INSIGHTSIAS

SIMPLIFYING IAS EXAM PREPARATION

INSTA PT 2020 EXCLUSIVE

ECONOMY

May 2019 – January 2020

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Schemes / Government Initiatives

1. National Pension Scheme for Traders and Self-Employed Persons

- It is ***a pension scheme for the Vyaparis*** (shopkeepers/retail traders and self-employed persons) with ***annual turnover not exceeding Rs 1.5 crore.***
- It is a voluntary and contributory pension scheme.
- The enrolment under the scheme is free of cost for the beneficiaries.
- The enrolment is based upon ***self-certification.***
- It has a provision for minimum assured pension of Rs 3,000/- monthly on attaining the age of 60 years.
- The Central Government shall give 50 % share of the monthly contribution and remaining 50% contribution shall be made by the beneficiary.
- ***Eligibility***:
    - Beneficiary is required to have an Aadhaar card and a saving bank/ Jan-dhan Account passbook only.
    - He/ She should be within 18 to 40 years of age group.
    - GSTIN is required only for those with turnover above Rs. 40 lakhs.
    - The beneficiary should not be income tax payer and also not a member of EPFO/ESIC/NPS (Govt.)/PM-SYM.

2. International Financial Services Centres Authority Bill, 2019

- ***What is an IFSC?***
    - An IFSC enables bringing back the financial services and transactions that are currently carried out in offshore financial centers by Indian corporate entities and overseas branches / subsidiaries of financial institutions (FIs) to India by offering business and regulatory environment that is comparable to other leading international financial centers in the world like London and Singapore.
    - It would ***provide Indian corporates easier access to global financial markets.***
- ***What are the services an IFSC can provide?***
    - Fund-raising services for individuals, corporations and governments.
    - Asset management and global portfolio diversification undertaken by pension funds, insurance companies and mutual funds.
    - Wealth management.
    - Global tax management and cross-border tax liability optimization, which provides a business opportunity for financial intermediaries, accountants and law firms.
    - Global and regional corporate treasury management operations that involve fund-raising, liquidity investment and management and asset-liability matching.
    - Risk management operations such as insurance and reinsurance.
    - Merger and acquisition activities among trans-national corporations.
- ***The bill seeks to setup an authority-*** The ***International Financial Services Centres Authority.***
- ***Management of the Authority:*** Consisting of a Chairperson, one Member each to be nominated by the Reserve Bank of India (RBI), the Securities Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA), two members to be nominated by the Central Government and two other whole-time or full-time or part-time members.
- ***Functions of the Authority:***
    - Regulate all such financial services, financial products and FIs in an IFSC which has already been permitted by the Financial Sector Regulators for IFSCs.
    - Regulate such other financial products, financial services or FIs as may be notified by the Central Government from time to time.

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- Recommend to the Central Government such other financial products, financial services and financial institutions which may be permitted in the IFSCs.

- ***Powers of the Authority:***
  - All powers exercisable by the respective financial sector regulatory (viz. RBI, SEBI, IRDAI, and PFRDA etc.) under the respective Acts shall be solely exercised by the Authority in the IFSCs in so far as the regulation of financial products, financial services and FIs that are permitted in the IFSC are concerned.
- ***Who is covered?***
  - The Bill will be ***applicable to all International Financial Services Centres (IFSCs) set up under the Special Economic Zones Act, 2005.***
    The first IFSC in India has been ***set up at the Gujarat International Finance Tec-City (GIFT City) in Gandhinagar.***

3. Partial Credit Guarantee Scheme

- ***Partial Credit Guarantee Scheme*** for NBFCs gets cabinet nod.
- ***Key features of the scheme:***

  - It allows for purchase of high-rated pooled assets from financially-sound non-banking financial companies (NBFCs) and housing finance companies (HFCs) by public sector banks (PSBs).
  - ***The scheme would cover*** NBFCs and HFCs that might have slipped into "***Special Mention Accounts (SMA)-0***" category during the one-year period prior to August 1, 2018, and asset pools rated "***BBB+***" or higher.
  - The window for one-time partial credit guarantee offered by the government would remain open till June 30, 2020 or till such date by which Rs 1 lakh crore worth of assets get purchased by the banks, whichever is earlier.
  - The Finance Minister would have the power to extend the validity of the scheme by up to three months by taking into account its progress.
- **Special Mention Accounts (SMA):**
  - The classification of Special Mention Accounts (SMA) was introduced by the RBI in 2014, to identify those accounts that has the **potential to become an NPA/Stressed Asset.**
  - Special Mention Accounts are those assets/accounts that shows symptoms of bad asset quality in the first 90 days itself.
  - **The Special Mention Accounts are usually categorized in terms of duration.**
    - **SMA – NF**: Non-financial (NF) signals of stress
    - **SMA-0**: Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress.
    - **SMA- 1**: Principal or interest payment overdue between 31-60days.
    - **SMA – 2**: Principal or interest payment overdue between 61-90 days.

4. eBkry e-auction Portal

- Union Finance Ministry has recently launched ***the eBkry e-auction portal.***
- ***Objective***: To enable online auction by banks of attached assets transparently and cleanly for the improved realization of value.
- ***Key features:***
  - It is framework for promoting online auction of assets attached by the banks.

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- It is equipped with the property search features and contains navigational links to all PSBs e-auction sites.
- The framework aims to provide single-window access to information on properties.

5. Sovereign Gold Bond Scheme

- Government of India, in consultation with the Reserve Bank of India, had decided to issue Sovereign Gold Bonds.
- ***The Bonds will be sold through*** Scheduled Commercial banks (except Small Finance Banks and Payment Banks), Stock Holding Corporation of India Limited (SHCIL), designated post offices, and recognised stock exchanges viz., National Stock Exchange of India Limited and Bombay Stock Exchange Limited.
- ***About the Sovereign Gold Bond Scheme:***
  1. The sovereign gold bond was ***introduced by the Government in 2015***.
  2. Government introduced these bonds ***to help reduce India's over dependence on gold imports***.
  3. The move was also aimed at ***changing the habits of Indians from saving in physical form of gold to a paper form with Sovereign backing***.
- ***Key facts:***
  - ***Eligibility***: The bonds will be restricted for sale to resident Indian entities, including individuals, HUFs, trusts, universities and charitable institutions.
  - ***Denomination and tenor:*** The bonds will be denominated in multiples of gram(s) of gold with a basic unit of 1 gram. The tenor will be for a period of 8 years with exit option from the 5th year to be exercised on the interest payment dates.
  - ***Minimum and Maximum limit:*** The minimum permissible investment limit will be 1 gram of gold, while the maximum limit will be 4 kg for individual, 4 kg for HUF and 20 kg for trusts and similar entities per fiscal (April-March) notified by the government from time to time.
  - ***Joint Holder:*** In case of joint holding, the investment limit of 4 kg will be applied to the first applicant only.
  - ***Collateral***: Bonds can be used as collateral for loans. The loan-to-value (LTV) ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.
  - ***Tenor***: The tenor of the Bond will be for a period of 8 years with exit option after 5th year to be exercised on the interest payment dates.
  - ***Interest rate:*** The investors will be compensated at a fixed rate of 2.50 percent per annum payable semi-annually on the nominal value.

6. BHIM 2.0

- Govt launches ***BHIM 2.0*** with new functionalities and additional language support.
- ***What is BHIM?***
  - Bharat Interface for Money (BHIM) is a UPI based payment interface.
  - Developed by National Payments Corporation of India (NPCI).
  - Allows real time fund transfer.
  - Launched in December, 2016.
- ***What's new in BHIM 2.0?***
  - Donation' gateway, increased transaction limits for high value transactions, linking multiple bank accounts, offers from merchants, option of applying in IPO, gifting money.
  - It also supports three additional languages -- Konkani, Bhojpuri and Haryanvi -- over and above the existing 13.
- ***What is UPI?***
  - Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking

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features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience. Each Bank provides its own UPI App for Android, Windows and iOS mobile platform(s).

- ***About NPCI:***
  - NPCI is an umbrella organisation for operating retail payments and settlement systems in India.
  - It is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment and Settlement Infrastructure in India.
  - It has been incorporated as a ***not for profit company.***
  - In 2016 the shareholding was broad-based to 56 member banks to include more banks representing all sectors.

7. Enterprise development centres (EDCs)

- Union micro, small and medium enterprises sector (MSME) ministry is planning to launch ***enterprise development centres (EDCs)*** in every district.
- ***What are EDCs?***
  - Aimed at developing a cadre of indigenous entrepreneurs in the MSMEs, the EDCs will be ***similar to incubators for start-ups.***
  - They shall be ***run by special purpose vehicles in partnership with the private sector, business management organisations, local industry associations***.
- ***Key features, roles and functions of EDCs:***
  1. Offer "***enterprise development courses***, vocational guidance and skill development for budding entrepreneurs".
  2. Have "***enterprise clinics***" for struggling firms, which the government hopes will reduce the number of small businesses falling into a debt trap financed by bank loans.
  3. Offer ***credit facilitation and syndication, export promotion and supplier inclusion***.
  4. ***Incentives and loans by the government for the sector*** will also flow through the EDCs, after determining the capabilities of the firm through set parameters.

8. Nirvik scheme

- ***Export Credit Guarantee Corporation of India (ECGC)*** announced this scheme to ease the lending process and enhance loan availability for exporters.
- ***Key features of the scheme:***
  1. **Insurance cover** guaranteed will cover up to 90% of the principal and interest.
  2. The increased cover will ensure that foreign and rupee export credit interest rates are below 4 percent and 8 percent respectively for the exporters.
  3. The insurance cover will include both pre and post-shipment credit.
  4. The gems, jewellery and diamond (GJD) sector borrowers with limit of over Rs 80 crore will have a higher premium rate in comparison to the non-GJD sector borrowers of this category due to the higher loss ratio.
  5. For accounts with limits below Rs 80 crore, the premium rates will be moderated to 0.60 per annum and for those exceeding Rs80 crore, the rates will be 0.72 per annum for the same enhanced cover.
  6. It mandates inspection of bank documents and records by ECGC officials for losses exceeding Rs.10 crore as against the present Rs 1crore.
  7. The banks shall pay a premium to ECGC monthly on the principal and interest as the cover is offered for both outstandings.
- ***Benefits of the scheme:***
  1. It will enhance **accessibility and affordability of credit for exporters**.
  2. It will help make **Indian exports competitive**.
  3. It will make ECGC procedures exporter friendly.

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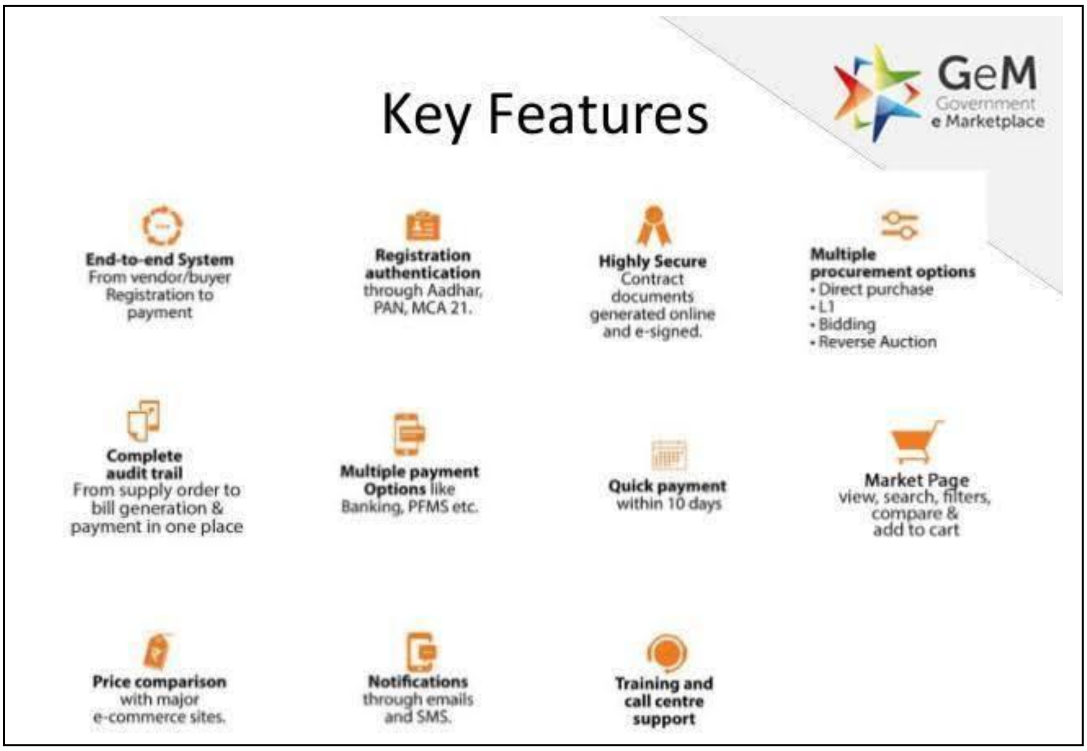
4. The insurance cover is expected to bring down the cost of credit due to capital relief, less provision requirement and liquidity due to quick settlement of claims.

9. Government e-Marketplace (GeM)

- GeM is a state-of-the-art **national public procurement platform of Ministry of Commerce and Industries**, that has used technology to remove entry barriers for bonafide sellers and has created a vibrant e-marketplace with a wide range of goods and services.



- ***GeM facilities:***
  1. Listing of products for individual, prescribed categories of Goods/ Services of common use.
  2. Look, estimate, compare and buying facility on dynamic pricing basis.
  3. Market place buying of majority of common User Items.
  4. Buying Goods and Services online, as and when required.
  5. Transparency and ease of buying.
  6. Useful for low value buying and also for bulk buying at competitive price using Reverse Auction/ e-bidding.
  7. Continuous vendor rating system.
  8. Return policy.
- **Who can buy/purchase through GeM?**
  All Central government and State Government Ministries/Departments including its attached/subordinate offices, Central and State autonomous bodies, Central and State Public Sector Units and local bodies etc. are authorized to make procurement through GeM portal.
- **Who can sell on GeM?**
  The "Seller(s)" on GeM will be the OEMs (Original Equipment Manufacturers) and/or their authorized channel partner(s)/ resellers (having any general authorization / dealership of the OEM to sell their product in open market) and e- Marketplaces.

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10.National Agriculture Market (e-NAM)

- E-NAM (National Agriculture Market) is ***an online trading platform for agriculture produce*** aiming to help farmers, traders, and buyers with online trading and getting a better price by smooth marketing.
- It was ***launched by the Centre in 2015 and the government had to extend it in a phased manner across the 585 mandis of the country by December 31, 2019.***
- The Portal is managed by **Small Farmers' Agribusiness Consortium (SFAC).**
- On the ENAM platform, farmers can opt to trade directly on their own through the mobile app or through registered commission agents.
- ***NAM has the following advantages:***
  1. ***For the farmers,*** NAM promises more options for sale. It would increase his access to markets through warehouse-based sales and thus obviate the need to transport his produce to the mandi.
  2. ***For the local trader in the mandi / market,*** NAM offers the opportunity to access a larger national market for secondary trading.
  3. ***Bulk buyers, processors, exporters etc.*** benefit from being able to participate directly in trading at the local mandi / market level through the NAM platform, thereby reducing their intermediation costs.
  4. The gradual integration of all the major mandis in the States into NAM will ensure ***common procedures for issue of licences, levy of fee and movement of produce.***
  5. The NAM will also ***facilitate the emergence of value chains in major agricultural commodities*** across the country and help to promote scientific storage and movement of agri goods.

11.National Infrastructure Pipeline

- Finance Minister Nirmala Sitharaman has unveiled a ₹102 lakh crore ***national infrastructure pipeline***.
- The finance ministry had set up a task force headed by Economic Affairs Secretary to prepare a road map for the "national infrastructure pipeline" from 2019-20 to 2024-25.
- ***Funding***: The central government and state governments would have an equal share of 39% each in the NIP. The **private sector**, on the other hand, would have 22% share which the government expects to increase to 30% by 2025.
- ***Each Ministry/ Department would be responsible for the monitoring*** of projects so as to ensure their timely and within-cost implementation.

12.Market Intervention Price Scheme

- It is a **price support mechanism** implemented on the request of State Governments.
- It is for **procurement of perishable and horticultural commodities** in the event of a fall in market prices.
- The Scheme is implemented when there is at least 10% increase in production or 10% decrease in the ruling rates over the previous normal year.
- Its objective is to protect the growers of these horticultural/agricultural commodities from making distress sale in the event of bumper crop during the peak arrival period when prices fall to very low level.
- The **Department of Agriculture & Cooperation** is implementing the scheme.
- Funding:
  - Under MIP, funds are not allocated to the States.
  - Instead, central share of losses as per the guidelines of MIP is released to the State Governments/UTs, for which MIP has been approved, based on specific proposals received from them.
  - The **area of operation is restricted to the concerned state only**.

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- **The MIS has been implemented in case of commodities like** apples, kinnoo/malta, garlic, oranges, galgal, grapes, mushrooms, clove, black pepper, pineapple, ginger, red-chillies, coriander seed etc.

13.Trade Infrastructure for Export Scheme (TIES)

- The scheme replaces a centrally sponsored scheme — Assistance to States for creating Infrastructure for the Development and growth of Exports (ASIDE).
- The objective of the TIES is to **enhance export competitiveness** by bridging gaps in export infrastructure, creating focused export infrastructure and first-mile and last-mile connectivity.
- **Eligibility:** The Central and State Agencies, including Export Promotion Councils, Commodities Boards, SEZ Authorities and Apex Trade Bodies recognised under the EXIM policy of Government of India; are eligible for financial support under this scheme.
- The scheme would provide **assistance for setting up and up-gradation of infrastructure projects** with overwhelming export linkages like the Border Haats, Land customs stations, quality testing and certification labs, cold chains, trade promotion centres, dry ports, export warehousing and packaging, SEZs and ports/airports cargo terminuses.

14.Amendments to Companies Act

- Key features of the Companies (Amendment) Bill, 2019:
    - Allows companies to **transfer their unspent CSR funds to a separate account** and the same has to be spent within three financial years. In case, the money remains unspent, then it should be transferred to any fund specified in Schedule VII of the Act.
    - Provides more teeth to the central government to deal with violators and **reducing burden on special courts.**
    - Seeks to enable the **National Financial Reporting Authority (NFRA)** to perform its functions through divisions and executive body.
    - Seeks to empower **Registrar of Companies (RoC)** to initiate action for removal of a company's name if the latter is not carrying out business activities as per the Act.
    - Proposes to **transfer some functions from NCLT to the Central government** such as dealing with applications for change of financial year and conversion from public to private companies.
    - **In order to curb the menace of shell companies**, the Bill proposes making **non-maintenance of registered office and non-reporting of commencement of business grounds** for striking off the name of the company from the register of companies.

15.Kisan Credit Card (KCC) Scheme

- The Government of India has extended the facility of **Kisan Credit Card (KCC)** to **fisheries** and **animal husbandry farmers** to help them meet their working capital needs.
- **Kisan Credit Card Scheme:**
    - The Kisan Credit Card (KCC) scheme was announced in the Budget speech of 1998-99 to fulfil the financial requirements of the farmers at various stages of farming through institutional credit.
    - The model scheme was prepared by the **National Bank for Agriculture and Rural Development (NABARD)** on the recommendation of **V Gupta committee**.
    - The KCC scheme is being implemented by the all Co- operative banks, Regional Rural Banks and Public Sector Banks throughout the country.
    - Scheme **covers risk of KCC holders against death or permanent disability resulting from accidents**.
- **Objectives**
    - To provide adequate and timely credit support from the banking system to the

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farmers at the cheap rate of interest.
  - To provide credit at the time of requirement.
  - To support post-harvest expenses.
  - To provide Working capital for maintenance of farm assets and activities allied to agriculture.
  - Investment credit requirement for agriculture and allied activities (land development, pump sets, plantation, drip irrigation etc.)
  - Consumption requirements of farmers.
- **Other Salient features of the Scheme:**
  - **Revolving cash credit facility** involving any number of withdrawals and repayments within the limit.
  - Limit to be fixed on the basis of operational land holding, cropping pattern and scale of finance.
  - Entire production credit needs for full year plus ancillary activities related to crop production to be considered while fixing limit.
  - **Card valid for 5 years** subject to annual review. As incentive for good performance, credit limits could be enhanced to take care of increase in costs, change in cropping pattern, etc.
  - **Conversion/reschedulement of loans also permissible** in case of damage to crops due to natural calamities.
  - **Crop loans disbursed under KCC Scheme** for notified crops are covered under Crop Insurance Scheme, to protect the interest of the farmer against loss of crop yield caused by natural calamities, pest attacks etc.

16. Time Release Study

- The Department of Revenue, Ministry of Finance, conducted **1st National Time Release Study** to enable faster movement of cargo across borders to benefit traders.
- **What is Time Release Study?**
  - The **World Customs Organization (WCO)** Time Release Study is a strategic and internationally recognized tool **to measure the actual time required for the release and/or clearance of goods, from the time of arrival until the physical release of cargo**.
  - **Aim**: To find bottlenecks in the trade flow process and taking necessary measures to improve the effectiveness and efficiency of border procedures.
  - The WCO TRS is specifically **referenced in Article 7.6 of the WTO Trade Facilitation Agreement (TFA)** as a tool for Members to measure and publish the average release time of goods.

17. Western Dedicated Freight Corridor (DFC)

- It is ***a broad-gauge corridor.***
- The 1,504-km western freight corridor begins at Dadri in Uttar Pradesh and stretches till the country's largest container port — Jawaharlal Nehru Port Trust, near Mumbai.
- In October 2006, a dedicated body, ***the Dedicated Freight Corridor Corporation of India (DFCCIL)*** has been established to carry out the project.
- The project will be funded by a soft loan of $4bn provided by ***Japan International Cooperation Agency*** under ***special terms for economic partnership (STEP).***
- ***Important places in this route:***
  1. It passes through ***Vadodara, Ahmedabad, Palanpur, Phulera and Rewari.***
  2. Passing through ***U.P., Haryana, Rajasthan, Gujarat and Maharashtra.***

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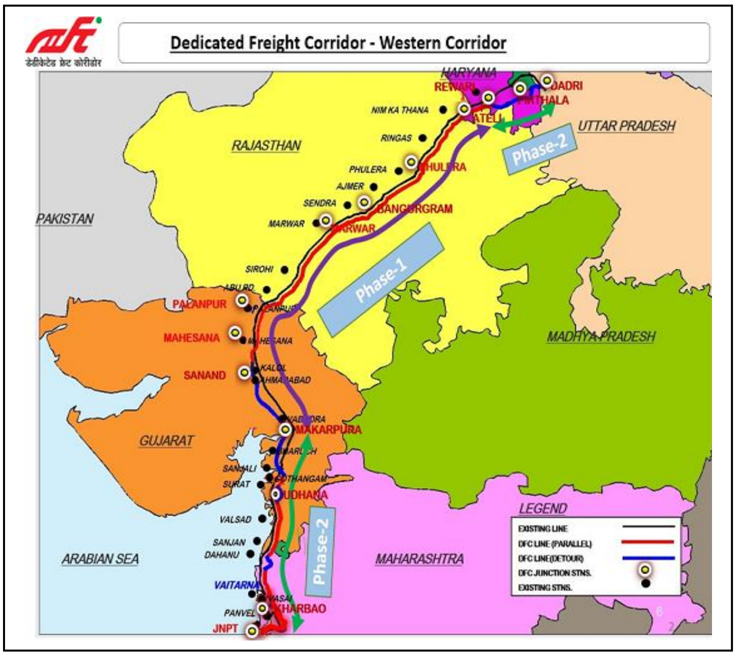
- The project will eventually be linked to the Eastern DFC to form four hubs known as ***India's Golden Quadrilateral*** including Delhi, Mumbai, Chennai and Kolkata.



- ***About Dedicated Freight Corridor Corporation of India (DFCCIL):***
  - The DFCCIL is a corporation run by the Ministry of Railways (India) to undertake planning & development, mobilisation of financial resources and construction, maintenance and operation of the Dedicated Freight Corridors. DFCC has been registered as a company under the Companies Act 1956 on 30 October 2006.

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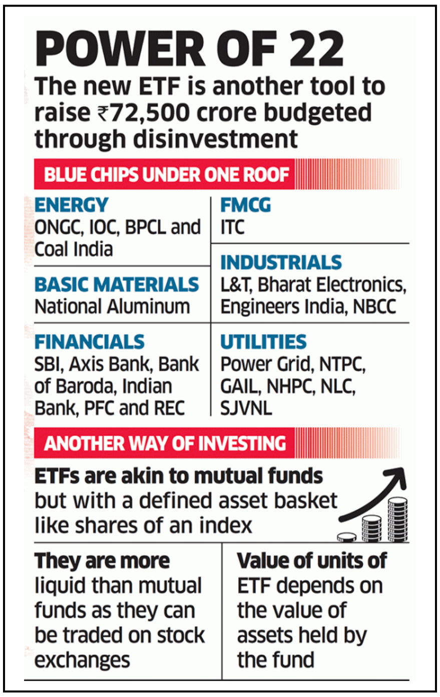
Banking Sector / Financial Sector

1. Bharat Bond ETF

- Government launched ***Bharat Bond ETF, India's first corporate bond exchange traded fund,*** comprising debt of state-run companies.
- This move will allow retail investors to buy government debt.
- ***Retail investors can invest in bond markets, with smaller amount as low as ₹1,000.***
- They will ***provide tax efficiency as compared to bonds,*** as coupons (interest) from the bonds are taxed depending on the investor's tax slab.
- ***Key features of Bharat Bond ETF:***
  1. It is a basket of bonds issued by central public sector enterprises/undertakings or any other government organization bonds.
  2. It will have a fixed maturity of three and ten years and will trade on the stock exchanges.
  3. It will invest in a portfolio of bonds of state-run companies and other government entities.
  4. Investors can put in a minimum Rs 1,000 in Bharat Bond ETF and in multiples of Rs 1,000 thereafter.

2. Exchange Traded Funds (ETFs)

- The ***Further Fund Offer 2 (FFO 2) of Bharat 22 Exchange-Traded Fund (ETF)***, which is part of the government's divestment programme, was opened for subscription for anchor investors and for non-anchor investors.



- ***What are ETFs?***
  - Exchange Traded Funds (ETFs) are ***mutual funds listed and traded on stock exchanges like shares***.
  - Usually, ETFs are ***passive funds*** where the fund manager doesn't select stocks on your behalf. Instead, the ETF simply copies an index and endeavours to accurately reflect its performance.
  - In an ETF, one can ***buy and sell units at prevailing market price on a real time basis during market hours***.
- ***Benefits and significance of ETFs:***
  - ETFs are ***cost efficient***.
  - They allow investors to avoid the risk of poor security selection by the fund manager, while offering a diversified investment portfolio.
  - The stocks in the indices are carefully selected by index providers and are rebalanced periodically.
  - They offer anytime liquidity through the exchanges.
  - ETF route is considered as safer mode of disinvestment as it shields investors against stock market volatility.
- ***What you need to know about BHARAT 22?***
  - Bharat 22 consists of 22 stocks of CPSE's, PSB's & strategic holding of SUUTI. Bharat 22 is a well Diversified portfolio with 6 sectors (Basic Materials, Energy, Finance, FMCG, Industrials & Utilities).

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3. National Investment and Infrastructure Fund (NIIF)

- Canada's largest pension fund ***Canada Pension Plan Investment Board (CPPIB)*** has agreed to invest about $600 million in ***National Investment and Infrastructure Fund (NIIF) through the NIIF Master Fund.***
- ***About NIIF:***
- The government had set up ***the ₹40,000 crore NIIF in 2015*** as an investment vehicle for funding commercially viable greenfield, brownfield and stalled infrastructure projects.
- ***The Indian government is investing 49% and the rest of the corpus is to be raised from third-party investors*** such as sovereign wealth funds, insurance and pension funds, endowments, etc.
    - ***NIIF's mandate*** includes investing in areas such as energy, transportation, housing, water, waste management and other infrastructure-related sectors in India.
    - NIIF currently ***manages three funds each with its distinctive investment mandate.*** The funds are registered as ***Alternative Investment Fund (AIF) with the Securities and Exchange Board of India (SEBI).***
- ***The three funds are:***
    - ***Master Fund:*** Is an infrastructure fund with the objective of primarily investing in operating assets in the core infrastructure sectors such as roads, ports, airports, power etc.
    - ***Fund of Funds:*** Managed by fund managers who have good track records in infrastructure and associated sectors in India. Some of the sectors of focus include Green Infrastructure, Mid-Income & Affordable Housing, Infrastructure services and allied sectors.
    - ***Strategic Investment Fund:*** Is registered as an Alternative Investment Fund II under SEBI in India. The objective is to invest largely in equity and equity-linked instruments. It will focus on green field and brown field investments in the core infrastructure sectors.

4. Alternative Investment Fund (AIF)

- As defined in ***Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012,*** AIFs refer to ***any privately pooled investment fund,*** (whether from Indian or foreign sources), ***in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP).***
    - AIF does not include funds covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities.
    - Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.
- ***Categories***:
    - As per SEBI (AIF) Regulations, 2012, AIFs shall seek registration in one of the ***three categories:***
        1. Category I: Mainly invests in start- ups, SME's or any other sector which Govt. considers economically and socially viable.
        2. Category II: These include Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator.
        3. Category III: Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator.

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5. Deposit Insurance

- The government has set up **Deposit Insurance and Credit Guarantee Corporation** (DICGC) under RBI to protect depositors if a bank fails.
- The government has decided to increase the insurance cover for bank deposits to ₹5 lakh from ₹1 lakh.
- This is the first time since 1993 that the deposit insurance cover has been raised.
- The **DICGC Act** will have to be amended to increase the deposit cover.
- The increase on deposit insurance to ₹5 lakh will increase bank premia costs to these institutions.
- The premium paid by the insured banks to the DICGC is required to be borne by the banks themselves and is not passed on to the depositors.
- The DICGC insures all bank deposits such as savings, fixed, current and recurring. Deposits not covered by the Corporation include those of foreign governments and of Central/ State governments, deposits of State Land Development Banks with State cooperative banks, inter-bank deposits, deposits received outside India and those specifically exempted by the DICGC with the prior approval of the banking regulator.

6. Payments Banks

- RBI has announced the ***final guidelines for on-tap licencing of private sector SFBs.***
- ***These guidelines include:***
    - Payments banks can apply for conversion into small finance banks (SFBs) ***after five years of operation.***
    - The promoter of a payments bank is eligible to set up an SFB, provided that both banks come under ***the non-operating financial holding company (NOFHC) structure.***
    - The ***minimum paid-up capital requirement for SFBs*** has been raised from ₹100 crore to ₹200 crore.
    - SFBs should be ***listed within three years of reaching a net worth of ₹500 crore***. They will be ***given scheduled bank status immediately upon commencement of operations,*** and will have general permission to open banking outlets from the date of commencement of operations.

GOING FURTHER AFIELD

While some services offered by payments banks and small finance banks will be similar, there are some key differences. Here is a look at what they will offer.

PAYMENTS BANK	SMALL FINANCE BANK
Can accept deposits, but only up to ₹1 lakh per individual customer	Allowed to take deposits of any amount
Can't lend in any form	Can lend but the focus will be on small lending
Can open small savings accounts	Can finance small business units, small and marginal farmers, micro and small industries and unorganised sector entities
Can provide remittance services	Can provide remittances as well as credit cards
Allowed to issue automated teller machine (ATM) or debit cards	Allowed to issue ATM or debit cards
Not allowed to issue credit cards	Has to ensure that 50% of loan portfolio constitutes advances of up to ₹25 lakh
Can distribute products such as mutual funds, insurance and third-party loans	Can distribute financial products such as mutual funds, insurance and pension

- ***What about Urban cooperative banks?***
    - ***Primary urban cooperative banks*** can convert into SFBs, provided they comply with ***the on-tap licencing guidelines.*** The minimum net worth of such SFBs will be ₹100 crore and has to be increased to ₹200 crore within five years from commencement of business.
- ***Implications and significance of these guidelines:***

What they can do

- Take deposits and disburse loans
- Distribute mutual funds, insurance products and other simple third-party financial products
- Lend 75% of their total adjusted net bank credit to priority sector
- Maximum loan size would be 10% of capital funds to single borrower, 15% to a group
- Minimum 50% of loans should be up to 25 lakh

What they cannot do

- Lend to big corporates and groups
- Cannot open branches with prior RBI approval for first five years
- Other financial activities of the promoter must not mingle with the bank

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- Existing rules ***do not allow payments banks to lend and deposits are capped at ₹1 lakh per customer.***
- If these entities get the licence of small finance banks, it will give them access to more deposits and boost their profitability, which is at present under pressure.

7. Operation Twist

- RBI launched US-style ***'Operation Twist' to bring down interest rates.***
- 'Operation Twist' is when ***the central bank uses the proceeds from sale of short-term securities to buy long-term government debt papers, leading to easing of interest rates on the long-term papers.***
- The objective behind such an operation is management of the yield curve.
- It will help to make loans less expensive with those looking to buy homes, cars and make savings less desirable as it doesn't pay much interest.
- Other central banks, including the US Federal Reserve, have used similar measures. This is the first time RBI has undertaken such an unconventional policy measure with the aim of flattening the yield curve by lowering longer rates to boost lending and growth.

8. Adjusted Gross Revenue (AGR)

- The Supreme Court has upheld ***the definition of Adjusted Gross Revenue (AGR)*** calculation as stipulated by the Department of Telecommunications. This means that ***telecom companies will have to pay up as much as Rs 92,642 crore to the government***.

What is AGR?

- Adjusted Gross Revenue (AGR) is **the usage and licensing fee that telecom operators are charged** by the Department of Telecommunications (DoT).
- It is divided into spectrum usage charges and licensing fees, pegged between 3-5 percent and 8 percent respectively.

How is it calculated and what's the contention?

- As per DoT, the charges are calculated based on all revenues earned by a telco – including non-telecom related sources such as deposit interests and asset sales. Telcos, on their part, insist that AGR should comprise only the revenues generated from telecom services.

9. Merchant Discount Rate (MDR)

- All businesses with turnover worth Rs 50 crore or above need to mandatorily provide certain electronic payment modes facilities like RuPay debit cad, BHIM-UPI (Unified Payments Interface), BHIM-UPI QR Code and UPI QR code. People making payments via these electronic modes will not need to pay any charge including MDR (Merchant Discount Rate) fee.
- Merchant Discount Rate is a **fee charged from a merchant by a bank for accepting payments from customers** through credit and debit cards in their establishments.
- MDR compensates the card issuing bank, the lender which puts the PoS terminal and payment gateways such as Mastercard or Visa for their services.
- MDR charges are usually shared in pre-agreed proportion between the bank and a merchant and is expressed in percentage of transaction amount.

10.Trade Deficit

- India decided that it won't sign ***the Regional Comprehensive Economic Participation agreement.***
- A key reason that India forwarded for declining to sign on was ***the existence of trade deficits with many of the constituents of the RCEP.***
- ***What is trade deficit?***
  - Simply put, the trade "balance" of a country shows ***the difference between what it earns from its exports and what it pays for its imports.***

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  - If this number is in negative – that is, the total value of goods imported by a country is more than the total value of goods exported by that country – then it is referred to as a "trade deficit".
  - If India has a trade deficit with China then China would necessarily have a "trade surplus" with India.
- ***What does a trade deficit signify?***
- A trade deficit broadly can mean two things:
  1. ***The demand in the domestic economy is not being met*** by the domestic producers.
  2. Many a time ***a deficit signifies the lack of competitiveness of the domestic industry.***
- More often than not, the trade deficit of a country is due to a combination of both these main factors.

11.Core Investment Companies (CICs)

- The Reserve Bank had constituted a **working group to review the regulatory and supervisory framework for core investment companies**.
- The six-member working group was headed by **Tapan Ray**, non-executive chairman, Central Bank of India and former secretary, Ministry of Corporate Affairs.
- CICs are ***non-banking financial companies with asset size of ₹100 crore and above which carry on the business of acquisition of shares and securities,*** subject to certain conditions.
- CICs, which are ***allowed to accept public funds, hold not less than 90% of their net assets in the form of investment in equity shares,*** preference shares, bonds, debentures, debt or loans in group companies.
- ***Investments of CIC in the equity shares*** (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its net assets.
- ***Exemption***: CICs having asset size of below Rs 100 crore are exempted from registration and regulation from the RBI, except if they wish to make overseas investments in the financial sector.
- ***What do the term public funds include? Is it the same as public deposits?***
  - "Public funds" includes funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures etc. but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue.

12.Supplementary Grants

- Supplementary, additional or excess grants and Votes on account, votes of credit and exceptional grants are mentioned in the Constitution of India.
- ***Article 115:*** Supplementary, additional or excess grants.
- ***Article 116:*** Votes on account, votes of credit and exceptional grants.
- ***Definition***:
  - Supplementary grants are the ***additional grant required to meet the required expenditure of the government***.
- ***The demand for excess grants:***
- When grants, authorised by the Parliament, fall short of the required expenditure, an estimate is presented before the Parliament for Supplementary or Additional grants. ***These grants are presented and passed by the Parliament before the end of the financial year.***
  When actual expenditure incurred exceeds the approved grants of the Parliament, the Ministry of Finance and Ministry of Railways presents a Demand for Excess Grant. The Comptroller and Auditor General of India bring such excesses to the notice of the Parliament.

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The Public Accounts Committee examines these excesses and gives recommendations to the Parliament. The Demand for Excess Grants is made after the actual expenditure is incurred and is presented to the Parliament after the end of the financial year in which the expenses were made.

- ***Other grants:***
  - ***Additional Grant:*** It is granted when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service not contemplated in the Budget for that year.
  - ***Excess Grant:*** It is granted when money has been spent on any service during a financial year in excess of the amount granted for that year. The demands for excess grants are made after the expenditure has actually been incurred and after the financial year to which it relates, has expired.
  - ***Exceptional Grants:*** It is granted for an exceptional purpose which forms no part of the current service of any financial year
  - ***Token Grant:*** It is granted when funds to meet proposed expenditure on a new service can be made available by re-appropriation, a demand for the grant of a token sum may be submitted to the vote of the House and, if the House assents to the demand, funds may be so made available.

13.NBFC Liquidity Norms

- ***The Reserve Bank of India (RBI)*** has introduced '***liquidity management framework' for Non-Banking Financial Companies (NBFCs).***
- The guidelines are ***applicable to all non-deposit-taking NBFCs with an asset size of ₹100 crore and above, systemically important Core Investment Companies and all deposit-taking NBFCs irrespective of their asset size.***

14.Small Finance Banks (SFBs)

- The Reserve Bank of India (RBI) granted 'in-principle' approval to Saharanpur-based ***Shivalik Mercantile Cooperative Bank to convert into a Small Finance Bank*** (SFB), making it ***the first such lender to have opted for the transition.***
- On being satisfied that the applicant has complied with the requisite conditions laid down by it as part of "in-principle" approval, the RBI would consider granting it a licence for the commencement of banking business under ***Section 22 (1) of the Banking Regulation Act, 1949*** as an SFB.
- ***What are small finance banks?***
  - The small finance bank will primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- ***What they can do?***
  1. Take small deposits and disburse loans.
  2. Distribute mutual funds, insurance products and other simple third-party financial products.
  3. Lend 75% of their total adjusted net bank credit to priority sector.
  4. Maximum loan size would be 10% of capital funds to single borrower, 15% to a group.
  5. Minimum 50% of loans should be up to 25 lakhs.
- ***What they cannot do?***
  1. Lend to big corporates and groups.
  2. Cannot open branches with prior RBI approval for first five years.
  3. Other financial activities of the promoter must not mingle with the bank.
  4. It cannot set up subsidiaries to undertake non-banking financial services activities.
  5. Cannot be a business correspondent of any bank.

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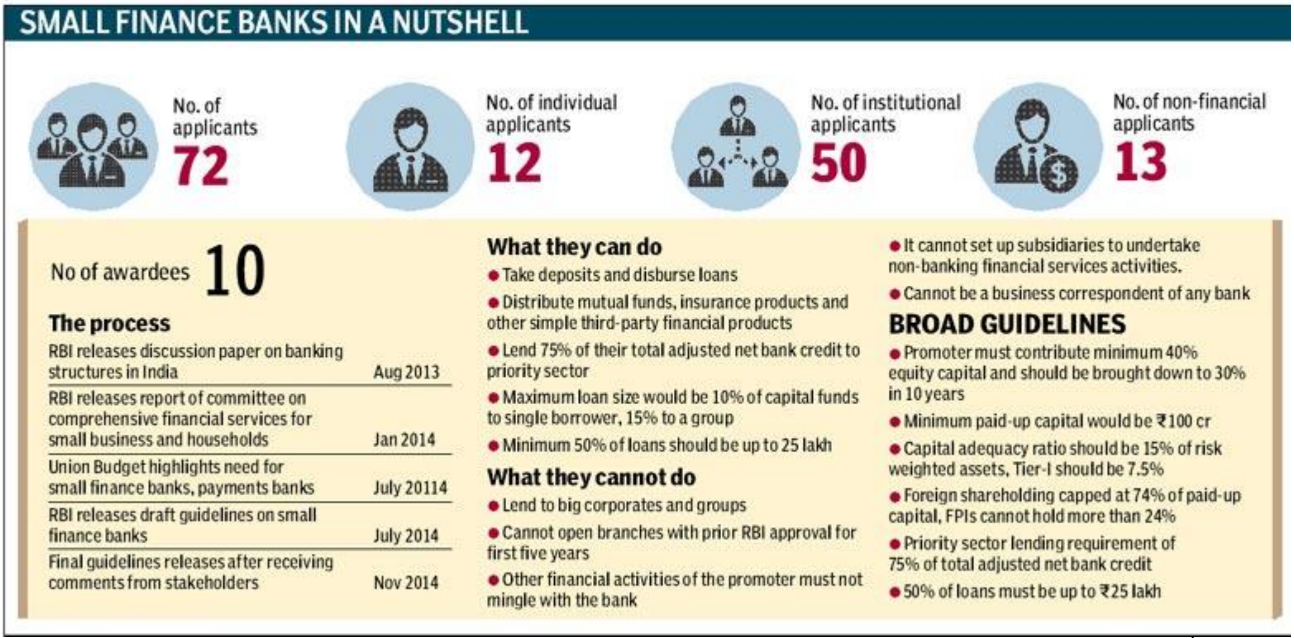
- ***The guidelines they need to follow:***
    1. Promoter must contribute minimum 40% equity capital and should be brought down to 30% in 10 years.
    2. Minimum paid-up capital would be Rs 100 cr.
    3. Capital adequacy ratio should be 15% of risk weighted assets, Tier-I should be 7.5%.
    4. Foreign shareholding capped at 74% of paid capital, FPIs cannot hold more than 24%.
    5. Priority sector lending requirement of 75% of total adjusted net bank credit.
    6. 50% of loans must be up to Rs 25 lakh.



15.Infrastructure Investment Trust

- ***What are Infrastructure Investment Trusts (InvIT)?***
    - It is like a mutual fund, which enables direct investment of small amounts of money from possible individual/institutional investors in infrastructure to earn a small portion of the income as return.
        1. InvITs can be treated as the ***modified version of REITs*** designed to suit the specific circumstances of the infrastructure sector.
        2. They are similar to REIT but invest in infrastructure projects such as roads or highways which take some time to generate steady cash flows.
- ***What are Real Estate Investment Trusts (REIT)?***
    - A REIT is roughly like ***a mutual fund that invests in real estate although the similarity doesn't go much further.***
        1. The basic deal on REITs is that you own a share of property, and so an appropriate share of the income from it will come to you, after deducting an appropriate share of expenses.
        2. Essentially, it's like a group of people pooling their money together and buying real estate except that it's on a large scale and is regulated.

16.Government Owned Contractor Operated (GOCO) model

- The GOCO model was one of the recommendations of the **Lt. Gen. DB Shekatkar (Retd.) committee** to "enhance combat capability and re-balancing defence expenditure."
- ***How it works?***
    - The assets owned by government will be operated by the private industries.

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- Under the model, the private companies need not make investments on land, machinery and other support systems.
- The missions are set by government and the private sectors are given full independence in implementing the missions using their best practices.

17.External Benchmark Rates

- The RBI has made it compulsory for banks to link their new floating rate home, auto and MSME loans **to an external benchmark** so that the borrowers can enjoy lower rate of interest.
- Banks can choose from one of the four external benchmarks — **repo rate, three-month treasury bill yield, six-month treasury bill yield or any other benchmark interest rate published by Financial Benchmarks India Private Ltd.**
- Background:
  - Earlier interest rates on loans were linked to a bank's marginal cost of fund-based interest rate, known as the Marginal Cost of Lending Rate (MCLR).
  - Existing loans and credit limits linked to the MCLR, base rate or Benchmark Prime Lending Rate, would continue till repayment or renewal.
- **What is external benchmarking of loans?**
  - When you borrow money from a bank, be it for purchasing a house, car or for business purposes, interest is levied based on certain methodologies approved by the Reserve Bank of India (RBI). At present, banks use Marginal Cost-based Lending Rate (MCLR) to arrive at their lending rate.
  - Prior to this, it was the Base Rate method and the Benchmark Prime Lending Rate (BPLR). These were all internal benchmarks. Banks have been allowed to use RBI's policy rate among other market-driven options to calculate lending rates.

18.Bharat Bill Payment System (BBPS)

- RBI has expanded the scope and coverage of Bharat Bill Payment System (BBPS) to include all categories of billers who raise recurring bills and payments (except prepaid recharges) as eligible participants, on a voluntary basis.
- **Significance:**
  - At present, the facility of payment of recurring bills through BBPS is available only in five segments i.e. direct to home (DTH), electricity, gas, water and telecom.
  - Expansion of biller categories would **increase the user base** of Bharat Bill Pay along with providing an efficient, cost-effective alternative to existing systems and enhance consumer confidence and experience.
- **About BBPS:**
  - The Bharat Bill Payment System (BBPS) is an RBI conceptualised system driven by **National Payments Corporation of India (NPCI)**.
  - It is a one-stop payment platform for all bills, providing an interoperable and accessible **"Anytime Anywhere" bill payment service** to customers across the country.
  - Payments through BBPS may be made using cash, transfer cheques and electronic modes. Bill aggregators and banks, who will function as operating units, will carry out these transactions for the customers.
- **NPCI:**
  - National Payments Corporation of India (NPCI) is an umbrella organization for all retail payments system in India.
  - It was set up with the guidance and support of the Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007.
  - It has been incorporated as a **"Not for Profit" Company** under the provisions of Section 8 of Companies Act 2013.

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- NPCI has ten promoter banks.
- **The corporation's current and future service portfolio includes:**
  - **RuPay:** RuPay is a domestic card scheme of India.
  - **National Common Mobility Card** - Rupay Contactless
  - **BHIM:** BHIM is a mobile app to act as Client software for the Unified Payments Interface.
  - **Unified Payments Interface**: Unified Payments Interface is a real-time interbank payment system for sending or receiving money.
  - **Bharat Bill Payment System**: The Bharat Bill Payment System is a Reserve Bank of India (RBI) conceptualised system driven by the NPCI.
  - ***99# USSD**: An USSD channel service for UPI mobile banking.
  - **National Financial Switch**: Network of shared automated teller machines in India.
  - **Aadhaar Enabled Payment System**
  - **BharatQR**: A common QR code developed by NPCI in collaboration with Mastercard and Visa for ease of payments and interoperability.
  - **National Electronic Toll Collection**: National Payments Corporation of India (NPCI) has developed the National Electronic Toll Collection (NETC) program to meet the electronic tolling requirements of the Indian market. It provides an electronic payment facility to customer to make the payments at national, state and city toll plazas by identifying the vehicle uniquely through a FASTag.

19.Monetary policy

- Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.
- **The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy**. This responsibility is explicitly **mandated under the Reserve Bank of India Act, 1934**.
- **Instruments of Monetary Policy:**
  - **Repo Rate**: The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF). **Current Rate: 5.15%**
  - **Reverse Repo Rate**: The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF. **Current Rate: 4.90%**
  - **Liquidity Adjustment Facility (LAF)**: LAF is used to aid banks in adjusting the day to day mismatches in liquidity. LAF helps banks to quickly borrow money in case of any emergency or for adjusting in their Statutory Liquidity Ratio (SLR)/Cash Reserve Ratio (CRR) requirements. LAF consists of repo (repurchase agreement) and reverse repo operations.
  - **Marginal Standing Facility (MSF)**: A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system. **Current Rate: 5.40%**
  - **Bank Rate**: It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes. **Current Rate: 5.40%**
  - **Cash Reserve Ratio (CRR)**: The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and

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time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India. **Current Rate: 4%**
  - **Statutory Liquidity Ratio (SLR)**: The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector. **Current Rate: 18.25%**
  - **Open Market Operations (OMOs)**: These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
  - **Market Stabilisation Scheme (MSS)**: This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.

20.Nationalisation of Banks

- **Nationalisation of banks in 1969** was a watershed moment in the history of Indian banking. From July 19 that year, 14 private banks were nationalised; another six private banks were nationalised in 1980.
- **India's banking policy after 1969:**
  - It followed **a multi-agency approach** towards expanding the geographical spread and functional reach of the formal banking system.
  - As a result, the number of rural bank branches increased from 1,833 (in 1969) to 35,206 (in 1991).
  - The concept of **priority-sector lending was introduced**. All banks had to compulsorily set aside 40% of their net bank credit for agriculture, micro and small enterprises, housing, education and "weaker" sections.
  - **A differential interest rate scheme** was introduced in 1974. Here, loans were provided at a low interest rate to the weakest among the weakest sections of the society.
  - **The Lead Bank scheme** was introduced in 1969. Each district was assigned to one bank, where they acted as "pace-setters" in providing integrated banking facilities.
  - **The Regional Rural Banks (RRB)** were established in 1975 to enlarge the supply of institutional credit to the rural areas.
  - The **National Bank for Agriculture and Rural Development (NABARD)** was constituted in 1982 to regulate and supervise the functions of cooperative banks and RRBs.
- **Changes post 1991:**
  - **Narasimham Committee of 1991** recommended that **monetary policy should be divorced from redistributionist goals**. Instead, **banks should be free to practise commercial modes of operation, with profitability as the primary goal**.
  - Taking the cue, the Reserve Bank of India allowed banks to open and close branches as they desired.
  - **Priority sector guidelines were diluted**; banks were allowed to lend to activities that were remotely connected with agriculture or to big corporates in agri-business, yet classify them as agricultural loans.
  - Interest rate regulations on priority sector advances were removed.
- **Changes post 2004:**
  - In 2004, **a policy to double the flow of agricultural credit within three years was announced**. Only public banks could make this happen.
  - So, in 2005, the RBI quietly brought in **a new branch authorisation policy.** Permission for new branches began to be given only if the RBI was satisfied that the banks concerned had a plan to adequately serve underbanked areas and ensure actual credit flow to agriculture.

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- By 2011, the RBI further tightened this procedure. **It was mandated that at least 25% of new branches were to be compulsorily located in unbanked centres**.

21.Negative rate policy

- **Negative rate policy** – once considered only for economies with chronically low inflation such as Europe and Japan – is becoming a more attractive option for some other central banks.
- **How does it work?**
  - Under a negative rate policy, **financial institutions are required to pay interest for parking excess reserves with the central bank**.
  - That way, **central banks penalise financial institutions for holding on to cash** in hope of prompting them to boost lending.
- **What are the pros of negative rates?**
  - Lowers borrowing costs.
  - Help weaken a country's currency rate by making it a less attractive investment than that of other currencies.
  - A weaker currency gives a country's export a competitive advantage and boosts inflation by pushing up import costs.
- **What are the cons?**
  - Negative rates put downward pressure on the entire yield curve.
  - Narrow the margin financial institutions earn from lending.
  - If prolonged ultra-low rates hurt the health of financial institutions too much, they could hold off on lending and damage the economy.
  - There are also limits to how deep central banks can push rates into negative territory – depositors can avoid being charged negative rates on their bank deposits by choosing to hold physical cash instead.

22.RBI Regulatory Sandbox

- RBI launched the sandbox for entities that meet the criteria of minimum net worth of ₹25 lakh as per their latest audited balance sheet.
- The entity should either be a company incorporated and registered in the country or banks licensed to operate in India.
- **What is a regulatory sandbox?**
  - A regulatory sandbox is a safe harbour, where **businesses can test innovative products** under relaxed regulatory conditions. Typically, participating companies release new products in a controlled environment to a limited number of customers for a limited period of time.
- **Significance and benefits of a regulatory sandbox:**
  - The "regulatory sandbox" will help fintech companies launch innovative products at a lower cost and in less time.
  - The sandbox will enable fintech companies to **conduct live or virtual testing** of their new products and services.
  - These companies will also be able to **test the viability of the product** without a wider and expensive rollout.
  - It will help companies to experiment with fintech solutions, where the consequences of failure can be contained and reasons for failure analysed.
- **IRDAI sandbox:**
  - For the IRDAI sandbox, an applicant should have a net worth of Rs 10 lakh and a proven financial record of at least one year.
  - Applicants can test products for up to a period of one year in five categories – insurance solicitation or distribution, insurance products, underwriting, policy and claims servicing.

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23.Microcredit

- Microcredit refers to **the granting of very small loans to impoverished borrowers**, with the aim of enabling the borrowers to use that capital to become self-employed and strengthen their businesses. Loans given as microcredit are often given to people who may lack collateral, credit history, or a steady source of income.
- Microfinance activities usually target low-income individuals, with the goal of helping them to become self- sufficient. In this way, **microfinance activities have an aim of poverty alleviation as well**.

24.Advisory Board for Banking Frauds (ABBF)

- The **Central Vigilance Commission (CVC)** has constituted an 'Advisory Board for Banking Frauds (ABBF)' to examine bank fraud of over ₹50 crore and recommend action.
- Headquartered in Delhi, the **Reserve Bank of India (RBI)** will provide required secretarial services, logistic and analytical support along with the necessary funding to the board.
- **Composition:**
    - Besides the chairman, the Board consists of three other members.
    - The tenure of the Chairman and members would be for a period of two years from 21st August, 2019.
- **Functions:**
    - The board's jurisdiction would be confined to those cases involving the level of officers of General Manager and above in the Public Sector Banks in respect of an allegation of fraud in a borrowal account.
    - It would function as the **first level of examination of all large fraud cases** before recommendations or references are made to the investigative agencies by the respective public sector banks (PSBs).
    - Lenders would refer all large fraud cases above ₹50 crore to the board and on receipt of its recommendation or advice, the bank concerned would take further action in such matter.
    - The Central Bureau of Investigation may also refer any case or matter to the board where it has any issue or difficulty or in technical matters with the PSB concerned.
    - It would also periodically **carry out frauds analysis in the financial system** and give inputs for policy formulation related to the fraud to the RBI.

25.RBI Panel on Economic Capital Framework

- Reserve Bank of India (RBI) had approved the transfer of record Rs 1.76 lakh crore dividend and surplus reserves to the government.
- The excess reserve transfer is in line with the recommendation of former RBI governor **Bimal Jalan-led panel** constituted to decide size of capital reserves that the central bank should hold.
- **What is economic capital framework?**
    - Economic capital framework refers to the **risk capital required by the central bank** while taking into account different risks. The economic capital framework reflects the capital that an institution requires or needs to **hold as a counter against unforeseen risks** or events or losses in the future.
- **What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?**
    - Although RBI was promoted as a private shareholders' bank in 1935 with a paid up capital of Rs 5 crore, the **government nationalised RBI in January 1949**, making the sovereign its "owner". What the central bank does, therefore, is transfer the "surplus" — that is, the excess of income over expenditure — to the government, in accordance with **Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.**

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- **Does the RBI pay tax on these earnings or profits?**
    - No. Its statute provides exemption from paying income-tax or any other tax, including wealth tax.

1) THE RBI'S RESERVES

Various Funds (₹ lakh crore)

	FY17	FY18
Contingency fund	2.28	2.32
Currency and gold revaluation account	5.3	6.92
Asset development fund	0.23	0.23
Investment revaluation account-rupee	0.57	0.13
TOTAL	8.38	9.6

2) HOW DOES RBI BUILD ITS RESERVES?

1 RBI earns income from:
1] Interest on government bonds held for conducting open market operations
2] Fees from government's market borrowing programme
3] Income from investment in foreign currency assets

2 Earnings retained after giving dividends to govt are parked in reserves

3 Revaluation of foreign assets and gold goes to revaluation reserves

26.Development Banks

- In order to improve access to long-term finance, the government has proposed to establish **an organisation to provide credit enhancement for infrastructure and housing projects**, particularly in the context of India now not having **a development bank**.
- **What are development banks?**
    - They are financial institutions that provide **long-term credit for capital-intensive investments** spread over a **long period and yielding low rates of return**, such as urban infrastructure, mining and heavy industry, and irrigation systems.
    - Development banks are also known as **term-lending institutions** or development finance institutions.
- Features of development banks:
    - Such banks often **lend at low and stable rates of interest to promote long-term investments** with considerable social benefits.
    - **Fund generation:** To lend for long term, development banks require correspondingly long-term sources of finance, usually obtained by issuing long-dated securities in capital market, subscribed by long-term savings institutions such as pension and life insurance funds and post office deposits.
    - **Support by the government:** Considering the social benefits of such investments, and uncertainties associated with them, development banks are often supported by governments or international institutions.
    - Such support can be in the form of **tax incentives and administrative mandates** for private sector banks and financial institutions to invest in securities issued by development banks.
- **Genesis of development banks in India:**
    - In the context of the Great Depression in the 1930s, **John Maynard Keynes** argued that **when business confidence is low on account of an uncertain future with low-interest rates, the government can set up a National Investment Bank** to mop up the society's savings and make it available for long-term development by the private sector and local governments.
    - Following foregoing precepts, **IFCI**, previously **the Industrial Finance Corporation of India**, was set up in 1949. This was probably **India's first development bank for financing industrial investments**.
    - In 1955, the World Bank prompted the **Industrial Credit and Investment Corporation of India (ICICI)** — the parent of the largest private commercial bank in India today, ICICI Bank — as a collaborative effort between the government with majority equity holding and India's leading industrialists with nominal equity ownership to finance modern and relatively large private corporate enterprises.
    - In 1964, **IDBI** was set up as **an apex body of all development finance institutions**.

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- **How were these banks financed initially?**
  - As the domestic saving rate was low, and capital market was absent, development finance institutions were financed by:
    - **Lines of credit from the Reserve Bank of India** (that is, some of its profits were channelled as long-term credit).
    - **Statutory Liquidity Ratio bonds**, into which commercial banks had to invest a proportion of their deposits.
- After 1991, following the **Narasimham Committee reports** on financial sector reforms, **development finance institutions were disbanded** and got converted to commercial banks.

27.Merger of Banks

- The government plans to merge 10 public sector banks into four. This would take the number of banks in the country from 27 in 2017 to 12.
- **New mergers include:**
  - Punjab National Bank, Oriental Bank of Commerce and United Bank of India will combine to form the nation's second-largest lender.
  - Canara Bank and Syndicate Bank will merge.
  - Union Bank of India will amalgamate with Andhra Bank and Corporation Bank.
  - Indian Bank will merge with Allahabad Bank.

Committees in this regard:

- **Narasimham committee** (1991 and 1998) suggested merger of strong banks both in public sector and even with the developmental financial institutions and NBFCs.
- **Khan committee** in 1997 stressed the need for harmonization of roles of commercial banks and the financial institutions.
- **Verma committee** pointed out that consolidation will lead to pooling of strengths and lead to overall reduction in cost of operations.

28.Debenture Redemption Service

- It is a provision stating that **any Indian corporation that issues debentures must create a debenture redemption service in an effort to protect investors from the possibility of a company defaulting**.
- This provision was tacked onto the **Indian Companies Act of 1956**, in **an amendment introduced in the year 2000**.
- **Why in News?** Government removes Debenture Redemption Reserve requirement for Listed Companies, NBFCs and HFCs by amending **the Companies (Share Capital & Debentures) Rules.**
- **Significance**: The measure has been taken by the Government with a view to reducing the cost of the capital raised by companies through issue of debentures and is expected to significantly deepen the Bond Market.

29.Inverted Yield Curve

- **Why in news?** A factor particularly spooking the markets in recent days has been the "**inversion of the yield curve**" in the United States.
- **What is it?**
  - The yield curve is a graph showing **the relationship between interest rates earned on lending money for different durations**.
  - **Normally**, someone who lent to the government or a corporation for one year (by buying a one-year government or corporate bond) would expect to get a lower interest rate than someone who lent for five or ten years, making the yield curve upward-sloping.

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- In the US in recent days the ten-year bond rate has fallen to the point at which **the ten-year rate is below the two-year rate – so the yield curve is inverted.**

30.Inter-Creditor Agreement (ICA)

- The inter-creditor agreement is aimed at the resolution of loan accounts with a size of ₹50 crore and above that are under the control of a group of lenders. It is part of the "**Sashakt**" plan approved by the government to address the problem of resolving bad loans.
- The agreement is based on a recommendation by the **Sunil Mehta committee** that looked into resolution of stressed assets.

31.Cess

- **What is a cess?**
  - **A cess is levied on the tax payable** and not on the taxable income. In a sense, for the taxpayer, it is equivalent to a surcharge on tax.
  - A **cess can be levied on both direct and indirect taxes**. The revenue obtained from income tax, corporation tax, and indirect taxes can be allocated for various purposes.
  - The **proceeds of all taxes and cesses are credited in the Consolidated Fund of India (CFI)**, an account of the Government of India.
- **Difference between tax and cess?**
  - Unlike a tax, **a cess is levied to meet a specific purpose**; its proceeds cannot be spent on any kind of government expenditure. **While the tax proceeds are shared with the States and Union Territories according to the guidelines by the Finance Commission, the cess proceeds need not be shared with them.**
  - **Recent examples of cess are:** infrastructure cess on motor vehicles, clean environment cess, Krishi Kalyan cess (for the improvement of agriculture and welfare of farmers), and education cess.

32.Complaint Management System (CMS)

- Launched by the Reserve Bank of India (RBI), the Complaint Management System (CMS) is a software application to **facilitate RBI's grievance redressal process**.
- **Aim**: to improve customer experience in timely redressal of grievances.
- **How it works?**
  - Customers **can lodge complaints against any regulated entity with public interface** such as commercial banks, urban cooperative banks, Non-Banking Financial Companies (NBFCs). The complaint would be directed to the appropriate office of the Ombudsman/Regional Office of the RBI.
- **Benefits:**
  - The application **improves transparency** by keeping the complainants informed through auto-generated acknowledgements and enabling them to **track the status** of their complaints and file appeals online against the decisions of the Ombudsmen, where applicable.
  - Complainants can also **voluntarily share feedback** on their experience in obtaining redressal.

33.Pre-Paid Payment Instruments (PPIs)

- Prepaid payment instruments are those which **facilitate purchase of goods and services against the value stored on such instruments**. Value stored on them is paid by the holder using a medium (cash, debit card, credit card etc).
- These are generally issued in the **form of smart cards, mobile wallets, paper vouchers, internet accounts/wallets**.
- **Features:**

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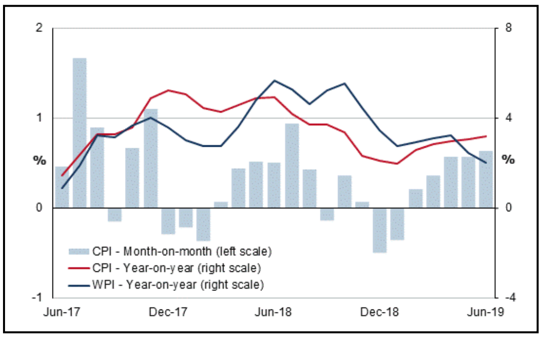
- Prepaid payment instruments (PPIs) come with **a pre-loaded value and in some cases a pre-defined purpose of payment**.
- They facilitate the purchase of goods and services as well as **inter-personal remittance transactions** such as sending money to a friend or a family member.
- These payment instruments are **licensed and regulated by the Reserve Bank of India**.
- **There are three types of PPIs—**closed system PPIs, semi-closed system PPIs and open system PPIs.
- The most common example of a closed system PPI is a brand-specific gift card. Such cards, physical or otherwise, can be used only at specific locations, and cannot be used to transfer funds from one account to another.

34.CPI Inflation

- The Consumer Price Index (CPI) is a measure that **examines the weighted average of prices of a basket of consumer goods and services**, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.
- Changes in the CPI are used to assess price changes associated with the cost of living; the CPI is one of the most frequently used statistics for **identifying periods of inflation or deflation.**



- CPI is calculated for a fixed list of items including food, housing, apparel, transportation, electronics, medical care, education, etc.
- **Understanding Consumer Price Index (CPI):**
  - The CPI measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation. Essentially it attempts to quantify the aggregate price level in an economy and thus measure the purchasing power of a country's unit of currency.
  - The weighted average of the prices of goods and services that approximates an individual's consumption patterns is used to calculate CPI.
- **Who maintains Consumer Price Index in India?**
  - Presently the consumer price indices compiled in India are **CPI for Industrial workers CPI(IW), CPI for Agricultural Labourers CPI(AL) and; Rural Labourers CPI(RL) and (Urban) and CPI(Rural).**
  - Consumer Price Index for Urban Non Manual Employees was earlier computed by Central Statistical Organisation. However this index has been discontinued since April 2008.
  - The CPI(IW) and CPI (AL& RL) are compiled by **Labour Bureau.**
  - CPI(Urban) and CPI(Rural) are compiled by **Central Statistical Organisation.**
  - In addition to this, Consumer Food Price Indices (CFPI) for all India for rural, urban and combined separately are also released w.e.f May, 2014.
  - The Reserve Bank of India (RBI) has started using CPI-combined as the sole inflation measure for the purpose of monetary policy.

35.Payment and Settlement Systems in India: Vision 2019 – 2021

- The Reserve Bank of India (RBI) has released **'Payment and Settlement Systems in India: Vision 2019 – 2021'**, a vision document for safe, secure, quick and affordable e-payment system.

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- The core theme of the vision document is '**Empowering Exceptional (E)payment Experience',** that stresses on empowering every Indian to access a bunch of e-payment options safely and conveniently.
- **Highlights of Payment Systems Vision 2021:**
  - It has 36 specific action points and 12 specific outcomes.
  - The main agenda of the vision document is the **'no-compromise' approach towards safety and security of payment systems.**
  - It outlined the measures that the central bank will undertake to foster innovation, cybersecurity, financial inclusion, customer protection, and competition.
- The vision document aims to achieve "a 'highly digital' and 'cash-lite' society through Goal Posts (4Cs):
  - Competition
  - Cost effectiveness
  - Convenience
  - Confidence
- Key focus areas:
  - Boosting customer experience with robust grievance redressal
  - Empowering e-payment service providers
  - Enabling eco-system and infrastructure for the e-payment system
  - Putting down forward-looking regulations
  - Undertaking Risk-focused Supervision

36.Masala Bonds

- Masala Bonds are **rupee-denominated bonds** i.e the funds would be raised from overseas market in Indian rupees.
- **Eligibility**: Any corporate, body corporate and Indian bank is eligible to issue Rupee denominated bonds overseas.
- **Where can these bonds be issued and who can subscribe?**
  - The Rupee denominated bonds can only be issued in a country and subscribed by a resident of such country that is a member of **financial action task force** and whose securities market regulator is a member of **International Organisation of Securities Commission.**
  - While residents of such countries can subscribe to the bonds, it can also be subscribed by multilateral and regional financial institutions where India is a member country.
- **What is the minimum maturity of such bonds?**
  - According to RBI, the minimum maturity period for Masala Bonds raised up to Rupee equivalent of USD 50 million in a financial year should be 3 years and for bonds raised above USD 50 million equivalent in INR per financial year should be 5 years.
  - The conversion for such bonds will happen at the market rate on the date of settlement of transactions undertaken for issue and servicing of the bonds, including its redemption.
- **Limitations:**
  - RBI mandates that the money raised through such bonds **cannot be used for real estate activities** other than for development of integrated township or affordable housing projects.
  - It also **can't be used for investing in capital markets**, purchase of land and on-lending to other entities for such activities as stated above.

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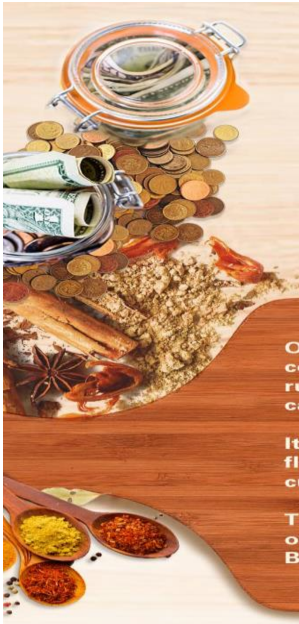

WHAT IS A MASALA BOND?

On September 29, 2015, RBI allowed Indian corporates to raise money through issuance of rupee bonds outside of India. These are also called Masala Bonds.

It was named Masala Bond to give it a local flavour and unique identity since it brings Indian culture and cuisine to mind.

The framework for issuance of rupee bonds overseas falls within the External Commercial Borrowings (ECB) policy.

WHAT ARE ITS CHARACTERISTICS?

- The minimum tenure of these bonds is 3 years; call/put option, if any, will be available after completion of 3 years.
- Bonds are issued in rupees and can be settled overseas in foreign currency.
- Bonds can either be placed privately or listed on exchanges as per host country's regulations.
- The maximum amount that any eligible borrower can raise through issuance of these bonds under automatic route is INR 50 billion or its equivalent during a financial year. This limit is over and above the amount permitted to be raised under the automatic route by an entity eligible to raise External Commercial Borrowings (ECB).

- The all-in-cost of such borrowings would be as per prevailing market conditions and comparable with the cost at which the borrowing company is able to raise money in India.
- 'Withholding tax' of 5% is payable by borrowers over and above the coupon of bonds.
- Any corporate or body corporate in India can use this mode of raising money.
- Any investor from a Financial Action Task Force (FATF) compliant jurisdiction outside india can purchase these bonds.
- Indian banks can act as arrangers and underwriters.

ADVANTAGES

FOR INVESTOR

- Less documentation- No need to register as foreign portfolio investment (FPI) in India.
- Lower tax- The Finance Ministry has cut the withholding tax (a tax deducted at source on residents outside the country) on interest income of such bonds to 5% from 20%, making it attractive for investors
- Operational convenience- 'The masala bonds can be settled in foreign currency through the international custodians like Euroclear or Clearstream.'

FOR BORROWERS

- Cheaper cost of funds- If the company issues any bond in India, it carries an interest rate of 7.5%-9.00% whereas, Masala Bonds outside India is issued below 7.00% interest rate.
- No currency risk- Companies issuing Masala Bonds do not have to worry about rupee depreciation, which is usually a big worry while raising money in overseas markets.

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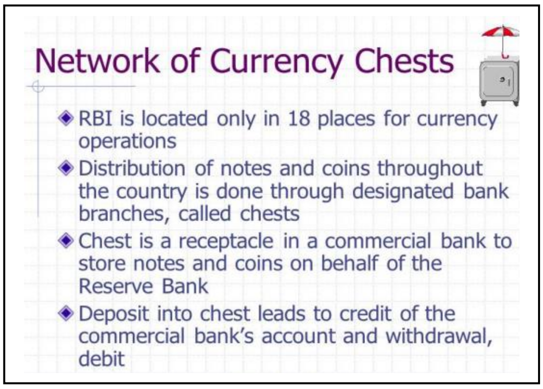
37.NEFT and RTGS

- In a bid to promote digital transactions, the RBI said round-the-clock transactions will be allowed under the National Electronic Funds Transfer (NEFT) system. The 24X7 NEFT system will be available on all days of the year, including holidays.
- Earlier, NEFT transactions could only be carried out between 8 am to 7 pm on weekdays plus first and third Saturday — second and fourth Saturdays, plus Sundays, excluded.
- Moreover, NEFT transactions weren't available on public holidays — which is not the case now.
- NEFT has no upper limit to the transaction amount. This means that you can now transfer large amounts round-the-clock through NEFT. "This will be extremely beneficial for large-value transactions which cannot be done through UPI or IMPS
- NEFT transactions will only be credited to the beneficiary account in batches, unlike the Immediate Payment Service (IMPS) system, which transfers money in real time.
- **What is NEFT?**
  - NEFT is an electronic funds transfer system maintained by the Reserve Bank of India (RBI). Started in November 2005, the setup was established and maintained by **Institute for Development and Research in Banking Technology (IDRBT).**
  - NEFT enables bank customers in India to transfer funds between any two NEFT-enabled bank accounts on a one-to-one basis.
  - Unlike Real-time gross settlement (RTGS), fund transfers through the NEFT system **do not occur in real-time basis**.
- **What is RTGS?**
  - RTGS are specialist funds transfer systems where the transfer of money or securities takes place from one bank to any other bank on a **"real time" and on a "gross" basis.**
  - Settlement in "real time" means a payment transaction is not subjected to any waiting period, with transactions being settled as soon as they are processed.
- **NEFT vs IMPS:**
  - For one, NEFT transactions, as mentioned above, will only be credited to the beneficiary account in batches, unlike the **Immediate Payment Service (IMPS) system, which transfers money in real time.**
  - Secondly, unlike IMPS, for which banks charge a certain amount depending on the quantum of money being transferred, NEFT transactions have been made free by RBI from July 1, 2019.
  - Thirdly, unlike IMPS, which can only be transacted online, a **NEFT transaction can be done offline by visiting a bank branch**.
  - Additionally, as per the RBI mandate, there's no limit on the amount of money that may be transferred via NEFT — unlike IMPS, where a maximum of Rs 2 lakh per day can be transferred.

38.Currency Chest



- Currency chests are **branches of selected banks authorised by the RBI to stock rupee notes and coins**.
- **Who determines the number of notes and coins to be printed?**
  - The responsibility for managing the currency in circulation is vested in the RBI.
  - **The central bank advises the Centre on the number of notes to be printed, the currency denominations, security features and so on**. The number of notes that need to be printed is

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determined using a statistical model that takes the pace of economic growth, rate of inflation and the replacement rate of soiled notes.
  - The Government has, however, reserved the right to determine the amount of coins that have to be minted.

39.Open Market Operations (OMO)

- Open market operations is the **sale and purchase of government securities** and treasury bills by RBI or the central bank of the country.
- The objective of OMO is to **regulate the money supply** in the economy.
- These operations are often conducted on a **day-to-day basis** in a manner that balances inflation while helping banks continue to lend.
- The RBI uses OMO along with other monetary policy tools such as repo rate, cash reserve ratio and statutory liquidity ratio to adjust the quantum and price of money in the system.
- When the RBI wants to increase the money supply in the economy, it purchases the government securities from the market and it sells government securities to suck out liquidity from the system.
- **RBI carries out the OMO through commercial banks** and does not directly deal with the public.
- Features: When the RBI wants to increase the money supply in the economy, it purchases the government securities from the market and it sells government securities to suck out liquidity from the system.

40.NABARD

- NABARD has announced Rs 700-crore venture capital fund for rural agricultural start-ups.
- This project was launched by Nabventures, an auxiliary unit of NABARD.
- **About NABARD:**
  - It is an apex development and specialized bank established on 12 July 1982 by an act by the parliament of India.
  - Its main focus is to uplift rural India by **increasing the credit flow for elevation of agriculture & rural non farm sector.**
  - It was established based on the recommendations of the Committee set up by the Reserve Bank of India (RBI) under the chairmanship of Shri B. shivaraman.
  - It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC).
  - It has been accredited with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India".
  - The Reserve Bank of India (RBI) recently sold its entire stakes in the National Bank for Agriculture & Rural Development (NABARD) and National Housing Bank (NHB). The decision to divest its entire stake was taken based on the recommendations of the second Narasimham Committee. The **government now holds a 100 per cent stake in both NHB and NABARD.**

41.Crowding out Effect

- "Crowding out" effect refers to how increased government spending, for which it must borrow more money, tends to reduce private spending.
- This happens because when the government takes up the lion's share of funds available in the banking system, less of it is left for private borrowers. This also **impacts interest rates in the economy.**
- Sometimes, government adopts an expansionary fiscal policy stance and increases its spending to boost the economic activity. This leads to an increase in interest rates.

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Increased interest rates affect private investment decisions. **A high magnitude of the crowding out effect may even lead to lesser income in the economy.**

42. Corporate bonds

- Corporate bonds are **debt securities issued by private and public corporations**.
- Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business.
- When one buys a corporate bond, one lends money to the "issuer," the company that issued the bond. In exchange, the company promises to return the money, also known as "principal," on a specified maturity date. Until that date, the company usually pays you a stated rate of interest, generally semiannually.
- **Corporate bond does not have an ownership interest in the issuing company**, unlike when one purchases the company's equity stock.
- In India, given the absence of a well-functioning corporate bond market, the burden of financing infrastructure projects such as roads, ports, and airports is more on banks and the general government. This, in turn, puts lenders such as the banks under pressure as reflected in the ballooning of bad loans.

43. Co-operative banks

- Co-operative banks are financial entities **established on a co-operative basis and belonging to their members**. This means that the **customers of a co-operative bank are also its owners.**
- In India, co-operative banks are registered under the **States Cooperative Societies Act.** They also come under the **regulatory ambit of the Reserve Bank of India (RBI)** under two laws, namely, the Banking Regulations Act, 1949, and the Banking Laws (Co-operative Societies) Act, 1955.
- They were brought under the RBI's watch in 1966, a move which brought the problem of dual regulation along with it.

44. Predatory Pricing

- Predatory pricing is the act of a market leader lowering its prices below its costs to gain an unfair advantage. The predator incurs short-term losses to hurt other players and drive them out of the market. Later, with fewer competitors, the predator can raise prices to recoup losses. Such behaviour is considered anti-competitive and can be taken up by competition or industry regulators for review.
- Predatory pricing should not be confused with normal, competitive price wars. For instance, a firm that reduces costs below that of its competitors could offer products with lower prices.
- Similarly, smaller or new players offering temporary, deep discounts would not be considered predatory since they may not have the effect of driving larger firms out of the market.

45. Repco Bank

- Union Home Minister received a dividend cheque of Rs 15.26 crore from the representatives of the Repco Bank, a multi-state cooperative finance and development bank **controlled by the Home Ministry**.
- The **Repco Bank** is a **multi-state cooperative society** established in 1969 by the central government for rehabilitation of repatriates from Myanmar and Sri Lanka.
- It is operated **only** in the South Indian states of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.

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- As on March 31, 2019 the government of India held 49.15 per cent of the share capital, four southern state governments held 6.24 per cent and the remaining 45 per cent was held by individual repatriates.

46.Commercial papers

- Commercial papers have become one of the popular routes for corporates to raise funds when compared with loans from banks in recent times.
- **What is a commercial paper?**
  - A commercial Paper (CP) is an **unsecured loan raised by firms in money markets** through instruments issued in the form of a **promissory note.** CPs can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue.
- **Why are CPs popular?**
  - Because of surplus liquidity, short-term borrowing rates in money markets have significantly declined post demonetisation and are much lower than the lowest benchmark lending rates of the banks.
- **What are the advantages of issuing CPs?**
  - Apart from being a **cheaper source of funds**, it helps meet funding requirements relatively quickly for better-rated corporates.
  - Procedural requirements for securing bank facilities and charge creation on assets is not required.
- **What are the key challenges with CPS?**
  - As the CP is an **unsecured loan**, the investor in commercial papers largely prefers highly-rated corporates or public sector entities in terms of credit rating. Lender appetite is limited to better rated companies.
  - Also commercial paper markets can be seasonal and vulnerable to liquidity conditions.

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External Sector

1. Special Economic Zone (SEZ)

- The Ministry of Commerce and Industry notified setting up of ***Tripura's first ever Special Economic Zone (SEZ).***
- ***What are SEZs?***
  - Special Economic Zones (SEZs) are ***geographically delineated 'enclaves' in which regulations and practices related to business and trade differ from the rest of the country and therefore all the units therein enjoy special privileges.***
  - The basic idea of SEZs emerges from the fact that, while it might be very difficult to dramatically improve infrastructure and business environment of the overall economy 'overnight', ***SEZs can be built in a much shorter time, and they can work as efficient enclaves to solve these problems.***
- **Background:**
  - SEZs were introduced to India in 2000, following the already successful SEZ model used in China. Prior to their introduction, India relied on export processing zones (EPZs) which failed to make an impact on foreign investors. By 2005, all EPZs had been converted to SEZs.
- ***Facilities and incentives for SEZs:***
  - Duty-free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
  - 100% Income tax exemption on export income for SEZ units under the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years. *(**Sunset Clause for Units will become effective from 01.04.2020**)*
  - Exemption from Minimum Alternate Tax (MAT). ***(withdrawn w.e.f. 1.4.2012)***
  - Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State sales tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017.
  - Other levies as imposed by the respective State Governments.
  - Single window clearance for Central and State level approvals.

2. Fugitive Economic Offender

- A special court has declared Nirav Modi, the key accused in the $2 billion Punjab National Bank (PNB) fraud case, ***a fugitive economic offender,*** on a plea of ***the Enforcement Directorate.***
- Nirav Modi is ***the second businessman, after Vijay Mallya, to be declared a fugitive economic offender*** under provisions of the Fugitive Economic Offenders (FEO) Act, which came into existence in August 2018.
- ***Definition- Fugitive Economic Offender:***
  - A person can be named an offender under the law if there is an arrest warrant against him or her for involvement in economic offences involving ***at least Rs. 100 crore or more and has fled from India to escape legal action.***
- ***The procedure:***
  1. The investigating agencies have to file an application in a **Special Court** under the **Prevention of Money-Laundering Act** containing details of the properties to be confiscated, and any information about the person's whereabouts.
  2. The Special Court will issue a notice for the person to appear at a specified place and date at least six weeks from the issue of notice.
  3. Proceedings will be terminated if the person appears. If not the person would be declared as a Fugitive Economic Offender based on the evidence filed by the investigating agencies.

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4. The person who is declared as a Fugitive Economic Offender can challenge the proclamation in the High Court within 30 days of such declaration according to the **Fugitive Economic Offenders Act, 2018**.

3. INSTEX – Instrument In Support Of Trade Exchanges

- Six Countries - Belgium, Denmark, Finland, the Netherlands, Norway and Sweden have recently joined ***INSTEX***.
- ***What is it?***
  - It is ***a payment mechanism being setup by the European Union*** to secure trade with Iran and skirt US sanctions after Washington pulled out of the landmark nuclear deal last May.
  - Its mission is to **facilitate non-USD transactions and non-SWIFT** to avoid breaking U.S. sanctions.
  - It is ***registered at Paris*** with an initial 3,000 Euros in the capital and a supervisory board with members from France and Germany and chaired by the UK.
  - It is ***a project of the governments of France, Germany and United Kingdom*** and will receive the formal endorsement of all 28 EU members.
- ***Key features of INSTEX:***
  - It will ***allow trade between the EU and Iran*** without relying on direct financial transactions.
  - It will initially be used for non-sanctionable trade, including humanitarian goods such as medicine, food and medical devices.
  - This mechanism is the first concrete step by the EU to counter Trump's unilateral decision to withdraw from the nuclear deal.

4. SWIFT (Society for Worldwide Interbank Financial Telecommunications)

- SWIFT is a cooperative society under Belgian law owned by its member financial institutions with offices around the world.
- SWIFT (Society for Worldwide Interbank Financial Telecommunications) messaging system is a messaging network that financial institutions use to securely **transmit information and instructions through a standardized system of codes**. Under SWIFT, each financial organization has a unique code which is used to send and receive payments.
- **SWIFT does not facilitate funds transfer**: rather, it sends payment orders, which must be settled by correspondent accounts that the institutions have with each other.
- The SWIFT is a secure financial message carrier — in other words, it transports messages from one bank to its intended bank recipient.
- **SWIFT India** is a joint venture of top Indian public and private sector banks and **SWIFT** (Society for Worldwide Interbank Financial Telecommunication). The company was created to deliver high quality domestic financial messaging services to the Indian financial community.

5. WTO's dispute settlement mechanism

- ***The World Trade Organization's (WTO's) dispute settlement mechanism*** is on the brink of collapsing. Of the three members currently on the seven-member body, the terms of two has ended.
- ***What's the issue now?***
  - The dispute settlement mechanism requires at least three members to function, and world trade is about to enter a phase in which there will be no official resolution for many international disputes — potentially creating the circumstances for a free-for-all.

NOTES

- United States has blocked the appointments of new members, and the reappointments of members who had completed their four-year tenures.

- ***What is the WTO's Appellate Body, and why is it important?***
  - The Appellate Body, set up in 1995, is a standing committee of seven members that presides over appeals against judgments passed in trade-related disputes brought by WTO members.
- ***Who can approach?***
  - Countries involved in a dispute over measures purported to break a WTO agreement or obligation can approach the Appellate Body if they feel the report of the panel set up to examine the issue needs to be reviewed on points of law. Existing evidence is not re-examined; legal interpretations are reviewed.
  - The Appellate Body can uphold, modify, or reverse the legal findings of the panel that heard the dispute. Countries on either or both sides of the dispute can appeal.
- ***Significance***:
  - The WTO's dispute settlement procedure is seen as being vital to ensuring smooth international trade flows. The Appellate Body has so far issued 152 reports. The reports, once adopted by the WTO's disputes settlement body, are final and binding on the parties.
- ***So, what is the problem in the WTO Appellate Body?***
  - Over the last two years, ***the membership of the body has dwindled to just three persons instead of the required seven.***
  - ***The understaffed appeals body*** has been unable to stick to its 2-3-month deadline for appeals filed in the last few years, and the backlog of cases has prevented it from initiating proceedings in appeals that have been filed in the last year.
- With the Appellate Body unable to review new applications, ***there is already great uncertainty over the WTO's dispute settlement process.***
  - If the body is declared non-functional, countries may be compelled to implement rulings by the panel even if they feel that gross errors have been committed.
  - Should such a country refuse to comply with the order of the panel on the ground that it has no avenue for appeal, it will run the risk of facing arbitration proceedings initiated by the other party in the dispute.

6. Advance Pricing Agreement (APA)

- CBDT inks ***the 300th Advance Pricing Agreement***.
- An APA is ***an agreement between a taxpayer and the tax authority determining the Transfer Pricing methodology*** for pricing the tax payer's international transactions for future years.
- ***Purpose***: An APA provides certainty with respect to the tax outcome of the tax payer's international transactions.
- ***Statutory basis:***
- The ***Finance Act, 2012***, inserted sections 92CC and 92 CD in the ITA to provide the legal basis for APA in India.
- ***An APA can be one of the three types – unilateral, bilateral and multilateral:***
  1. ***Unilateral APA*** is an APA that involves only the taxpayer and the tax authority of the country where the taxpayer is located.
  2. ***Bilateral APA (BAPA)*** is an APA that involves the tax payer, associated enterprise (AE) of the taxpayer in the foreign country, tax authority of the country where the taxpayer is located and the foreign tax authority.
  3. ***Multilateral APA (MAPA)*** is an APA that involves the taxpayer, two or more AEs of the tax payer in different foreign countries, tax authority of the country where the taxpayer is located and the tax authorities of AEs.

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7. Open general export licences (OGELs)

- Government has approved issuance of two ***open general export licences (OGELs)*** for export of certain parts and components as well as intra-company transfer of technology to select countries.

What is it?

1. The OGEL will be a one-time export licence to be granted to a company for a specific period which will be two years initially.
2. The application for grant of OGEL will be considered by the Department of Defence Production (DPP) on a case-to-case basis.
3. The countries allowed under the OGELs are: Belgium, France, Germany, Japan, South Africa, Spain, Sweden, UK, USA, Canada, Italy, Poland and Mexico.
4. For acquiring the licences, the applicant is mandatory to have Import-Export certificate. The quarterly & end of the year reports on all the transactions done under OGELs should be submitted to DPP for examination and post-export verification.
5. Complete aircraft or complete unmanned aerial vehicles (UAVs) and any components specially designed or modified for UAVs are excluded under this licence.

8. IMF Quotas

- The IMF is a quota-based institution. Quotas are the building blocks of the IMF's financial and governance structure.
    - An individual member country's quota broadly reflects its relative position in the world economy. ***Quotas are denominated in Special Drawing Rights (SDRs)***, the IMF's unit of account.

Member	Quota (Millions, SDR)	Quota Share (%)	Votes	Vote Share (%)
United States	82994.2	17.46	831407	16.52
Japan	30820.5	6.48	309670	6.15
China	30482.9	6.41	306294	6.09
Germany	26634.4	5.6	267809	5.32
France	20155.1	4.24	203016	4.03
United Kingdom	20155.1	4.24	203016	4.03
Italy	15070	3.17	152165	3.02
India	13114.4	2.76	132609	2.64
Russian Federation	12903.7	2.71	130502	2.59
Brazil	11042	2.32	111885	2.22

- ***How is it determined?***
    - ***IMF quotas are distributed according to a four-pronged formula*** that considers a member ***country's GDP, its economic openness, its "economic variability" and international reserves.***
- ***Multiple roles of quotas:***
    - ***Resource Contributions:*** Quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF.
    - ***Voting Power:*** Quotas are a key determinant of the voting power in IMF decisions. Votes comprise one vote per SDR100,000 of quota plus basic votes (same for all members).
    - ***Access to Financing:*** The maximum amount of financing a member can obtain from the IMF under normal access is based on its quota.
    - ***SDR Allocations:*** Quotas determine a member's share in a general allocation of SDRs.
- ***Quota reviews:***
    - The ***IMF's Board of Governors*** conducts general quota reviews at regular intervals.
    - Any ***changes in quotas must be approved by an 85% majority of the total voting power, and a member's own quota cannot be changed without its consent.***
- India's quota is 2.76% and China's is 6.41%, while the U.S.'s quota is 17.46 % (translates to a vote share of 16.52%) giving it a unique veto power over crucial decisions at the IMF, many of which require a supermajority of 85%.

9. Moody's Credit Ratings

- ***What are different general credit ratings?***
- ***AAA***: Highest credit quality that denotes the lowest expectations of default risk.

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- ***AA+/AA/AA-:*** Very high credit quality. 'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments.
- ***A+/A/A-:*** High credit quality that denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong, however, vulnerability to adverse business or economic conditions exists.
- ***BBB+/BBB/BBB-:*** Good credit quality that indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
- ***BB+/BB/BB-:*** This rating indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
- ***B+/B/B-:*** This rating indicates that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
- ***CCC+/CCC/CCC-:*** Substantial credit risk exists in this rating, where the default is a real possibility.
- ***CC:*** This rating shows a very high level of credit risk with a possibility of defaults.
- ***C:*** This rating shows that a default or default-like process has begun, or the issuer is in a standstill.
- ***DDD/RD/SD/DD/D:*** This indicates that the issuer has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or has ceased business.

10.Currency Swap Arrangement

- With an objective to strengthen financial stability and economic cooperation, the Reserve Bank of India has revised ***the framework on currency swap arrangement for SAARC countries till 2022.***
- ***What is this Currency Swap Arrangement (CSA)?***
  - This is an arrangement, between two friendly countries, which have regular, substantial or increasing trade, to basically involve in **trading in their own local currencies**, where both pay for import and export trade, at the pre-determined rates of exchange, without bringing in third country currency like the US Dollar.
  - In such arrangements ***no third country currency is involved, thereby eliminating the need to worry about exchange variations.***
  - Currency swap agreement can be bilateral or multilateral.
- ***Significance of the agreement:***
  1. The currency swap agreement is an important measure in improving the **confidence in the Indian market** and it would not only enable the agreed amount of capital being available to India, but it will also **bring down the cost of capital for Indian entities** while accessing the foreign capital market.
  2. The swap arrangement should aid in bringing **greater stability to foreign exchange and capital markets** in India. With this arrangement in place, prospects of India would further improve in tapping foreign capital for country's developmental needs. This facility will enable the agreed amount of foreign capital being available to India for use as and when the need arises.

11.United Nations Conference on Trade and Development (UNCTAD)

- UNCTAD is a **permanent intergovernmental body** established by the **United Nations General Assembly in 1964.**
- It is **part of the UN Secretariat.**

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- It **reports to the UN General Assembly and the Economic and Social Council**, but **has its own membership, leadership, and budget**.
- It is also a **part of the United Nations Development Group.**
- It supports developing countries to access the benefits of a globalized economy more fairly and effectively. Along with other UN departments and agencies, it also measures the progress made in the Sustainable Development Goals, as set out in Agenda 2030.
- **Reports published by UNCTAD are:**
  - Trade and Development Report
  - World Investment Report
  - Technology and Innovation Report
  - Digital Economy Report
- United Nations Conference on Trade and Development (UNCTAD) in its **Trade and Development Report 2019** has recommended for the adoption of **a unitary taxation system for the Multi-National Enterprises (MNEs)**.

12.BASEL Norms

- An assessment of compliance with Basel Norms was recently conducted by the **Regulatory Consistency Assessment Programme (RCAP).** RCAP is **part of the Basel committee**.
- The assessment focused on the completeness and consistency of the domestic regulations in force on 7 June 2019, as applied to commercial banks in India, with the Basel large exposures framework.
- **Background:**
  - **Basel Committee on Banking Supervision (BCBS)** is the primary **global standard setter for the prudential regulation of banks**, has 45 members, comprising central banks and bank supervisors from 28 jurisdictions.
- **Key findings:**
  - The Reserve Bank of India's (RBI) **norms on large exposures for banks are not only compliant with the Basel requirements, they are stricter in some areas as well.**
  - This is **highest possible grade**. In some other respects, the Indian regulations are stricter than the Basel large exposures framework. For example, **banks' exposures to global systemically important banks are subject to stricter limits, in line with the letter and spirit of the Basel Guidelines**, and the **scope of application of the Indian standards is wider than just the internationally active banks covered by the Basel framework**.
- **What are Basel guidelines?**
  - Basel guidelines refer **to broad supervisory standards formulated by group of central banks- called the Basel Committee on Banking Supervision (BCBS)**. The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called **Basel accord**.
  - **Basel** is **a city in Switzerland** which is also the headquarters of Bureau of International Settlement (BIS).
  - The purpose of the accords is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.
- **BASEL-I:**
  - **Introduced in 1988**.
  - **Focused almost entirely on credit risk**, it defined **capital and structure of risk weights for banks**.
  - The **minimum capital requirement was fixed at 8% of risk-weighted assets (RWA)**.
  - **India adopted Basel 1 guidelines in 1999**.
- **BASEL-II:**
  - Published in **2004**. The guidelines were **based on three parameters**:
  - Banks should maintain a minimum **capital adequacy requirement of 8% of risk assets**.

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- The capital adequacy ratio measures a bank's capital in relation to its risk-weighted assets. The capital-to-risk-weighted-assets ratio promotes financial stability and efficiency in economic systems throughout the world.
  - Banks were needed to develop and use **better risk management techniques in monitoring and managing all the three types of risks** that is credit and increased disclosure requirements. **The three types of risk are- operational risk, market risk, capital risk**.
  - Banks need to **mandatory disclose their risk exposure** to the central bank.
  - **Presently Indian banking system follows Basel II norms**.
- **Basel III:**
  - In **2010**, Basel III guidelines were released. These guidelines were introduced in response to the financial crisis of 2008.
  - Basel III norms aim at making most banking activities such as their trading book activities more capital- intensive.
  - The guidelines aim **to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.**
  - Basel III introduced tighter capital requirements in comparison to Basel I and Basel II.

13.Overseas Bonds

- The government plans to raise a part of its gross borrowing in external markets.
- **What are Sovereign bonds?**
  - A government bond or sovereign bond is a **form of debt that the government undertakes wherein it issues bonds with the promise to pay periodic interest payments and also repay the entire face value of the bond on the maturity date**.
- **What are the benefits of an overseas bond issue?**
  - The government has been arguing that **the quantum of its borrowing within India is 'crowding out' the private sector.** In other words, it is saying that government borrowing is at such a level that **there are not enough funds available for the private sector to adequately meet its credit and investment needs**.
  - If the private sector cannot borrow adequately, then it cannot invest as it wants to, and **that cripples one major engine of economic growth**.
  - Therefore, borrowing overseas allows the government to raise funds in such a way that there is **enough domestic credit available for the private sector**.
  - Sovereign external borrowing is also considered a cheap source of raising money by the government as interest rates in advanced countries are very low.
- **Implications**
  - It may facilitate the **inclusion of India's government bonds in the global debt indices**.
  - India's representation in global debt market indices is small compared to other emerging markets.
  - This may lead to **higher foreign inflows** into India.
- **What are the risks?**
  - This would lead to a **quicker increase to its foreign exchange reserves**, which would lead to a stronger rupee at a time when it is already appreciating against the dollar. **A stronger rupee would encourage imports at a time when the government is trying to curb them, and discourage exports at a time when they are being encouraged**.
  - On the other hand, a rupee depreciation for whatever external reason would prove even more disastrous as it would make it **far more expensive for India to repay its external debt**.
  - Another problem with an overseas bond issue is that **the government would not be able to inflate itself out of trouble**. That is, in the domestic market, if the government does ever reach the stage where it is finding it difficult to repay its debt, it can simply print more money, let inflation rise quickly and repay its debt. This is

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not an option in an overseas bond issue. The Indian government cannot print foreign currency to repay its debt.

14.Global Recession

- In an economy, a recession happens when output declines for two successive quarters (that is, six months).
- However, **for a global recession**, institutions such as the International Monetary Fund tend to look at more than just a weakness in the economic growth rate; instead, they look at **a widespread impact in terms of employment or demand for oil, etc**.
- The long-term global growth average is 3.5%. **The recession threshold is 2.5%**.

15.Reciprocal trade agreements (RTAs)

- Countries use bilateral/regional trade agreements to increase market access and expand trade in foreign markets. These agreements are called **reciprocal trade agreements (RTAs)** because members grant special advantages to each other.
- **RTAs include** many types of agreements, such as **preferential arrangements, free trade agreements, customs unions, and common markets**, in which members agree to open their markets to each other's exports by lowering trade barriers.
- **Need**: They have become an increasingly prominent feature of the **multilateral trading system** in recent years, in part, because of stalled global negotiations taking place under the auspices of the World Trade Organization (WTO).
- Many observers believe that RTAs **deepen market integration** and complement efforts by the WTO to liberalize international markets.
- Other observers contend that these agreements also distort trade and discriminate against non-member countries.

16.Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

- India has ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting.
- The Convention is **an outcome of the OECD / G20 BEPS Project to tackle base erosion and profit shifting** through tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.
- The Convention implements two minimum standards relating to prevention of treaty abuse and dispute resolution through **Mutual Agreement Procedure**.
- The Convention **will be applied alongside existing tax treaties, modifying their application in order to implement the BEPS measures**.
- The Convention ensures consistency and certainty in the implementation of the BEPS Project in a multilateral context. The Convention also provides flexibility to exclude a specific tax treaty and to opt out of provisions or parts of provisions through making of reservations.

17.Generalized System of Preference (GSP)

- The United States of America (USA) President Donald Trump had **terminated India's designation as a beneficiary developing nation under the GSP** (Generalized System of Preference) trade program with effect from 5th June 2019.
- **Implications:**
  - With this, **India could lose a vital U.S. trade concession**, under which it enjoys zero tariffs on $5.6 billion of exports to the United States.
- **Generalised System of Preferences (GSP):**

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- It is a U.S. trade program designed to **promote economic growth in the developing world** by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories.

- **What is the objective of GSP?**
  - The objective of GSP was to give development support to poor countries by promoting exports from them into the developed countries.
  - GSP promotes **sustainable development in beneficiary countries** by helping these countries to increase and diversify their trade with the United States.
- **Benefits of GSP:**
  - Indian exporters benefit indirectly – through the benefit that accrues to the importer by way of reduced tariff or duty-free entry of eligible Indian products
  - Reduction or removal of import duty on an Indian product makes it more competitive to the importer – other things (e.g. quality) being equal.
  - This tariff preference helps new exporters to penetrate a market and established exporters to increase their market share and to improve upon the profit margins, in the donor country.
- **What is the difference between GSP and the usual trade arrangement under WTO?**
  - Under the normal trade laws, the WTO members must give equal preferences to trade partners. There should not be any discrimination between countries. This trade rule under the WTO is called the **Most Favoured Nation (MFN) clause**.
  - The MFN instructs non-discrimination that any favourable treatment to a particular country. At the same time, the WTO allows members to give special and differential treatment to from developing countries (like zero tariff imports). This is an exemption for MFN. The MSP given by developed countries including the US is an exception to MFN.

18.Financial Action Task Force (FATF)

- The Financial Action Task Force (FATF) is an **inter-governmental body** established in 1989 on the **initiative of the G7.**
- It is a **"policy-making body"** which works to generate the necessary political will to bring about national legislative and regulatory reforms in various areas.
- The **FATF Secretariat is housed at the OECD headquarters in Paris.**
- The FATF currently comprises 37 member jurisdictions and 2 **regional organisations (the Gulf Cooperation Council and the European Commission),** representing most major financial centres in all parts of the globe.
- **Objectives:**
  - The objectives of the FATF are to set standards and promote effective **implementation of legal, regulatory and operational measures for combating money laundering**, terrorist financing and other related threats to the integrity of the international financial system.
- **Functions:**
  - The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally.
  - In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of **protecting the international financial system from misuse**.
- **FATF lists:**
  - **Grey List:** Countries that are considered safe haven for supporting terror funding and money laundering are put in the FATF grey list. This inclusion serves as a warning to the country that it may enter the blacklist.

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- **Black List:** Countries known as Non-Cooperative Countries or Territories (NCCTs) are put in the blacklist. These countries support terror funding and money laundering activities. The FATF revises the blacklist regularly, adding or deleting entries.

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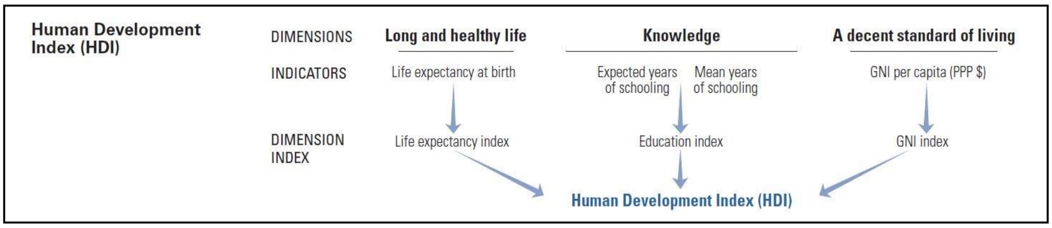
Reports / Ranking / Committees / Awards / Events

1. Human Development Index

- ***UNDP*** has released ***the annual HDI 2019 report.***
- The focus of the 2019 Report is on '***Inequality in Human Development'.***
- India's rank- 129. Last year's rank- 130.
- Norway, Switzerland, Ireland occupied the top three positions in that order.
- India still remains home to 28% (364 million) of the world's poor.
- **Between 1990 and 2018, India's HDI value increased by 50 per cent** (from 0.431 to 0.647), which places it above the average for countries in the medium human development group (0.634) and above the average for other South Asian countries (0.642).
- ***Changing nature of inequality:***
  - As the number of people coming out of poverty is increasing, the world is veering towards another type of poverty.
  - The old inequalities were based on access to health services and education whereas the next generation of poverty is based on technology, education and climate.
- ***What is HDI?***
  - Published by ***the United Nations Development Programme (UNDP),*** it is a statistical tool used to **measure a country's overall achievement in its social and economic dimensions**.
  - The social and economic dimensions of a country are based on the health of people, their level of education attainment and their standard of living.
  - It is part of ***the Human Development Report.***
- **The other indices that form the part of the 2019 Report are:**
  - Inequality-adjusted Human Development Index (IHDI),
  - Gender Development Index (GDI),
  - Gender Inequality Index (GII) and
  - Multidimensional Poverty Index (MPI).
- **HDI measures average achievement of a country in three basic dimensions of human development:**
  - A long and healthy life.
  - Access to knowledge.
  - A decent standard of living.

2. India Skills Report 2019-20

- It is ***a joint initiative by PeopleStrong***, a Global Talent Assessment Company, in collaboration with ***Confederation of Indian Industry (CII) along with partners like UNDP, AICTE, and AIU.***
- ***The report also consists*** of an in-depth study of employability amongst the fresh candidates joining the workforce.
- ***Top three states in terms of employability***: Maharashtra, Tamil Nadu and Uttar Pradesh.
- ***Top two employable cities:*** Mumbai and Hyderabad.



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3. Annual study of state-level budgets

- Recently, RBI released its ***annual study of state-level budgets.***
- ***Key findings:***
    - Except during 2016-17, state governments have regularly met their fiscal deficit target of 3% of GDP.
    - Concern: However, most states ended up meeting the fiscal deficit target not by increasing their revenues but by reducing their expenditure and increasingly borrowing from the market.
    - Also worrisome is that, ***the overall level of debt-to-GDP has reached the 25% of GDP prudential mark***.

4. Asia-Pacific Trade and Investment Report 2019

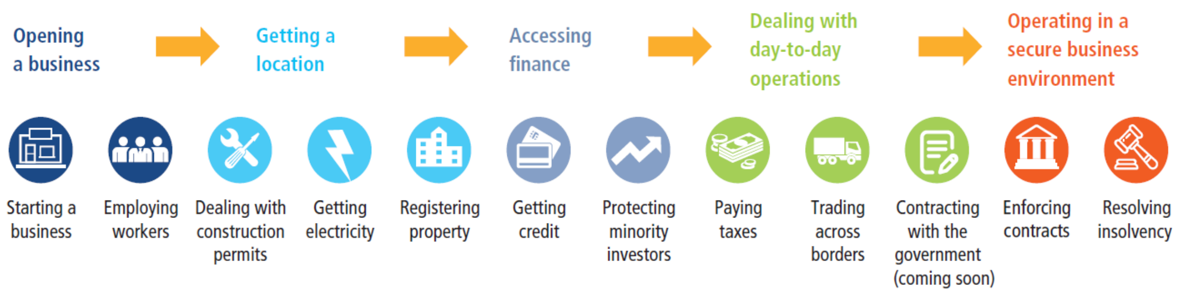
- ***The Asia-Pacific Trade and Investment Report 2019*** was published by ***the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations Conference on Trade and Development (UNCTAD).***
- ***Key findings- Effects of NTMs:***
    - ***Non-tariff measures (NTMs) have increased*** in the past two decades and are affecting trade as well sustainable development goals (SDGs) in Asian countries.
    - NTMs affect 58 per cent of the trade in Asia-Pacific.

5. World Economic Outlook (WEO)

- ***IMF's 2019 World Economic Outlook (WEO)*** has been released.
- India retains its rank as ***the world's fastest-growing major economy,*** tying with China.

6. World Bank's Ease of Doing Business

- ***World Bank's ease of doing business*** ranking released.
- ***10 top improvers*** are Saudi Arabia, Jordan, Togo, Bahrain, Tajikistan, Pakistan, Kuwait, China, India, and Nigeria.
- ***About Doing Business project:***
    - It provides ***objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level.***
    - ***Launched in 2002,*** looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle.



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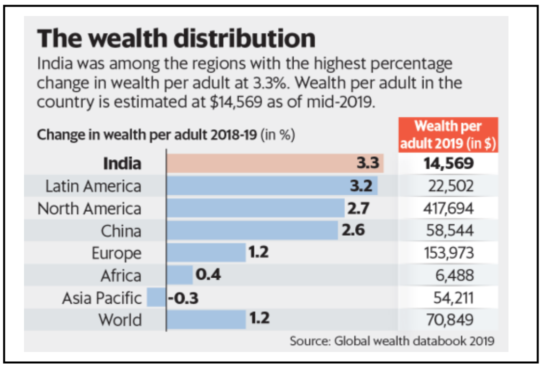
7. Global Wealth Report 2019

- The ***Credit Suisse Group,*** a Switzerland-based multinational investment bank, has released ***the 10th edition of its annual Global Wealth Report.***
- Wealth is defined in terms of "***net worth***" of an individual. This, in turn, is calculated by adding up the value of financial assets (such as money) and real assets (such as houses) and then subtracting any debts an individual may have.



- ***Key findings:***
  - China has overtaken the United States to become "the country with most people in the top 10% of global wealth distribution".

8. World Cotton Day

- ***World Cotton Day*** was observed from 7th October to 11th October 2019 in Geneva.
- Organised by ***the World Trade Organisation (WTO)*** in collaboration with the Secretariats of the United Nations Food and Agriculture Organization (FAO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC) and the International Cotton Advisory Committee (ICAC).
- WTO hosted the event at the request of ***the Cotton – 4 countries,*** Benin, Burkina Faso, Chad and Mali.
- ***Cotton, it's significance:***
  - Cotton is a global commodity that is produced all over the world.
  - Cotton is ***a drought – resistant*** crop ideal for arid climates, it occupies just 2.1 % of the world's arable land, yet it meets 27% of the world's textiles need.
  - In addition to its ***fibre used in textiles and apparel, food products are also derived from cotton like edible oil and animal feed*** from the seed.
- ***Facts for Prelims:***
  - In India, various grades of raw cotton are produced including:
  - ***SUVIN***, the finest quality of Extra Long Staple Cotton produced in Tamil Nadu having the highest fibre length.
  - ***Natural coloured cotton*** that is grown in Dharwad in the state of Karnataka in different colours like dark brown, medium brown, green and cream colours will also be on display.
- ***Efforts to promote Cotton:***
  - Between 2011 and 2018, India implemented ***a Cotton Technical Assistance Programme (Cotton TAP-I)*** of about USD 2.85 million for seven African countries namely Benin, Burkina Faso, Mali and Chad and also Uganda, Malawi and Nigeria.
  - The technical assistance ***focused on improving the competitiveness of the cotton and cotton-based textiles and apparel industry*** in these countries through a series of interventions which had significant outcomes leading to a demand for a follow-on project.

9. National milk sample safety quality survey

- ***National milk sample safety quality survey*** has been released by ***the Food Safety and Standard Authority of India (FSSAI).***
  - This is the first-of-its-kind comprehensive survey FSSAI has conducted through a third-party agency.
  - It covered both organised (retailers and processors) as well as non-organised (local dairy farms, milk vendors and milk mandis) sectors.

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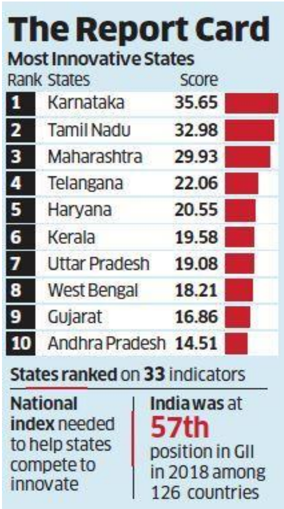
- ***Aflatoxin M1 (AFM1):***
  1. Aflatoxins are toxins produced by certain fungi which are generally found in agricultural crops like maize, peanuts, cotton seed and others. They are carcinogenic in nature, which means they can cause cancer.
  2. Consumption of food containing aflatoxin concentrations of one milligram/kilogram or higher has been suspected to cause **aflatoxicosis,** the prognosis of which consists of acute liver failure, jaundice, lethargy and nausea, eventually leading to death.
- According to FSSAI standards, the ***permissible limit of aflatoxins in milk is 0.5 μg/kg.***

10.India Innovation Index 2019



- ***NITI Aayog*** with ***Institute for Competitiveness*** as the knowledge partner has released ***the India Innovation Index (III) 2019.***
- The index attempts to create an extensive framework for the continual evaluation of the innovation environment of all states and union territories in India and intends to perform the following three functions:
  1. Ranking of states and UTs based on their index scores.
  2. Recognizing opportunities and challenges.
  3. Assisting in tailoring governmental policies to foster innovation.
- The Index is ***calculated as the average of the scores of its two dimensions -*** Enablers and Performance.
  1. The Enablers are the factors that underpin innovative capacities, grouped in five pillars: (1) Human Capital, (2) Investment, (3) Knowledge Workers, (4) Business Environment, and (5) Safety and Legal Environment.
  2. The Performance dimension captures benefits that a nation derives from the inputs, divided in two pillars: (6) Knowledge Output and (7) Knowledge Diffusion.

11.Global competitiveness index

- India has moved down 10 places to rank 68th on the annual global competitiveness index, largely due to improvements witnessed by several other economies.
- Global Competitiveness Index is compiled by the Geneva-based **World Economic Forum (WEF).**

12.Global Microscope on Financial Inclusion report

- ***The Economist Intelligence Unit*** has released ***the 2019 edition of Global Microscope on Financial Inclusion report.***
- The 2019 edition of Global Microscope report ***features 11 new gender focussed indicators that measure financial inclusion for both women as well as men.***
- ***About the report:***
  - Produced by ***Economist Intelligence Unit (EIU),*** the research and analysis division of The Economist Group.
  - ***The Microscope report was first published in 2007*** and was ***originally developed for countries in Latin American and Caribbean regions*** but in 2009 it was expanded into a global study.
  - **Five parameters across which countries are assessed:**
    1. Government and Policy Support.
    2. Products and Outlets.
    3. Stability and Integrity.
    4. Consumer Protection.

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5. Infrastructure.

13.State Energy Efficiency Index 2019

- It tracks the progress of ***Energy Efficiency (EE) initiatives*** in all states and union territories based on 97 significant indicators.
- The index has developed by ***the Bureau of Energy Efficiency (BEE)*** in association with ***the Alliance for an Energy Efficient Economy (AEEE).***
- ***The objective behind releasing this Index is to help states in contributing towards national goals on energy security and climate action by:***
    1. Helping drive energy efficiency policies and program implementation at the state and local level.
    2. Tracking progress in managing the states' and India's energy footprint.
    3. Institutionalising data capture and monitoring of energy efficiency activities by states.

14.Global Investment Trend Monitor report

- ***The Global Investment Trend Monitor report,*** compiled by ***United Nations Conference on Trade and Development (UNCTAD),*** has been released.
- India was among the top 10 recipients of Foreign Direct Investment in 2019, attracting $49 billion in inflows, a 16 per cent increase from the previous year.
- The global foreign direct investment remained flat in 2019 at $1.39 trillion, ***a one per cent decline from a revised $1.41 trillion in 2018.***

15.Periodic Labour Force Survey (PLFS)

- The Union Ministry of Statistics and Programme Implementation had constituted PLFS under the chairmanship of **Amitabh Kundu**.
- **Key findings:**
    - The unemployment rate (UR) in both rural and urban India is at its **highest since 1972**.
    - In urban areas, the UR among men is more than twice and has increased twice among women since 2011- 12.
    - **The unemployment rates in urban areas are higher than those in rural areas**.
    - In urban areas, the unemployment rates for females are higher than those for males.
    - unemployment among rural not-literate females has reduced and among urban females, the number of those who are literate up to primary-level jobs, is the same as 2011-12.
    - **Among social groups, the highest UR is among the 'General' or 'Others' category — 6.7 per cent**.
    - **Among religious groups, Christians have the highest UR in both urban and rural areas**.

16.Economic Census

- The **7th Economic Census -2019** is being conducted by MoSPI to provide disaggregated information on various operational and structural aspects of all establishments in the country.
- **Implementing agency:** MoSPI has partnered with Common Service Centres, CSC e-Governance Services India Limited, a Special Purpose Vehicle under the MEITY as the implementing agency.
- **About Economic Censuses:**
    - **Launched** in 1976 as a plan scheme.
    - **Coverage**: All entrepreneurial units in the country which are involved in any economic activities of either agricultural or non-agricultural sector which are

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engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption.
  - **Objective**: It provides detailed information on operational and other characteristics such as number of establishments, number of persons employed, source of finance, type of ownership etc.
  - **Significance**: This information used for micro level/ decentralized planning and to assess contribution of various sectors of the economy in the gross domestic product (GDP).
  - **Total Six Economic Censuses (EC) have been conducted till date**. First one was conducted in 1977 by CSO.

17.SDG India Index 2019

- NITI Aayog released the **second edition of the *Sustainable Development Goals* (SDG) *India Index*,** which comprehensively documents the progress made by India's States and Union Territories towards achieving the 2030 SDG targets.
- The *SDG India Index* has been developed in collaboration with the **Ministry of Statistics and Programme Implementation (MoSPI), United Nations in India, and Global Green Growth Institute.**
- The *SDG India Index* 2019 tracks progress of all States and UTs on 100 indicators drawn from the MoSPI's **National Indicator Framework (NIF).**
- The *SDG India Index* 2019 is more robust than the first edition on account of wider coverage of goals, targets, and indicators with greater alignment with the NIF.
- Kerala retained ***the top rank*** with ***a score of 70.***
- ***Overall India's performance:***
  - India's composite score improved from 57 in 2018 to 60 in 2019 with major success in water and sanitation, industry and innovation.
  - However, nutrition and gender continue to be problem areas for India, requiring more focussed approach from the government.

18.World Energy Outlook (WEO)

- **International Energy Agency (IEA)** releases World Energy Outlook (WEO) and Energy Access outlook.
- **International Energy Agency (IEA):**
  - IEA is an **autonomous agency,** founded in 1974 **as per framework of the Organisation for Economic Co-operation and Development (OECD).**
  - It seeks to **promote energy security** among its member countries and ensure reliable, affordable and clean energy.
  - **Its four focus area** includes Energy Security, Economic Development, Environmental Awareness and Engagement Worldwide.
  - India is an associated member to IEA.

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Departments / Agencies

1. 15th Finance Commission

- The Finance Commission is a **constitutionally mandated body** that decides, among other things, the sharing of taxes between the Centre and the states.
- Article 280 (1) requires the President to constitute, "within two years from the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the President considers necessary", an FC "which shall consist of a Chairman and four other members".
- Under Article 280(3)(a), the Commission must make recommendations to the President "as the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds".
- **15th Finance Commission**
    - The Commission has reduced the vertical devolution — the share of tax revenues that the Centre shares with the states — from 42% to 41%.
    - The Fifteenth Finance Commission (FC) has considered the 2011 population along with forest cover, tax effort, area of the state, and "demographic performance" to arrive at the states' share in the divisible pool of taxes.

2. GST Council

- The predominant responsibility of the GST Council is to ensure to have one uniform tax rate for goods and services across the nation.
- It is the key decision-making body that will take **all important decisions regarding the GST**.
- It dictates tax rate, tax exemption, the due date of forms, tax laws, and tax deadlines, keeping in mind special rates and provisions for some states.

- ***How is the GST Council structured?***
    - The Goods and Services Tax (GST) is governed by the GST Council. ***Article 279 (1)*** of the amended Indian Constitution states that the GST Council has to be constituted by the President within 60 days of the commencement of the Article 279A.
- ***Composition***:
    - According to the article, GST Council will be ***a joint forum for the Centre and the States.*** It consists of the following members:
        1. The Union Finance Minister - Chairperson
        2. The Union Minister of State in charge of Revenue of Finance – Member.
        3. The Minister in charge of finance or taxation or any other Minister nominated by each State government - Members.
- **The Goods and Services Tax Council shall make recommendations to the Union and the States on—**
    - the **taxes, cesses and surcharges** levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

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- the goods and services that may be subjected to, or **exempted from the goods and services tax;**
- model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;
- the threshold limit of turnover below which goods and services may be exempted from goods and services tax;
- the rates including floor rates with bands of goods and services tax;
- any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
- special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
- any other matter relating to the goods and services tax, as the Council may decide.

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

3. Serious Fraud Investigation Office (SFIO)

- It is a fraud investigating agency. It is under the jurisdiction of the **Ministry of Corporate Affairs**, Government of India.
- The SFIO is involved in major fraud probes and is the co-ordinating agency with the Income Tax and CBI.
- ***Composition***: It is a multi-disciplinary organization having experts from financial sector, capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs and investigation. These experts have been taken from various organizations like banks, Securities and Exchange Board of India, Comptroller and Auditor General and concerned organizations and departments of the Government.

4. Agricultural and Processed Food Products Export Development Authority (APEDA)

- ***The Agricultural and Processed Food Products Export Development Authority (APEDA)*** was established by the Government of India under ***the Agricultural and Processed Food Products Export Development Authority Act 1985.***
- The Authority replaced ***the Processed Food Export Promotion Council (PFEPC).***
- APEDA, under ***the Ministry of Commerce and Industries,*** promotes export of agricultural and processed food products from India.

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- ***APEDA is mandated with the responsibility of export promotion and development of the following scheduled products:***
    - Fruits, Vegetables and their Products.
    - Meat and Meat Products.
    - Poultry and Poultry Products.
    - Dairy Products.
    - Confectionery, Biscuits and Bakery Products.
    - Honey, Jaggery and Sugar Products.
    - Cocoa and its products, chocolates of all kinds.
    - Alcoholic and Non-Alcoholic Beverages.
    - Cereal and Cereal Products.
    - Groundnuts, Peanuts and Walnuts.
    - Pickles, Papads and Chutneys.
    - Guar Gum.
    - Floriculture and Floriculture Products.
    - Herbal and Medicinal Plants.
- ***Administrative set up:***
    1. Chairman – Appointed by the Central Government.
    2. Director – Appointed by APEDA.
    3. Secretary – Appointed by the Central Government.
    4. Other Officers and Staff – Appointed by the Authority.
- ***Background***:
    - A ***Farmer Connect Portal*** has been set up by APEDA on its website for providing a platform for Farmer Producer Organisations (FPOs) and Farmer Producer Companies (FPCs) to interact with exporters.
    - A Farmer Producer Organisation (FPO), formed by a group of farm producers, is a registered body with producers as shareholders in the organisation.
    - It deals with business activities related to the farm produce and it works for the benefit of the member producers.

5. National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)

- National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), established in 1958, is registered under the **Multi State Co- operative Societies Act**.
- Nafed was setup with the object **to promote Co- operative marketing of Agricultural Produce to benefit the farmers**.
- **Composition**: Agricultural farmers are the main members of Nafed, who have the authority to say in the form of members of the General Body in the working of Nafed.
- **The objectives of the NAFED** shall be to organize, promote and develop marketing, processing and storage of agricultural, horticultural and forest produce, distribution of agricultural machinery, implements and other inputs, undertake inter-state, import and export trade etc.

6. Financial Stability and Development Council (FSDC)

- The Financial Stability and Development Council (FSDC) was constituted in December, 2010. The FSDC was set up to **strengthen and institutionalise the mechanism for maintaining financial stability**, enhancing inter-regulatory coordination and promoting financial sector development.
- An apex-level FSDC is not a statutory body.
- **Composition:**
    - The **Council is chaired by the Union Finance Minister** and its members are Governor, Reserve Bank of India; Finance Secretary and/or Secretary, Department of Economic

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    - Affairs; Secretary, Department of Financial Services; Chief Economic Adviser, Ministry of Finance; Chairman, Securities and Exchange Board of India; Chairman, Insurance Regulatory and Development Authority and Chairman, Pension Fund Regulatory and Development Authority. It also includes the chairman of the Insolvency and Bankruptcy Board (IBBI).
    - Recently, the government through a gazette notification, had included ministry of electronics and information technology (MeitY) secretary in the FSDC in view of the increased focus of the government on digital economy.
- **What it does?**
    - The Council deals, inter-alia, with **issues relating to financial stability**, financial sector development, inter– regulatory coordination, financial literacy, financial inclusion and macro prudential supervision of the economy including the functioning of large financial conglomerates.
    - No funds are separately allocated to the Council for undertaking its activities.

7. National Anti-Profiteering Authority (NAA)

- The tenure of National Anti-Profiteering Authority has been extended by 2 years.
- **About NAA:**
    - The National Anti-Profiteering Authority (NAA) has been constituted under **Section 171 of the Central Goods and Services Tax Act, 2017**.
    - It is to ensure the reduction in rate of tax or the benefit of input tax credit is passed on to the recipient by way of commensurate reduction in prices.
    - **The Authority's core function** is to ensure that the benefits of the reduction is GST rates on goods and services made by GST Council and proportional change in the Input tax credit passed on to the ultimate consumers and recipient respectively by way of reduction in the prices by the suppliers.
- **Composition:**
    - The National Anti-profiteering Authority shall be headed by a senior officer of the level of a Secretary to the Government of India and shall have four technical members from the Centre and/or the States.
- **Powers and functions of the authority:**
    - In the event the National Anti-profiteering Authority confirms the necessity of applying anti-profiteering measures, it has the power to order the business concerned to reduce its prices or return the undue benefit availed along with interest to the recipient of the goods or services.
    - If the undue benefit cannot be passed on to the recipient, it can be ordered to be deposited in the **Consumer Welfare Fund.**
    - In extreme cases the National Anti-profiteering Authority can **impose a penalty** on the defaulting business entity and even order the cancellation of its registration under GST.

8. Small Farmers' Agri-Business Consortium (SFAC)

- The Government established Small Farmers' Agri-Business Consortium (SFAC) as a Society in January 1994 to **facilitate agri-business ventures** by **catalysing private investment** through **Venture Capital Assistance (VCA) Scheme** in close association with financial institutions.
- SFAC is an **Autonomous Society** promoted by Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture and Farmers Welfare, Govt. of India"
- It is registered under Societies Registration Act 1860.
- The role of State SFACs is to aggressively promote agribusiness project development in their respective States.
- Management: The Society is governed by Board of Management which is chaired, ex-officio, by Union Minister for Agriculture and Farmers Welfare as the President and the

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Secretary, Department of Agriculture, Cooperation and Farmers Welfare, Government of India, is the ex-officio Vice-President.

- **The main functions of SFAC are:**
  - Promotion of development of small agribusiness through VCA scheme.
  - Helping formation and growth of Farmer Producer Organizations (FPOs) / Farmer Producer Companies (FPCs).
  - Improving availability of working capital and development of business activities of FPOs/FPCs through Equity Grant and Credit Guarantee Fund Scheme.
  - Implementation of National Agriculture Market (e-NAM) Electronic Trading platform.

9. Banks Board Bureau (BBB)

- It was set up in February 2016 as an ***autonomous body***– based on the recommendations of ***the RBI-appointed PJ Nayak Committee*** to improve governance of Public Sector Banks (PSBs).
- It was the part of Indradhanush Plan of government.
- It had **replaced Appointments Board** of Government.
- Its broad agenda is to improve governance at state-owned lenders. Its mandate also involved **advising the government on top-level bank appointments** and assisting banks with capital-raising plans as well as strategies to deal with bad loans.
- It **guides banks on mergers and consolidations** and governance issues to address bad loans problem among other issues.

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Highlights of the Union Budget 2019-20

- **10-point Vision for the decade**:
    - Building Team India **with Jan Bhagidari: Minimum Government Maximum Governance**.
    - Achieving **green Mother Earth and Blue Skies** through a pollution-free India.
    - Making **Digital India** reach every sector of the economy.
    - Launching Gaganyan, Chandrayan, other Space and Satellite programmes.
    - Building **physical and social infrastructure**.
    - Water, water management, clean rivers.
- **Blue Economy.**
    - **Self-sufficiency and export** of food-grains, pulses, oilseeds, fruits and vegetables.
    - Achieving a healthy society via **Ayushman Bharat, well- nourished women & children, safety of citizens**.
    - Emphasis on MSMEs, Start-ups, defence manufacturing, automobiles, electronics, fabs and batteries, and medical devices under Make in India.

Achievements during 2014-19:

- 1 trillion dollar added to Indian economy over last 5 years (compared to over 55 years taken to reach the first trillion dollar).
- India is now the 6th largest economy in the world, compared to 11th largest five years ago.
- Indian economy is globally the 3rd largest in Purchasing Power Parity (PPP)
- Strident commitment to fiscal discipline and a rejuvenated Centre- State dynamic provided during 2014-19.
- Structural reforms in indirect taxation, bankruptcy and real estate carried out.
- Average amount spent on food security per year almost doubled during 2014-19 compared to 2009-14.
- Patents issued more than trebled in 2017-18 as against the number in 2014.

- **Towards a 5 Trillion Dollar Economy:**
    - Indian economy to become a **3 trillion-dollar economy in the current year**.
- What needs to be done to make India a 5 trillion-dollar economy? What has the government proposed?
- **To promote digital economy:**
    - **TDS of 2% on cash withdrawal exceeding Rs. 1 crore in a year** from a bank account.
    - Business establishments with annual turnover more than Rs. 50 crore shall offer **low cost digital modes of payment to their customers and no charges or Merchant Discount Rate shall be imposed** on customers as well as merchants.
- **Banking and Financial Sector:**
- **Present state:**
    - **NPAs of commercial banks reduce**d by over Rs. 1 lakh crore over the last year.
    - **Record recovery** of over Rs. 4 lakh crore effected over the last four years.
    - **Provision coverage ratio** at its **highest** in seven years.
    - **Domestic credit growth increased** to 13.8%.
- **Proposals:**
    - **PSBs**: Rs. **70,000 crore proposed to be provided to PSBs** to boost credit; **Steps to be initiated to empower accountholders to have control over deposit of cash** by others in their accounts.
    - **NBFCs**: Proposals for **strengthening the regulatory authority of RBI over NBFCs to be placed in the Finance Bill**; Requirement of creating **a Debenture Redemption Reserve** will be done away with to allow NBFCs to raise funds in public issues; Steps to **allow all NBFCs to directly participate on the TReDS platform**; Return of **regulatory authority from NHB to RBI proposed, over the housing finance sector**; Steps to be taken to **separate the NPS Trust from PFRDA**; Reduction in **Net Owned Fund requirement** from Rs. 5,000 crore to Rs. 1,000 crore proposed.

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- **CPSEs:** Target of Rs. 1, 05,000 crore of disinvestment receipts set for the FY 2019-20. Government to offer an investment option in ETFs on the lines of Equity Linked Savings Scheme (ELSS).
- **Women empowerment:**
  - Approach shift from women-centric-policy making to women-led initiatives and movements.
  - **Women SHG interest subvention program** proposed to be expanded to all districts; Overdraft of Rs. 5,000 to be allowed for every verified women SHG member having a Jan Dhan Bank Account; One woman per SHG to be eligible for a loan up to Rs. 1 lakh under MUDRA Scheme.
- **Youth:**
  - **New National Education Policy** to be brought.
  - National Research Foundation (NRF) proposed.
  - Rs. 400 crore provided for "World Class Institutions", for FY 2019-20, more than three times the revised estimates for the previous year.
  - **'Study in India'** proposed to bring foreign students to study in Indian higher educational institutions.
  - Draft legislation to set up **Higher Education Commission of India (HECI),** to be presented.
  - **Khelo India Scheme** to be expanded with all necessary financial support.
  - **National Sports Education Board** for development of sportspersons to be set up under Khelo India, to popularize sports at all levels.
  - **Stand-Up India Scheme** to be continued for the period of 2020-25. The Banks to provide financial assistance for demand based businesses.
- **Rural India:**
  - Electricity and clean cooking facility to all willing rural families by 2022.
  - A robust fisheries management framework through **Pradhan Mantri Matsya Sampada Yojana (PMMSY)** to be established by the Department of Fisheries.
  - Target of connecting the eligible and feasible habitations advanced from 2022 to 2019 with 97% of such habitations already being provided with all-weather connectivity.
  - 1,25,000 kilometers of road length to be upgraded over the next five years under PMGSY III.
  - **Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship' (ASPIRE)** consolidated.
  - 10,000 new **Farmer Producer Organizations** to be formed, to ensure economies of scale for farmers.
  - **Zero Budget Farming** in which few states' farmers are already being trained to be replicated in other states.
  - **Jal Jeevan Mission** to achieve Har Ghar Jal (piped water supply) to all rural households by 2024.
  - **Compensatory Afforestation Fund Management and Planning Authority (CAMPA)** fund can be used Jal Shakti Abhiyan.
  - Universal Obligation Fund under a PPP arrangement to be utilized for speeding up **Bharat-Net.**
- **Misc:**
  - Proposal to consider issuing Aadhaar Card for NRIs with Indian Passports on their arrival without waiting for 180 days.
  - Revamp of **Indian Development Assistance Scheme (IDEAS)** proposed.
  - Direct tax incentives proposed for an International Financial Services Centre (IFSC).
  - Securities Transaction Tax (STT) restricted only to the difference between settlement and strike price in case of exercise of options.

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- Capital gains exemptions from sale of residential house for investment in start-ups extended till FY21.
- 'Angel tax' issue resolved- start-ups and investors filing requisite declarations and providing information in their returns not to be subjected to any kind of scrutiny in respect of valuations of share premiums.
- Funds raised by start-ups to not require scrutiny from Income Tax Department.
- Tax rate reduced to 25% for companies with annual turnover up to Rs. 400 crore.
- Surcharge increased on individuals having taxable income from Rs. 2 crore to Rs. 5 crore and Rs. 5 crore and above.
- Government to organize an annual Global Investors Meet in India, using National Infrastructure Investment Fund (NIIF) as an anchor to get all three sets of global players (pension, insurance and sovereign wealth funds).
- Statutory limit for FPI investment in a company is proposed to be increased from 24% to sectoral foreign investment limit. FPIs to be permitted to subscribe to listed debt securities issued by ReITs and InvITs.
- NRI-Portfolio Investment Scheme Route is proposed to be merged with the Foreign Portfolio Investment Route.
- Credit Guarantee Enhancement Corporation to be set up in 2019-2020.
- Tax rates for individuals having taxable income from Rs. 2 cr – 5 cr and Rs. 5 cr & above to be increased by around 3 % and 7 % respectively.
- Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI) aims to set up more Common Facility Centres for generating sustained employment opportunities.

- **New Space India Limited (NSIL):**
  - It is a Public Sector Enterprise incorporated as a new commercial arm of Department of Space to tap the benefits of the Research & Development carried out by ISRO.
  - Functions: The Company will spearhead commercialization of various space products including production of launch vehicles, transfer to technologies and marketing of space products.

Background

- **What is Budget?**
  - The **Annual Financial Statement** or the Statement of the Estimated Receipts and Expenditure of the Government of India in respect of each financial year is popularly known as the Budget.
- **Presentation of the budget:**
  - The Budget is presented to Lok Sabha **on such day as the President may direct**. Immediately after the presentation of the Budget, **the following three statements under the Fiscal Responsibility and Budget Management Act, 2003 are also laid on the Table of Lok Sabha:**
    - The Medium Term Fiscal Policy Statement.
    - The Fiscal Policy Strategy Statement.
    - The Macro Economic Framework Statement.
- **General Discussion on the Budget:**
  - **No discussion on Budget takes place on the day it is presented to the House**.
  - Budgets are discussed in two stages—**the General Discussion followed by detailed discussion and voting on the demands for grants**.
- **Consideration of the Demands for Grants by Departmentally Related Standing Committees of Parliament:**
  - With the creation of Departmentally Related Standing Committees of Parliament in 1993, **the Demands for Grants of all the Ministries/Departments are required to be considered by these Committees**.

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- After the General Discussion on the Budget is over, the House is adjourned for a fixed period. During this period, the Demands for Grants of the Ministries/ Departments are considered by the Committees.
- These Committees are required to make their reports to the House within specified period without asking for more time and make separate report on the Demands for Grants of each Ministry.

- **Discussion on Demands for Grants:**
  - The demands for grants are presented to Lok Sabha along with the Annual Financial Statement. These are not generally moved in the House by the Minister concerned. The demands are assumed to have been moved and are proposed from the Chair to save the time of the House. After the reports of the Standing Committees are presented to the House, the House proceeds to the discussion and voting on Demands for Grants, Ministry-wise.
  - **The scope of discussion at this stage is confined to a matter which is under the administrative control of the Ministry and to each head of the demand as is put to the vote of the House**. It is open to members to disapprove a policy pursued by a particular Ministry or to suggest measure for economy in the administration of that Ministry or to focus attention of the Ministry to specific local grievances. At this stage, cut motions can be moved to reduce any demand for grant but no amendments to a motion seeking to reduce any demand is permissible.
- **Cut Motions:**
  - The motions to reduce the amounts of demands for grants are called 'Cut Motions'. The object of a cut motion is to draw the attention of the House to the matter specified therein.
  - **Cut Motions can be classified into three categories:**
    - Disapproval of Policy Cut.
    - Economy Cut.
    - Token Cut.
  - The **Speaker decides whether a cut motion is or is not admissible** and may disallow any cut motion when in his opinion it is an abuse of the right of moving cut motions or is calculated to obstruct or prejudicially affect the procedure of the House or is in contravention of the Rules of Procedure of the House.
- **Guillotine:**
  - On the last of the allotted days for the discussion and voting on demands for grants, at the appointed time the Speaker puts every question necessary to dispose of all the outstanding matters in connection with the demands for grants. This is known as guillotine. The guillotine concludes the discussion on demands for grants.
- **Appropriation Bill:**
  - After the demands for grants have been passed by the House, a Bill to provide for the appropriation out of the Consolidated Fund of India of all moneys required to meet the grants and the expenditure charged on the Consolidated Fund of India is introduced, considered and passed. **The introduction of such Bill cannot be opposed. The scope of discussion is limited to matters of public importance or administrative policy implied in the grants covered by the Bill and which have not already been raised during the discussion on demands for grants**.
  - The Speaker may require members desiring to take part in the discussion to give advance intimation of the specific points they intend to raise and may withhold permission for raising such of the points as in his opinion appear to be repetition of the matters discussed on a demand for grant.
  - **No amendment can be proposed to an Appropriation Bill which will have the effect of varying the amount or altering the destination of any grant so made or of varying the amount of any expenditure charged on the Consolidated Fund of India, and the decision of the Speaker as to whether such an amendment is admissible is**

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final. An amendment to an Appropriation Bill for omission of a demand voted by the House is out of order.
  - In other respects, the procedure in respect of an Appropriation Bill is the same as in respect of other Money Bills.
- **Finance Bill:**
  - "Finance Bill" means a Bill ordinarily introduced every year **to give effect to the financial proposals of the Government of India for the next following financial year and includes a Bill to give effect to supplementary financial proposals for any period**.
  - The Finance Bill is **introduced immediately after the presentation of the Budget**. The introduction of the Bill cannot be opposed. The Appropriation Bills and Finance Bills may be introduced without prior circulation of copies to members.
  - **The Finance Bill usually contains** a declaration under the Provisional Collection of Taxes Act, 1931, by which the declared provisions of the Bill relating to imposition or increase in duties of customs or excise come into force immediately on the expiry of the day on which the Bill is introduced. In view of such provisions and the provision of Act of 1931, the Finance Bill has to be passed by Parliament and assented to by the President before the expiry of the seventy-fifth day after the day on which it was introduced.
  - As the Finance Bill contains taxation proposals, it is considered and passed by the Lok Sabha only after the Demands for Grants have been voted and the total expenditure is known. The scope of discussion on the Finance Bill is vast and members can discuss any action of the Government of India. The whole administration comes under review.
  - The procedure in respect of Finance Bill is the same as in the case of other Money Bills.

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Key Highlights of Economic Survey 2018-19

- **Private Investment as the Key Driver of Growth, Jobs, Exports and Demand:**
  - Target: Sustained real GDP growth rate of 8% needed for a $5 trillion economy by 2024-25.
  - Need of the hour: "Virtuous Cycle" of savings, investment and exports catalyzed and supported by a favorable demographic phase required for sustainable growth.
  - Private investment– key driver for demand, capacity, labor productivity, new technology, creative destruction and job creation.
- **Key ingredients for a self-sustaining virtuous cycle:**
  - Presenting data as a public good.
  - Emphasizing legal reforms.
  - Ensuring policy consistency.
  - Encouraging behavior change using principles of behavioral economics.
  - Nourishing MSMEs to create more jobs and become more productive.
  - Reducing the cost of capital.
  - Rationalizing the risk-return trade-off for investments.
- **Using insights from behavioural economics to create an aspirational agenda for social change:**
  - From 'Beti Baco Beti Padhao' to 'BADLAV' (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi).
  - From 'Swachh Bharat' to 'Sundar Bharat'.
  - From 'Give it up" for the LPG subsidy to 'Think about the Subsidy'.
  - From 'Tax evasion' to 'Tax compliance'.
- **Nourishing Dwarfs to become Giants: Reorienting policies for MSME Growth:**
  - Focus on enabling MSMEs to grow for achieving greater profits, job creation and enhanced productivity.
  - Concerns: Dwarfs (firms with less than 100 workers) despite being more than 10 years old, account for more than 50% of all organized firms in manufacturing by number. Contribution of dwarfs to employment is only 14%and to productivity is a mere 8%. Large firms (more than 100 employees) account for 75% employment and close to90% of productivity despite accounting for about 15% by number.
- **What needs to be done?**
- **Unshackling MSMEs and enabling them to grow by way of:**
  - A sunset clause of less than 10 years, with necessary grand-fathering, for all size-based incentives.
  - Deregulating labor law restrictions to create significantly more jobs, as evident from Rajasthan.
  - Re-calibrating Priority Sector Lending (PSL) guidelines for direct credit flow to young firms in high employment elastic sectors.
  - Focus on service sectors such as tourism, with high spillover effects on other sectors such as hotel & catering, transport, real estate, entertainment etc., for job creation.
- **Data as public good:**
  - As data of societal interest is generated by the people, data can be created as a public good within the legal framework of data privacy.
  - Need of hour: Government must intervene in creating data as a public good, especially of the poor and in social sectors.
  - Merging the distinct datasets held by the Government already would generate multiple benefits.
- **How to Ramp up Capacity in the Lower Judiciary?**
  - Challenges: Delays in contract enforcement and disposal resolution are arguably now the single biggest hurdle to the ease of doing business and higher GDP growth in

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India. Around 87.5 per cent of pending cases are in the District and Subordinate courts.
  - What needs to be done? 100 per cent clearance rate can be achieved by filling out merely 2279 vacancies in the lower courts and 93 in High Courts.
  - States of Uttar Pradesh, Bihar, Odisha and West Bengal need special attention.
  - Productivity improvements of 25 percent in lower courts, 4 percent in High Courts and 18 percent in Supreme Court can clear backlog.
- **India's Demography at 2040: Planning Public Good Provision for the 21st Century:**
- **Expectations:**
  - Sharp slowdown in population growth expected in next 2 decades.
  - Most of India to enjoy demographic dividend while some states will transition to ageing societies by 2030s.
  - National Total Fertility Rate expected to be below replacement rate by 2021.
  - Working age population to grow by roughly 9.7mn per year during 2021-31 and 4.2mn per year during 2031- 41.
  - Significant decline to be witnessed in elementary school-going children (5-14 age group) over next two decades.
  - What needs to be done? States need to consolidate/merge schools to make them viable rather than build new ones.
  - Policy makers need to prepare for ageing by investing in health care and by increasing the retirement age in a phased manner.
- **Enabling Inclusive Growth through Affordable, Reliable and Sustainable Energy: Challenges:**
  - 5 times increase in per capita energy consumption needed for India to increase its real per capita GDP by
  - $5000 at 2010 prices, and enter the upper-middle income group.
  - 4 times increase in per capita energy consumption needed for India to achieve 0.8 Human Development Index score.
  - Market share of electric cars only 0.06% in India while it is 2% in China and 39% in Norway.
- **Present state:**
  - India now stands at 4th in wind power, 5th in solar power and 5th in renewable power installed capacity.
  - Savings: Rs 50,000 crore saved and 108.28 million tonnes of CO2 emissions reduced by energy efficiency programmes in India.
  - Share of renewable (excluding hydro above 25 MW) in total electricity generation increased from 6% in 2014-15 to 10% in 2018-19. Thermal power still plays a dominant role at 60% share.
- **Measures suggested:**
  - Access to fast battery charging facilities needed to increase the market share of electric vehicles.
- A well-designed minimum wage system as a potent tool for protecting workers and alleviating poverty.
- **Challenges:**
  - Present minimum wage system in India has 1,915 minimum wages for various scheduled job categories across states.
  - 1 in every 3 wage workers in India not protected by the minimum wage law.
- **Need of the hour:**
  - Rationalize minimum wages as proposed under the Code on Wages Bill.
  - Minimum wages to all employments/workers proposed by the Survey.
  - 'National Floor Minimum Wage' should be notified by the Central Government, varying across five geographical regions.
  - Minimum wages by states should be fixed at levels not lower than the 'floor wage'.

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- Minimum wages can be notified based either on the skills or on geographical region or on both grounds.
- 'National level dashboard' under the Ministry of Labour & Employment for regular notifications on minimum wages.
- Toll-free number to register grievance on non-payment of the statutory minimum wages.

Part – 2

- **State of the Economy in 2018-19: A Macro View:**
  - India still the fastest growing major economy in 2018-19.
  - Growth of GDP moderated to 6.8 per cent in 2018-19 from 7.2 per cent in 2017-18.
  - Inflation contained at 3.4 per cent in 2018-19.
  - Non-Performing Assets as percentage of Gross Advances reduced to 10.1 per cent at end December 2018 from 11.5 per cent at end March 2018.
  - Investment growth recovering.
  - Fiscal deficit of Central Government declined from 3.5 percent of GDP in 2017-18 to 3.4 percent in 2018- 19.
  - Prospects of pickup in growth in 2019-20 on the back of further increase in private investment and acceleration in consumption.
- **Sustainable Development and Climate Change:**
  - India's SDG Index Score ranges between 42 and 69 for States and between 57 and 68 for UTs: Kerala and Himachal Pradesh are the front runners with a score of 69 amongst states. Chandigarh and Puducherry are the front runners with a score of 68 and 65 respectively among the UTs.
  - **Need of the hour:**
    - For mainstreaming Resource Efficiency approach in the development pathway for achieving SDGs, a national policy on Resource Efficiency should be devised.
    - Prevention, control and abatement of air pollution
    - Augmenting the air quality monitoring network across the country.
    - Scale and size of investments required to implement India's NDC requires mobilizing international public finance and private sector resources along with domestic public budgets.
- **Agriculture and Food Management:**
- **Challenges:**
  - Agriculture sector in India typically goes through cyclical movement in terms of its growth.
  - Gross Value Added (GVA) in agriculture decelerated to 2.9 per cent in 2018-19.
  - Gross Capital Formation (GCF) in agriculture as percentage of GVA marginally declined to 15.2 per cent in 2017-18 as compared to 15.6 per cent in 2016-17.
- **Developments:**
  - The public sector GCF in agriculture as a percentage of GVA increased to 2.7 per cent in 2016-17 from 2.1 per cent in 2013-14.
  - Women's participation in agriculture increased to 13.9 per cent in 2015-16 from 11.7 per cent in 2005-06 and their concentration is highest (28 per cent) among small and marginal farmers.
  - A shift is seen in the number of operational land holdings and area operated by operational land holdings towards small and marginal farmers.
- **What needs to be done?**
  - 89% of groundwater extracted is used for irrigation. Hence, focus should shift from land productivity to 'irrigation water productivity'.
  - Thrust should be on micro-irrigation to improve water use efficiency.

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- Organic and natural farming techniques including Zero Budget Natural Farming (ZBNF) can improve both water use efficiency and soil fertility.
- Adopting appropriate technologies through Custom Hiring Centers and implementation of ICT are critical to improve resource-use efficiency among small and marginal farmers.
- Diversification of livelihoods is critical for inclusive and sustainable development in agriculture and allied sectors.
- Policies should focus on - Dairying as India is the largest producer of milk - Livestock rearing particularly of small ruminants.

- **Social Infrastructure, Employment and Human Development:**
  - The public investments in social infrastructure like education, health, housing and connectivity is critical for inclusive development.
- **Encouraging Skill Development by:**
  - Introduction of the skill vouchers as a financing instrument to enable youth obtain training from any accredited training institutes.
  - Involving industry in setting up of training institutes in PPP mode; in curriculum development; provision of equipment; training of trainers etc.
  - Personnel of Railways and para-military could be roped in for imparting training in difficult terrains.
  - Create a database of Instructors, skill mapping of rural youth by involving local bodies to assess the demand- supply gaps are some of the other initiatives proposed.

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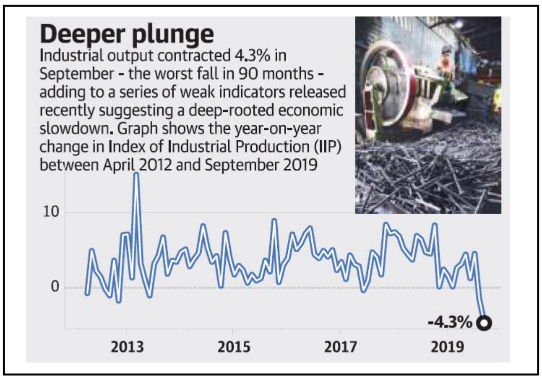
Miscellaneous

1. Index of Industrial Production (IIP)

- The IIP is an index used to **track the performance of the industrial sector** in the Indian economy. It does this by mapping the volume of production. But since it is an "index", it **targets a basket of industrial products** — ranging from the **manufacturing sector to mining to energy** — and allocates different weights to them. Then, depending on the production of this basket, it throws up an index value. The index value is then compared with the value of the index in the same month a year ago to arrive at a percentage growth or decline figure.
- The IIP index is computed and published by the **Central Statistical Organisation (CSO)** on a monthly basis.
- The current base year is 2011-2012.
- **How is IIP data read?**
  - There are two ways to understand the IIP data. One can either drill down the IIP data and look at the sectoral performance — where the whole industrial sector is divided into three sub-sectors, namely manufacturing, mining and electricity — or look at the use-based classification.
- **What is the sectoral classification?**
  - In the sectoral classification, manufacturing has the highest weight of 77.6%, mining has 14.4% share and electricity has 8% weight.
- **What is use-based classification?**
- Within the use-based classification, data is provided for six categories. These are :-
  - Primary Goods (consisting of mining, electricity, fuels and fertilisers) — this has a weight of 34%
  - Capital Goods (e.g. Machinery items) — this has a weight of 8%
  - Intermediate Goods (e.g. yarns, chemicals, semi-finished steel items, etc) — this has a weight of 17%
  - Infrastructure Goods (e.g. paints, cement, cables, bricks and tiles, rail materials, etc) — this has a weight of 12%
  - Consumer Durables (e.g. garments, telephones, passenger vehicles, etc) — this has a weight of 13%
  - Consumer Non-durables (e.g. food items, medicines, toiletries, etc) — this has a weight of 15%.



2. Facebook's new cryptocurrency- Libra

- Facebook officially launched ***Libra***.
- Facebook says Libra is a "***global currency and financial infrastructure"***. In other words, it is a digital asset built by Facebook and powered by a new Facebook-created version of blockchain, the encrypted technology used by bitcoin and other cryptocurrencies.
- The currency will be serviced by a collective of companies called the "***Libra Association***". It functions as what is known as a "stablecoin", pegged to existing assets like the dollar or euro, in the aim of making it less subject to the volatility that many cryptocurrencies experience.
- The Libra Association is described by Facebook as ***an independent, not-for-profit organisation based in Switzerland.***

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3. Fiscal Deficit

- Fiscal Deficit is ***the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure.***
  In other words, fiscal deficit is ***"reflective of the total borrowing requirements of Government"***.
- ***What is the significance of fiscal deficit?***
  1. In the economy, there is ***a limited pool of investible savings.*** These savings are ***used by financial institutions like banks to lend to private businesses (both big and small) and the governments (Centre and state).***
  2. If the ***fiscal deficit ratio is too high,*** it implies that ***there is a lesser amount of money left in the market for private entrepreneurs and businesses to borrow.***
  3. Lesser amount of this money, in turn, leads to higher rates of interest charged on such lending.
  4. So, simply put, a higher fiscal deficit means higher borrowing by the government, which, in turn, mean ***higher interest rates in the economy.***
  5. A high fiscal deficit and higher interest rates would also mean that ***the efforts of the Reserve Bank of India to reduce interest rates are undone.***
- What is off- budget financing?
  1. This refers to ***expenditure that's not funded through the budget.***
  2. ***For example;***
  3. The government sets up a special purpose vehicle (SPV) to construct a bridge.
  4. The SPV will likely borrow money to build the bridge on the strength of a government guarantee. If it's not a toll bridge, the SPV will need government support to meet interest obligations.
  5. So, even though the borrowing and spending is outside the budget, it has implications for the budget and for all practical reasons should be included in that document.
  6. Since it's not, this doesn't reflect on the fiscal deficit number as well.

4. HSN Code

- India ***not to allow imports without HSN code.*** This will enable India's exports to be accepted globally due to the quality of goods and services.
- ***What does the HS code mean? -*** Harmonised System, or simply 'HS':
  It is ***a six-digit identification code.*** Of the six digits, the first two denote the HS Chapter, the next two give the HS heading, and the last two give the HS subheading.
  - Developed by the World Customs Organization (WCO).
  - Called the "universal economic language" for goods.
  - It is a multipurpose international product nomenclature.
  - The system currently comprises of around 5,000 commodity groups.
- ***HSN***:
  - HS Code is also known as HSN Code in India. Goods are classified into Harmonized System of Nomenclature or HSN. It is used up to 8 digit level.
- ***Application***:
  - HSN classification is widely used for taxation purposes by helping to identify the rate of tax applicable to a specific product in a country that is under review. It can also be used in calculations that involve claiming benefits.
- ***HS code are used by Customs authorities, statistical agencies, and other government regulatory bodies, to monitor and control the import and export of commodities through:***
  1. Customs tariffs
  2. Collection of international trade statistics
  3. Rules of origin
  4. Collection of internal taxes

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5. Trade negotiations (e.g., the World Trade Organization schedules of tariff concessions)
6. Transport tariffs and statistics
7. Monitoring of controlled goods (e.g., wastes, narcotics, chemical weapons, ozone layer depleting substances, endangered species, wildlife trade)
8. Areas of Customs controls and procedures, including risk assessment, information technology and compliance.

5. Merchant Discount Rate

- It is ***a fee charged from a merchant by a bank for accepting payments from customers through credit and debit cards in their establishments.***
- MDR compensates the card issuing bank, the lender which puts the PoS terminal and payment gateways such as Mastercard or Visa for their services.
- MDR ***charges are usually shared in pre-agreed proportion between the bank and a merchant and is expressed in percentage of transaction amount.***
- ***Why in News?*** From January onwards, all companies with a turnover of Rs 50 crore or more need to provide the facility of payment through RuPay Debit card and UPI QR code to their customers, under which no MDR fee will be charged from customers as well as merchants.

6. Anti-dumping duty on the import of saccharine

- The Finance Ministry has, on the recommendations of the Commerce Ministry, imposed an anti-dumping duty on the import of saccharine from Indonesia. Indonesia, until recently, accounted for a large chunk of India's saccharine imports.
- Saccharine is **a compound most commonly used in sugar-substitute sweeteners**.

7. Hybrid Annuity Model (HAM)

- In India, the new HAM is a **mix of EPC (Engineering, Procurement and Construction) model and BOT - Annuity (Build, Operate, Transfer) model.**
- As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity). The remaining payment will be made on the basis of the assets created and the performance of the developer.
- Here, hybrid annuity means the first 40% payment is made as fixed amount in five equal instalments whereas the remaining 60% is paid as variable annuity amount after the completion of the project depending upon the value of assets created.
- As the government pays only 40%, during the construction stage, the developer should find money for the remaining amount.
- Here, he has to raise the remaining 60% in the form of equity or loans.
- There is no toll right for the developer. Under HAM, Revenue collection would be the responsibility of the National Highways Authority of India (NHAI).