8:25 pm
  - It will be till 2025-26.
- **PM Saubhagya (Pradhan Mantri Sahaj Bijli Har Ghar Yojana)**
  - Free electricity connection to poor households.
  - REC (Rural Electrification Corporation) is the Nodal Agency for operationalization of the scheme.
- LED program – UJALA (Unnat Jyoti by Affordable LEDs for All).
  - Implemented by Energy Efficiency Services Limited (EESL).
  - Promotes usage of LED bulbs.
  - More than 36 crore LED bulbs have been distributed.
- Thrust to Renewable energy
  - Govt has set up a target of achieving renewable energy capacity of 175 GW of renewable energy capacity by 2022.

L33 Railways, Roads, Aviation, Ports

16 October 2024 09:59 PM

RAILWAYS	• Govt Undertaking • Passenger : Subsides of Ticket (Incurring losses) Freight : High cost to cancel out losses • 3rd Highest length of rail in the world

Issues	• Proportion of freight transportation in railways is declining
	  • Roadways accounts for majority of freight transportation.
	  • Number of competitors in case of roadways is higher.
	  • Handling points much lower in roadways – damages/theft is lower.
	  • Dealing with railway official/government officials is difficult.
	• Low passenger to freight ratio
	  • Charges higher for freight movement.
	• Private sector participation – policy making, implementation etc is undertaken by the government (now govt is allowing private sector participation in operating some routes).
	• High operating ratio – expenditure incurred for generating revenue.

Reforms	• Private sector operating trains.
	  • Benefits
	    • Investment will increase.
	    • Govt doesn't have to spend money and the private sector would be providing the services.
	    • Customers/travellers can expect better services.
	• Issues :
	  ○ High investment requires with high risks
	  ○ Price will be decided by the Private Company (Could be higher)
	
	• Cross Subsidisation
	  ○ Automatic subsidies for senior citizen is removed
	    ▪ People have to choose to get the subsidies, many people leave it

	Railways – National Rail Plan 2030
	• Increase the modal share of Railways to 45% in freight by 2030.
	• Net Zero emitter by 2030.
	• To create capacity ahead of demand by 2030, which in turn would cater to growth in demand right up to 2050.
	• For successful implementation of the National Rail Plan, the Railways will be looking to engage with Private Sector, PSUs, State Governments.
	• Based on Acworth Committee : We started Separated Railway Budget
	• Merger with Union Budget
	  • Not a constitutional provision.
	  • It makes better sense for the ministry of finance to allocate the finances for all the infrastructure projects.
	  • The size of railway budget as a percentage of union budget was shrinking.
	• Bullet train project
	  • Benefits
	    • Introduction of new technology.
	    • Time taken for commutation would be coming down reducing the chances of migration.
	    • Decongest the road mode of transportation.
	  • Concerns
	    • Cost of the project
	    • Cost of service
	    • Land acquisition

ROADS	• India has about 66.71 lakh kms of road network (second largest in the world) (As of 5th January 2024)
	  • National Highways: 1,46,145 km
	  • State Highways: 1,79,535 km
	  • Other Roads: 63,45,403 km
	• Other Roads: Municipalities roads, Village roads
	• MORTH : Ministry of Road Transport and Highways
	  ○ NHAI : National Highway Authority in India

Issues	• Land acquisition for development of infrastructure is a problem.
	  • Cost Overrun : More price required to buy land as expected
	  • More time -> More costly land becomes
	• Very low proportion of NHS.
	• Cost of transportation is higher.

	• Delays in completion Of the projects.

Reforms	• New models of investment – HAM (discussed under PPP).
	• Steps taken to reduce cost of transportation
	    • GST
	    • Fastag
	• Road connectivity – Bharatmala Pariyojana
	    • Total length of road network – 34800 kms.
	    • Border roads, coastal roads etc. will be developed under this.
	• Asset Monetization
	
	• Logistics has been given infrastructure status
	    • Once infrastructure status is provided – benefits.
	        • Can borrow for long term investors such as pension funds, insurance funds.
	        • Can borrow at lower rate of interest from external market.
	        • Will become eligible to borrow from institutions such as India Infrastructure Financing Company.
	
	• New Logistics Division
	    • Was Created in 2017.
	    • It has been Tasked with integrated development of logistics sector (Action Plan), it will be involved in
	        • Recommending policy changes.
	        • Improvement in existing procedures.
	        • Identification of issues.
	        • Introduction of technology in this sector.

AVIATION	• MoCA : Ministry of Civil Aviation • DGCA : Director General for Civil Aviation • Regulator, just not for Air force • Civil Ports + Military Ports

<table>
<tr>
<td>Issues</td>
<td>

- Airports usually act like a monopoly
  - Larger cities have only one airports.
  - Customers do not have any option.
- Air travel is comparatively costlier.
- Aviation Turbine Fuel (ATF) amounts to around half of the travel cost
  - ATF was deregulated in 2002.
  - ATF attracts taxes from both centre and states.
- Connectivity issues in lower tier of cities.
  - Lower qaultiy or no maintaince provided in India for Aircrafts

</td>
</tr>
<tr>
<td>Reforms</td>
<td>

- Gold Plating : Unnecessary high infrastructure created which increase ticket price
  - Like AC, Water outlets etc

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Civil Aviation – Reforms – UDAN

- Ude Desh ka Aam Nagarik (Regional Connectivity Scheme – RCS).
- Announced in Civil Aviation Policy 2016.
- To connect tier 2 and tier 3 cities.
- The airlines and they will have to offer at least 50% of the seats at subsidized rates of ₹ 2500 per hour of flight.
- The target of achieving connectivity for 100 airports by 2024.
- So far
  - More than 400 routes launched.
  - Many of the routes have been discontinued.
  - Pandemic has affected the demand.
  - Cost of operations in these routes has increased.

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Civil Aviation – Reforms – Krishi UDAN

- Was launched in August 2020 (2.0 was launched in 2021)
- To help the farmers transport their output so that the value realization improves
- Krishi Udan 2.0 was launched in October 2021 enhancing the existing provisions, mainly focusing on transporting perishable food products from the hilly areas, North-Eastern states and tribal areas
- The Scheme covers 58 airports in the country, primarily focusing on 25 airports focusing on North-Eastern, Hilly and Tribal region besides 33 airports in other regions/areas.

- FDI is allowed
- PPP in airports.

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</table>

PORTS

- Major Ports : 13
    - Developed and regulated by Cnetre
    - 13th Makor port : Vadhavan Port
- Non Major Port / Minor Ports
    - Under States govt

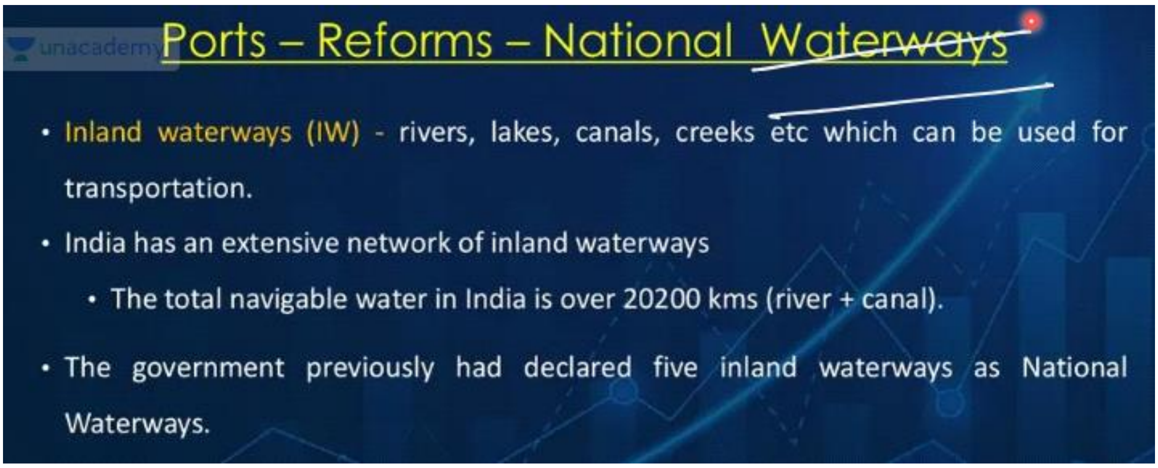
Issues

- High turnaround time TAT :
    - the average time taken between arrival and departure time for the vessels.
    - More time -> Cost associated increases
- Port infrastructure not adequate
- Sub optimal modal mix
    - Most of the transportation is done through the road network.
    - Promote Watreways
- Issues with linkages with other regions.

Reforms

- Privatisation of Ports

National Waterways



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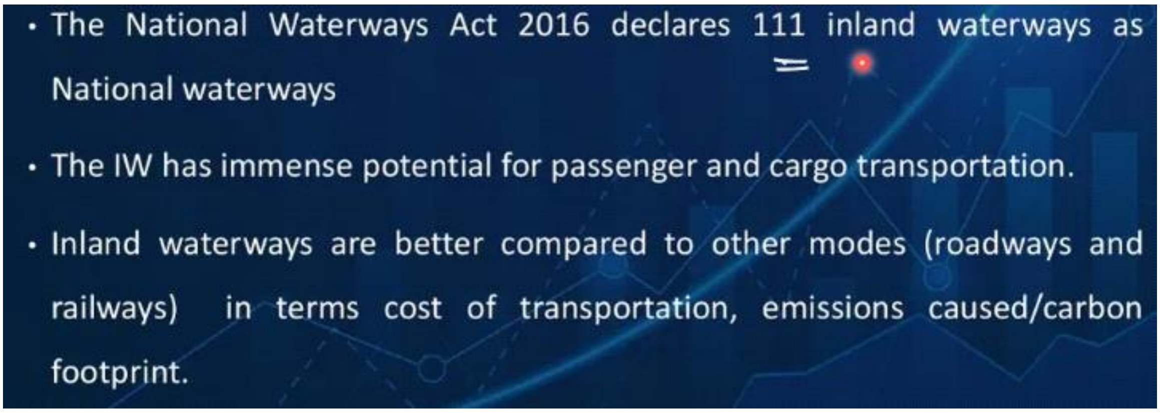
<tr><td></td><td>
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<tr><td>Advantage</td><td>
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<tr><td>Issues</td><td>
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L34 Planning Commission

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<tr>
<td>ECONOMIC PLANNING</td>
<td>

- The government / central authority would set up targets for the whole economy as well as various sectors (both public and private).
- Accordingly, the resources will also be allocated.
- The state (read government) will formulate physical and financial controls to achieve these targets.

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<td>Way to PC</td>
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- Oldest Planning : At time of British Rule

Way to PC

- Planned Economy of India by Dr M Visvesvaraya (1934):
  - Planning commission body.
  - Doubling the national income in 10 years.
  - Increase the production.
  - Increase the investment.
- National Planning Committee under Chairmanship of Pt Nehru (1938):
  - Govt should be owning important industries.
- 1943 - Bombay Plan:
  - Standard of living should be improved - doubling the per capita income - from $22 to $45 - within 15 years.
  - Infrastructure Doubling the road network, increasing coastal shipping etc develop consumption goods industries.

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<td>Need for Economic Planning</td>
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- After Independence
- India had fallen into low level equilibrium trap:
  - Situations wherein people have low savings and hence invest low
  - Growth rates had stagnated.
- Scarcity of resources and their efficient utilization.
- Social justice:
  - Employment generation.
  - Reduction in income and regional inequalities.
- To protect national interest in the age of globalization.

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<td>Economic Planning</td>
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<td>Five year Plans</td>
<td>


- NDC was Setup to add State representation in PC
- No Constitution amendment was made
- Order was issued
- Executive Authority

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<td>PC Long Term Goals</td>
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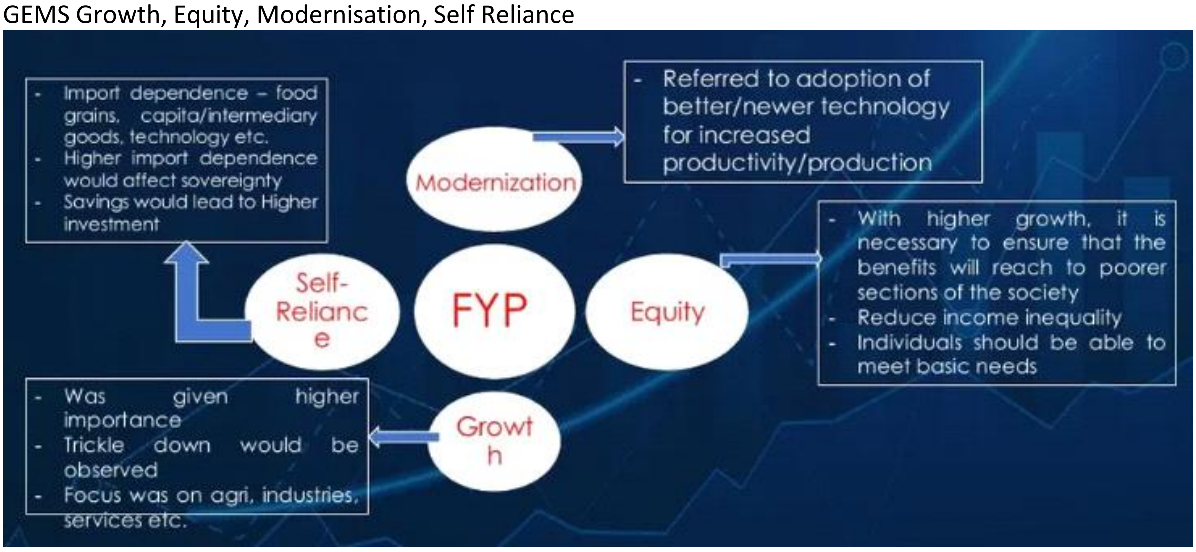
- GEMS Growth, Equity, Modernisation, Self Reliance



- Trickle Down Theory :
  - Growth was centre theme of FYP
  - Benefits provided to Rich people will move to other section of Societies
  - More Earning -> More Demand -> More Production
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- In reality it didn't worked out
  - Most of the GDP was contributed by Agriculture
  - People instead of investing started putting money in pockets

Five Year Plans FYP

First Phase:
1. First five year plan(1951-1956)
2. Second five year plan (1956-1961)
3. Third five year plan (1961-1966)

Second Phase:
4. Fourth five year plan (1969-1974)
5. Fifth five year plan (1974-1979)
6. Sixth five year plan (1980-1985)
7. Seventh five year plan(1985-1990)

Third Phase:
8. Eighth five year plan(1992-1997)
9. Ninth five year plan(1997-2002)
10. Tenth five year plan (2002-2007)
11. Eleventh five year plan (2007-2012)
12. Twelfth five year plan (2012-2017)

Five Year Plans have been discontinued after the 12th FYP

- Plan Holiday
  - 1967-1968 : Bw 3rd and 4th : Wars
  - 1991 : Bw 7th and 8th : LPG Reform

- Seventh Plan : Started rolling Plan : Continuous plan
  - Sixth Plan was cut short and seventh plan was started

- GDP

	Target	Actual
1st FYP	2.1%	3.6%
2nd FYP	4.5%	4.3%
3rd FYP	5.6%	2.8%
4th FYP	5.7%	3.3%
5th FYP	4.4%	4.8%
6th FYP	5.2%	5.7%
7th FYP	5.0%	6.0%
8th FYP	5.6%	6.8%
9th FYP	6.5%	5.4%
10th FYP	8.0%	7.6%
11th FYP	9.0%	8%
12th FYP	8.0%	7%

Evaluation

- Achievements:
  - Higher GDP growth rate attained (especially post LPG).
  - Higher Industrial growth rate.
  - Percentage BPL population has reduced.
  - Food production has increased (green revolution, white revolution, pink revolution etc).

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<table>
<tr><td>FIVE YEAR PLANS</td><td></td></tr>
<tr><td>1st Plan (1951-56):</td><td>

Very Successful, Agriculture was boosted
Associated with Harrad Domar Model

</td></tr>
<tr><td>2nd Plan (1956-1961):</td><td>Mahalanobis Strategy : Heavy Industrialisation
Import Substitiuion : Produce in India


Failed : 4.5 -> 4.3 % GDP
We didn't have proper Savings, investment, Capital, market</td></tr>
</table>

	• No machine for production -> lead to more import
3rd Plan (1961-1966):	○ Emphasis back on agriculture - achieve self sufficiency and increase the production to meet industry and export requirements. ○ Establishing basic industries such as sugar, paper etc (so that industry requirement can be met with domestic resources). ○ Wars and drought had an impact on the plan. • Plan holiday from 1966 to 1969 i.e. there were three annual plans instead of a FYP. • Draught in many parts of country • 3 annual plan was implemented
4th Plan (1969-1974) :	• Gadgil Formula : Allocating funds to the states ○ Two objectives were (plan was based on Gadgil formula): ■ Growth with stability, and ■ Progressive achievement of self reliance. ○ Nationalization of the banking sector and green revolution in agriculture. ○ Aimed at increasing the living standards through welfare programmes. ○ Plan recommended regional and local level planning and also identified the role of the Panchayati Raj institutions in local planning.
5th Plan (1974-1979):	○ Focus on poverty alleviation (Garibi Hatao) and self reliance. ○ Stress was laid on employment, poverty alleviation, and justice. The plan also focused on self-reliance in agricultural production and defense. ○ Wage employment programs and Self employment programs – IRDP. ○ Controlling inflation rate and stabilize the economic situation. ○ Change in the government led to change in the planning. FYPs were replaced with Rolling plans (led to continuous planning). • MNP : Minimum needs Programme • 20 Point Programme : (TPP) is a set of programs that aims to improve the quality of life for people • Indian Rural Development Programme
6th Plan (1980-1985):	○ Shift towards infrastructure development, continuation of social welfare measures. ○ Very high priority on poverty alleviation. ○ Allocations were provided for reducing the regional disparities. ○ Programmes such as National Rural Employment Programme and Minimum Needs Programme were launched. ○ Strengthening the agriculture and industry related infrastructure.

7th Plan (1985-1990):	○ Objective of growth, modernization, self reliance and social justice. ○ Highest priority for work, food and productivity. ○ Continued focus on infra development and shift from import substitution to outward oriented policy. ○ Role of small scale and food processing industries was recognized. ○ Programs such as Jawahar Rozgar Yojana was launched. • FY89 : Agriculture growth was in double digits
8th Plan (1992-1997):	• LPG Reforms. • Faster economic growth (6.8%). • Faster growth of manufacturing sector and agriculture and allied sectors. • Higher growth rates in exports and imports. • Improvement in trade and current account deficit. • Reduction in fiscal deficit of the govt.
9th Plan (1997-2002):	○ Announced in Fiftieth year of independence. ○ Focus was on seven identified Basic Minimum Services (BMS) - safe drinking water, primary health care facilities, universalization of education, public housing assistance, nutritional support, etc. ○ Predominantly depend on the private sector – domestic and foreign (FDI) and govt was to focus on agriculture and rural development. ○ Plan also pursued fiscal consolidation (focus was on reducing the revenue deficit). ○ Accelerated growth with stable prices.
10th Plan (2002-2007):	○ Attain 8% GDP growth per year. ○ Reduction of poverty ratio by 5 percentage points by 2007 (from 26 to 21%). ○ Providing gainful and high-quality employment at least to the addition to the labor force. ○ Reduction in gender gaps in literacy and wage rates by at least 50%. ○ All children to be in school by 2003. ○ Literacy rates to be at 75% in 2007. ○ Providing portable drinking water to all villages.

11th Plan (2007-2012):	○ "towards faster & more inclusive growth". ○ Provided comprehensive strategy for inclusive development. ○ Empowerment through education and skill development. ○ Reduction of gender inequality. ○ Provide clean drinking water for all by 2009. ○ Targets were set for agriculture, GDP, setting up of supportive infra for agriculture, etc. • Inclusive Growth : Pace and pattern of growth ○ Benefit of Growth should not be concentrated
12th Plan (2012-):	○ "faster sustainable and more inclusive growth". ○ Impact of the crisis can be overcome with higher savings and investment. ○ 25 core and monitorable targets. ▪ Real GDP growth at 8%. ▪ Agriculture growth at 4%. ▪ Manufacturing growth at 10%. ▪ Poverty rate to be reduced by 10% than the rate at the end of 11th plan. ▪ 5 Cr new work opportunities and skill certifications in non-farm sector. • Discontinued in 2015

NITI Aayog	• Established in 1915 • Think Tank : Advisory Body • Bottom Up Approach • National Institute for Transforming India (NITI). • Composition: ○ Full Time Organization • Chairperson – Prime Minister • Vice Chairperson ○ Governing Council • Composed of Chief Ministers and Lt governors of UTs

NITI vs PC

Planning Commission	NITI Aayog
Was a central government institution without any state representation.	Think Tank which will have the participation of the states to promote cooperative federalism.
Top down approach in planning.	Participation of the states.
Setting growth targets, goals, strategies.	Evolve national development strategy in consultation with the states.
Dealt with finances.	Does not handle finances.
Advisory body with financial powers.	Essentially an advisory body.

Objective

- Study area on its own or govt can ask recommendation on any area
- Bottom up -> applied at lower then expanded
- Inclusive growth
- Long term Policy

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long-term policy and programme frameworks and initiatives and monitor their progress and their efficacy.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States.

Importance

- EPI : Export Performance Index
    - NITI ayog studies different States
    - Healthy competition among all the states
    - Lots of investment is done on the basis of ranking

- Has been holding consultations with stakeholders from various industries or sectors to get the inputs.
- Has provided strategic inputs to the government in various sectors – industry, manufacturing, infrastructure, healthcare, etc.
- It could also promote the spirit of competitive federalism amongst the states.
- Introduced concept of accountability in the planning system (Development Monitoring and Evaluation Office).

NITI Aayog Recommend	• High-powered panel under member Bibek Debroy on revamping Indian Railways gave a report to the Centre. • Empowered committee for innovative projects under Panagariya played an important role in launch of the high-speed rail between Ahmedabad and Mumbai. • Appointed a committee under expert Tajamul Haque for finalizing a model land-leasing Act for states. • Promoting competitive federalism amongst states. • It has been asked to recommend on the population coverage for NFSA. • An inter-ministerial committee has been actively monitoring the setting up of five new urec plants at Ramagundam, Talcher, Gorakhpur, Sindri and Barauni. • A taskforce was constituted under the chairmanship of Dr Ramesh Chand, Membe (Agriculture), NITI Aayog, to find long-term solutions for the sugarcane and sugar industry, tc rationalize its dependence on State assistance and encourage farm diversification. • NITI Aayog constituted a committee under the chairmanship of Shri AK Sikri, former Justice, Supreme Court, to formulate an action plan on ODR in India.
Criticism	• It is not a constitutional body and not answerable/accountable to parliament (just like planning commission). • It does not have a role in policy making which have long term consequences (such as GST). • It does not influence any kind of investment (public or private; in this regard the PC was able to control a substantial part of the investments done in India). • Despite setting up, the inequality has increased.

L35 Employments, Inclusive Growth, IMF

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<table>
<tr><td>EMPLOYMENT</td><td>

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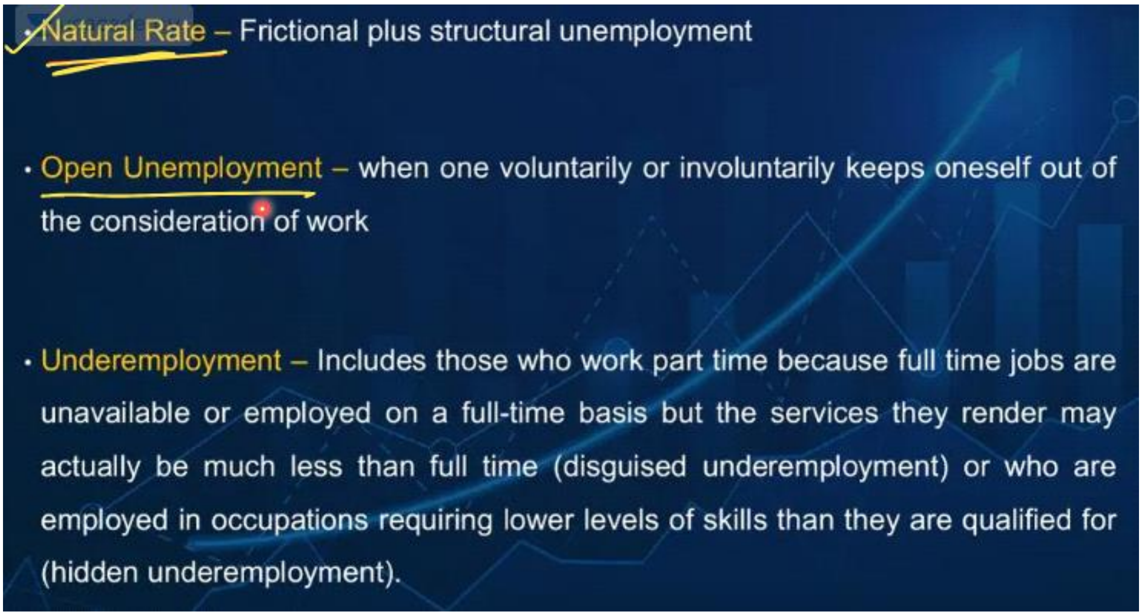
<tr><td>Types</td><td>

• Four Types of Unemployment:

Frictional	Workers in between jobs, seeking first job or looking for new one
Structural	Advances in technology reduces demand for certain skills
Seasonal	Results from changes in weather
Cyclical	Related to the health of the economy, Recession / Depression



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<tr><td>Measurement</td><td>

• PLFS : Periodic Labour force Survey (3 months, 12 months)
  • Before Employment and Unemployment Survey (Once 5 years, 2011-12)
  • More Frequent data helps govt to create new policies

• To Collect the Data : Activity Status : Survey (Sample data)
  • UPS : Usual Principle Status
    ○ Working for 183 Daya = Half year -> Employed
  • UPSS : UPS + Subsidiary :
    ○ Working for Half year + at least 30 daysm:
    ○ More inclusive

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	• CWS : Current Weekly Status ○ Working for last week • Labour Force Participation Rate (LFPR) $LFPR=\left(\frac{\text{Labour Force}}{\text{Total Population}}\right)*100$ • Unemployment Ratio $Unemployment\ Rate=\left(\frac{Unemployed}{Labour\ Force}\right)*100$ • Worker Population Ratio (WPR) $WPR=\left(\frac{\text{No.of people employed}}{\text{Total Population}}\right)*100$ • Proportion Unemployed (PU) Ratio $PU=\left(\frac{\text{No.of people unemployed}}{\text{Total Population}}\right)*100$

Jobless Growth in India	• GDP Growth ↑ : Employment Growth ↓ • Large working population is involved in agriculture • Lower employment elasticity. • Skilled labour availability is very low. • Investment has been capital intensive. • Majority contribution from service sector. • Labour laws in India. unacademy **Employment Elasticity (EE)** $EE=\frac{\text{Growth Rate of Employment}}{\text{Growth rate of GDP}}$ • Measures the productiveness of growth in terms of employment generation or This number measures how much a given rise in growth impacts jobs. • With higher growth rate it is expected that there should be higher growth rate in employment. • Higher EE is better
Skilling	• The level of skill development acquired has remained low as only 2.4% of the workforce of the age 15 to 59 yrs have received formal vocational/technical training and another 8.9% of the workforce received training through informal sources. • The proportion of formally skilled workers in India is extremely low, at 4.69% of total workforce, compared to 24% in China, 52% in the US, 68% in the UK, 75% in Germany, 80% in Japan and 96% in South Korea.

Skill India

- Launched in 2015.
- Aims to train over 40 Cr.
- Aims at providing skilling certification and vocational training.

Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

- Implemented by the Union Ministry of Skill Development and Entrepreneurship through the National Skill Development Corporation (NSDC).

Labour Issues

Female LFPR

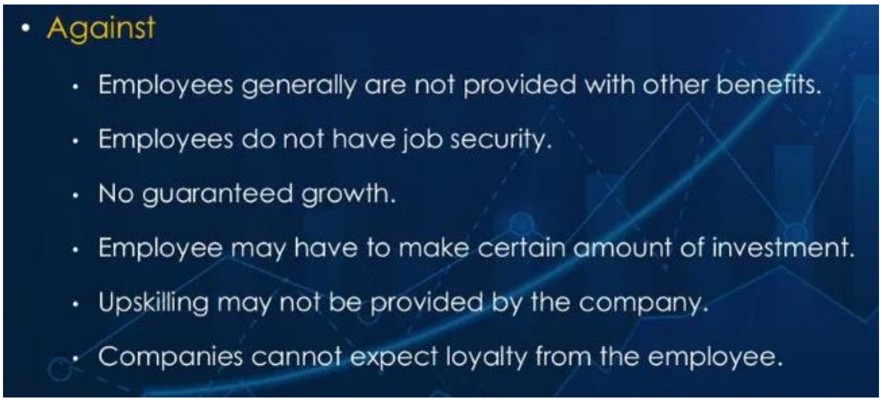
- Declined from 30.27% in 1990 to 20.8% in 2019 as per the data from World Bank (WB).
- The decline has been steepest in the years where the growth rate is higher i.e. from 2003-04 to 2010-11.
- The biggest worry is decline in the fall of FLFPR in rural areas, where the households and women are more vulnerable.

Reforms

Skill Development Scheme	Progress
PMKVY was first launched in 2015. Presently, the third phase of PMKVY, i.e., PMKVY 3.0 is being implemented across the country since January 2021 PMKVY has two training components, viz., Short Term Training (STT) and Recognition of Prior Learning (RPL). Pradhan Mantri Kaushal Kendra set up at District level, are envisaged as state of the art, visible and aspirational model training Centres.	✓ Between FY17 and FY23 (as of 5 January 2023), under PMKVY 2.0 about 1.1 crore persons have trained: 83 per cent certified and about 21.4 lakh placed. Under PMKVY 3.0, during FY21 to FY23 (as on 5 January 2023) 7.4 lakh persons have been trained, 66 per cent certified and 41,437 placed. ✓ PMKVY also provided training to Shramiks (migrant labourers) affected by Covid-19. This component covered 116 districts of 6 States, viz., Assam, Bihar, Madhya Pradesh, Odisha, Rajasthan, and Uttar Pradesh. As on 31 October 2022, 1.3 lakh migrants have been trained/oriented (0.88 lakh in STT and 0.38 lakh in RPL).
National Apprenticeship Promotion Scheme provides financial support to industrial establishments undertaking apprenticeship programmes under the Apprentices Act, 1961.	✓ Since the launch of the scheme in 2016, as on 31 December 2022, 21.4 lakh apprentices have been engaged by Industries.

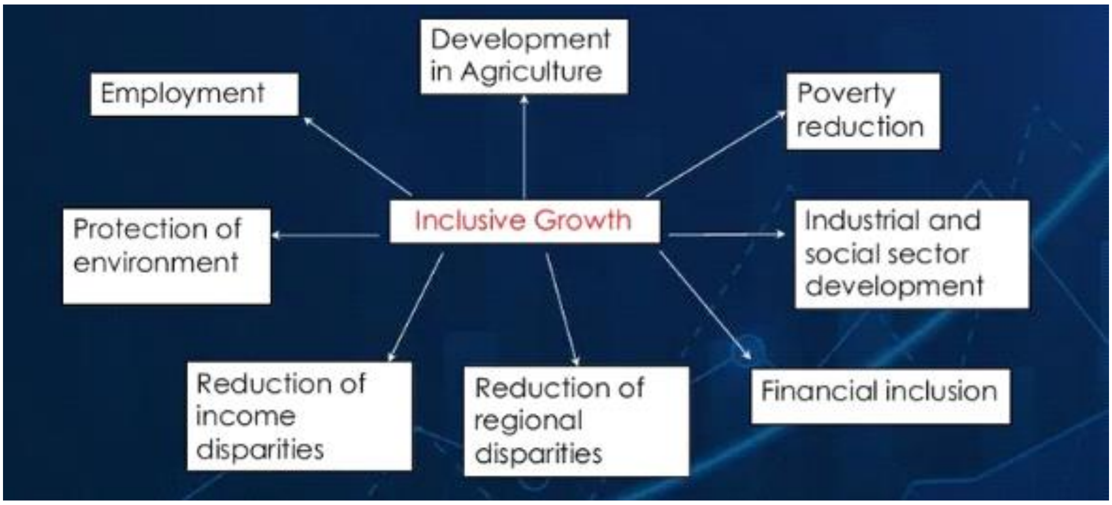
- Start Up India
- Make in India
- Labour laws rationalization
- MSME Reforms
- Skill India

Gig Wokers



INCLUSIVE GROWTH

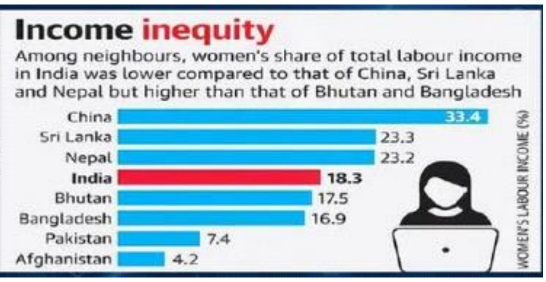
- "Inclusive Growth refers both to the pace and pattern of growth, which are interlinked and must be addressed together"- World Bank
- Pace : GDP
  Pattern : Poverty ↓, Health ↑, etc

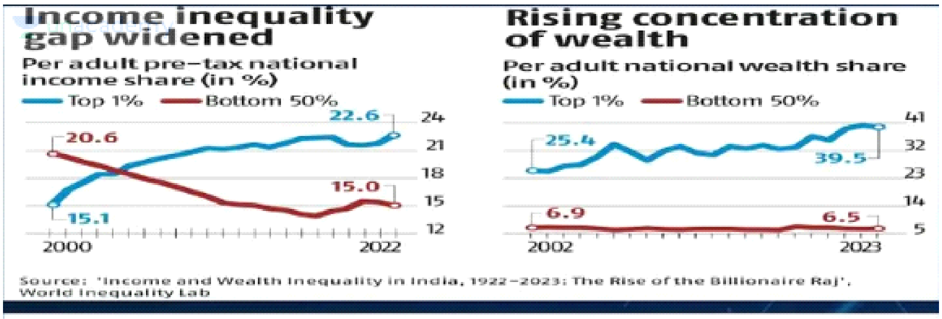


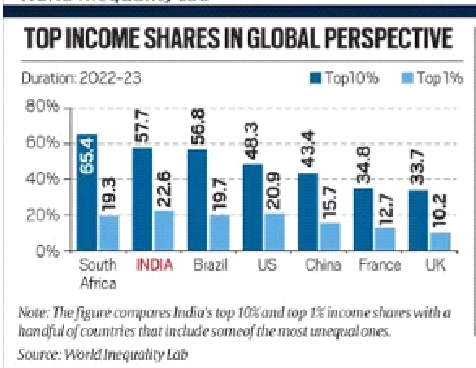
India Position

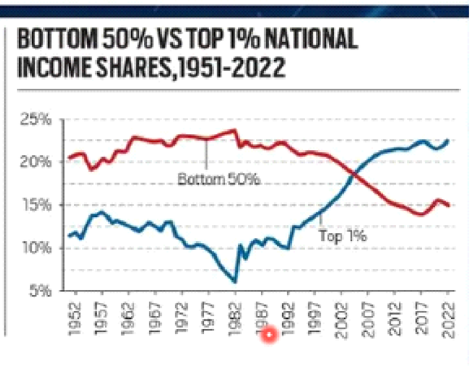
- India Didn't achieved IG as

- Population living in extreme poverty is very high.
- Issue of Unemployment/Underemployment.
- Income and wealth inequality.
- Regional imbalances are existing.
- Industrial growth adding to pollution.



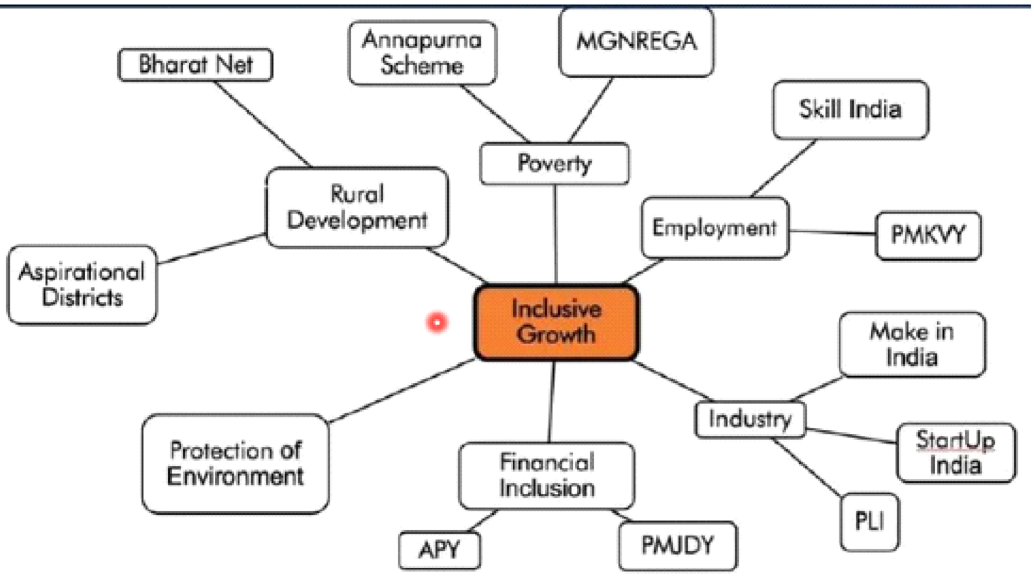






Need for IG

- India has the largest population.
- India is suffering from low development in social indicators like malnutrition, poverty, lower literacy rates, sanitation problems, corruption etc.
- India is suffering from unsatisfactory growth in economic indicators like GDP, Industrial Production, Development of infrastructure, etc.
- Although there is higher GDP growth being achieved, the fruits of that are not reaching all the people (exclusive growth).

	
Issues in IG	• Growth and Development development can be achieved together and not individually. • Number of poor must be reduced (both in percentage and absolute), and the quality of life must improve • Benefits of reforms have not reached everyone. • Social Infrastructure development has been neglected. • Need to promote investment in technology (R&D) that will improve quality of life.

International Monetary Fund	• Bretton Woods Twins - IMF and WB (UN Monetary and Financial Conference)
	• 190 members
	• HQ – Washington DC
	• Functions
	  • Provides loans to member countries
	  • Monitor policies of the governments
	  • Give recommendations to the member countries regarding policies
	  • Publishes – World Economic Outlook, Global Financial Stability Report, Fiscal Monitor, Regional Economic Outlook

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<td>Structure / Management</td>
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- India is the founding member of IMF
- India currently has a voting right of 2.63%
- India has not taken any financial assistance from the IMF since 1993

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<tr>
<td>Function</td>
<td>

- IMF Collects Funds from meber country
- IMF will provide out loan to other countries

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<tr>
<td>Source of Fund</td>
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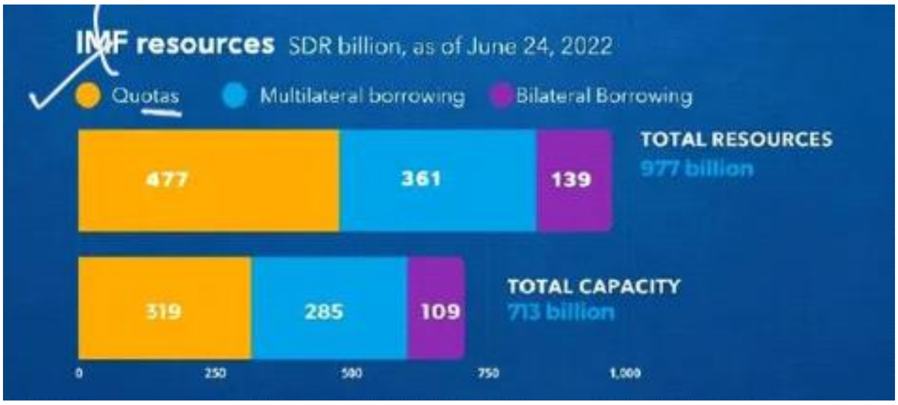
- Quota + MBA +BBA



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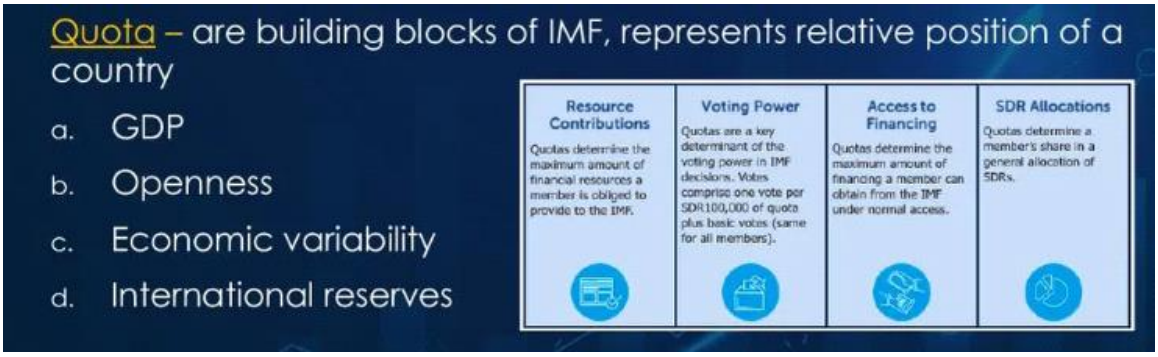

Lending By IMF

• Concessional : No rate of interest loans. Provided to least developed member
• Non Concessional : For developed or if developing country has exceeded quota, interest rate
• Quota will determine amount of loans (Limitation)

	Concessional	Non-Concessional
Emergency requirement	Rapid Credit Facility (RCF)	Rapid Financing Instrument (RFI)
Short term	Standby Credit Facility (SCF)	Stand by Arrangement (SBA)
Medium and long term	Extended Credit Facility (ECF)	Extended Fund Facility (EFF)

IMF Lending		
SBA	Non-concessional	Repayment in 3.25 to 5 years
EFF	For emerging and advanced countries	Repayment period is up to 3 years
RFI	For rapid assistance	Repayment in 3.25 to 5 years
ECF	For lower income countries	0%, maturity period of 10 years
SCF	For lower income countries	0%, maturity period of 8 years
RCF	For lower income countries	0%, maturity period of 10 years

Reserve Tranche

• Gold Tranche : Contribute money as Quota, IMF allow to borrow 25% of quota with IR 0%

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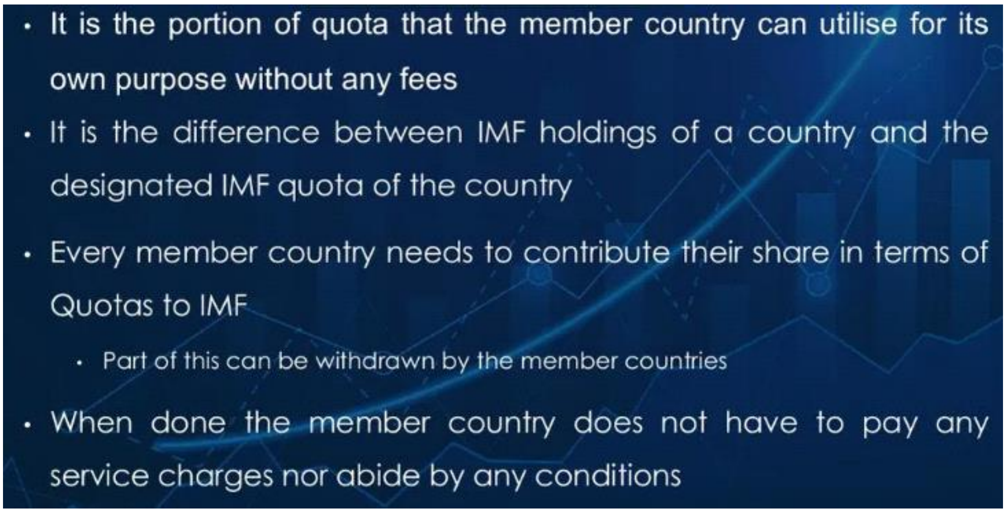
<tr><td></td><td>
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<tr><td>Special Drawing Right SDR</td><td>

<table>
<tr><th>Currency</th><th>Weights determined in the 2015 Review</th><th>Fixed Number of Units of Currency for a 5-year period Starting Oct 1, 2016</th></tr>
<tr><td>U.S. Dollar</td><td>41.73</td><td>0.58252</td></tr>
<tr><td>Euro</td><td>30.93</td><td>0.38671</td></tr>
<tr><td>Chinese Yuan</td><td>10.92</td><td>1.0174</td></tr>
<tr><td>Japanese Yen</td><td>8.33</td><td>11.900</td></tr>
<tr><td>Pound Sterling</td><td>8.09</td><td>0.085946</td></tr>
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