Aptitude

Some of the important economic terms

Foreign Direct Investment(FDI) :

It is the investment coming from the business entities in the foreign countries into a business in another country.It will create more job ipportunities and economic growth in the country.India is actively pursuing FDI in different fields.It is one of the favourite destinations of foreign investors.

Foreign Institutional Investment(FII)

An investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. The FII invests only in the share markets for making profit.Their investment is not tangible as like FDI.

Participatory Notes(P-Notes)

Financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India to invest in Indian securities. Indian-based brokerages buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors.

In short , P-notes are nothing but an instrument for FIIs to invets in Indian share market.

Goods and Sevice tax(GST)

The **Goods and Services Tax (GST)** is a value added tax to be implemented in India by 2013. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services with few tax exemption.

Non performing Asssets(NPA)

A non-performing asset (NPA) shall be a loan or an advance where the bank is not receiving any interest or installments for 90 days or more.The healthiness of a bank depends on reducing it's NPAs.

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

1. Sub-standard Assets

2 .Doubtful Assets

3.Loss Assets

Basel-II Norms

B**asel II** is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.

Basel II, initially published in June 2004, was intended to create an international standard for banking regulators to control how much capital banks need to put aside to guard against the types of financial and operational risks banks (and the whole economy) face. Advocates of Basel II believed that such an international standard could help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. In theory, Basel II attempted to accomplish this by setting up risk and capital management requirements designed to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending and investment practices.

Capital Adequacy Ratio (CAR)

Capital adequacy ratio(CAR) is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk, etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor *CAR* to protect depositors, thereby maintaining confidence in the banking system.[1]

Minimum requirements of capital fund in India:
* Existing Banks 9 %
* New Private Sector Banks 10 %
* Banks undertaking Insurance business 10 %
* Local Area Banks 15%

Free Trade Area (FTA)

A **free-trade area** (**FTA**) is a trade bloc whose member countries have signed a **free-trade agreement** (**FTA**), which eliminates tariffs, import quotas, and preferences on most (if not all) goods and services traded between them.India recently concluded free trade agreement with ASEAN.It is on talk with European Union and Japan for FTA.

The proposed Free Trade Area between SAARC countries is known as SAFTA(South Asian Free Trade Area).

Comprehensive Economic Co-operation Agreement(CECA) and Comprehensive Economic Partnership Agreement(CEPA):

CECA is a comprehensive and ambitious agreement that envisages liberal trade in goods and services and a stable and competitive investment regime to promote foreign investment between the two countries.India recently signed CECA with Malaysia

Countries that make agreements about economic cooperation make pacts with each other. These pacts are either CECA or CEPA. CECA is an acronym for Comprehensive Economic Cooperation Agreement and CEPA is an acronym for Comprehensive Economic Partnership Agreement. Just recently India signed a CEPA with Japan and a CECA with Malaysia. It also has a CECA with Korea and Singapore.

These terms are significant in terms of bilateral economic cooperation. These agreements are very similar, but the major difference is in the words “cooperation” and “partnership”. In CECA, the focus is on gradually reducing and eliminating tariffs on all items that are listed tariff rate quota items. In CEPA, there is an additional focus on trade in the areas of investments and services. Therefore CEPA is a much broader term than CECA.

Summary

1. Economic agreements between countries are CECA and CEPA.

2.CECA occurs first for the reduction of tariffs and CEPA follows.

3.CEPA has a much broader scope than CECA.

Special Economic Zones (SEZ)

Special Economic Zone (**SEZ**) is a geographical region that has economic and other laws that are more free-market-oriented than a country's typical or national laws. "Nationwide" laws may be suspended inside a special economic zoneThe objectives of SEZs can be clearly explained as the following: (a) generation of additional economic activity (b) promotion of exports of goods and services; (c) promotion of investment from domestic and foreign sources; (d) creation of employment opportunities; (e) development of infrastructure facilities.

The main aim of setting up SEZ is to attract more FDI**.**

External Commercial Borrowings(ECB) :

E**xternal Commercial Borrowing** (ECB) is an instrument used in India to facilitate the access to foreign money by Indian corporations and PSUs (public sector undertakings). The DEA (Department of Economic Affairs), Ministry of Finance, Government of India along with Reserve Bank of India, monitors and regulates ECB guidelines and policies.