Port Trust :- A Port Trust is an administrative body that manages a major or minor port in India. These entities are typically set up under the Major Port Trusts Act, 1963, and are responsible for the development, management, and operation of ports.

Units in SIDBI(Small Industries Development Bank of India) :- SIDBI is a financial institution in India that promotes, finances, and develops the Micro, Small, and Medium Enterprises (MSMEs) sector. The term "units in SIDBI" refers to businesses or MSMEs that are supported or financed by SIDBI.

SEZs :- Special Economic Zones (SEZs) are designated areas in a country where business and trade laws are different from the rest of the country. They are established to promote trade, investment, and industrial growth by offering businesses various incentives.

EXIM Bank (Export-Import Bank of India) :- The Export-Import Bank of India (EXIM Bank) is a specialized financial institution that facilitates and promotes India's international trade. Established in 1982, EXIM Bank supports Indian exporters and importers by providing financial assistance and advisory services.

Economics Class 45

LOANS (09:07 AM)

- They are borrowings by a country both government and private sectors from the international money market.
- **External Commercial Borrowings (ECBs):**
- These are commercial loans raised from the international market that is they are raised at market rates without any concessions.
- All entities eligible to receive FDI can raise ECBs along with **port trust,** units in SEZs, SIDBI, and EXIM Bank of India have also been allowed to raise ECBs.
- ECBs have a general maturity period of **three years (**exceptions allowed).
- ECBs can be borrowed in any freely convertible currency.
- **Types of ECB:**
- **1. Capital Market Instruments like FCCB (Foreign Currency Convertible Bonds):**
- In India, FCCBs are included in the FDI only when it is converted into equity otherwise FCCBs are treated as ECB.
- **2. Loans including bank loans;**
- **3. Floating or fixed-rate bonds or debentures other than fully convertible instruments.**
- **Trade credit:**
- Buyers and suppliers credit beyond **three years.**

TRADE CREDIT (09:27 AM)

- It is provided to an importer by **the overseas supplier, banks and other permitted recognised lenders.**
- Only a resident of India can avail of this credit.
- It allows the importer to pay at a later date for the import of capital and non-capital goods permissible under **foreign trade policy.**
- Up to three years for the import of **capital goods and up to one year for non-capital goods.**

- **External assistance:**
- These are borrowings with lower rates of interest and longer maturity (soft loans).
- External assistance is generally given by foreign Governments, the World Bank, IMF, or other international monetary institutions.
- **Banking Capital Transactions:**
- **They mainly include NRI deposits:**

1 - **FCNRB (**Foreign currency non-Resident Bank Account):
- It can be held only in the form of **term or fixed deposits.**
- The maturity term ranges from one to five years.
- Only NRIs or persons of Indian Origin can open FCNR accounts.
- It is maintained in Foreign currency.

2 - **Non-Resident External Rupee Account:** (NRE Account)
- Any NRI can open this account to remit funds to India through banks abroad.
- These accounts are maintained in Indian rupee and can be opened as Term deposits or demand deposits.
- The interest earned on it is tax-free.
- The amount held in this deposit together with interest can be repatriated.
- It is prone to **exchange rate risk.**

3 - **Non-Resident ordinary rupee account:** (NRO)
- Any person residing outside India irrespective of being Indian or not may open or maintain this account for the purpose of handling transactions denominated in Indian rupees or to manage income earned in India.
- It can be maintained in the form of **Demand and term deposits**.
- Interest earned is generally taxable.
- It is not prone to the risk of **exchange rate fluctuations.**
- **Autonomous and accommodative transactions:**
- These items refer to international economic transactions that take place due to some economic motive such as profit maximisation.
- They are also called above-the-line items.
- For example, all current and capital account transactions

FCNRB	NRE	NRO
Only NRIs or persons of Indian origin	Any NRI	Any person residing outside India whether he may be Indian or not.
Term or Fixed deposit with maturity period of one to five years	Demand or Term deposit	Demand or Term deposit
Maintained in foreign currency	Maintained in Indian rupee	Maintained in Indian rupee

	Interest earned is tax free	Interest earned is taxable
	Prone to exchange rate fluctuation	Not prone to exchange rate fluctuation

- **Accommodative items:**
- These items are meant to restore the BoP balance or correct the BoP balance.
- They are the official reserve transactions performed by the Central Bank.
- These official reserve transactions take place when autonomous receipts are less than autonomous payments that are deficit in BoP.
- The central bank finances the deficit through FOREX reserves, borrowing from IMF or other monetary authorities.
- They are also called **below-the-line items.**

EXCHANGE RATE (2:12 PM)

- It is the rate at which the domestic currency exchanges with other international currencies example dollar in the foreign exchange market.
- **Factors influencing exchange rate-**
- **1. Political stability-**
- Countries with greater political stability have higher valued currency to current account deficit.
- Countries with low current account deficits tend to have stronger currencies compared to those with high deficits.
- **2. Inflation-**
- A country with higher inflation typically sees depreciation in its currency.
- **3. Speculation-**
- If there is speculation that the value of a country's currency is going to rise, there will be an appreciation of currency due to increased demand.
- **Types exchange rate system-**
- **1. Fixed-Exchange rate system-**
- The rate of exchange will be in different currencies fixed by the government.
- The government takes necessary measures to maintain the exchange rate at the desired level.
- A fixed exchange rate system ensures stability in foreign trade by avoiding day-to-day fluctuations.
- Fixed exchange rates eliminate speculative activities in international transactions.

- **2. Flexible /floating exchange rate-**
- It is the rate that is determined through the demand and supply of different currencies in the foreign exchange market.
- **Under this regime, there exist two systems-**
- **a. Free float**- Under free float, the rate of exchange is market-determined that is it is determined by forces of demand and supply of currencies in the foreign exchange market
- **b. Managed float-**It is a hybrid of a fixed and flexible system.
- It is guided by the broad principles of careful monitoring and managing the exchange rate.
- Whole allows demand and supply conditions to determine exchange rate movements over a period of time.
- The central bank only intervenes in the forex market to restrict the fluctuation in market rate within a certain range.
- The exchange rate can float freely within the range.
- In India, this regime is followed where RBI intervenes through sell and purchasing of foreign currencies in the international money market to restrict the movement of exchange rates within a certain range.
- This is also known as a **dirty float.**
- The PPP is defined as the number of units of a country's currency required to purchase the same amount of goods and services in the domestic market as one dollar would in the US.
- REER- It reflects the inflation-adjusted value of the domestic currency as compared to other major currencies being traded.
- NEER- It reflects the relative value of the domestic currency as compared to other foreign currencies.
- **Refer to the handout for more details.**

TOPIC OF THE NEXT CLASS- INFRASTRUCTURE

REER :- Real Effective Exchange Rate

NEER :- Nominal Effective Exchange Rate