ECONOMICS SHORT NOTES

Contents

[ECONOMICS PART 1 4](#_Toc500518551)

[financial instruments or securities 4](#_Toc500518552)

[Bonds 4](#_Toc500518553)

[Stocks 7](#_Toc500518554)

[CRR 7](#_Toc500518555)

[MCLR 8](#_Toc500518556)

[Disinflation 8](#_Toc500518557)

[Policy rate 8](#_Toc500518558)

[GDP **Error! Bookmark not defined.**](#_Toc500518559)

[FDI 11](#_Toc500518560)

[Currency and interest rates 11](#_Toc500518561)

[Monetary base 11](#_Toc500518562)

[Bill of exchange 12](#_Toc500518563)

[Currency Note, coins and cheques 12](#_Toc500518564)

[Inflation 12](#_Toc500518565)

[Fisher Effect: 12](#_Toc500518566)

[inflation expectation survey of households 13](#_Toc500518567)

[CPI 13](#_Toc500518568)

[WPI 14](#_Toc500518569)

[IIP 14](#_Toc500518570)

[SPI 15](#_Toc500518571)

[Money supply 16](#_Toc500518572)

[Reserve money(M0) or Monetary base 16](#_Toc500518573)

[Narrow Money(M1) 16](#_Toc500518574)

[M2 17](#_Toc500518575)

[M3(Broad money) 17](#_Toc500518576)

[M4 17](#_Toc500518577)

[money multiplier **Error! Bookmark not defined.**](#_Toc500518578)

[open market operations 20](#_Toc500518579)

[Sterlisation 20](#_Toc500518580)

[Market stablisation scheme 21](#_Toc500518581)

[Impact of monetary policy on growth and investment 23](#_Toc500518582)

[Economics Part 2 27](#_Toc500518583)

[Human Development Report 50](#_Toc500518584)

[HUMAN DEVELOPMENT INDEX 50](#_Toc500518585)

[Gender inequality index 50](#_Toc500518586)

[Multidimensional Poverty Index: developing countries 52](#_Toc500518587)

[FDI POLICY 2017 53](#_Toc500518588)

[Foreign Institutional Investor 53](#_Toc500518589)

[Sweat Equity Shares 53](#_Toc500518590)

[ELIGIBILITY(only new things) 53](#_Toc500518591)

[Routes: 53](#_Toc500518592)

[Government Route 53](#_Toc500518593)

[Automatic 54](#_Toc500518594)

[INDUSTRIAL POLICIES INDIA 55](#_Toc500518595)

[Objectives of industrial policy in india: 55](#_Toc500518596)

[Policy For Micro, Small & Medium Enterprises Sector 55](#_Toc500518597)

[Sectors Reserved For Public Sector 55](#_Toc500518598)

[Industrial Licensing Policy: 55](#_Toc500518599)

[Disinvestment Policy 56](#_Toc500518600)

# ECONOMICS PART 1

## financial instruments or securities

Financial instruments, or securities, are contracts that specify who pays whom as well as how, if, when, and where payment is due.

Financial instruments are assets that can be traded.

**DEBT INSTRUMENTS** are for fixed sums on fixed dates and need to be paid in all events.

**EQUITIES** are ownership stakes that entitle owners to a portion of profits.

**HYBRID INSTRUMENTS** are part debt and part equity or are convertible from one into the other.

## Bonds

Debt Instrument or security.

A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period at a variable or fixed interest rate.

Demand and supply. Inverse relationship between bond price and interest rates. Bond price fall when interest rates are high due to less demand. Bond price rise when interest rates are low due to high demands.

**bonds carry an inverse price-yield relationship**

Bond yields closely track the movement in monetary policy rates (interest rates at which the RBI borrows from and lends money to banks), inflation, central and state government borrowing programs and interbank liquidity, amongst others

Yields of longer-duration bonds rise more than that of the shorter-duration papers as policy rates increase

If liquidity is high in the banking system or government borrowing is low in the market, then yields move down and vice-versa

Higher fiscal deficit as **well can lead to** an increase in inflation

There are various factors that dictate the movement of interest rates; the primary ones are:

1. Inflation: The rate of inflation plays an important role in the movement of interest rates. Simply put, the higher the rate of inflation, the higher will be the interest rates and vice versa.

2. Fiscal deficit: Government policies and their impact on the fiscal deficit is another factor that influences interest rates.

The higher the fiscal deficit; the higher is the borrowing by the government, leading to an increase in interest rates and vice versa.

Bond yield is the amount of return an investor realizes on a bond.

Several types of bond yields exist, including

**nominal yield** which is the interest paid divided by the face value of the bond, and **current yield** which equals annual earnings of the bond divided by its current market price

**Junk BOND:**

a high-yielding high-risk security, typically issued by a company seeking to raise capital quickly in order to finance a takeover.

Junk bonds are so called because of **their higher default risk in relation** to investment-grade bonds.

## credit crunch

Also known as a credit squeeze, this refers to an economic situation where banks and other financial institutions become extremely reluctant to provide loans to businesses.

This could be the result of banks suffering huge losses on their portfolio, which makes them adopt a cautious approach to protect their equity.

It could also happen when banks begin to doubt the repayment capability of their customers amidst a general gloom in the overall economy.

## Fiscal Deficit Impact

If the deficit arises because the government has engaged in extra spending projects – for example, infrastructure spending or grants to businesses – then those sectors chosen to receive the money receive a short-term boost in operations and profitability. If the deficit arises because receipts to the government have fallen, either through tax cuts or a decline in business activity, then no such stimulus takes place.

Individuals, businesses and other governments purchase Treasury or govt bonds and lend money to the government with the promise of future payment. The clear, initial impact of government borrowing is that it reduces the pool of available funds to be lent to or invested in other businesses.

Thus, all government deficits have the effect of reducing the potential capital stock in the economy

On interest rates:

Government bonds are considered to be extremely safe investments, so the interest rate paid on loans to the government represent risk-free investments against which nearly all other financial instruments must compete. If the government bonds are paying 2% interest, other types of financial assets must pay a high enough rate to entice buyers away from government bonds.

On Bond prices:

Interest rate increase if FD increase and then Bond rice falls.

Example

How does a change in Interest rates impact Bond prices?

There is an inverse relationship between interest rates and bond prices.

Thus, what this means is, when interest rates go DOWN, Bond prices will go UP and vice versa, i.e when interest rates go up bond prices will fall.

This is because when interest rate decline, the coupon rate paid on existing bonds is higher than that on newly issued bonds.

As investors are faced with new bonds with lower interest rates, existing bonds are sold at a premium, leading to a rise in prices.

The degree of change in a bond price is calculated on the basis of a number of factors, the primary being:

• coupon rate

• maturity period – the longer the period, the higher the impact

• credit rating – the higher the rating, the lower is the interest rate and vice versa

Let us use an example to understand the impact of a change in interest rates on the prices of bonds. For example: Suppose a bond is issued to investor A with interest @ 8% p.a.

Particulars

Investor A

Face Value of Bond Rs 1000

Coupon Rate 8%

Tenure 10 years

Interest Earned on this bond Rs. 80 p.a for 10 years

Now, assume that the interest rate decreases by 1%, thus say a new bond is issued to investor B @ 7% p.a.

Particulars

Investor B

Face Value of Bond Rs. 1000

Coupon Rate 7%

Tenure 10 years

Interest Earned on this bond Rs. 70 p.a. for 10 years

In the above scenario, if investor A sells the bond at the same price, Investor B would be paying Rs. 1000 and would earn Rs. 80 whereas his present earning is Rs. 70.

Thus, investor A would be inclined to sell to B only at a higher price, perhaps to such an extent that investor B should receive Rs. 70 which is the current return.

Hence, now for investor B to buy this bond, he will have to pay a higher price of Rs. 1,143 which is calculated as under:

Interest earned by Investor A/Current interest rate which is Rs. 80/ 7% = Rs. 1,143.

Thus, investor A will charge investor B Rs. 1,143 for his bond and investor B will receive Rs 70 p.a. on either bonds he purchases – from Investor A or the newly issued bond.

Investor A will earn a premium of Rs. 143 (Rs 1,143-1,000).

For investor B, the return received (Rs. 80), divided by the price paid on the bond is referred to as the yield; popularly known as YTM or Yield to Maturity.

Thus, the rule to remember:

**WHEN INTEREST RATES RISE; THE PRICE OF BONDS WILL DECLINE &**

**WHEN INTEREST RATES FALL; THE PRICE OF BONDS WILL INCREASE**

Current Strategy and Expected Interest Rate scenario…

Markets are expecting interest rates to go down in the near future as consumer inflation has been coming down for the past 5-6 months and international commodity prices have fallen dramatically (the price of Brent crude has fallen to below $75 per barrel and is expected to go down further).

In a falling interest rate scenario, investing in long-term bonds/debt mutual funds presents an attractive opportunity to gain.

## Stocks

Equity Instrument or security

Direct relationship with interest rates as their price increase with increase in interest rates and vice versa.

## CRR

Banks are required to maintain a minimum of 70 per cent of the total CRR requirement daily. If there was a shortfall in the CRR requirement, banks would be

* **Penalty** :charged a penal interest of **3 per cent above the Bank Rate** on the shortfall amount.

## MCLR

The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI.

MCLR aims to improve the transmission of policy rates into the lending rates of banks.

**4 components**

Marginal Cost of funds,

Tenure,

operational cost and

-ve carry on CRR.

Bank decide MCLR based on above components. Exception lending to own employees.

## Disinflation

It is a slowing in the rate of [price inflation](https://www.investopedia.com/terms/p/price_inflation.asp). It is used to describe instances when the [inflation](https://www.investopedia.com/terms/i/inflation.asp) rate has reduced marginally over the [short term](https://www.investopedia.com/terms/s/shortterm.asp).

Inflation in the double or triple digit range of 20, 100 or 200 p.c. a year is labelled “**galloping inflation**” or Hyperinflation.

## Policy rate

the fixed **repo rate** quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF) is considered as the policy rate. The upper bound of the interest rate corridor in India is served by the

* **Marginal Standing Facility (MSF)** rate, which is **the penal rate at which banks borrow money from the central bank** and
* **lower bound** is served by the **reverse repo rate**, the rate at which banks park their surplus with RBI by purchasing the securities from central banks.

## Elasticity and INelasticity

Product is inelastic if change in price do not change the consumption example oil, electricity

Product is elastic if change in price leads to fall in consumption and vice versa example Iphone

Tax incidence falls on the person/consumer whose demand is inelastic.

Tax incidence fall on supplier if demand is elastic

## Income Accounting

National Product

is a measure in monetary terms of the volume of all goods and services produced by an economy during a given period of time, accounted without duplication.

In close economy:

NP=Domestic product

National Income

The national product measures all goods and services arising out of economic activity while national income is the sum of all incomes as a result of the economic activity

National income is not simply an aggregate of all incomes. It includes only those incomes which are derived directly from the current production of goods and services called **factor incomes**.

Other forms of income such as old age pensions, education grants, unemployment benefits, gifts etc., cannot be regarded as payments for current services to production. They are paid out of factor incomes and are **called transfer incomes**

Payments for which no goods or services are received in return are, therefore, termed as **transfer payments**

**National income do not include factor income and transfer incomes.**

National income or product

It is that income or product which accrues to the economic agents who are resident of the country.

Most of the national income is derived from economic activity within the country. But some income arises due to the activities of the **residents** outside the country. Similarly, some of the product or income arising in the country may be due to the activities of the non-residents. The difference between these two flows is referred to as **net factor income from abroad**.

The measure of production arising out of the activities of economic agents within the country is termed **as domestic product** even if a part of that income accrues to non-residents. Product created in country irrespective of ownership will be the domestic product

When adjustments are made to this product by deducting the income of non-residents within the country and adding the income of residents abroad, **the national product is obtained**

GDP

GDP=GVA at basic price + indirect tax-subsidy

GDP at constant price is official in india

The measure covers all the goods and services produced **by the residents of a country in a year inside own country**

Real GDP is at constant market price

Base year 2011-12

Nominal GDP is GDP at current prices

Net Domestic Product

GDP-depreciation

GNP National Product

GDP + income from abroad

Income from abroad includes trade balance ,interest payments and foreign remittances

India’s GNP normally -ve due to -ve trade balance

Net National product

The measure covers all the goods and services produced by the residents of a country either outside or inside

GNP – depreciation

NNP = National income

National income = NNP at factor cost and constant price

National income thus computed is termed as national income at constant prices or in real terms

Market price=Factor cost+ indirect taxes -subsidy

Factor cost+ production tax-production subsidy=Basic price

Basic price+ product tax-product subsidy=Market price

basic price is the subsidized price without tax

NNP/population=Per capita income

\*NNP is money value of Goods and services produced

NNP is not the Goods and services produced by nationals:

Here issue is about who are nationals.

Difference b/w national and Citizen

In india It is calculated by National Accounts Division (NAD) of CSO under Ministry of Statistics and programme implementation

Gross capital formation:

Gross capital formation consists of the acquisition of fixed assets and

the accumulation of stocks.

Fixed assets are physical productive assets, examples of which are buildings, civil works, machinery, vehicles etc. The stock accumulation is in the form of changes in stock of raw materials, fuels, finished goods and semi-finished goods awaiting completion. Thus gross

capital formation is that part of country's total expenditure which is not consumed but added to the nation's fixed tangible assets and stocks.

**Gross Capital Formation is Investment**.

**In INDIA GCF has been decreasing since 2011**

## FDI

The routes under which foreign investment can be made is as under:

**Automatic Route:** Foreign Investment is allowed under the automatic route without prior approval of the Government or the Reserve Bank of India, in all activities/ sectors as specified in the Annex B of Schedule 1 to Notification No. FEMA 20.

**Government Route**: Foreign investment in activities not covered under the automatic route requires prior approval of the Government. the work relating to processing of applications for FDI and approval of the Government thereon under the extant FDI Policy and FEMA, shall now be handled by

* **the concerned Ministries/Departments in consultation with the Department of Industrial Policy & Promotion(DIPP), Ministry of Commerce.**
* **FIPB has been abolished since sept 2017.**

Green-field and brown-field investments are two different types of foreign direct investment (FDI).

Green-field investments occur when a parent company or government begins a new venture by constructing new facilities in a country outside of where the company is headquartered.

Brown-field investments occur when an entity purchases an existing facility to begin new production.

## Currency and interest rates

**Generally Higher interest rates increase the value of a given country's currency**.

The higher interest rates that can be earned tend to attract foreign investment, increasing the demand for and value of the home country's currency.

Although interest rates can be a major factor influencing currency value and exchange rates, the final determination of a currency's exchange rate with other currencies is the result of many interrelated elements that reflect and impact the overall financial condition of a country in respect to that of other nations

**When the rupee is appreciating rapidly against the dollar, the RBI intervenes by selling**

**rupees and buying dollars in the foreign exchange market.**

**To check depreciation of rupee; RBI should sell/release dollars from its forex reserve in market.**.

## Monetary base

Every financial asset is somebody else’s liability.

a bank deposit is a liability for the bank but an asset for the depositor.

**currency and reserves listed as liabilities of the central** bank because those things are the assets of commercial bank.

the central bank’s balance sheet is composed of assets and liabilities. Its assets are similar to those of common banks and include government securities.

The monetary base or **MB = C + R,** where C = currency in circulation (not in the central bank or any bank); R = reserves = **bank vault cash and deposits with the central bank**.

MB is liability of RBI

Because banks deposit money in RBI so it is their asset and RBI’s liability

## Bill of exchange

A bill of exchange is a non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.

Example cheque and promissory notes

## Currency Note, coins and cheques

Legal tender is any official medium of payment recognized by law that can be used to extinguish a public or private debt, or meet a financial obligation.

‘Legal tender’ is the money that is recognised by the law of the land, as valid for payment of debt.

A cheque is a bill of exchange, or a document guaranteeing a certain amount of money.

|  |  |
| --- | --- |
| Currency Note | Coins |
| No intrinsic value | Intrinsic value |
| Unlimited Legal tender | Limited Legal tender |
| All are printed by RBI | All except Rs 1 coin are printed by RBI. Rs 1 coin printed by Ministry of Finance |

## Inflation

### Inflation:

Core Inflation

Headline inflation

If HI is high core might be low

If Core inflation is high then their will be low investments as

Refined Core inflation is Core inflation excluding Fuel part

Deflation can lead to recession and depressions

Tax increase has least inflationary impact followed by

currency is worth less, its exchange rate weakens.

Methods of controlling Inflation

Increasing interest rates help curbing inflation.

increasing the interest paid on bonds so that more investors will buy them

but this will increase the exchange rates due to high demand in turn, increases imports and decreases exports

### Fiscal Drag

Fiscal drag is a concept where inflation and earnings growth may push more tax

payers into higher tax brackets.

Therefore fiscal drag has the effect of raising government tax revenue without explicitly raising tax rates.

This fiscal drag has the effect of reducing Aggregate Demand and becomes an example

of deflationary fiscal policy.

It could also be viewed as an automatic fiscal stabilizer because higher earnings growth will lead to higher tax and therefore moderate inflationary pressure in the economy

### GDP Deflator

The Gross Domestic Product (GDP) deflator is a measure of general price inflation.

It is calculated by dividing nominal GDP by real GDP and then multiplying by 100.

GDP deflator reflects the prices of all domestically produced goods and services in the economy

whereas, other measures like CPI and WPI are based on a limited basket of goods and services

### Fisher Effect:

Real interest rate=Nominal Interest rate - Inflation

### inflation expectation survey of households

Conducted by RBI, Monthly

### Producer Price Index (PPI)

measures the average change in the price of goods and services either as they leave the place of production, called **output PPI** or

as they enter the production process, called **input PPI.**

PPI estimates the change in average prices that a producer receives

### CPI

CPI is used to measure Inflation

Earlier It was WPI but on the basis of Urjit patel committee report now CPI used for inflation calculation.

908 articles

Base year 2011-12

Monthly released by Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation

**State wise CPI also calculated Monthly**

Headline and Core inflation.

2016 revised CPI components:

1)Food

2)Miscellaneous(House hold goods n services, health transport education, Communication, recreation and amusement Personal care and effects)

3)Housing

4)Fuel and light

5)Clothing and footware

6)Pan tobacoo

Types of CPI India,

CPI IW:

Consumer Price Index for Industrial Workers (CPI-IW), which also includes selected services and is measured on the basis of retail prices, and is used to determine the dearness allowance of employees in both the public and private sectors, is the appropriate indicator of general inflation

CPI Industrial workers base year 2001 IW,1986-87(AL,RL)

CPI Agricultural Labour Calculated by Labour bureau Monthly basis.

CPI Rural Labour

CPI-AL is basically used for revising minimum wages for agricultural labour in different States.

CPI urban

CPI Rural By CSO Monthly Basis

CPI Combined Base Year 2011-12

CFPI Food price Index Rural urban and combinedCSO

### WPI

Monthly by Office of Economic Advisor (OEA), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry calculates the WPI.

Base Year 2011-12

697 articles

Components

1. Manufacturing (Chemical > Metals> Food)
2. Primary Articles (Food > Non Food >Minerals)
3. Fuel (Oil > Electricity > Coal)

**WPI FOOD INDEX**

The rate of inflation based on WPI Food Index consisting of ‘Food Articles’ from Primary Articles group and ‘Food Products’ from manufacturing

### PMI

Purchasing managers index

The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector.

The PMI is based on five major indicators:

new orders,

inventory levels,

production,

supplier deliveries and

the employment environment.

A PMI of more than 50 represents expansion of the manufacturing sector when compared to the previous month.

A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change

PMI is a critical decision-making tool for managers in a variety of roles

PMI also provides information on imports and exports, which are important statistics for businesses that operate overseas

PMI Data is published by **Japanese firm Nikkei but compiled and constructed by Markit Economics**

### IIP

Index of Industrial Production: Direction and Trends in various sectors of industry.

Base Year 2011-12

Articles 809

Monthly By CSO

Updated on Recommendation of Soumidra Chaudry committee.

Components,

* 1. Manufacturing 78%
  2. Mining 14.5%
  3. Electricity 10.5%

Two formats :

Sector wise ,Goods category wise

Core IIP:

8 Core industries and weightages

* 1. Refinery Products 🡪 28%
  2. Electricity 🡪19%
  3. Steel 🡪17%
  4. Coal 🡪10%
  5. Crude oil 🡪9%
  6. Natural gas🡪7%
  7. Cement🡪5%
  8. Fertilizers🡪3%

**Core IIP constitute 38 % of IIP**

### SPI

Service price index

Under development

PMO CEA, MOCT and world bank

Experimental components

1)Transportation

2)Trade at Ports

3)Postal Telecommunication, Banking ,Insurance etc

Released Monthly

### **CFPI**

Consumer Food Price Index

Rural, Urban and Combined

Monthly By CSO

## Monetary Policy

### MPC:

The Monetary Policy Committee (MPC) is a committee of the Central Bank in India (Reserve Bank of India), headed by its Governor, which is entrusted with the task of fixing the benchmark policy interest rate (repo rate) to contain inflation within the specified target level.

MPC meetings every 2 months

Monetary Policy Committee is defined in **the Reserve Bank of India Act**, 1934

Monetary Policy Framework Agreement,

the RBI will be responsible for containing inflation targets at 4% (with a standard deviation of 2%) in the medium term

the Central Government determines the inflation target in terms of the Consumer Price Index, **once in every five years in consultation with the RBI**

RBI would have to give an explanation in the form of a report to the Central Government, if it failed to reach the specified inflation targets.

It shall give reasons for failure, remedial actions as well as estimated time within which the inflation target shall be achieved in that report.

6 member committee

Head RBI governor,

Deputy Governor

3 from govt.

One member nominated by RBI

Monetary Policy report

RBI is mandated to publish a Monetary Policy Report every six months

### Money supply

It constitutes M1, M2, M3 AND M4.

### Reserve money(M0) or Monetary base

Monetary base. Also called as high-powered money.

It includes Money in circulation (Includes cash in Bank vaults), + Bankers deposits with RBI + Other Deposits with RBI (including Govt. deposits with RBI).

### Narrow Money(M1)

M1 = Currency with the Public + Demand Deposits with the Banking System+

'Other' Deposits with the RBI

### M2

M2=M1 +Time Liabilities Portion of Savings Deposits with the Banking System+

+ Certificates of Deposit issued by Banks + Term Deposits of residents with a contractual maturity of up to and including one year with the Banking system.

### M3(Broad money)

M3=M2+ Term Deposits of residents with a contractual maturity of over one year+ with the Banking System + Call/Term borrowings from 'Non-depository' Financial Corporations by the Banking System.

### M4

M4: M3 + All deposits with post office savings banks (excluding National Savings Certificates)

### Tools of Monetary Policy

Rates and Ratios used to control velocity of money in economy

**Repo Rate(Policy Rate, Benchmark Rate)**

"repo" as "an instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed".

**RBI🡪TB selling🡪Bank**

**BANK🡪parking/giving Money🡪RBI**

Used for short term money requirements

MSF will be fixed 50 basis points above repo rate and

**Reverse repo would be fixed 50 basis points below Repo rate**

**REPO AND REVERSE REPO ARE USED BY BANKS TO MAINTAING THEIR SLR’S**

repo is essentially a liquidity management tool at the hand of RBI.

**In fact, the LAF Repo Rate fixed by the RBI in the overnight segment serves as the policy rate in India**

**Reverse Repo Rate**

"reverse repo" means an instrument for lending funds by purchasing securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the funds lent."

**BANK🡪TB selling🡪RBI**

**RBI🡪Giving money🡪BANK**

**Bank Rate**

the standard rate at which the Reserve Bank is prepared to buy or re-discount, bills of exchange or other commercial paper

Rate at which RBI lends money to commercial banks by buying eligible rated securities - bills of exchange or commercial paper.

**RBI🡪Money🡪Bank**

**Bank🡪Security🡪RBI**

**Now Bank rate is aligned to MSF**

**LAF**

LAF is a facility extended by the Reserve Bank of India

to the scheduled commercial banks (excluding RRBs) and primary dealers

to avail of liquidity in case of requirement or park excess funds with the RBI in case of excess liquidity

**on an overnight basis**

against the collateral of Government securities including State Government securities

LAF enables liquidity management on a day to day basis

Through LAF, banks are permitted to borrow only a certain percentage of its Net Demand and Time Liabilities (NDTL)

In case the Bank requires more funds, beyond what is permissible under LAF, it can access another window called Marginal Standing Facility (MSF)

**Term Repo**

the Reserve Bank has introduced Term Repo (repos of duration more than a day) under the Liquidity Adjustment Facility (LAF) for 14 days and 7 days tenors for banks (scheduled commercial banks other than RRBs) in addition to the existing daily LAF (repo and reverse repo) and MSF.

**MSF**

refers to the penal rate at which banks can borrow money from the central bank over and above what is available to them through the LAF window

MSF, being a penal rate, is always fixed above the repo rate.

Bank rate = MSF used to define Penal rate i.e **penalty rate** if bank default in the maintenance of cash reserve ratio(CRR) and the statutory liquidity ratio (SLR)

Bank ate = MSF

Penal Rate is 5% or 3% higher than Bank rate or MSF

The minimum amount which can be accessed through MSF is Rs.1 crore and in multiples of Rs.1 crore.

**MCLR**

**The marginal cost of funds based lending rate (MCLR)** refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI.

It is an internal benchmark or reference rate for the bank.

This new methodology replaces the **base rate(earlier it was the rate below which a bank cannot lend)**

Introduced from 1 april 2016

MCLR components:

marginal cost of funds

Negative carry on account of' Cash reserve ratio (CRR)

Operating Cost

Tenor premium

MCLR is based on marginal cost of funds, tenor premium, operating expenses and cost of maintaining cash reserve ratio

**CRR cash reserve Ratio**

Under RBI Act

Cash Reserve Ratio refers :

to the fraction of the total Net Demand and Time Liabilities (NDTL) of a Scheduled Commercial Bank,

it has to maintain as cash deposit with the Reserve Bank of India (RBI).

banks are not paid any interest on behalf of the RBI for parking the required cash

**Same as LAF but for Medium term**

**changes in the CRR is aimed at maintaining liquidity in the medium term.**

NBFC not included in CRR

**Statutory Liquidity Ratio**

Under Banking regulation act

The Statutory Liquidity Ratio (SLR) is a prudential measure under which Scheduled Commercial Banks in India must maintain an amount in one of the following forms as a percentage of their total Demand and Time Liabilities (DTL) / Net DTL (NDTL);

GOLD

CASH

Investments:

Treasury-Bills of the Government of India.

Dated securities including those issued by the Government of India from time to time under the market borrowings programme and the Market Stabilization Scheme (MSS).

State Development Loans (SDLs) issued by State Governments under their market borrowings programme.

Other instruments as notified by the RBI

SLR is also a tool for controlling liquidity in the domestic market via manipulating bank credit.

**A rise in SLR locks up increasing portion of a bank’s assets in the above three categories and may squeeze out bank credit**.

**LAF vs MSF**

|  |  |
| --- | --- |
| **LAF** | **MSF** |
| Min 5cr | Min 1cr |
| All clients of RBI | Only SCB |
| Cannot use security that is part of SLR | Can sell out of SLR |
| Can borrow any amount at repo rate | Can borrow Up to 2% of NTDL at repo rate+1% |

### open market operations

OMO are the market operations

* **conducted by the Reserve Bank of India** by way of **sale/ purchase of Government securities to/ from the market** with an objective to adjust the rupee liquidity.

When the RBI feels there is excess liquidity in the market, it resorts to sale of securities thereby sucking out the rupee liquidity. Similarly, when the liquidity conditions are tight, the RBI will buy securities from the market, thereby releasing liquidity into the market.

### Sterlisation

Sterilization is a form of monetary action in which a central bank seeks to limit the effect of inflows and outflows of capital on the money supply.

It refers to the process by which the RBI takes away money from the banking system to neutralize the fresh money that enters the system.

Sterilization most frequently involves the purchase or sale of financial assets by a central bank, and is designed to offset the effect of foreign exchange intervention.

The sterilization process is used to manipulate the value of one domestic currency relative to another, and is initiated in the foreign exchange market.

For example,

a U.S. investor looking to invest in India must use dollars to purchase rupees. If lots of U.S. investors start buying up rupees, the rupee exchange rate will increase.

At this point the Indian central bank can either let the fluctuation continue, which can drive up the price of Indian exports, or it can buy foreign currency with its reserves to drive down the exchange rate.

If the central bank decides to buy foreign currency it can attempt to offset the increase of rupees in the market by selling rupee-denominated government bonds in OMO.

Example 2

Suppose the RBI decides to buy US dollars (USD) from the market. Now, the money held by the RBI does not form part of the banking system. So, if the RBI releases rupees from its coffers to buy dollars, the money supply in the banking system increases. That can be a problem.

Remember the textbook definition of inflation? It is "too much money chasing too few goods". Thus, if there is no accompanying increase in output, the excess supply of money will "chase" the same quantity of goods. And because the system has more money, many will be willing to pay a higher price for the same goods, leading to inflation. That is the theoretical argument.

The point that is relevant is that

* **more money in the banking system means higher bond prices**. Why? Because banks will have more money, they will buy more bonds.

And that will push up bond prices. Since

* **bonds carry an inverse price-yield relationship**, higher bond prices mean lower yields.

The problem is that

* **lower yields will force the RBI to cut interest rates further.**

If the RBI does not want to cut rates,

* **it will reduce (sterilize) liquidity that causes the yields to fall**. It will do so by selling the government bonds that it holds in its books. This means that sterilization is possible only to the extent that the RBI holds government bonds in its portfolio.

This process of selling government bonds to reduce liquidity is part of its open market operations.

### MONEY MULTIPLIER

It is the amount of money the banking system generates with each rupee of reserves.

It has inverse relation with CRR.

### Market stablisation scheme

MoU between the Reserve Bank of India (RBI) and the Government of India (GoI) with the primary aim of aiding the sterilization operations of the RBI.

**The Reserve Bank maintains a separate MSS cash balance of the Government, which is not part of the Consolidated Fund of India**.

Thus, any rise in Foreign Exchange Reserves resulting from the intervention of the RBI in the Foreign Exchange Markets (with the intention, say, to maintain the exchange rate on the face of huge capital inflows) entails a corresponding rise in High Powered Money.

* **The Money Supply in the economy is linked to High Powered Money via the money multiplier.** Therefore**,**
* **on the face of large capital inflows, to keep the liabilities side constant to not raise the Supply of Money, corresponding reduction in the stock of Government Securities by the RBI is necessary**.

The MSS was devised since continuous resort to sterilization by the RBI depleted its limited stock of Government Securities and impaired the scope for similar interventions in the future.

the GoI borrows from the RBI (such borrowing being additional to its normal borrowing requirements) and issues Treasury-Bills/Dated Securities that are utilized for absorbing excess liquidity from the market.

The securities issued under MSS, termed as Market Stabilization Scheme (MSS) Securities/Bonds, are issued by way of

* **auctions conducted by the RBI and are done according to a specified ceiling mutually agreed upon by the GoI and the RBI**.

They possess all the attributes of existing Treasury-Bills/Dated Securities and are included as a part of the country’s ‘internal Central Government debt’.

The amount raised under the MSS does not get credited to the Government Account but is maintained in a separate cash account with the RBI and are used only for redemption/buy back of Treasury-Bills/Dated Securities issued under the scheme.

* **As and when MSS securities are issued by the RBI as well as the annual ceiling, when decided, is notified through a press release**

Other tools for liquidity absorption in system includes **OMO and LAF.**

### Impact of monetary policy on growth and investment

high interest rate reflects anti-inflationary stance of monetary policy and can be one of the factors behind the slowdown in growth,

Nominal interest rate = Real interest rate + inflation.

High inflation can lead to high nominal Interest rates.

Now Interest rate and Bond prices are inversely proportional. As interest rates rises bond prices fall and vis versa. **Thus effecting individual investment.**

Under a system of fractional-reserve banking, interest rates and inflation tend to be inversely correlated. This relationship forms one of the central tenets of contemporary monetary policy; central banks manipulate short-term interest rates to affect the rate of inflation in the economy.

When interest rates are low, individuals and businesses tend to demand more loans.

Each bank loan increases the money supply in a fractional reserve banking system.

According to the quantity theory of money, a growing money supply increases inflation.

Thus, a low interest rate tends to result in more inflation. High interest rates tend to lower inflation.

Typically, higher interest rates reduce investment, because higher rates increase the cost of borrowing and require investment to have a higher rate of return to be profitable.

* Private investment is an increase in the capital stock such as buying a factory or machine. (investment in this context does not relate to saving money in a bank.)
* The marginal efficiency of capital (MEC) states the rate of return on an investment project. Specifically, it refers to the annual percentage yield (output) earned by the last additional unit of capital.
* If the marginal efficiency of capital was 5% and interest rates were 4%, then it is worth borrowing at 4% to get an expected increase in output of 5%.

If interest rates are increased then it will tend to discourage investment because investment has a higher opportunity cost

With higher rates, it is more expensive to borrow money from a bank.

Saving money in a bank gives a higher rate of return. Therefore, using savings to finance investment has an opportunity cost of lower interest payments.

If interest rates raised, firms will need to gain a better rate of return to justify the cost of borrowing/using savings.

Assuming inflation is zero, and interest rates are 5%. Then any investment project would need an expected rate of return of at least greater than 5%. If interest rates were 7%, then any investment project would need an expected rate of return of at least greater than 7%, and therefore less investment would occur.

For firms, they will consider the real interest rate – which equals nominal interest rate – inflation.

If inflation is 10% and nominal interest rates 9% – we have negative real interest rates. Borrowing money is more desirable as inflation will make it easier to pay it back.

If inflation is 4% and nominal interest rates are 6%, we have real interest rate of 2%

Interest rates are one important determinant of investment. **However, it is not the only factor, other** factors include investor confidence, economic growth, the willingness of banks to lend, accelerator theory, and state of technology.

In a liquidity trap, lower interest rates may have little effect on boosting levels of investment. Therefore demand for investment becomes very interest inelastic.

This happened during the great recession of 2009 when interest rates were cut to 0.5%, but the economy remained stagnant with little increase in investment. In 2009, the credit crunch meant that banks were unable or unwilling to lend.

Monetary policy effect on trade balance, Inflation, interest rates, Investment-individual and private,

Growth?

Is high core inflation good or bad for economy or generally investment?

Changing monetary policy has important effects on aggregate demand, and thus on both output and prices

Fiscal policy—taxing and spending—is another, and governments have used it extensively during the recent global crisis. However, it typically takes time to legislate tax and spending changes, and once such changes have become law, they are politically difficult to reverse. Add to that concerns that consumers may not respond in the intended way to fiscal stimulus (for example, they may save rather than spend a tax cut), and it is easy to understand why monetary policy is generally viewed as the first line of defense in stabilizing the economy during a downturn.

The one people traditionally focus on is the interest rate channel. If the central bank tightens, for example, borrowing costs rise, consumers are less likely to buy things they would normally finance—such as houses or cars—and businesses are less likely to invest in new equipment, software, or buildings. This reduced level of economic activity would be consistent with lower inflation because lower demand usually means lower prices.

But this is not the end of the story. A rise in interest rates also tends to reduce the net worth of businesses and individuals—the so-called balance sheet channel—making it tougher for them to qualify for loans at any interest rate, thus reducing spending and price pressures. A rate hike also makes banks less profitable in general and thus less willing to lend—the bank lending channel.

High rates normally lead to an appreciation of the currency, as foreign investors seek higher returns and increase their demand for the currency.

Through the exchange rate channel, exports are reduced as they become more expensive, and imports rise as they become cheaper. In turn, GDP shrinks

Monetary policy has an important additional effect on inflation through expectations—the self-fulfilling component of inflation. Many wage and price contracts are agreed to in advance, based on projections of inflation. If policymakers hike interest rates and communicate that further hikes are coming, this may convince the public that policymakers are serious about keeping inflation under control. Long-term contracts will then build in more modest wage and price increases over time, which in turn will keep actual inflation low.

### Monetory Policy Transmission

An important factor that determines the effectiveness of monetary policy is its

transmission – a process through which changes in the policy achieve the objectives

of controlling inflation and achieving growth

Black money:

Legally earned but no tax payed

Illegal money:

Earned from illegal activities

Money laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activity or other serious crimes) is given the appearance of having originated from a legitimate source

### Hawala

also known as hundi in India is an informal value transfer system, based on the performance and honour of a huge network of money brokers, originally located in the Middle East, Africa, Asia and the Indian subcontinent.

Hawala money is black money

FEMA (Foreign Exchange Management Act) 2000 and PMLA (Prevention of Money

Laundering Act) 2002 are the two major legislations which make such transactions

Illegal

WTO don't recognises and supports Hawala.

## Taxation

### MAT or AMT

MAT stands for Minimum Alternate Tax and AMT stands for Alternate Minimum Tax. Initially the concept of MAT was introduced for companies and progressively it has been made applicable to all other taxpayers in the form of AMT As per the current tax provision of the income tax act 1961,

MAT works on profit %age

AMT works on income if it exceeds 20 lac applicable anyone

**Minimum Alternate tax (MAT) is levied only on companies and Alternate Minimum Tax (AMT) on limited liability partnerships (LLPs)**

Initially the concept of MAT was introduced for companies and progressively it has been made applicable to all other taxpayers in the form of AMT

objective of introduction of MAT is to bring into the tax net "zero tax companies" which in spite of having earned substantial book profits and having paid handsome dividends, do not pay any tax due to various tax concessions and incentives provided under the Income-tax Law

MAT are applicable to a corporate taxpayer only(zero tax companies.)

zero tax companies are required to **pay a fixed percentage of book profit**

AMT is to person other than company, initially to LLP but now all non corporate bodies(LLP, Partnership Firms)

AMT shall apply to an individual or a Hindu undivided family or an association of persons or a body of individuals (whether incorporated or not) or an artificial juridical person if **total adjusted income exceeds** 20 lac

tax credit allowed in AMT

AMT on Total adjusted income

LLP registered with min. of commerce not under company act

LLPs are also not as recognized in India as a private limited company,

LLP requires minimum 2 partners.

There is no limit on maximum partners unlike a private limited company wherein there is a restriction of not having more than 200 members.

there is no minimum capital requirement in LLP.

An LLP can be formed with least possible capital

Company- Private Company - 1,00,000

Public Company -5,00,000

In Case of LLP- No such mandatory requirement

No audit required for LLP but it is required for public or private company

### Tax Expenditures:

it refers to the opportunity cost of taxing at concessional rates, or the **opportunity cost of giving exemptions**, deductions, rebates, deferrals credits etc. to the tax payers

It simply means that the government can give a lot of concessions, reliefs, exemptions and deductions in the tax; and by doing this the government can promote industries or businesses, investments

### Tax buoyancy

Tax buoyancy is an indicator to measure efficiency and responsiveness of revenue

mobilization in response to growth in the Gross domestic product or National income.

A tax is said to be buoyant if the **tax revenues increase more than proportionately in response to a rise in national income or output**

**as the economy achieves faster growth, the tax revenue of the government also goes up and When a tax is buoyant, its revenue increases without increasing the tax rate**

### Tax elasticity

It refers to changes in tax revenue in response to changes in tax rate

### GST

#### **Reverse Charge;**

Reverse charge is a mechanism where the recipient of the goods and/or services is liable to pay GST instead of the supplier.

Normally, the supplier of goods or services pays the tax on supply.

In the case of Reverse Charge, the receiver becomes liable to pay the tax, i.e., the chargeability gets reversed

#### **Exports**:

Treatment for Zero Rated Supplies One of the major categories under which, claim for refund may arise would be, on account of exports.

All exports (whether of goods or services) as well as supplies to SEZs have been categorised as Zero Rated Supplies in the IGST Act.

“**Zero rated supply**” under IGST Act, 2017 means any of the following supplies of goods or services or both, namely:

a) export of goods or services or both; or

b) supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

Every person making claim of refund on account of zero rated supplies has two options.

1. Either he can export under Bond/LUT and claim refund of accumulated Input Tax Credit or
2. he may export on payment of integrated tax and claim refund of thereof as per the provisions of CGST Act, 2017.

GST law also provides for grant of provisional refund of 90% of the total refund claim, in case the claim relates for refund arising on account of zero rated supplies.

Export and supplies to SEZ units or developers are classified as zero rated supply. On the other hand, nil or exempt supply are those supply with 0% .

**GSTR 3B return and GSTR-1**, all taxpayers must furnish details of all **zero rated supply**.

Refund to International Tourist

An enabling mechanism has been introduced in Section 15 of the IGST Act, 2017 whereby an international tourist procuring goods in India, may while leaving the country seek refund of integrated tax paid by them.

#### Forms under GST

GSTR-1:

* Furnished by supplier with details of supply along with details like supplier and recipient.
* GSTR-1 becomes the base document upon which the entire compliance structure in GST would be based.

GSTR-1A:

* Disagreements by recipient about details mentioned by supplier.

GSTR-2:

* Details auto-populated and communicated to the recipient in **GSTR-2A**.
* Recipient would confirm the details filled in by the supplier in **GSTR-1 and reflected in GSTR-2A**. If he agrees with the same, **the transaction would be frozen and GSTR-2 would be prepared**.
* However, if the recipient disagrees then recipient would communicate to the supplier about his **disagreements which then would be reflected in GSTR-1A** to the supplier.
* Supplier in turn would have the **option to modify the details furnished in GSTR-1** as per the request of the recipient auto-populated before him in **GSTR-1A** or keep the details unchanged.

GSTR-2A:

* Confirmation by recipient about the details provided by supplier in GSTR 1.

GSTR-3:

* it would be a consolidated monthly return and
* will contain details of tax liability along with the tax collected on outward supplies and tax paid on inward supplies by registered person.

GSTR-3B:

* GSTR-3B is a simple return form introduced by the CBEC for July 2017 to March 2018.
* GSTR-3B contains details of outward and inward supplies.
* You must file a separate GSTR-3B for each GSTIN you have.

TRAN 1:

can be filed by a person who is registered under GST & wants to claim ITC on stock, whether he was registered or not registered under the old regime(VAT Act, Central Excise Act, Service Tax Act) is immaterial.

TRAN 2:

Every registered person under GST regime satisfying all the below mentioned conditions should file Form GST TRAN 2.

* Such person should not be registered under the old regime/ Pre GST regime.
* Should possess closing stock on 30th June, 2017.
* Should neither be a manufacturer under Central Excise Act nor a supplier of services under Service Tax Act.
* Should not be in possession of any invoice or any other document as evidence of payment of taxes.

### Standard deduction

A Standard Deduction is basically a deduction allowed in Income Tax irrespective of the expense incurred or the investment made by the Individual.

No Disclosures/ Investment Proofs/ Expense Bills are required for this type of Income Tax Standard Deduction as it is allowed at a standard rate.

Can be used by salaried or pensioners

Examples of skill upgrade, travel etc

Helps in reduction of tax

### Shell Company

no clear definition of what shell company is in the Companies Act, or any other Act.

But typically shell companies include multiple layers of companies that have been created for the purpose of diverting money or for money laundering

Most shell companies do not manufacture any product or deal in any product or render any service.

They are mostly used to make financial transactions.

Generally, these companies hold assets only on paper and not in reality

**Not all the shell companies barred from carrying out business activities in India.**

### State Level Taxes

Land and agriculture

Land revenue, including the assessment and collection of revenue

Taxes on agricultural income.

Estate duty in respect of agricultural land

Taxes on lands and buildings.

Taxes on mineral rights subject to any limitations imposed by Parliament by law

Duties of excise

(a) alcoholic liquors for human consumption

(b) opium, Indian hemp and other narcotic **drugs and narcotics**

Sale of services

Taxes on the consumption or sale of electricity.

Taxes on goods and passengers carried by road or on inland waterways.

Animal and boats

Taxes on professions, trades, callings and employments.

Tolls

Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling

Taxes on entertainments and amusements to the extent levied and collected by a Panchayat or a Municipality or a Regional Council or a District Council.

Tax on sale of petroleum products

Taxes on vehicles

Capitation taxes.

Markets and fairs.

Fisheries

### Center Taxes

Tax on services

Tax on news papers

Tax on newspapers is levied and collected by centre and distributed

between centre and states

Corporation Tax

### Essential commodities act

the State Governments/ UTAdministrations have been provided with various control powers to regulate various aspects of trading in essential commodities such as food grain, edible oils, pulses, kerosene and sugar etc.

Petroleum and petroleum products

Food items: edible oil, seeds ,vanaspati, pulses, sugar cane ,rice

Prices of essential drugs

Fertilizers

**Recently, potatoes and onions were included in the list**

### Tax to GDP Raito

**How to increase it**

Tax to GDP ratio boost demand

## Banking

### RBI

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

A core function of the Reserve Bank in the last 75 years has been the formulation and implementation of monetary policy with the objectives of maintaining price stability and ensuring adequate flow of credit to productive sectors of the economy

**Other Functions**

* + 1. Monetary policy
    2. Issuer of currency
       1. One rupee not by RBI but B ministry of finance
    3. Banker and Debt manager to govt
       1. WMA
    4. Banker to Banks
       1. As a Banker to Banks, the Reserve Bank also acts as the ‘lender of last resort
    5. Financial regulation and supervision
       1. Regulatory for Banks, NBFC, Credit information companies
       2. **Licensing For commencing banking operations in India**, whether by an Indian or a foreign bank, a licence from the Reserve Bank is required
       3. The opening of new branches by banks and change in the location of existing branches are also regulated as per the Branch Authorisation Policy
       4. The Reserve Bank **also regulates merger, amalgamation and winding up of banks**
       5. The Reserve Bank’s policy objective is to ensure high-quality corporate governance in banks**. It has issued guidelines stipulating ‘fit and proper’ criteria for directors of banks**
       6. Reserve Bank regulates the interest rates on savings bank accounts and deposits of non-resident Indians (NRI), small loans up to rupees two lakh, export credits and a few other categories of advances
       7. **Issue Public disclosure of relevant information** is an important tool for enforcing market discipline.
       8. The Reserve Bank **undertakes annual on-site inspection of banks** to assess their financial health and to evaluate their performance in terms of quality of management, capital adequacy, asset quality, earnings, liquidity position as well as internal control systems
       9. The Reserve Bank requires banks to submit detailed and structured

information periodically under its **Off Site Surveillance and Monitoring** System (OSMOS).

* + - 1. The Reserve Bank periodically **meets the top management of banks** to discuss the findings of its inspections.
      2. Monitoring of frauds
      3. Supervision of four financial institutions - Exim Bank, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI)
      4. **regulation of** State Cooperative Banks and District Central Cooperative

Banks vests with Reserve Bank, their **supervision is carried out by National Bank for Agriculture and Rural Development (NABARD)**.

Forex management

Management of Forex reserves

Capital account and current account

Market operations

Regulate OMO

MSS

LAF

CRR without any upper or lower limit

Operations in the domestic foreign exchange markets

Money Market

The Reserve Bank also carries out regulation and development of money market instruments such as call / notice / term money market, repo market, certificate of deposit, commercial paper and Collateralised Borrowing and Lending Obligations (CBLO).

Handle payment and settlement systems

National Electronic Clearing Service

Electronic Funds Transfer

Real time gross settlement

National payments corporation of India

to act as an umbrella organisation for operatingthe various retail payment systems in India

Development Role

Priority sector lending

40 per cent of Adjusted Net Bank Credit (ANBC) [Net Bank Credit plus investments made by banks in nonSLR bonds held in held to maturity (HTM) category] or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher

18% agri

MSME development

Research and statistics

Coordinating with international institutions, such as, the IMF

**Banking Ombudsman**

Under RBI monitors complaint redressal through the IT enabled Complaint Tracking System. It strives to make the Banking Ombudsman Scheme 2006 more customer friendly in areas, such as, mode of complaint receipt, disposal procedures, appeal provision and ownership

### SCB:

Scheduled Commercial Banks (Public Sector) At present, there are 27 Public Sector Banks in India including SBI (plus its 5 associates) and 19 nationalized banks. Further,

there are two banks which have been categorized by RBI as “**Other Public Sector Banks**”.

IDBI and Bhartiya Mahila Bank come under this category

### Nidhi: mutual benefit financial company (MBFC),

Nidhi is a company formed with the exclusive object of cultivating the habit of thrift, savings and

functioning for the mutual benefit of members by **receiving deposits only** from individuals enrolled as members and

by lending only to individuals, also enrolled as members

Nidhi’s are companies registered under section 620A of the Companies Act, 1956

Included in NBFC

### NBFI

Non-Banking Financial Institutions (NBFIs) are a heterogeneous group of institutions that cater to a wide range of financial requirements and can broadly be grouped as

financial institutions (FIs),

RBI Supervise four financial institutions - Exim Bank, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI)

non-banking financial companies (NBFCs)

NBFCs who works in financial sector are regulated by SEBI whereas NBFCs who working in banking sector are regulated by Reserve Bank of India

primary dealers (PDs)

Can participate in OMO

### NBFC

It is a company registered under Company Act

Financial activity as principal business is

when a company’s financial assets constitute more than 50 per cent of the total assets and

income from financial assets constitute more than 50 per cent of the gross income.

A company which fulfils both these criteria will be registered as NBFC by RBI under 50-50 criteria

Non-banking financial entities partially or wholly regulated by the RBI include:

(a) NBFCs comprising equipment leasing (EL), hire purchase finance (HP), loan (LC), investment (in securities govt.approved) (including primary dealers(PDs)) and residuary nonbanking (RNBC) companies, Infrastructure Finance Company (IFC);

(b) mutual benefit Financial company (MBFC), i.e. nidhi company;

(c) mutual benefit company (MBC), i.e. potential nidhi company;

(d) miscellaneous non-banking company (MNBC), i.e. chit fund company

does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

A non-banking institution which is a company and **has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments** by way of contributions or in any other manner, **is also a non-banking financial company**

**NBFC cannot do**

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

NBFCs whose asset size is of ₹ 500 cr or more as per last audited balance sheet are considered as **systemically important NBFCs**.

The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.

NBFC can accept deposits classified as NBFC-D public deposits that can be accepted, the period of deposits, which should not be less than12 months and should not exceed 60 months, the maximum rate of interest payable on such deposits (presently 12.5 per cent)

### Cooperative Banks

Rural cooperatives occupy an important position in the Indian financial system.

These were **the first formal institutions established to purvey credit to rural India**. Thus far, cooperatives have been a key instrument of financial inclusion in reaching out to the last mile in rural areas.

Cooperative banks are registered under the respective **State Co-operative Societies Act or Multi**

**State Cooperative Societies Act**, 2002 and governed by the provisions of the respective acts.

The legal character, ownership, management, clientele and the role of **state governments** in the functioning of the cooperative banks make these institutions distinctively different from commercial banks

Rural cooperatives structure is bifurcated into short-term and long-term structure

**The short-term cooperative structure** is a three-tier structure

State Cooperative Banks (StCBs) at the apex (State) level,

District Central Cooperative Banks (DCCBs) at the intermediate (district) level and Primary Agricultural Credit Societies (PACS) at the ground (village) level.

The short term structure caters primarily to the various short / medium-term production

and marketing credit needs for agriculture.

**The long-term cooperative structure**

State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the apex level

the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level

These institutions were conceived with the objective of meeting long-term credit needs in agriculture

**Regulation**

regulation of State Cooperative Banks and District Central Cooperative Banks vests with Reserve Bank,

their supervision is carried out by National Bank for Agriculture and Rural Development (NABARD).

### Land development banks

Land Development Banks in India are of quasi-commercial type.

Although they are all registered **under the Co-operative Societies Act**,

they are associations of borrowers as well as non-borrowers organized on the principle of limited liability.

The working capitals of LDBs are raised from share capital, deposits and debentures, and borrowings from the State Bank of India, commercial banks and the State Co-operative Banks.

However, a large part of their funds are raised through long-term debentures. The debentures can be issued only by the Central Land Development Banks and not by the Primary Land Development Banks.

### RRB

Regional Rural Banks Regional Rural Banks were set up under the Regional Rural Banks Act, 1976

with a view to developing the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

Being local level institutions, RRBs together with commercial and co-operative banks, were assigned a critical role to play in the delivery of agriculture and rural credit.

The equity of the RRBs was contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35.

Regulatory by RBI

Supervision by NABARD

### MUDRA

Micro Units Development & Refinance Agency

Initially under SIDBI

Its primary responsibility is to provide funding to nearly 5.8 crore Non-Corporate Small Business Sector (NCSB) units of the country through various Last Mile Financial Institutions like Banks, NBFCs and MFIs

According to government estimates, more than 90% of the NCSB sector does not have access to formal sources of finance. It is to provide finance to this segment that the government has created MUDRA Limited as a subsidiary of SIDBI.

will provide refinancing all Last Mile Financiers such as Non-Banking Finance Companies, Societies, Trusts, Co-operative Societies, Small Banks, Scheduled Commercial Banks, Regional Rural Banks and Section 8 Companies [formerly Section 25], which gives loans to micro/small business entities engaged in manufacturing, trading and services activities.

**Pradhan Mantri MUDRA Yojana (PMMY),** is a scheme launched by the government of India and implemented through MUDRA. The scheme contains three products to three levels of micro enterprises under the name Shishu, Kishor and Tarun.

MUDRA was given the responsibility of monitoring the programme

The PMMY sets financial limit for these schemes: –

1. Shishu : covering loans upto 50,000/-

2. Kishor : covering loans above 50,000/- and upto 5 lakh

3. Tarun : covering loans above 5 lakh to 10 lakh

SIDBI gives refinancing as well as direct financing support to firms. Previously, it was the SIBDI that provided indirect loans to small units. The MUDRA aims to give loans below Rs 10 lakh. Micro units are the domain of MUDRA.

### NABARD

with a mandate for providing and regulating credit and other facilities for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters

connected therewith or incidental thereto

NABARD is entrusted with

1. Providing refinance to lending institutions in rural areas
2. Bringing about or promoting institutional development and
3. Evaluating, monitoring and inspecting the client banks
4. Acts as a coordinator in the operations of rural credit institutions
5. Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development
6. Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development
7. Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development
8. **Acts as regulator for cooperative banks and RRBs**

NABARD Infrastructure Development Assistance (NIDA):

NABARD has set up NIDA, a new line of credit support for funding of rural infrastructure

projects.

NABARD Initiated Project on Core Banking Solutions (CBS) in Co-operatives :

Through Core Banking Solution (CBS), Co-operatives are being brought to a higher technology platform so as to compete with other banks for business and growth.

### Microfinance instituion

A microfinance institution is an organization that offers financial services to low income populations.

**An NBFC-MFI is defined as a non-deposit taking NBFC** (other than a company licensed under Section 25 of the Indian Companies Act, 1956)

“A company (other than a company licensed under Section 25 of the Companies Act, 1956) which provides financial services pre-dominantly to low-income borrowers with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks and which further conforms to the regulations specified in that behalf

Falls in NBFC MFI category according to RBI

Almost all give loans to their members, and many offer insurance, deposit and other services

RBI stated that **MFIs can disburse loans to a borrower with a rural household annual income of Rs.100, 000 as compared with the earlier limit of** Rs.60, 000.

In case **of customers in the urban or semi-urban regions, the annual income limit has been raised to Rs.160, 000** from Rs.120, 000 earlier

Eligibility

Not less than 90% of its total assets (other than cash and bank balances and money market instruments) are in the nature of “**qualifying assets.”**

a “qualifying asset” shall mean a loan which satisfies the following criteria:-

loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000

loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles

tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

the loan is without collateral;

### D SIB

Domestic systematically important bank D-SIB means that the bank is too big to fail.

According to the RBI, some banks become systemically important due to their size, cross jurisdictional activities, complexity and lack of substitute and interconnection.

Banks **whose assets exceed 2% of GDP** are considered part of this group

HDFC Bank(latest), SBI and ICICI Bank.

### Urban Cooperatives:

Urban co-operative banks play a significant role in providing banking services to the middle and lower income groups of society in urban and semi urban areas.

The primary (urban) co-operative banks (UCBs), like other co-operative societies, are registered under the respective State Co-operative Societies Act or Multi State Cooperative Societies Act, 2002

these banks came under the **dual control of respective State Governments/Central Government and the Reserve Bank.**

**the non-banking aspects** like registration, management, administration and recruitment, amalgamation and liquidation **are regulated by the State/ Central Governments**,

matters related **to banking are regulated and supervised by the Reserve Bank** under the Banking Regulation Act, 1949

### WAYS AND MEANS ADVANCES

The Reserve Bank and the Government of India agreed to replace the system of ad-hoc Treasury Bills by Ways and Means Advances**, ending automatic monetisation of fiscal deficits.**

RBI provides a short-term interest bearing advance –

to the Governments(Both center and state),

to meet the temporary mismatches in their receipts and payments

financing the day to day requirements of Government of India

It is method of cash management

Cash management refers to managing both i.e., ‘cash on hand’ as well as ‘cash equivalents’.

The Government of India’s cash management stems from the Union Budget which sets out the magnitude of cash transactions for the next year in terms of revenue and expenditure.

The budget also provides estimates of the net amount to be borrowed under different sources of financing to fill the gap between revenue and expenditure represented by **gross fiscal deficit (GFD).**

The basic framework for the Government of India’s cash management is encapsulated in the Indian Constitution and the Reserve Bank of India Act 1934.

**Article 283(1) and (2) of the Indian Constitution prescribe** that the central and state governments may make rules for the receipt, custody and disbursement of all the amounts accruing to or held in its consolidated or contingency funds or in its public account.

Reserve Bank is the debt manager except for Sikkim

The cash position is reflected in the single aggregated account which may be called **a single treasury account**.

The government is required to maintain a minimum balance of ₹10 crore in its account on a daily basis and ₹100 crore on Fridays

Ad hoc T-bills

Prior to 1997, issuance of ad hoc treasury bills was the primary instrument for making up the shortfall in minimum cash requirements which was initially fixed at ₹4 crore

As the ad hoc treasury bills were periodically converted into dated securities, this practice led to rapid monetary expansion, as fiscal deficit became a prominent and regular feature of the government’s budget.

**Ways and Means**

In 1997, the system of issuing ad hoc treasury bills was discontinued and a system of **ways and means advances (WMA)** was introduced with an agreement between the government and the Reserve Bank

WMA’s objective was to accommodate temporary mismatches in the government’s receipts and payments

when 75 per cent of the WMA limits are utilised, the Reserve Bank would trigger a fresh floatation of government securities.

WMA creates primary liquidity in system

WMA is interest bearing instruments

The interest rate on WMA/overdraft will be:

WMA: Repo Rate

Overdraft: Two percent above the Repo Rate

Normal WMA

Special WMA/ Special Drawing Facility (SDF)

State Govt cash management

RBI to extend WMA to the State Governments which are **repayable not later than three months from the date of making the advances**.

These advances are meant to be temporary to provide a cushion to the States to carry on their essential activities despite mismatches on fiscal transactions

Except J&K and Sikkim

When the advances to the State Governments exceed their SDF and WMA limits, Overdraft (OD) facility is being provided

They are intended to provide a cushion to the States to carry on their essential activities and normal financial operations

The States are required to avail of Special WMA limits first before seeking accommodation under the normal WMA limits

**Two ways**

Normal WMA or clean advance, which was introduced in 1937; and

Special WMA/ Special Drawing Facility (SDF) instituted in 1953, which is secured advance provided against the collateral of GoI securities.

OD

When the advances to the State Governments exceed their SDF and WMA limits, OD facility is being provided

A State can be in overdraft for 14 consecutive working days. In case the overdraft continues in the State's account beyond 14 consecutive working days, the RBI and its agencies shall stop payments in respect of the concerned State Government

No State Government will be allowed to be in overdraft for more than **36 working days in a quarter.**

**Overdraft up to 100 per cent of WMA limit - two per cent above the Repo rate, Overdraft exceeding 100 per cent of the WMA limit - five per cent above the Repo rate**

**Cash management Bills**

Same as T-Bills but non standard maturity of less than 91 days

Used for cash management

### Priority Sector lending

Priority sector was first properly defined in 1972; after the National Credit Council emphasized that there should be a larger involvement of the commercial banks in the priority sector.

The sector was then defined by Dr. K S Krishnaswamy Committee.

Agriculture

MSME

Export credit

Education

Housing

Social Infrastructure

Renewable energy

who gives it?

Domestic scheduled commercial banks and Foreign banks with 20 branches and above

Foreign banks with less than 20 branches

### Small Saving schemes

Small Savings Schemes can be grouped under three:

**Post office Deposits**:

Post Office Savings Account, Post Office Time Deposits (1,2,3

and 5 years), Post Office Recurring Deposits, Post Office Monthly Account,

**Savings Certificates**:

National Savings Certificate (VIII Issue) **and Kisan Vikas Patra**

**Social Security Schemes**:

Public Provident Fund, Senior Citizens Savings Scheme,

and Sukanya Samriddhi Account

**Mutual funds are not part of SSS**

## Markets

### FDI VS FII

|  |  |
| --- | --- |
| **FDI** | **FII/FPI** |
| targets a specific enterprise with the aim of increasing its productivity or changing its management control and flow | Invest in stocks and other instruments via stock exchange Share,debentures,warrants of companies listed and to be listed |
| Management control | Not interested in management control |
| Increase capital availability for a specific firm | Increase capital availability in general market |
| Primary market | Secondary as well as primary market(using IPO and FPO) |
| Can be 100% but according to govt rules | Usually cap on investment upto 10% in company |
| From individual as well as institution | From institution only |
| DIPP | SEbI registeration compulsory |

FPI is a FII which holds upto 10% stake in company above it is FDI

Foreign investment I n india is regulated by FEMA ACT

RBI also issues regulations based on this act

(IPO are comparatively riskier than FPO. It is because in IPO the individual investor is not known, of what can happen with the company in future, while in the case of FPO, the investor already has an idea about company’s investment and growth prospects)

**According to RBI Foreign Institutional Investors (FIIs), Non-Resident Indians (NRIs), and Persons of Indian Origin (PIOs) are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme (PIS).**

**The Reserve Bank of India monitors the ceilings on FII/NRI/PIO investments in Indian companies on a daily basis**

The Foreign Exchange Management Act, 1999 (FEMA) empowers the Reserve Bank to frame regulations to prohibit, restrict or regulate transfer or issue of any security by a person resident outside India

**Prohibitions**

Foreign investment is prohibited in the following sectors:

Lottery Business including Government / private lottery, online lotteries, etc.

Gambling and Betting including casinos etc.

Chit funds

Nidhi company

Trading in Transferable Development Rights (TDRs)

Real Estate Business or Construction of Farm Houses

Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

Activities / sectors not open to private sector investment e.g.

1. Atomic energy and
2. Railway operations (other than permitted activities mentioned in entry 18 of Annex B

### Foreign portfolio invester

‘Foreign Portfolio Investment’ is any investment made by a person resident outside India in capital instruments where such investment is

(a) less than 10 percent of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company or

(b) less than 10 percent of the paid up value of each series of capital instruments of a listed Indian company.

Regulated by Securities Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014.

### PROMMISORY NOTES

PN is a derivative instrument issued **in foreign jurisdictions**, by a SEBI registered Foreign Institutional Investor (FII) or its sub-accounts or one of its associates, against underlying Indian securities.

PNs are also known as Overseas Derivative Instruments/ Offshore Derivative Instrument.

participatory notes or ODIs are **issued by selected foreign portfolio investors** (which is a broad category also including FIIs) against securities held by it that are **listed or proposed to be listed** on any recognized stock exchange in India.

FII that are individuals cannot issue PN

investors in PNs derive the economic benefits of investing in the security without actually holding it

reasons for the emergence of an Off-shore Derivative market is the restrictions on foreign investments

a foreign investor intending to make portfolio investments in India was required to seek FII registration for which he is required to meet certain eligibility criteria. Lack of full Capital Account Convertibility further enhances the entry barriers from the perspective of a foreign investor.

The off-shore derivative market allows investors to gain exposure to the local shares without incurring the time and costs involved in investing directly.

**PNs also offer an important hedging tool to FII**

They are regulated by the Regulatory authority of country in which they are traded.

Cons:

Being derivative instruments and freely tradable, PNs can be easily transferred, creating multiple layers, thereby obfuscating the real beneficial owner

it is the FII which acts as mini-exchange overseas.

Outside the jurisdiction of SEBI

Can be used in black money

### PRIMARY MARKET VS SECONDARY

|  |  |
| --- | --- |
| **PRIMARY MARKET** | **SECONDARY MARKET** |
| Where securities get created | Where securities are traded |
| Prices determined by investment banks or regulators | Prices are determined by market forces of demand and supply |
| Foreign investment allowed FII ,FDI, NRI investment are allowed | Foreign investment allowed FII ,NRI and other investors |

SEBI regulates securities Markets in INDIA est. in 1992.

The Reserve Bank of India monitors the ceilings on FII/NRI/PIO investments in Indian companies.

### Money Market

The money market is a market **for short-term financial assets** (maturity less than a year )that are close substitutes of money

it is liquid and can be turned into money quickly at low cost

RBI regulates them and use them to monitor money supply in economy using Monitory policy

Govt. enters money market using Fiscal policy: example KCC,PSL, Interest subvention , MUDRA, SIDBI etc.

who?

Scheduled commercial banks (excluding RRBs), co-operative banks (other than Land Development Banks) and Primary Dealers (PDs), are permitted to participate in call/notice money market both as borrowers and lenders.

Eligible participants are free to decide **on interest rates in call/notice money market**

Primary Dealer (PD) means a financial institution which holds a valid letter of authorization as a PD issued by the Reserve Bank.

why?

provides an avenue for equilibrating the short-term surplus funds of lenders and the requirements of borrowers

#### Types of Money Market

**Call Money Market**

Unsecured market

Return money on call

Available to banks only

Usage:

Day-to-day liquidity needs are generally managed by borrowing to cover any shortfall and lending any excess liquid assets

Inter bank call money market

Interest rates are

MIBOR Mumbai inter bank offer rate(lending rate)

MIBID Mumbai inter bank bid rate (borrow rate)

Days:

1-14 range

If borrowed for 1 day or overnight then it is **Call Money**

**Notice Money market**

If 2-14 days it is **Notice Money**

**Term Money Market**

**Money borrowed for 15 days to 1 year**

**The call / notice / term money market operations are transacted / reported on the Negotiated Dealing System – Call (NDS Call)platform**

**Instruments of Money market**

**Commercial Paper**

Commercial Paper (CP) is an unsecured money market instrument issued in the

**form of a promissory note**

Companies, PDs and FIs are permitted to raise short term resources through CP

Eligibility who can invest:

Individuals, banks, other corporate bodies (registered or incorporated in India) and unincorporated bodies, **Non-Resident Indians and Foreign Institutional Investors (FIIs)** shall be eligible to invest in CP

Tenor

7 day to 1 year

**Certificate of Deposit**

Certificate of Deposit (CD) is a **negotiable money market instrument** and issued in

**dematerialized form or as a Promissory Note** against funds deposited at a

bank or other eligible financial institution for a specified time period

who can Issue

* + - 1. scheduled commercial banks {excluding Regional Rural Banks and Local Area Banks}; and
      2. select All-India Financial Institutions (FIs) that have been permitted by RBI.

Tenor

7 day to 1 year

How much

Multiples of 1 lac

Who can invest?

individuals, corporations, companies (including banks and

PDs), trusts, funds, associations, etc. **Non-Resident Indians (NRIs) may also**

**subscribe to CDs,**

Treasury Bills

They are short term instruments

Government of India issues three types of treasury bills through auctions

State govt. cannot issue T-Bills

T-bills are also issues under MSS (Market stabilization Scheme)

T-BILLS are discount to the face value

Ranges

91 day

182 day

364 day

Amount

Min 25000 and 25000 multiples

Who issues

GOVT. of INDIA and sold by RBI

FII cannot buy T-Bills

**Government Securities**

**Dated Security**

Government paper with tenor beyond one year is known as dated security.

a tenor **up to 30 years** in the market

**State Government Securities**

These are securities issued by the state governments and are also known as **State Development Loans (SDLs)**.

The issues are also managed and serviced by the Reserve Bank of India.

The tenor of state government securities is **normally ten years**.

State government securities are available for a minimum amount of Rs.10,000 and in multiples of Rs.10,000.

**G-SECS**

The Government securities comprise dated securities issued by the Government of India and state governments as also, treasury bills issued by the Government of India.

Reserve Bank of India manages and services these securities through its public debt offices.

FII can invest in GSEC excluding T-Bill.Can buy in primary as well as secondary market

**Other instruments**

**Convertible Note**

Instrument of FDI in India for Startups

A Convertible Note is an instrument issued by a start-up company evidencing receipt of money initially as debt, which is repayable at the option of the holder, or which is convertible into such number of equity shares of such startup company, within a period not exceeding five years from the date of issue of the convertible note

**ETF**

ETF or Exchange Traded Funds are securities that are trade as stocks on the stock exchanges.

ETFs strictly are not the mutual funds

ETF funds are low-cost securities flexible than mutual funds and are therefore an effective finance bonds solution to the age-old mutual funds.

Exchange Traded Funds in India schedule include the following;

Gold

Silver

Currencies

**Debt Funds**

**Work on the principle of Net Asset Value**

**Mutual Funds**

Managed funds

Both in secondary and primary market

Regulated by SEBI

People pool their fund which is managed by asset management company which invests this fund in stock market

Now hybrids are also available with health insurance, pension plans etc.

**Accrual and Duration Funds**

Interest rate movements in the economy can impact bond prices.

If interest rates move up, bond prices fall.

This is because investors flock to newer bonds that offer higher rates. This reduces the attractiveness of older bonds, and so their prices decline.

**Duration:**

Betting on duration,

Longer-duration bonds are more sensitive to interest rates;

Income Funds, Gilts & Dynamic Bond Funds are classical examples of funds in which fund managers try and deploy Duration Strategy

**Accrual**

Betting on credit risk,

Thus they invest in bonds with different ratings, betting on the credit risk to earn higher interest

Short Term Funds, FMP’s are classical examples of funds in which fund managers try and deploy Accrual Strategy

Low risk

**Inflation Indexed Bonds**

Inflation Indexed Bond (IIB) is a bond issued by the Sovereign, which provides the investor a constant return irrespective of the level of inflation in the economy. The main objective of Inflation Indexed Bonds is to provide a hedge and to safeguard the investor against macroeconomic risks in an economy

**Gilt-Edged Securities**

Gilt-edged securities are high-grade bonds issued by some national governments and private organizations.

**Blue chips:**

A blue chip is a nationally recognized, well-established, and financially sound company. Blue chips generally sell high-quality, widely accepted products and services.

Low risk investment

**Sovereign Gold Bonds (SGBs)**

**The Bonds will be sold through ​B​anks, Stock Holding Corporation of India Limited (SHCIL), designated ​P​ost ​O​ffices and recognised ​S​tock ​Exchanges viz., National Stock Exchange of India Ltd and Bombay Stock Exchange, Ltd.**

Features

Primary and secondary market tools

8 years with exit  option in 5th, 6th and 7th year

Min. 1 gram of gold

maximum limit of subscribed shall be 4 KG for individual, 4 Kg for HUF and 20 Kg for trusts

case of joint holding, the investment limit of 4 KG will be applied to the first applicant only.

2.5 % interest

interest on Gold Bonds shall be taxable as per the provision of Income Tax Act, 1961

Bond owned by banks will be counted to be part of SLR

They are a kind of Government bonds

by the RBI on behalf of the Government) on payment of rupees but denominated in grams of gold.

The value of these bonds is tied to the value of gold. On redemption, the investor gets interest income and the prevailing price of gold

Those who want to invest in gold

different from usual Government securities (G-secs) as the redemption value at the time of maturity is not a fixed sum but linked to underlying commodity

help in Reduction in the cost of Government’s borrowings, A decrease in the price of the gold will be a gain for the Government., It will reduce the demand for physical gold to some extent

The Bonds are denominated in units of one gram of gold and multiples thereof. Minimum investment in the Bonds is 2 grams with a maximum subscription of 500 grams per person per fiscal year

**Gold Monetization Scheme**

focuses on those individuals who have gold available with them and intend to encash it for realizing its monetary value

GMS allows the depositors of gold to earn tax free market determined interest income (denominated in gold but recoverable either in gold or in rupee

To mobilize the gold held by households, trusts and various institutions in India and put it into productive use.

Min. deposit 30 grams of gold

short-term : 1-3 years (with a roll out in multiples of one year) option of redemption, either in cash or in gold.;

medium-term : 5-7 years

long-term : 12-15 years

medium and long term redemption of principle in gold or cash but interest only in cash

**World Gold Council's yearly data for 2017, India is the second largest consumer of Gold behind China**

**Indian gold coin**

Indian Gold Coin is the country's first national gold coin of 24 carat purity with 999 fitness which is minted indigenously.

**It has the Ashok Chakra engraved onone side and face of Mahatma Gandhi ji on the other.**

**Masala Bonds**

First "Masala Bonds" were the 10 year off-shore rupee bonds issued by International Finance Corporation (IFC), a member of the World Bank group, in the international capital market. Listed on London stock exchange

According to RBI:

any corporate or body corporate as well as Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) can issue such off-shore rupee denominated bonds.

The minimum maturity period is 3 years

To facilitate Rupee denominated borrowing from overseas.(ECB) Companies can raise under the automatic route (i.e., without prior approval) an amount equivalent to USD 50 billion per annum.

Masala bonds, like any other off-shore bonds, are intended for those foreign investors who want to take exposure to Indian assets, yet constrained from doing it directly in the Indian market or prefer to do so from their offshore locations

The settlement of the bonds will be in US dollars but since they are pegged to the Indian currency -rupee-

Settlement is done in US dollars because of the limited convertibility of rupee.

### Capital Market

Regulated by SEBI

Based on Ferwani Committee report in 1991, NSE was est. in 1992,started working in 1994

NSE was first to introduce Online trading system(OLTS)

BSE started OLT in 1995 i.e BOLTS

**Indices**:

Sensex:

BSE 30

Nifty:

NSE 50

DAX:

The DAX is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Nikkei:

The Nikkei 225, more commonly called the Nikkei, the Nikkei index, or the Nikkei Stock Average, is a stock market index for the Tokyo Stock Exchange

The Standard & Poor's 500,

often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market on NASDAQ or NYSE

DOW JONES

The Dow Jones Industrial Average, or simply the Dow, is a stock market index that shows 30 large publicly owned companies based in the United State.

**Share:**

"shares" refers to the ownership certificates of a particular company.

Share have an equated value

Share price is $20 and there are 10 million shares of the company, the value would be $200 million. This number is called **the company's market capitalization or just market cap**

**Shares pay dividends, as opposed to bonds and money market instruments that pay interest.**

**No maturity dates**

**Issued in primary market**

**According to companies act "No company limited by shares, and no company limited by guarantee and having a share capital, shall have power to buy its own shares”**

**a company can't lend or otherwise financially assist another to buy its shares.**

**Preference shares**

are shares of a company’s stock with dividends that are paid out to shareholders before common stock dividends are issued

In bankruptcy, money is first given to Preference share holders

Do not have voting rights

Fixed Dividend

Not trade on secondary market

**Ordinary shares**

represent the basic voting shares of a corporation. Holders of ordinary shares are typically entitled to one vote per share

Represent equity in company

Dividends payed after preference share holder if left

ordinary shareholders are considered unsecured creditors

Traded on secondary market

High risk

Buy back of shares possible in case of ordinary shares

Market Cap=(Preference shares + Ordinary share)\*Share price

Floating MCAP= Ordinary share\*Share price

**Authorized capital**

The authorized capital of a company (sometimes referred to as the authorised share capital, registered capital or nominal capital) is the **maximum amount of share capital** that the company is authorized by its constitutional documents to issue (allocate) to shareholders

**Issued share capital**

Issued share capital is simply the monetary value of the shares of stock a company actually offers for sale to investors

**Subscribed capital**

Subscribed share capital is that part of issued share capital which has been subscribed by investors

Subscribed share capital refers to the monetary value of all the shares for which investors have expressed an interest

**Called-Up or Paid up capital**

Any funds due for shares issued but not fully paid for are called-up share capital

Any funds remitted for shares are considered paid-up capital.

**Retained capital:**

Retained earnings refer to the percentage of **net earnings not paid out as dividends**, but retained by the **company to be reinvested in its core business, or to pay debt.** It is recorded under shareholders' equity on the balance sheet

**Stock**

"stock" is a general term used to describe the ownership certificates of any company or multiple companies

**Debentures:**

A debenture is a type of debt instrument that **is not secured by physical assets or collateral**

Based on credit worthiness of company or institution

Debentures are the most common form of long-term loans that can be taken out by a corporation.

These loans are repayable on a fixed date and pay a fixed rate of interest.(very low)

A company normally makes these interest payments prior to paying out dividends to its shareholders similar to most of debt funds

Low risk

Backed by SEBI in India

**Convertible**

Convertible debentures are bonds that **can convert into equity shares** of the issuing corporation after a specific period of time

most attractive to investors

low interest rates()

**Non Convertible**

Non-convertible debentures are regular debentures that cannot be converted into equity of the issuing corporation

High interest rates



**Partially Convertible Debentures**

A type of convertible debenture, part of which will be redeemed by the issuing company after a specified period of time and part of which is convertible into equity or preference shares at the end of the specified period.

**Bull and Bear**

**Bull:**

A bull is an investor who expects the market to rise

Buys at low price to sell at high price later

Buyers more than sellers

**Bear:**

Expects market to fall

sellers outnumber buyers

Sells shares so as to buy them again at low price

**buying stocks at cheaper and cheaper prices in anticipation of them rising again.**

**Demat Securities**

Demat Account or dematerialized account provides the facility of holding shares and securities in electronic format. During online trading, shares are bought and held in a demat account

**NSDL national securities deposit limited**

It was established on 8 November 1996 as the first electronic securities depository in India with national coverage

**CSDL central securities deposit limited**

Started in 1999

CDSL was initially promoted by BSE Ltd. which has thereafter divested its stake to leading banks as "Sponsors" of CDSL

### Alternate investment funds

Investment into the Alternative Investment Funds is open to both Indian and foreign investors.

It has been announced in Budget 2016 that the foreign investments will be allowed in alternative investment funds

Alternative Investment Funds are the investments which do not happen via the traditional modes of investment such as stocks, bonds, cash, property etc.

Some of the alternative investments include the

commodities,

private equity,

hedge funds,

venture capital, and

financial derivatives as well as assets such as paintings, other arts, wines, antiques coins and stamps.

Alternative Investments Funds come under the SEBI (Alternative Investment Fund) Regulations 2012. Under this regulatory regime,

the funds which come under AIF are as follows:

1) Venture Capital Funds

2) PIPE (Private Investment in Public Equity ) Funds

3) Private Equity Fund

4) Debt Funds

5) Infrastructure Equity Fund

6) Real Estate Fund

7) SME Fund

8) Social Venture Funds

9) Strategy Fund (Residual Category, including all varieties of funds such as hedge funds, if any)

### Balance of Payments

**Based on guidelines IMF rules**

Calculated by RBI from data shared under FEMA act 199

**Current account**

exports and imports of goods, services, income (both investment income and compensation of employees) and current transfers;

The current account records a nation's transactions with the rest of the world – specifically

its **net trade in goods and services**,

its **net earnings on cross-border investments**, and

its **net transfer payments** – over a defined period of time, such as a year or a quarter

Merchandise

Merchandise credit relates to export of goods while merchandise debit represent import of goods.

**Travel**

Travel’ represents all expenditure by foreign tourists in India on the receipts side and all expenditure by Indian tourists abroad on payments side.

Travel receipts largely depend on the arrival of foreign tourists in India during a given time period

Transportation

‘Transportation’ records receipts and payments on account of the carriage of goods and natural persons as well as other distributive services

Insurance

Insurance receipts’ consist of insurance on exports, premium on life and non-life policies and reinsurance premium from foreign insurance companies. Insurance on exports is directly related to total exports from India

Transfers (Official, Private)

Transfers represent one-sided transactions, i.e., transactions that do not have any quid pro quo, such as grants, gifts, and migrants’ transfers by way of remittances for family maintenance, repatriation of savings and transfer of financial and real resources linked to change in resident status of migrants

Income

Investment income receipts comprise interest received on loans to nonresidents, dividend/profit received by Indians on foreign investment, reinvested earnings of Indian FDI companies abroad, interest received on debentures, floating rate notes (FRNs), Commercial Papers (CPs), fixed deposits and funds held abroad by ADs out of foreign currency loans/export proceeds, payment of taxes by nonresidents/refunds of taxes by foreign governments, interest/discount earnings on RBI investment etc. Investment income payments comprise payment of interest on non-resident deposits, payment of interest on loans from nonresidents, payment of dividend/profit to nonresident share holders, reinvested earnings of the FDI companies, payment of interest on debentures, FRNs, CPs, fixed deposits, Government securities, charges on Special Drawing Rights (SDRs) etc

**Capital account of the balance of payments**

A capital account shows the net change in physical or financial asset ownership for a nation

The capital account includes foreign direct investment (FDI), portfolio and other investments, plus **changes in the reserve account.**

Assets in the context of international transactions mean investment assets:

equity,

debt,

immovable property or

any combination or hybrid of these.

**Foreign investment**

Consist of equity capital. reinvested earnings (retained earnings of FDI companies) and ‘other direct capital’ (inter-corporate debt transactions between related entities).

equity capital include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad) besides equity of incorporated bodies

**Portfolio investment**

Portfolio investments mainly include FIIs’ investment, funds raised through GDRs/ADRs by Indian companies and through offshore funds

**External Assistance**

External assistance by India denotes aid extended by India to other foreign Governments under various agreements and repayment of such loans.

External Assistance to India denotes multilateral and bilateral loans received under the agreements between Government of India and other Governments/International institutions and repayments of such loans by India,

**Commercial borrowings**

Commercial borrowings cover all medium/long term loans.

Commercial Borrowings by India denote loans extended by the Export Import Bank of India (EXIM bank) to various countries and repayment of such loans.

Commercial Borrowings - to India denote drawls/ repayment of loans including buyers credit, suppliers credit, floating rate notes (FRNs), commercial paper (CP), bonds, foreign currency convertible bonds (FCCBs) issued abroad by the Indian corporate, etc. It also includes India Development Bonds (IDBs), Resurgent India Bonds (RIBs), India Millennium Deposits (IMDs).

**Short term loans**

It is defined as the drawls in respect of loans, utilized and repayments with a maturity of less than one year

**Banking capital**

It comprises three components:

a) foreign assets of commercial banks (ADs),

b) foreign liabilities of commercial banks (ADs), and

c) others. ‘

Foreign assets’ of commercial banks consist of

1. foreign currency holdings, and
2. rupee overdrafts to non-resident banks.

‘Foreign liabilities’ of commercial banks consists of

1. Non-resident deposits, which comprises receipt and redemption of various non-resident deposit schemes, and
2. liabilities other than nonresident deposits which comprises rupee and foreign currency liabilities to non-resident banks and official and semi-official institutions.

‘Others’ under banking capital include movement in balances of foreign central banks and international institutions like IBRD, IDA, ADB, IFC, IFAD, etc., maintained with RBI as well as movement in balances held abroad by the embassies of India in London and Tokyo.

**Rupee Debt Service**

Rupee debt service includes principal repayments on account of civilian and non-civilian debt in respect of Rupee Payment Area (RPA) and interest payment thereof.

**Transfer Payments**

the transfer payments which include the remittances,gifts and grants

All the international purchases and sales of assets such as money, stocks, bonds etc.

**Borrowings and landings to and from abroad**:

It includes:

All transactions relating to borrowings from abroad by private sector, government, etc. Receipts of such loans and repayment of loans by foreigners are recorded on the positive (credit) side.

All transactions of lending to abroad by private sector and government. Lending abroad and repayment of loans to abroad is recorded as negative or debit item.

**Investments to and from abroad:**

It includes:

Investments by rest of the world in shares of Indian companies, real estate in India, etc. Such investments from abroad are recorded on the positive (credit) side as they bring in foreign exchange.

Investments by Indian residents in shares of foreign companies, real estate abroad, etc. Such investments to abroad be recorded on the negative (debit) side as they lead to outflow of foreign exchange.

**Change in Foreign Exchange Reserves:**

The foreign exchange reserves are the financial assets of the government held in the central bank. A change in reserves serves as the financing item in India‘s BOP. So, any withdrawal from the reserves is recorded on the positive (credit) side and any addition to these reserves is recorded on the negative (debit) side. It must be noted that ‗change in reserves‘ is recorded in the BOP account and not ‗reserves‘.

**Other Capital**

Other capital comprises mainly the leads and lags in export receipts.

Besides this, other items included are funds held abroad,

India’s subscription to international institutions, **quota payments to IMF,** remittances towards recouping the losses of branches/subsidiaries and residual item of other capital transaction not included elsewhere

**Capital inflow**

A net flow of capital, real and/or financial, into a country, in the form of increased purchases of domestic assets by foreigners and/or reduced holdings of foreign assets by domestic residents. Recorded as positive, or a credit.

**Current account Convertibility**

The full convertibility means no RBI dictated rates and there is a unified market determined exchange rate regime.

**Capital Account Convertibility**

It means freedom to convert currency, both in terms of outflows and inflows, **for capital transactions**

capital account convertibility would mean that

there is no restriction on conversion of the domestic currency into a foreign currency to enable a resident to acquire any foreign asset or

on conversion of a foreign currency to the domestic currency to enable a non-resident to acquire a domestic asset.

Capital flows can be conceptually classified into two broad categories.

1. Those that imply long term engagement without any incentive to exit at every provocation – and
2. those that are motivated by disinterested profit – those that buy at every low and sell at every high, as it were.

A full capital account convertibility will open the door to both without any discrimination.

## Budget

**Revenue deficit** = Total revenue expenditure – Total revenue receipts.

**Fiscal deficit** =

Fiscal deficit = Total Expenditure – Total Receipts except borrowings

**fiscal deficit will be equal to borrowings of the government**

Widely used as a summary indicator of the macroeconomic impact of the budget in several industrialized countries.

This measure has been adopted by the IMF as the principal policy target in their programmes. In India, the government began to report the fiscal deficit only after 1991

therefore, Gross Fiscal Deficit, gives the overall borrowing requirements of the government over a given financial year

**Revenue Deficit (RD)**

denotes the difference between revenue receipts and revenue expenditure.  
Revenue Account Gap = Revenue Deficit (RD) = Revenue Receipts (RR) – Revenue Expenditure (RE)

**Capital Deficit**

denotes the difference between capital receipts and capital disbursements.

Capital Account Gap = Capital Account Deficit (CAD) = Capital Receipts (CR) –Capital Disbursements (CD)

**Primary deficit** =

Fiscal deficit-Interest payments.

**Effective revenue Deficit**

Introduced in 2011-12, it is defined as revenue deficit **minus that revenue expenditure (in the form of grants), which goes into the creation of Capital Assets**.

**TAX EXPENDITURES:**

it refers to the opportunity cost of taxing at concessional rates, or the opportunity cost of giving exemptions, deductions, rebates, deferrals credits etc. to the tax payers

It simply means that the government can give a lot of concessions, reliefs, exemptions and deductions in the tax; and by doing this the government can promote industries or businesses, investments

**Revenue Expenditure:**

the Revenue Expenditures are those expenditures which don’t create any productive assets.

The money in these expenditures goes either in running administration / operation of government or in welfare schemes which don’t result in creation of assets.

* The **interest paid by the Government of India** on all the internal and external loans does not produce any assets, so it is revenue expenditure.
* The **salaries and Pension paid by the Government to Government employees**is needed to run the Government’s business. It is revenue expenditure.
* The **subsidies forwarded by the government** to all sectors do not produce any productive asset, so it is revenue expenditure.
* The **defense expenditures** which are **needed for smooth operation** of the standing armed forces is a revenue expenditure*.*

**Revenue receipts**

Revenue Receipts are those incomes of the Government which don’t create additional liability

**Capital receipts**

A receipt that results in **either reduction in government assets** (sale of share, disinvestment) or **increase in some liability** (government borrowings) is a **capital receipt.**

Government of India is the largest borrower in India and the market borrowings are the largest source of capital receipts of the Government**. Borrowing done by issuing T-bills,**

**Ways and means etc**

Capital Receipts include market loans, external loans, small savings, Government Provident Funds, Accretions to various Deposit Accounts, Depreciation **and Reserve Funds of various departments** like Railways

the active small saving schemes are as follows:

Post Office Saving Account

Post office fixed deposits of 1, 2, 3 & 5 years

Post Office RDs (Recurring Deposits)

Post Office Monthly Income Account

Senior Citizens Saving Scheme

National Saving Certificates

Public Provident Fund (PPF)

Sukanya Samriddhi Account

Kisan Vikas Patra

Monthly Income Scheme

**Capital Expenditure:**

Capital Expenditure is that expenditure which results in increasing of government asset (**giving out loans)** or reduce in some liability (**paying back old loans**).

## Funds India

### AIF

Alternate investment Funds

AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India

Under SEBI

It refers 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) which are not presently covered by any Regulation of SEBI governing fund management (like, Regulations governing Mutual Fund or Collective Investment Scheme)nor coming under the direct regulation of any other sectoral regulators in India-IRDA, PFRDA, RBI.

AIFs includes venture Capital Fund, hedge funds, private equity funds, commodity funds, Debt Funds, infrastructure funds, etc

**excludes Mutual funds or collective investment Schemes, family trusts, Employee Stock Option / purchase Schemes, employee welfare trusts or gratuity trusts, ‘holding companies’**

**Category 1**

Category I AIF are those AIFs with positive spillover effects on the economy, for which certain incentives or concessions might be considered by SEBI or Government of India; Such funds **generally invests in start-ups or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable**

**Angel Funds under Cat1 AIFs**

**Category 2**

Category II AIF are those AIFs for which no specific incentives or concessions are given.

eg. Private Equity or debt fund

**Category 3**

Category III AIF are funds that are considered to have some potential negative externalities in certain situations and which undertake leverage to a great extent

Short term funds

These funds are allowed to invest in CateogyI and II AIFsalso

Example

Hedge funds

### National Investment and Infrastructure Fund (NIIF)

created by the Government of India for enhancing infrastructure financing in the country

NIIF is envisaged as **a fund of funds** with the ability to make direct investments as required

Invest in other Sebi related Funds

Formation

2015 announced

The NIIF will be established **as one or more Alternate Investment Funds (AIF) under the SEBI Regulations**

**NIIF was proposed to be set up as a Trust**

**40,000 cr**

Financial Times (London) had adjudged NIIF as the Most Innovative structure in Asia Pacific under Finance category

The objective of NIIF

would be to maximize economic impact mainly through infrastructure development in commercially viable projects,

**greenfield and**

**brownfield,**

**including stalled projects.**

It could also consider other nationally important projects, for example, in manufacturing, if commercially viable.

Functions

provides **equity / quasi-equity support to those Non Banking Financial Companies (NBFCs)/Financial Institutions (FIs)** that are engaged mainly in infrastructure financing. These institutions will be able to leverage this equity support and provide debt to the projects selected.

Invest in funds engaged mainly in infrastructure sectors and managed by Asset Management Companies (AMCs) for equity / quasi-equity funding of listed / unlisted companies.

provides Equity/ quasi-equity support / debt to projects, to commercially viable projects, both greenfield and brownfield, including stalled projects

Fund raising through suitable instruments including off-shore credit enhanced bonds, and attracting anchor investors to participate as partners in NIIF;

Servicing of the investors of NIIF.

Considering and approving candidate companies/institutions/ projects (including state entities) for investments and periodic monitoring of investments.

Current

National Investment and Infrastructure Fund (NIIF) Ltd. signed a Memorandum of Understanding (MoU) with RUSNANO of Russia on 2 February 2016 to set up the **RUSSIA-INDIA HIGH TECHNOLOGY PRIVATE EQUITY FUND for joint implementation of investments into projects in India.**

RUSNANO is a Russian development institute with interest to invest in projects in the field of high technologies and defense including the projects aimed at establishment of manufacturing industrial enterprises in India.

**An India-UK Green Growth Equity Fund (GGEF)** is also being set up under the fund of funds vertical of NIIF, and shall have anchor commitments of GBP 120 million each from Government of India (through NIIF) and Government of UK

## International Economics

### Wto

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nation

Headquartered in Geneva

the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments

These agreements are the legal ground-rules for international commerce.

The WTO's top decision-making body is the Ministerial Conference. Ministerial conferences usually take place every two years Above the General Council

The WTO has over 160 members representing 98 per cent of world trade.

#### History

The World Trade Organization came into being in 1995. One of the youngest of the international organizations,

the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War

India was founding member of GATT General Agreement on Tariffs and Trade

Gatt Rounds:

The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping and non-tariff measures

The last round — the 1986-94 Uruguay Round — led to the WTO’s creation

Last agreed decision of GaTT

In February 1997 agreement was reached **on telecommunications services**, with 69 governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.

In 2000, new talks started on agriculture and services. These have now been incorporated into a broader agenda launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

**Doha Development Agenda (DDA)**, adds negotiations and other work **on non-agricultural tariffs**, trade and environment, WTO rules such **as anti-dumping and subsidies**, investment, competition policy, trade facilitation, transparency in government procurement**, intellectual property**, and a range of issues raised by developing countries as difficulties they face in implementing the present WTO agreements.

#### Functions of WTO

Administering trade agreements

Acting as a forum for trade negotiations

Settling trade disputes

Reviewing national trade policies

Assisting developing countries in trade policy issues, through technical assistance and training programmes

Cooperating with other international organizations

#### Org structure

#### Definitions WTO

**Self Selection:**

there was no agreed definition of what is a ―developed‖ or a ―developing‖ Member in the WTO.

It is up to each Member to decide if it is to be considered ―developing Member

this is known as **the principle of self-selection**

**MFN:**

MFN treatment means that a lower customs duty offered by one member of the World Trade Organization (WTO) to another country must be extended to all other members of the WTO.

However, a country may enter into a free trade agreement or customs union granting more favourable treatment to the participating states than to the other WTO members

**MFN(Most Favored Nation) tariffs**

These are what countries promise to impose on imports from other members of the WTO,

unless the country is part of a preferential trade agreement (such as a free trade area or customs union).

MFN rates are the **highest (most restrictive) that WTO members** charge one another

**Preferential Tariff:**

Virtually all countries in the world joined at least one preferential trade agreement, under which they promise to give another country's **products lower tariffs than their MFN rate.**

**In a customs union (such as the Southern Africa Customs Union or the European Community) or a free trade area (e.g., NAFTA), the preferential tariff rate is zero on essentially all products**

**Bounded Tariffs:**

The bound tariff is the **maximum MFN tariff level for a given commodity line**. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than actually applied rates.

**LDCs by UN:**

Least developed countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development.

They are highly vulnerable to economic and environmental shocks and have low levels of human assets

**there are currently 47 least-developed countries**

There are no WTO definitions of “developed” or “developing” countries.

The Committee for Development Policy (CDP) is mandated by the General Assembly(GA) and the Economic and Social Council (ECOSOC) to review the list of **LDCs every three years and to make recommendations on the inclusion and graduation of eligible** countries

**Duty Free Scrips:**

**duty free scrips are paper authorizations that allow the holder to import**

inputs that go into manufacture of products that are exported or machinery used for producing such goods without paying duties equivalent to the printed value.

The scrips are given to exporters for meeting certain goods and exporting it to specific markets.

Main objective of the scrip is to incentivize the exporters to make more exports of specific commodities/services and those to specific markets.

The FTPs (Foreign Trade Policies) usually mention the schemes eligible for scrips

**Custom Union:**

Members agree to allow free trade on products within the customs union

Members apply a common external tariff to import from outside custom union

a common customs tariff and a common or harmonized customs legislation for the application of that tariff

the **elimination of restrictive regulations of commerce** within the customs union

Example European Union

**Free Trade Area**

**a group of two or more customs territories** in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

**Economic Union:**

An economic union is a type of trade bloc which is composed of a common market with a customs union

common policies on product regulation,

**freedom of movement of goods, services and the factors of production (capital and labour)**

a common external trade policy.

**Tariff Binding:**

A tariff binding is a ceiling level above which a Member cannot apply a tariff. In other words, it is the maximum tariff that may be applied by a Member

**Non Tariff Barrier:**

There is no official definition but, in general terms, it refers to any measure other than a tariff which protects domestic industry.

Many non-tariff measures are based on a legitimate goal (such as the protection of human health) and can be introduced in a WTO consistent manner

**NAMA:**

NAMA refers to **all products not covered by the Agreement on Agriculture**. In other words, in practice, it includes manufacturing products, fuels and mining products, fish and fish products, and forestry products. They are sometimes referred to as industrial products or manufactured goods.

NAMA products have accounted for almost 90% of the world merchandise exports.

Formula for NAM has been decided in Doha round as part of DDA.

Doha mandate calls on developed Members as well as others in a position to do so to grant duty free and quota free access to LDC products on a date to be determined

#### Ministerial Conference

The 11th Ministerial Conference (MC11) took place from 10 to 13 December 2017 in Buenos Aires, Argentina.

Issues:

decisions, including on fisheries subsidies and e-commerce duties, and a commitment to continue negotiations in all areas

Result

The Conference ended with the following ministerial decisions:

Ministerial Decision on Fisheries Subsidies.

adoption by the Ministerial Conference in 2019, an agreement on comprehensive and effective disciplines that prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing, and eliminate subsidies that contribute to IUU-fishing recognizing that appropriate and effective special and differential treatment for developing country Members and least developed country Members should be anintegral part of these negotiations

Work Programme on Electronic Commerce

to maintain the current practice of not imposing customs duties on electronic transmissions

TRIPS non-violation and situation complaints

Work Programme on Small Economies

the creation of the working party on accession for South Sudan.

Publications:

The World Trade Report is an annual publication that aims to deepen understanding about trends in trade, trade policy issues and the multilateral trading system.

#### Nairobi Package:

On 10th ministerial meeting in Nairobi, and 20th anniversary of WTO it adopted Nairobi package

six Ministerial Decisions on agriculture, cotton and issues related to least-developed countries (LDCs)

Results:

a commitment to abolish export subsidies for farm exports

most significant outcome on agriculture” in the organization’s 20-year history.

developed members have committed to remove export subsidies immediately, except for a handful of agriculture products, and

developing countries will do so by 2018

the poorest and food-importing countries would enjoy additional time to cut export subsidies

Rules:

limit the benefits of financing support to agriculture exporters,

rules on state enterprises engaging in agriculture trade, and

disciplines to ensure that food aid does not negatively affect domestic production

Developing countries are given longer time to implement these rules.

agricultural decisions cover

public stockholding for food security purposes,

a permanent decision to be arrived.Under the Bali Ministerial Decision of 2013, developing countries are allowed to continue food stockpile programmes, which are otherwise in risk of breaching the WTO's domestic subsidy cap. until a permanent solution is found by the 11th Ministerial Conference in 2017.

a special safeguard mechanism for developing countries, and

developing members will have the right to temporarily increase tariffs in face of import surges by using an SSM.

measures related to cotton.

**market access**: the decision calls for cotton from LDCs to be given duty-free and quota-free access to the markets of developed countries

**Export competition**: developed countries prohibit cotton export subsidies immediately and developing countries do so at a later date

**Domestic Policies**: reforms in their domestic cotton policies and stresses that more efforts remain to be made

LDC

LDC preferential rules of Origin

Decisions were also made regarding **preferential treatment** for least developed countries (LDCs) **in the area of services** and

the criteria for determining whether exports from LDCs may benefit from trade preferences

a decision that will facilitate opportunities for least-developed countries' export of goods to both developed and developing countries under unilateral preferential trade arrangements in favour of LDCs

methods for determining when a product qualifies as “made in an LDC,”

preference-granting members to consider simplifying documentary and procedural requirements related to origin.

Key beneficiaries will be sub-Saharan African countries**, which make up the majority of the LDC Group,**

LDC Services:

non-LDC WTO members may grant preferential treatment to LDC services and service suppliers. The waiver, adopted in December 2011, runs 15 years.

The Ministerial Decision extends this an additional four years, or until 31 December 2030.

It allows WTO members to deviate from their **most-favoured nation obligation** under the General Agreement on Trade in Services (GATS).

#### Success or failure

minimal progress towards completing its Doha Development Agenda.

The clearest sign of the WTO’s success is the expansion of world trade. Trade volumes have increased two-and-a-half times since the WTO's launch (see Figure 1) – and a staggering 37-fold since the GATT's creation – easily outstripping growth in world output

in the last two decades, it is developing countries' trade that has expanded most dramatically. The developing world's share of global merchandise trade has increased from 27 per cent in 1995 to over 43 per cent today

The WTO's most significant advance to-date is the **2013 "Bali Package" of trade reforms**. In addition to measures aimed at addressing important agricultural issues and improving trade opportunities for least developed countries,

**Bali delivered a path-breaking Trade Facilitation Agreement international trade policy** cooperation is increasingly eroded by the proliferation of regional trade agreements to which governments are turning instead

**– by far the biggest advance in the Doha Round, since its launch in 2001**

TFA:

The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit

Estimates show that the full implementation of the TFA could reduce trade costs by an average of 14.3% and boost global trade by up to $1 trillion per year, with the biggest gains in the poorest countries

Technical assistance for trade facilitation is provided by the WTO, WTO members and other intergovernmental organizations, including **the World Bank, the World Customs Organization and the United Nations Conference on Trade and Development**

in July 2015, 50 plus WTO members have reached agreement on the scope of a second, expanded ITA deal that aims to eliminate tariffs on over 200 technology products – from semi-conductors, to telecommunications satellites, to MRI machines

However, concluding from this that the WTO is a failure would clearly be premature. After all, the WTO’s success does not only depend on how well it promotes trade talks but also on how well it prevents trade wars. And its track record seems much better in this regard.

While the average tariff applied during the trade war of the 1930s was around 5o% (Bagwell and Staiger 2002), the average tariff applied by WTO members today is only around 9%. By WEF

### WTO Agreements

GATT is now the WTO’s principal rule-book for trade in goods

**GATT: For Goods**

**GATS: General agreement on Trade in Services:**

Banks, insurance firms, telecommunications companies, tour operators, hotel chains and transport companies looking to do business abroad

**TRIPS: Trade-Related Aspects of Intellectual Property Rights (TRIPS)**

**Agreement on Agriculture**:

The new rules and commitments apply to:

market access — various trade restrictions confronting imports

domestic support — subsidies and other programmes, including those that raise or guarantee farmgate prices and farmers’ incomes

export subsidies and other methods used to make exports artificially competitive.

The agreement does allow governments to support their rural economies, but preferably through policies that cause less distortion to trade

Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries, and they are given extra time to complete their obligations.

Least-developed countries don’t have to do this at all

**For Domestic Support**

**Green Box:**

support with no, or minimal, distortive effect on trade

They include government services such as research, disease control, infrastructure and food security.

They also include payments made directly to farmers that do not stimulate production or use of direct payments to producers which are not linked to production decisions

, public stockholding programmes for food security purposes and domestic food aid

green box subsidies must not distort trade, or at most cause minimal distortion

**Blue BOX:**

direct payments to farmers where the farmers are required to limit production (sometimes called “blue box” measures),

Direct payments under production limiting programmes

certain government assistance programmes to encourage agricultural and rural development in developing countries, and

other support on a small scale when compared with the total value of the product or products supported

**“amber box with conditions” — conditions designed to reduce** distortion

Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production

**there are no limits on spending on blue box subsidies**

**Amber Box:**

trade-distorting support

Developed countries agreed to reduce these figures by 20% over six years starting in 1995.

Developing countries agreed to make 13% cuts over 10 years.

**Least-developed countries do not need to make any cuts.**

These include measures to support prices, or subsidies directly related to production quantities.

Example government buying-in at a guaranteed price (“market price support”)

limits:

**“de minimis” minimal supports are allowed (generally 5% of agricultural production for developed countries, 10% for developing countries);**

**Developmental Box:**

Article 6.2 of the Agriculture Agreement allows developing countries additional flexibilities in providing domestic support.

The type of support that fits into the developmental category are measures of assistance, whether direct or indirect, designed to encourage agricultural and rural development and that are an integral part of the development programmes of developing countries

### Wipo

WIPO is the global forum for intellectual property services, policy, information and cooperation

Agency of UN

mission is to lead the development of a balanced and effective international intellectual property (IP) system that enables innovation and creativity for the benefit of al

TISC

WIPO Technology and Innovation Support Center (TISC) program provides innovators in developing countries with access to locally based, high quality technology information and related services, helping them to exploit their innovative potential and to create, protect, and manage their intellectual property (IP) rights

Two TISC centers in India in chandigarh and chennai

The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, Government of India, has signed an Institutional agreement with Anna University to establish India‘s second Technology and Innovation Support Center (TISC) at the Centre for Intellectual Property Rights (CIPR), Anna University, Chennai, under the World Intellectual Property Organization‘s (WIPO) TISC program

### Macroeconomic VUlnerability INdex

Macroeconomic Vulnerability Index adds together the

rate of inflation,

current account deficit and

fiscal deficit of a country.

The Index value can be compared across countries for different time periods to gauge their relative vulnerability

### Import cover

An import coverage ratio is the share (or percentage) of a country's own imports that is subject to a particular non tariff barrier, or any one of a specified group of non tariff barriers.

They are calculated by attaching actual values to bilateral trade flows between various exporters and the importing country.

### Arbitrage

Arbitrage is leveraging the price differences of the same product in different markets at the same time.

For example, buying and selling any product, financial securities (as bonds) or foreign currencies in different markets/ economies

Buying and selling foreign currencies in different countries to make profits.

### Reports of Organizations

**World Bank**

**International Debt Statistics.**

It focuses on financial flows, trends in external debt, and other major financial indicators for developing and advanced economies (data from Quarterly External Debt Statistics and Quarterly Public Sector Debt databases).

**Global Economic Prospects**

Examines global economic developments and prospects, with a special focus on emerging market and developing economies

It is issued twice a year, in January and June

**WIPO**

**World Intellectual Property Report (WIPR)**

The World Intellectual Property Report is published every two years, with each edition focusing on specific trends in an area of IP.

**WEF**

The World Economic Forum (WEF) is a Swiss nonprofit foundation, based in Cologny, Geneva

**the Global Competitiveness Report**

**Inclusive Growth Report**

**Inclusive Growth Index**

### IMF

The IMF uses a quota formula to help assess a member‘s relative position.

The current quota formula is a

**weighted average of GDP** (weight of 50 percent),

**openness (30 percent),**

**economic variability (15 percent), and**

**international reserves (5 percent**).

For this purpose, GDP is measured through a blend of GDP—

based on market exchange rates (weight of 60 percent) and

on PPP exchange rates (40 percent).

The formula also includes a ―compression factor that reduces the dispersion in calculated quota shares across members.

Quotas are denominated in Special Drawing Rights (SDRs), the IMF‘s unit of account.

India has largest quota in IMF

### World BANK

The World Bank Group consists of five organizations:

1) **The International Bank for Reconstruction and Development-** The International

Bank for Reconstruction and Development (IBRD) lends to governments of middleincome

and creditworthy low-income countries.

2) **The International Development Association**- The International Development

Association (IDA) provides interest-free loans — called credits — and grants to

governments of the poorest countries.

**Together, IBRD and IDA make up the World Bank.**

3**) The International Finance Corporation**- The International Finance Corporation

(IFC) is the largest global development institution **focused exclusively on the private**

**sector. We help developing countries achieve sustainable growth by financing**

**investment,** mobilizing capital in international financial markets, and providing

advisory services to businesses and governments.

4**) The Multilateral Investment Guarantee Agency-** The Multilateral Investment

Guarantee Agency (MIGA) was created in 1988 to promote foreign direct investment

into developing countries to support economic growth, reduce poverty, and improve

people‘s lives. MIGA fulfils this mandate **by offering political risk insurance**

**(guarantees) to investors and lenders.**

5) **The International Centre for Settlement of Investment Disputes**- The International

Centre for Settlement of Investment Disputes (ICSID) provides international

facilities **for conciliation and arbitration of investment** disputes.

**The Financial Sector Assessment Program (FSAP)** is a joint program of the International Monetary Fund and the World Bank. Launched in 1999 in the wake of the Asian financial crisis, the program brings together Bank and Fund expertise **to help countries reduce the likelihood and severity of financial sector crises.**

**It is limited to the developing countries and regions only**

### ADB

A resolution passed at the first Ministerial Conference on Asian Economic Cooperation held by the United Nations Economic Commission for Asia and the Far East in 1963 s

in 1974 of the Asian Development Fund to provide low-interest loans to ADB's poorest members.

Headquarted in Philippines,Manila

Moto:

Fighting poverty in Asia and the Pacific

in 1974 of the Asian Development Fund to provide low-interest loans to ADB's poorest members.

India as a founding member of ADB

ADB is official UN observer

Shareholder

Japan and United States hold the largest proportion of shares at 15.607%.

China holds 6.444%,

India holds 6.331%, and

Australia holds 5.786%

India’s share is less than china

### AIIB

Lending 140 million for road development in MP,jointly with world bank

Asian infrastructure Investment Bank

Head quartered in Beijing

Moto

to support the building of infrastructure in the Asia-Pacific region

In 2016

China,Bangladesh,Pakistan,India and others are founding members

1. China is the largest shareholder of AIIB with 26.06% voting shares.
2. India
3. Russia
4. Germany

India’s share less than china

India has emerged as a top borrower from the China-sponsored Asian Infrastructure Investment Bank (AIIB)

the China-led Asian Infrastructure Investment Bank (AIIB) approved its first-ever loan for a project in India. The AIIB will lend $160 million to back a power project in the Indian state of Andhra Pradesh

### Silk road fund

Silk Road Fund is a state owned investment fund of the Chinese government to foster increased investment in countries along the One Belt, One Road, an economic development initiative primarily covering Eurasia.

The Chinese government pledged US$40 billion for the creation of the investment fund established on December 29, 2014

Head in

Beijing

### Shanghai CORPORATION

The Shanghai Cooperation Organisation (SCO) is a Eurasian political, economic, and security organisation, the creation of which was announced on 15 June 2001 in Shanghai, China by the

leaders of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan;

Headquartered

in Beijing

The SCO is primarily centered on its member nations' Central Asian security-related concerns

the Regional Antiterrorism Structure (RATS) was established. On 21 April 2006, the SCO announced plans to fight cross-border drug crimes under the counter-terrorism rubric

the SCO signed an agreement with the Collective Security Treaty Organization (CSTO), in the Tajik capital Dushanbe, to broaden cooperation on issues such as security, crime, and drug trafficking

Free Trade Agreement between India and the Eurasian Economic Commission, as well as the potential and opportunities for increasing trade cooperation discussed

**India and Pakistan joined SCO as full members on 9 June 2017 at a summit in Astana, Kazakhstan.**

### African development bank

overarching objective of the African Development Bank (AfDB) Group is to spur sustainable economic development and social progress in its regional member countries (RMCs)

n 2015, all multilateral development institutions have agreed on a same set of objectives, called the Sustainable Development Goals.

The AfDB was founded in 1964

Head quartered in Abidjan, Cote d’Ivoire

### Brics New development bank

Development Bank (NDB), formerly referred to as the **BRICS Development Bank**, is a multilateral development bank established by the BRICS states (Brazil, Russia, India, China and South Africa)

Moto:

the Bank shall support public or private projects through loans, guarantees, equity participation and other financial instruments

Headquartered

in China Shanghai

The first regional office of the NDB is in Johannesburg, South Africa.

The idea for setting up the bank **was proposed by India at the 4th BRICS** summit in 2012 held in Delhi

BRICS leaders agreed to set up a Development bank at the **5th BRICS summit** held in Durban, South Africa on 27 March 2013.

K. V. Kamath was appointed as the President of the bank.

The 7th BRICS summit in July 2015 marked the entry into force of the Agreement on the New Development Bank.

The BRICS New Development Bank is planning to give a priority to projects aimed at developing renewable energy sources

Brics shareholder to each country is each 20%

# Economics Part 2

## Human Development Report

**“Human development requires recognizing that every life is equally valuable and that human development for everyone must start with those farthest behind”**

The report was first launched in 1990 by the Pakistani economist **Mahbub ul Haq and Indian Nobel laureate Amartya Sen.**

One General and Nation wise reports are also released.

**Released by UNDP every year and It contains following indices**

### HUMAN DEVELOPMENT INDEX

Indicators:

* Health
  + Life Expectancy at birth
* Education
  + Expected years of schooling
  + Mean years of schooling
* Per capita income
  + Gross national income per capita.

Current Rank India:133

### Gender inequality index

A composite measure reflecting inequality in achievement between women and men in three dimensions:

**reproductive health,**

**empowerment and**

**the labour market.**

Indicators:

* Maternal mortality ratio
  + Number of deaths due to pregnancy-related causes per 100,000 live births
* Share of seats in parliament
  + Percentage held by women
* Population with at least some secondary education
  + 25 and older
* Labour force participation rate
  + 15 and older male and female.
* Adolescent birth rate
  + Number of births to women ages 15–19 per 1,000 women ages 15–19.

Current rank:131 from 125 in 2015.

### Multidimensional Poverty Index: developing countries

India value is 0.282

Percentage of the population that is multidimensionally poor

## FDI POLICY 2017

CONCERNED DEPARTMENT:

Department Of Industrial Policy And Promotion Ministry Of Commerce And Industry Government Of India(DIPP)

‘FDI’ means investment by **non-resident entity/person resident outside India in the capital of an Indian company** under Schedule 1 of **Foreign Exchange Management** (Transfer or Issue of Security by a Person Resident Outside India) **Regulations,2000.**

### Foreign Institutional Investor

FII means an entity established or incorporated outside India which proposes to make investment in India and which is registered as a FII in accordance with **the Securities and Exchange Board of India (SEBI) (Foreign Institutional Investor) Regulations 1995.**

### Sweat Equity Shares

means such equity shares as issued by a company to its directors or employees **at a discount or for consideration other than cash.**

### ELIGIBILITY(only new things)

1. FDI is not permitted in Trusts other than in ‘VCF’ registered and regulated by SEBI and ‘Investment vehicle’.
2. In Startups FDI is allowed:
   * 1. Start-ups can issue equity or equity linked instruments or debt instruments to FVCI against receipt of foreign remittance, as per the FEMA Regulation
     2. In addition, startups can issue convertible notes to person resident outside India subject to conditions
3. FDI is prohibited in:
   1. Lottery Business including Government/private lottery, online lotteries, etc.
   2. Gambling and Betting including casinos etc.
   3. Chit funds
   4. Nidhi company
   5. Trading in Transferable Development Rights (TDRs)
   6. Real Estate Business or Construction of Farm Houses ‘Real estate business’ shall not include development of townships, construction of residential /commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014.
   7. Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
   8. Activities/sectors not open to private sector investment e.g.
      1. Atomic Energy and
      2. Railway operations

### Routes:

#### Government Route

Means that investment in the capital of resident entities by non-resident entities can be made only with **the prior approval of government** (competent ministry/department for grant of approval ). Ie if FDI in telecommunication Ministry of Telecommunication will handle the Approvals.

Online application available for it.

#### Automatic

Means that investment in the capital of resident entities by non-resident entities can be made only **withOUT the prior approval of government**. In respect of sectors/activities which are presently under automatic route but required Government approval earlier as per the extant policy during the relevant period, **concerned administrative Ministry/Department would be the Competent Authorities for the grant of post-facto approval for foreign investment**.

In case of proposals involving total **foreign equity inflow of more than Rs 5000 crore**, Competent Authority shall place the same for consideration **of Cabinet Committee on Economic Affairs (CCEA).**

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## INDUSTRIAL POLICIES INDIA

### Objectives of industrial policy in india:

The main objectives of the Industrial Policy of the Government are:

* + 1. To maintain a sustained growth in productivity;
    2. To enhance gainful employment;
    3. To achieve optimal utilisation of human resources;
    4. To attain international competitiveness; and
    5. To transform India into a major partner and player in the global arena

### Policy For Micro, Small & Medium Enterprises Sector

1. Government has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act 2006.
2. Stepping up the investment limit in Plant & Machinery to **Rs.5 crores for small enterprises** and **Rs.10 crores for medium enterprises**, so as to reduce the regulatory interface with the majority of the industrial units.
3. Over the period Government has pruned the list of items reserved for exclusive manufacture by MSE sector vide Notification No. 998(E) dated 10-04-2015, remaining 20 items which were earlier reserved for exclusive manufacture by MSE Sector has been de-reserved.
4. **Presently no item is reserved for exclusive manufacture by MSE Sector.**

### Sectors Reserved For Public Sector

1. Consistent with the policy of liberalization of domestic industry, the numbers of industries reserved for public sector have also been reduced.
2. During 2014, private investment in Rail Infrastructure has been permitted.
3. Consequently, at present only **two industrial sectors are reserved for public sector**:
   * 1. **Atomic Energy**
     2. **Railway Operations other than construction, operation and maintenance** of the following:
        + 1. Suburban corridor projects through PPP,
          2. High speed train project,
          3. dedicated freight lines,
          4. Rolling stock including train sets, and locomotives/ coaches manufacturing and maintenance facilities
          5. Railway Electrification,
          6. signaling systems
          7. freight terminals,
          8. Passenger terminals,
          9. infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and
          10. Mass Rapid Transport systems.
4. Accordingly, now private investment (domestic as well as foreign) in construction, operation and maintenance of above has been allowed

### Industrial Licensing Policy:

1. Industrial Policy since 1991 has been more for facilitating the industrial development rather than anchoring it through permits and controls.
2. Industrial licensing has, therefore, been abolished for most of the industries.
3. There are only 4 industries at present related to security, strategic and environmental concerns, where an industrial license is currently required:
   * 1. **Electronic aerospace and defence equipment**: all types.
     2. **Industrial explosives** including detonating fuses, safety fuses, gunpowder, nitrocellulose and matches.
     3. **Specified Hazardous chemicals** i.e. (i) Hydrocyanic acid and its derivatives; (ii) Phosgene and its derivatives and (iii) Isocyanates & Disocyanates of hydrocarbon, not elsewhere specified (example Methyl Isocyanate).
     4. **Cigars and cigarettes of tobacco** and manufactured tobacco substitutes.

### Disinvestment Policy

#### Features Of The Policy

1. Public Sector Undertakings are the wealth of the Nation and to ensure this wealth rests in the hands of the people, promote public ownership of CPSEs;
2. While pursuing disinvestment through minority stake sale in listed CPSEs, the Government will retain majority shareholding, i.e. at least 51 per cent of the shareholding and management control of the Public Sector Undertakings;
3. Strategic disinvestment by way of sale of substantial portion of Government shareholding in identified CPSEs upto 50 per cent or more, alongwith transfer of management control.

#### Minority Stake Sale

Action plan for disinvestment in **profit making government companies**:

1. Already listed profitable CPSEs through ‘Offer for Sale’ (OFS) by Government or by the CPSEs through issue of fresh shares or a combination of both
2. Unlisted CPSEs with no accumulated losses and having earned **net profit in three preceding consecutive years are to be listed**.
3. Follow-on public offers would be considered taking into consideration the needs for capital investment of CPSE.
4. All cases of disinvestment are to be decided on a case by case basis
5. The Department of Investment and Public Asset Management (DIPAM) is to identify CPSEs in **consultation with respective** Ministries and submit proposal

#### Strategic Disinvestment Policy

1. To be undertaken through **a consultation process** among different Ministries/Departments, including NITI Aayog.
2. NITI Aayog **to identify CPSEs** for strategic disinvestment **and advice on** the mode of sale, percentage of shares to be sold of the CPSE and method for valuation of the CPSE.
3. The Core Group of Secretaries on Disinvestment (CGD) to consider the recommendations of NITI Aayog **to facilitate a decision** by the Cabinet Committee on Economic Affairs (CCEA) on strategic disinvestment and **to supervise/monitor the process of implementation**.

#### Comprehensive Management Of Goi’s Investment In Cpses

1. Accelerating economic growth and t**o the efficient use of these resources to achieve optimum return.**
2. Leveraging of assets to attract fresh investment, capital restructuring, financial restructuring, etc.
3. Strategies **to improve investors’ confidence in the CPSEs** and support their market capitalization which is essential for raising fresh investment from the capital market for their expansion and growth.
4. **Through rationalization of decision making**

## Infrastructure

### Water ways

National Waterways declared by the Government through the National Waterways Act, 2016,

National Waterway-1 (Ganga-Bhagirathi-Hooghly river system from Allahabad to Haldia),

National Waterway-2 (River Brahmaputra from Dhubri to Sadiya) &

National Waterway-3 (West Coast Canal from Kottapuram to Kollam along with Udyogmandal and Champakara Canals) are already operational

8 new proposed

River Barak (NW-16)

from Silchar to Bhanga.

River Gandak (NW-37)

a left bank tributary of the Ganges

Waterways in Goa

NW-27-Cumberjua

NW 68 – Mandovi

NW 111 – Zuari

Alappuzha – Kottayam – Athirampuzha Canal(NW-9) --kerela

River Rupnarayan(NW-86):in WB

Sunderbans Waterways (NW-97)

### Road

**Steps for road infra:**

Grant of financial assistance for Road Safety Advocacy and Awards for outstanding work in the field of Road Safety

assistance up to Rs. 5 lakh will be provided to NGO / Trust / Cooperative Societies and another agencies for administering road safety programme.

Launch of Sukhad Yatra app

NHAI, to empower the Highway user.

The key feature of the app includes provision for the user to enter road quality-related information or to report any accident or pothole on the highway

to purchase the FASTag tag

The Government has approved a **National Road Safety Policy**.

This Policy outlines various policy measures such as promoting awareness, establishing road safety information data base, encouraging safer road infrastructure including application of intelligent transport, enforcement of safety laws etc.

Institution

The Government has constituted **the National Road Safety Council** as the apex body to take policy decisions in matters of road safety.

The Ministry has requested all States/UTs for setting up of **State Road Safety Council and District Road Safety Committees**, and to hold their meetings regularly.

Motor vehicle Act 2017

The Ministry has constituted Group of Ministers of State Transport Minister to examine the best practices of Transport and suggest issues to improve road safety.

Based on the recommendation of Group of Minister, the Ministry introduced Motor Vehicle (Amendment) Bill 2017 covering entire gamut of road safety.

**4 E approach**

The Ministry has formulated a multi-pronged strategy to address the issue of road safety based on 4 ‘E’s viz.

Education,

Engineering (both of roads and vehicles),

Enforcement and

Emergency Care.

Road safety has been made an integral part of road design at planning stage.

National highway amendment

Road Safety Audit of selected stretches of National Highways has been taken up.

The threshold for four laning of national highway has been reduced from 15,000 Passenger Car Units (PCUs) to 10,000 PCUs. About 52,000 Km of stretches of State Highways has been identified for conversion to national highways.

Safety

Tightening of safety standards for vehicles like Seat Belts, anti-lock braking system etc.

High priority has been accorded to identification and rectification of black spots (accident prone spots) on national highways.

Guidelines for identification and rectification of black spots, carrying out road safety audits and preparation of road safety improvement proposals on NHs and also guidelines on implementation of road safety engineering measures on state roads under Central Road Fund (CRF) have been issued.

789 black spots based on fatalities in 2011,2012,2013 and 2014 calendars years have been identified. So far 189 spots have already been rectified. Rectification measures at 256 spots have been sanctioned which are in various stages of implementation. 138 spots are on State Government roads / with other agencies. The balance 206 spots would be taken separately or would be rectified as part of ongoing projects.

As a measure of supplementing the efforts of States / UTs for minimizing the accident potential at the identified locations / stretches through engineering improvement on state roads, Ministry of Road Transport & Highways had taken a decision to sanction road safety works on state roads with an earmarked allocation of 10% of funds allocated to the state roads under Central Road Fund.

Ministry has delegated powers to Regional Officers of MORTH for technical approval to the detailed estimates for rectification of identified Road Accident black spots for expediting the rectification process to ensure safety of road users.

Ministry had issued guidelines vide O.M. dated 14.1.2016 for taking up of Road Safety Audits on National Highways either as part of EPC/BOT projects or as stand-alone Road Safety Audits.

Guidelines for pedestrian facilities on National Highways for persons with disabilities have also been issued to all States / UTs.

Setu Bharatam

In order to ensure safe and smooth flow of traffic, Ministry of Road Transport & Highways has envisaged a plan for replacement of all the Level Crossing on National Highways by ROBs / RUBs and replacement / widening / strengthening of weak and narrow bridges under a scheme SetuBhartam. Under this programme, construction of 208 Level Crossings at an estimated cost of Rs. 20,800 Crore are included.

Education and awareness

Two National Level Workshops and several Regional Training workshops in 11 states have been organized on Road Safety Engineering.

A Certification Course for Road Safety Auditors has been commenced in Indian Academy of Highway Engineers (IAHE) and 42 Auditors are certified.

Setting up of model driving training institutes in States and refresher training to drivers of Heavy Motor Vehicle in the unorganized sector.

Advocacy/Publicity campaign on road safety through the electronic and print media.

Ministry of Road Transport & Highways has constituted a **District Road Safety Committee in each district** of the country to promote awareness amongst road users under the chairmanship of Hon’ble Member of Parliament (Lok Sabha) from the district.

## Economic Survey 2018

The anatomy of slowdown:

The sharpest pullback has been by the household sector, its investments are down 6.6 percentage points since the start of the slowdown.

Economy-wide investments are down 5.8 percentage points. The slowdown is mainly because of the household sector’s troubles.

The private investments slowdown, then, is a slowdown in the household sector’s investments. The bad bank loans mess appears to have restricted the funds supply to this sector, not corporates.

The 73rd round of the survey by the National Sample Survey Office had found about 6.34 crore unincorporated non-agricultural enterprises in the country. A chunk of private investments is undertaken by these firms that often operate out of homes, with, typically, less than 10 workers.

The two largest investing segments in the economy, households and private non-financial corporations, correspond roughly to the informal and formal economies.

The formal-informal divide shows up also in savings. Corporate savings are rising consistently, while those of the household sector are slowing.

Consuming households tend to be net savers.

The government, corporates and unincorporated enterprises are net debtors.

The savings are mainly held with banks and insurance companies, etc. Through bank loans, bonds, etc, the net debtors raise funds from the savings pool.

When the government (Centre plus the States) mops up larger portions of what net savers can provide, corporates can still access capital, **but the unincorporated are left without recourse.**

Corporates can, and have, borrowed overseas and raised funds from the capital markets. The informal sector has not had the sophistication or resources required. It depends solely on the domestic pool of savings, largely through bank loans, to finance its investments.

The government’s borrowings from the savings pool, after the surge in the fiscal deficit during the United Progressive Alliance government’s tenure, followed by recklessness also of some States, seem to have crowded out the unincorporated enterprises or the informal sector

Banks, hit by the bad loan problem, have played safe. They have lent more than they are statutorily required to the government.

As government borrowings dried up the bank credit supply to the informal sector, it has struggled to find funds and has had to cut back its investments.

Given the anatomy of the private investments slowdown, a macroeconomic stimulus may not be the best policy choice. Urgent fiscal deficit reduction, quick clean-up of the bad loans mess, and restoration of banks’ health are more likely to revive private investments.

The government’s mandarins must pay attention to the unorganised.