PRELIMS COMPASS 2024

ECONOMY

CURRENT AFFAIRS COMPILATION
UPSC CIVIL SERVICES
PRELIMS EXAM

RAU'S IAS STUDY CIRCLE
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CONTENTS

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1 CHAPTER BANKING

1. AT 1 BONDS

- AT1 bonds are a type of perpetual debt instrument that banks use to augment their core equity base and thus comply with Basel III norms.
- These bonds are perpetual in nature and do not carry any maturity date. Banks have a call option that permits them to redeem these bonds after a certain period.
- They offer higher returns to investors but carry a high risk as well. In the event of an institutional failure, the rules allow the issuer to stop paying interest or even write down these bonds.

  E.g., Yes Bank written off its AT1 bonds in 2020.
- These bonds are subordinate to all other debt and senior only to equity.

2. INCREMENTAL CASH RESERVE RATIO (ICRR)

WHAT IS CASH RESERVE RATIO (CRR)?

- Banks are mandated to maintain a certain proportion of their deposits and specific liabilities as liquid cash with the RBI, which is called as cash reserve ratio.
- This serves as a mechanism for the RBI to regulate liquidity in the economy and act as a buffer during periods of financial strain.
- Presently, banks are required to retain 4.5% of their Net Demand and Time Liabilities (NDTL) as CRR with the RBI.

WHAT IS INCREMENTAL CASH RESERVE RATIO (ICRR)?

- The RBI possesses the authority to impose an incremental CRR in addition to the CRR, particularly during periods of surplus liquidity in the system.
- Recently the RBI mandated all scheduled banks to uphold an additional cash reserve ratio equating to 10% of the surge in their net demand and time liabilities (NDTL) recorded between May 19, 2023, and July 28, 2023.
- This ICRR is imposed in addition to the existing CRR and RBI does not provide any interest over these ICRR balances.

WHY ICRR?

During this period, the RBI announced the discontinuation of Rs 2,000 notes, leading to substantial deposit inflows in banks. The RBI's intention behind imposing ICRR is to absorb some of this liquidity from the system.

3. VARIABLE REPO RATE (VRR)

Reserve Bank of India (RBI) will infuse liquidity amounting to ₹2.50-lakh crore via a 15-day variable rate repo (VRR) auction as the overall liquidity deficit in the banking system has widened.

REPO RATES

- It is the **rate at which Banks borrow money from the RBI** for one day, also known as overnight borrowing.
- **Through Repo Rate, RBI enhances liquidity (availability of money) in the economy** as more money is flown from RBI to Banks and in turn to the economy.
- Increase in liquidity helps the economy to grow, though it will increase inflation in the economy.

VARIABLE REPO RATE (VRR)

- When RBI desires to infuse liquidity in the economy but Banks are not eager to borrow from RBI at Repo Rates as interest rates in the economy may already be lower.
- Under VRR, the RBI allows Banks to **borrow at a rate decided by the market generally lower than Repo Rate** (though not less than Reverse Repo Rate) for duration more than One Day.

4. FRAMEWORK FOR ACCEPTANCE OF GREEN DEPOSITS

Context: Reserve Bank of India has put in place a Framework for acceptance of Green Deposits by the banks.

WHAT ARE GREEN DEPOSITS?

- A green deposit is a fixed-term deposit for investors looking to invest their surplus cash reserves in environmentally friendly projects. Green bonds used to be the most common fixed-income ESG product in India earlier, and now products like green deposits are gaining significance.
- Corporates looking for inclusion of a sustainability agenda into their treasury activities or those that have limited opportunities for investment in environmentally beneficial projects can invest in these green deposits.

PURPOSE OF THE FRAMEWORK

To encourage banks to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities/projects.

KEY GUIDELINES

- ***Applicability:*** The provisions of these instructions shall be applicable to Scheduled commercial banks (excluding payment banks, RRBs), deposit taking NBFCs and Housing finance companies (HFCs)
- The Banks shall issue green deposits as cumulative/non-cumulative deposits. On maturity, the green deposits would be renewed or withdrawn at the option of the depositor. *The green deposits shall be denominated in Indian Rupees only*.
- The eligible banks shall put in place a comprehensive Board-approved policy on green deposits covering all aspects in detail for the issuance and allocation of green deposits.
- ***Allocation of funds:*** The proceeds raised form the green deposits shall be allocated to the following activities
  - Renewable energy
  - Energy efficiency
  - Clean transportation
  - Climate change adaptation
  - Pollution control
  - Sustainable management of natural resources and waste management

Projects involving nuclear power generation, generating energy from biomass and hydropower plants larger than 25MW are excluded from eligible projects.

The banks shall ensure that the funds raised through green deposits are allocated to the eligible green activities/projects.

- ***Third party verification:*** Allocation of funds raised through green deposits shall be subject to an independent Third-Party Verification/Assurance which shall be done on an annual basis. The third-party assessment would not absolve the bank of its responsibility regarding the end-use of funds.
- ***A review report*** shall be published by the banks covering the details about amount raised under green deposits, amount of funding to the eligible green projects and third-party verification report.

5. COMPROMISE SETTLEMENT VS TECHNICAL WRITE-OFF

The Reserve Bank of India (RBI) allowed banks to undertake compromise settlement or technical write-offs in respect of accounts categorised as wilful defaulters or fraud.

Compromise Settlement	Technical Write-offs
• A negotiated arrangement with the borrower to fully settle the claims of the bank against the borrower in cash.	• An accounting practice adopted by the banks to cleanse the balance sheets of bad debts. • Any recovery made against the borrower is considered as a profit for the bank in that financial year.
• It involves waiver of claims of the banks against the borrower.	• It does not involve waiver of claims of the banks against the borrower.
• Banks may undertake compromise settlements in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.	• Banks may undertake technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.
• Applicable to Scheduled Commercial Banks, Urban Cooperative Banks and NBFCs.	• Applicable to Scheduled Commercial Banks, Urban Cooperative Banks and NBFCs.

6. DIGITAL LENDING GUIDELINES

In the backdrop of increasing digital lending activity in India, RBI has released guidelines on regulating digital lending by the banks.

- ***Scope of Application:*** These guidelines are applicable to
  - All Commercial Banks.
  - Primary (Urban) Co-operative Banks, State Co-operative Banks, District Central Co-operative Banks.
  - Non-Banking Financial Companies (including Housing Finance Companies).
- As per the guidelines:
  - ***Lending Service Provider (LSP)*** is an agent of a bank who carries out functions like customer acquisition, underwriting support, pricing support, servicing, monitoring, recovery of specific loan on behalf of the banks.
  - ***Digital Lending Apps/Platforms (DLAs)*** is any Mobile or web-based applications that facilitate digital lending services.
- ***Customer Protection:***
  - Loan disbursements and repayment shall be executed by the borrower's account and the lender directly without any pass-through account/ pool account of any third party.
  - Banks shall ensure that any fees/charges payable to LSPs are paid directly by them and are not charged by LSP from the borrowers.
  - Setup a nodal grievance redressal officer to deal with FinTech/ digital lending related complaints.
- ***Storage of data:***
  - DLAs should not store personal information of the borrowers except basic minimum data required to carry out their operations.
  - All data is stored only in servers located within India.
- ***Reporting to Credit Information Companies (CICs):*** Banks shall ensure that any lending done through their DLA is reported to CICs irrespective of its nature/ tenor.

7. FIRST LOAN DEFAULT GUARANTEE (FLDG)

First Loan Default Guarantee (FLDG) is a **lending model serviced between digital-lending fintech and their partner banks and NBFCs.** Under these agreements, **the fintech originates a loan and promises to compensate the partners up to a pre-decided percentage in case customers fail to repay**. The bank/NBFC partners lend through fintech but from their own books.

The RBI, in its bid to regulate these high risk FLDG arrangements, has introduced the FLDG Guidelines.

RBI GUIDELINES ON FLDG

- The banks shall ensure that the **total amount of default loss guarantee (DLG) cover** on any outstanding loan shall **not exceed 5%** of the amount of that loan portfolio.
- The Default Loss Guarantee must be invoked by the bank within 120 days of the default.
- it is mandatory for the banks to categorize the defaulted loans as NPAs only even when they have been compensated by its partnering fintech.
- Recovery by the bank if any, from the loans on which DLG has been invoked and realized, can be shared with the DLG provider in terms of the contractual arrangement.

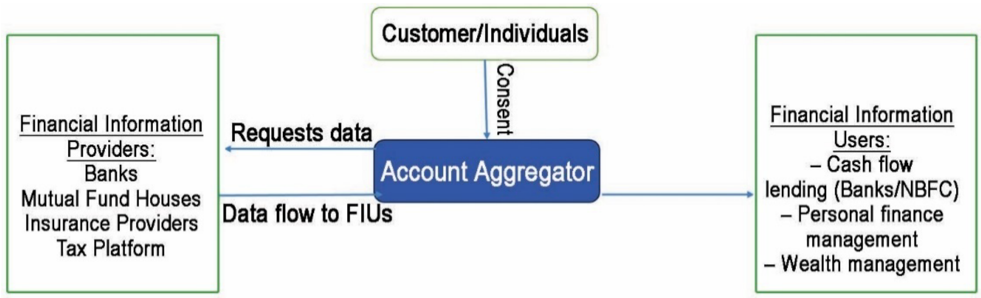
8. ACCOUNT AGGREGATOR

PhonePe has introduced Account Aggregator (AA) services following the receipt of Reserve Bank of India (RBI) Non-Banking Finance Companies (NBFC) licence.

WHAT IS AN ACCOUNT AGGREGATOR?

An Account Aggregator (AA) is a type of RBI regulated entity (with an NBFC-AA license) that helps an individual digitally access and share information from one financial institution they have an account with to any other regulated financial institution in the AA network. Data cannot be shared without the consent of the individual.

MECHANISM OF ACCOUNT AGGREGATOR



- Financial Information Provider (FIP) are institutions that hold user data like Depositories, Banks, NBFCs. FIPs can share customer's financial information with Financial Information User (FIU) via requests through an Account Aggregator.
- Financial Information Users (FIUs), like banks and NBFCs, can receive digitally signed data from Financial Information Providers (FIPs) for purposes declared in the data-sharing consent agreement.
- As per the principle of reciprocity, every entity needs to be a FIP (Financial Information Provider) first and then an FIU (Financial Information User) to ensure the sustainability of the ecosystem.
- Account Aggregators cannot see the data but only can take it from one financial institution to another based on an individual's consent. The data AAs share is end to end encrypted through 'digital signature'. Contrary to the name, they cannot 'aggregate' the customers data.

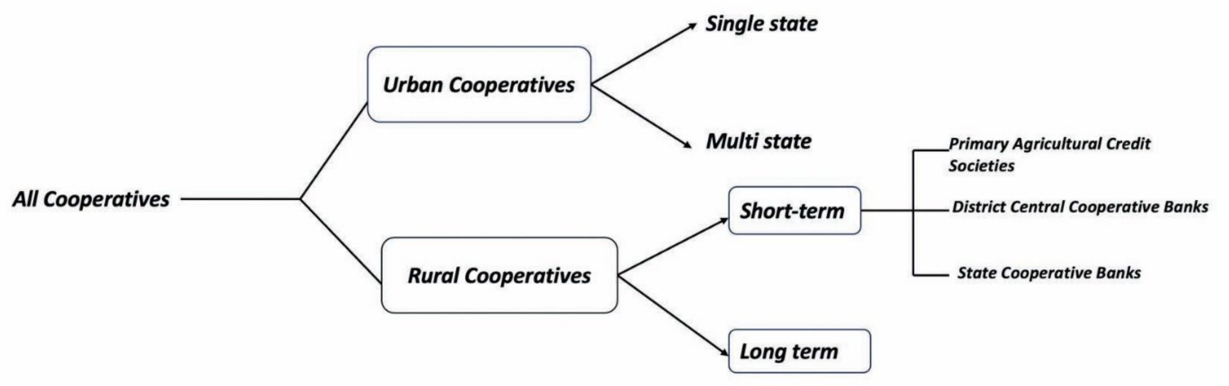
ADVANTAGES

- Users benefit from the framework because it will streamline the previously time-consuming loan application process. Bad borrowers are weeded out, and transaction costs are reduced. As a result, lenders can be more liberal with loan amounts granted to genuine borrowers.

- As financial organisations get access to their personal financial data, individuals can expect better-tailored financial products.
- Integrating secure digital signatures and end-to-end data sharing, AA will help to eliminate fraud usually connected with physical data sharing.
- Since most MSMEs in India lack adequate collateral for loan applications, AAs can help lay the groundwork for shifting to cash-flow based lending from asset-based lending.

9. URBAN COOPERATIVE BANKS

The Reserve Bank of India has superseded the Board of Directors and appointed an Administrator for a period of 12 months to streamline the governance and secure proper management of the bank.



REGULATION OF URBAN COOPERATIVE BANKS

- UCBs are registered as societies under the Co-operative Societies Act of the respective State Governments, and UCBs that have a multi-State presence are registered under the Multi State Co-operative Societies Act administered by the Government of India.
- While registration, administration, amalgamation and liquidation of UCBs are governed by the provisions of the State Co-operative Societies Acts, banking related functions are governed by the provisions of Banking Regulation Act, 1949 (AACS).

This dual regulation resulted in ambiguity and a lack of clarity, creating additional impediments to effective governance of UCBs.

BANKING REGULATION AMENDMENT ACT (2020)

- ***Prescription of qualification for management:*** The amendment mandates that at least 51% of the members of the Board of Directors have particular expertise in fields such as economics, accounting, banking or law, among others. It enables the Reserve Bank to order a bank to reconstitute its Board if it fails to meet the conditions
- ***Suppression of board of directors:*** Under the original Act, the Reserve Bank of India can supersede the Board of Directors of multi-state cooperative banks for 5 years and appoint an Administrator. The amendment extended this power of RBI to other cooperative banks.
- ***Auditing and winding up:*** The RBI has discretion to order an audit of a cooperative bank and the audit is conducted by the qualified persons appointed with the approval of RBI.
- ***Formulation of scheme for reconstruction or amalgamation without moratorium:*** The amendment allows the central bank to initiate a scheme for reconstruction or amalgamation of a bank without placing it under moratorium.
- ***Issuance of shares and securities:*** A cooperative bank may issue equity shares, preference shares, or special shares and unsecured debentures or bonds or similar securities with maturity of ten or more years.

10. BULLET REPAYMENTS

The Reserve Bank of India (RBI) has increased the existing limit of gold loans under the bullet repayment scheme from Rs 2 lakh to Rs 4 lakh in certain urban co-operative banks (UCBs). This This increased limit is available as an incentive to those UCBs which have met priority sector lending targets and sub-targets.

WHAT IS A BULLET REPAYMENT SCHEME?

- Known as "balloon payment" or bullet repayment option, here **borrowers are required to repay the entire principal and interest amount at the conclusion of the loan tenure.**
- Though the interest on the gold loan is calculated monthly throughout the tenure, the borrower is obligated only to make a single payment of the total principal and interest at the end of the loan term.
- Unlike traditional loans with monthly EMI schedules, **this option eliminates the need for periodic payments during the loan term.**

PSL TARGETS FOR UCBs

Financial Year ended	March 31, 2024	March 31, 2025	March 31, 2026
Overall PSL Target	60% of ANBC	65% of ANBC	75% of ANBC
Sub-target for advances to weaker sections	11.50% of ANBC	11.75% of ANBC	12% of ANBC

11. RESTRICTIONS ON PAYTM PAYMENTS BANK

Reserve Bank of India (RBI) has imposed restrictions on Paytm Payments Bank and barred the entity from offering incremental banking services effective March 15th, 2024.

WHAT ARE PAYMENT BANKS?

CRITERIA	PAYMENT BANKS
Registration and Licensing	Registered under Companies Act, 2013 **Licensed under Banking Regulation Act, 1949**
Eligibility	Prepaid Payment Instrument (PPI) Providers, Resident individuals; NBFCs; Telecom Companies, supermarket chains, public sector entities etc.
Min. Capital Requirements	Rs 100 crores
FDI allowed?	Yes. Up to 74%
Accept Deposits	Only Demand Deposits. **No Fixed Deposits and NRI Deposits**
Restrictions on Deposits	Up to Rs 2 Lakhs
Deposit Insurance Available?	Yes
Can Lend Loans	**No**
Issue Debit/ Credit Card	They **can issue debit cards but not credit cards** unless under a co-branded or co-lending arrangement with a partner bank or NBFC.
Set up based upon recommendations of	Nachiket Mor Committee
SLR and CRR applicable	CRR Applicable; **SLR: 75% of Deposits.**
BASEL Norms applicable	**Yes. 15% of RWAs**

PSL Norms applicable	No. Can't lend Loans
Examples	Airtel, India Posts Payment Bank, Paytm, FINO etc.

12. RBI'S LATEST NORMS ON RISK-WEIGHTS

As per BASEL-III norms, RBI mandated all the scheduled commercial banks to maintain a minimum Capital of 9% of their total risk weight assets.

CAPITAL ADEQUACY RATIO = TOTAL CAPITAL (TIER 1 + TIER 2) / RISK WEIGHT ASSETS

HOW RISK WEIGHT ASSETS ARE CALCULATED?

Category of asset	Asset Value (Credit Exposure)	Risk Weight (%)	Risk Weighted Asset
G-sec	2000	0%	0
Credit card loan	1000	125%	1250
Education loan	5000	100%	5000
Housing loan	7000	75%	5250
	Total Asset = 15000		Total Risk Weighted asset = 11500

RBI'S LATEST NORMS ON RISK WEIGHTS

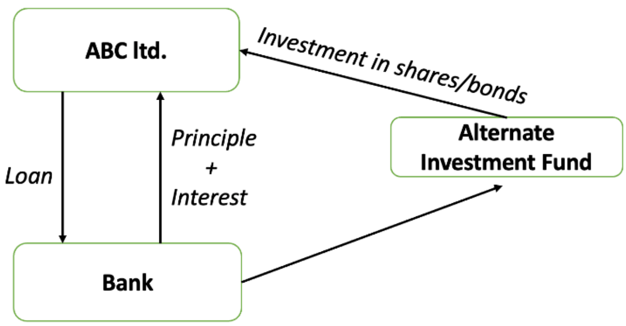
- The RBI increased the risk weights for consumer credit exposure of commercial banks and NBFCs personal loans, by 25 percentage points to 125%. Housing loans, education loans, vehicle loans are excluded from this hike.
- The RBI also increased the risk weights on banks' exposures to NBFCs by 25 percentage points.
- All top-up loans extended by banks and NBFCs against movable assets which are inherently depreciating in nature, such as vehicles, should be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

13. RBI TIGHTENS NORMS FOR LENDERS INVESTING IN AIF

The RBI bars banks and NBFCs from investing in any scheme of Alternate Investment Funds (AIF) that have downstream investments in a debtor company of the bank. The aim of this move was to avoid indirect evergreening of loans.

WHY BANKS RESORT TO EVERGREENING OF LOANS?

Evergreening of loans involves extending more loans to debt-ridden companies to repay their old loans with such banks. Banks often evergreen the loans to avoid reporting of stressed assets and thereby avoiding the burden of provisioning requirements.



Indirect evergreening of loans

ASSET CLASSIFICATION AND PROVISIONING NORMS

RBI categorizes loans and advances into various asset classifications based on their performance. Each category has specific provisioning requirements to account for the increasing level of risk associated with them.

Provisioning is a mechanism to deal with bad assets. Under provisioning, banks have to set aside some funds to a prescribed percentage of their bad assets. The percentage of bad asset that has to be 'provided for' is called provisioning coverage ratio. The provisioning coverage ratio is the percentage of bad assets that the bank has to provide for from their own funds –most probably from profit.

Asset category	Provisioning ratio
Standard asset (regular in paying interest)	0.25% to 0.40% depending on the type of the loan
Sub-standard asset (the loan is NPA up to 12 months)	15% to 25% based on the duration of default
Doubtful asset (sub-standard asset for a period exceeding 12 months)	25% to 100%, depending on the duration of default
Loss Asset (These assets are considered irrecoverable)	100%

14. PUBLIC TECH PLATFORM FOR FRICTIONLESS CREDIT

WHAT IS PUBLIC TECH PLATFORM FOR FRICTIONLESS CREDIT?

- It is a one-stop digital platform for credit-related information, developed by the Reserve bank Innovation Hub, to accelerate the loan approval and disbursal process significantly.
- The platform facilitates seamless flow of digital information from various entities like Digital identity authorities, Credit information companies, Account aggregators, State and Central governments.
- Through this seamless flow of information, the platform will facilitate linkages with services such as Aadhaar e-KYC, PAN validation, Aadhaar e-signing, account aggregation, house/property search data, Satellite data, Transliteration, milk pouring data from select dairy co-operatives etc.

WHAT IS THE SIGNIFICANCE OF THIS PLATFORM?

- ***Reduce cost and time of loan disbursal:*** Unlike the traditional credit systems, where individuals need to go through extensive paperwork, credit checks and lengthy approval procedures, the platform seeks to make this process seamless by providing all the required information in one place to facilitate credit.
- ***Financial Inclusion:*** According to NAFIS, around 30% households continue to rely on non-institutional sources for credit. This is mainly due to lack of data to assess the creditworthiness of small and marginal farmers. The digital platform, if successfully implemented, can help redress this challenge.

During the pilot, the platform will focus on products such as ***Kisan Credit Card loans*** up to ₹1.6 lakh per borrower, ***Dairy Loans***, ***MSME loans (without collateral)***, ***Personal loans*** and ***Home loans*** through participating banks.

15. BANK BALANCE SHEET

Bank balance sheets report the assets, liabilities, and bank capital for an individual bank.

Assets are items that the bank owns. This includes loans, securities, and reserves.

Liabilities are items that the bank owes to someone else, including deposits and bank borrowing from other institutions.

Bank capital are funds that are raised by either selling new equity in the bank, or that come from retained earnings (profits) the bank earns from its assets net of liabilities.

BALANCE SHEET OF A COMMERCIAL BANK

Liabilities	Assets

• **Deposits**
  o Demand deposits
  o Savings bank deposits
  o Term deposits
• **Borrowings**
	• **Cash and Balances with RBI**
	• **Balances with banks and money at call and short notice**
	• **Investments**
	  o Govt and other securities
	• **Loans and Advances**
	• **Fixed assets**

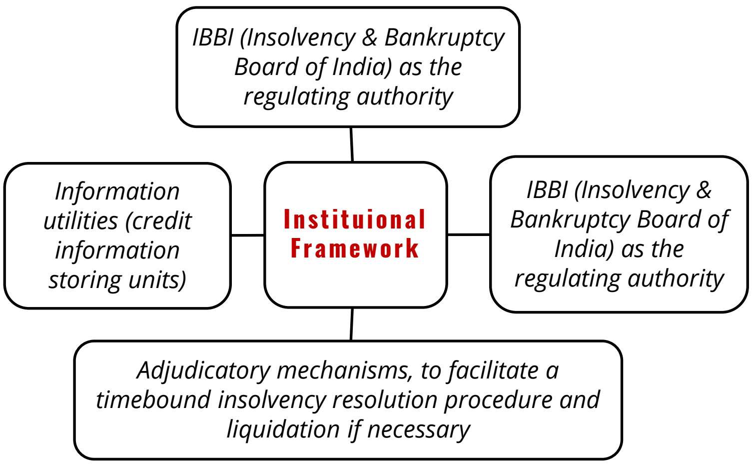
BASICS OF BAD ASSETS

- **Non-Performing Assets (NPA):** An asset that is not returning in the form of principal or interest during the last 90 reporting days is classified as NPA.
- **Gross Non-Performing Assets (GNPA):** GNPA is an absolute amount which reflects the total value of non-performing assets for the bank in a particular financial year.
- **Net Non-Performing Assets (NNPA):** NNPA subtracts the provisions made by the bank from the gross NPA. Hence, net NPA gives you the exact value of non-performing assets after the bank has made specific provisions for it.
- **Provisioning** is a mechanism to deal with bad assets. Under provisioning, banks have to set aside some funds to a prescribed percentage of their bad assets. The percentage of bad asset that has to be 'provided for' is called provisioning coverage ratio. The provisioning coverage ratio is the percentage of bad assets that the bank has to provide for from their own funds –most probably from profit.

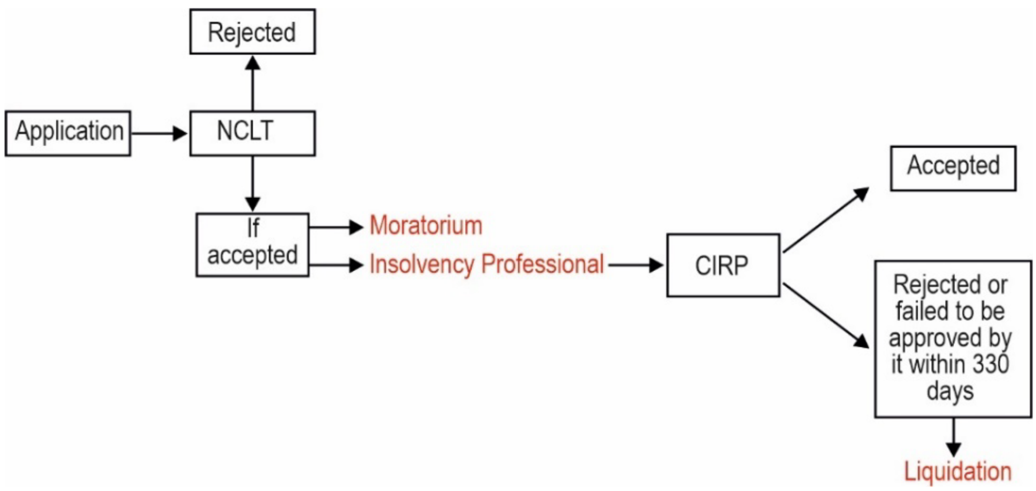
16. INSOLVENCY AND BANKRUPTCY CODE (IBC)

The National Company Law Tribunal (NCLT) admitted Go First's voluntary insolvency plea under section 10 of Insolvency and Bankruptcy Code (2016) on May 10th. This admission by NCLT gave temporary moratorium on any legal action by the debtors against the airline company.

Objective: The IBC, which came into existence in 2016, aimed to create a single, comprehensive framework that would provide a time-bound and cost-effective process for resolving insolvency and bankruptcy.



The IBC seeks to achieve the stated objectives through a well-defined process that includes various stages, including initiation of insolvency, appointment of an insolvency professional, resolution plan, and liquidation.



INITIATION	INSOLVENCY RESOLUTION PROCESS	LIQUIDATION
Minimum amount of default: • *₹ 1000 (for Individual)* • *₹ 1cr (for Companies)* ***Initiators:*** • *Debtor* • *Secured & Unsecured creditors* • *Employees* ***Adjudication Authority:*** • *DRT (for individuals)* • *NCLT (for companies)*	• In case the application is admitted by the adjudicating authority, a moratorium is declared on all the legal proceedings against the debtor until the completion of the CIRP. • A resolution professional is appointed by the NCLT who supersede the board of directors of the debtor company and supervises its assets. • The Resolution Professional would help in chalking out a resolution plan and get it approved by the committee of creditors (CoC) with a majority of 66%.	• If either the Resolution plan is rejected by the CoC or failed to be approved by it within 330 days, the process of liquidation kicks in automatically. • The proceeds of liquidation are distributed among secured creditors, unsecured creditors, Govt dues, Preferential shareholders etc. in the respective order of priority.

Govt notifies bankruptcy code changes to make aircraft recovery easier

The Ministry of Corporate Affairs has issued a notification stating that certain provisions of the Insolvency and Bankruptcy Code (IBC) will no longer apply to aircraft, their engines, airframes, and helicopters.

Background:

When Go First airlines filed for voluntary insolvency in the month of May (2023), the companies (lessors) who had leased aircrafts to the airline applied to DGCA to deregister those aircrafts from the airlines and repossess them. But DGCA didn't approve their requests and kept their applications in abeyance.

Reason: Under section 14 of India's Insolvency and Bankruptcy Code (IBC), the admission of an insolvency plea by the National Company Law Tribunal (NCLT) results in an immediate and complete moratorium on recovery of assets leased to the debtor (Go First in this case).

Concerns:

Inability of the lessors to take back their aircrafts results in:

- ***Violation of Cape town convention:*** India is a signatory to the Convention on International Interests in Mobile Equipment and the related protocol, commonly known as the Cape Town Convention (CTC), as per which lessors can seek deregistration and export of aircraft without consent of the airline when lease payments are defaulted.
- ***Impacts aviation market:*** It impacts the reputation of India's aviation market and may increase risk premiums for other Indian carriers. This may increase cost of operations for Indian airlines which are already reeling under the pressure of volatile fuel prices and cut throat competition.

Thus, the recent changes to the IBC to exempt leased aircrafts under the protection given to debtors, came as a relief to the aviation sector.

17. NON-CALLABLE DEPOSITS

Reserve Bank of India has issued directions on interest rate of Non-Callable Deposits.

NON-CALLABLE DEPOSITS

- The fixed deposits (FDs) made by the depositor can be withdrawn before the maturity date are termed as callable deposits. Depositors can withdraw these deposits in case of emergency by paying a penalty, which differs from bank to bank.

- Whereas **fixed deposits that cannot be withdrawn before the maturity date are called non-callable deposits.**
- RBI regulations have permitted banks in India to offer domestic term deposits without premature withdrawal option.
- However, earlier non-callable deposits could be accepted for deposits above Rs 15 lakhs. This minimum sum has now been increased to Rs 1 crore.
- Banks are also permitted to offer differential rate of interest on non-callable deposits.
- Non-Callable deposits are also available for Non-Resident (External) Rupee (NRE) Deposit/Ordinary Non-Resident (NRO) Deposits.
- **Benefits:** The interest rate provided on non-callable deposits is at a premium to the regular callable deposits.
- **Shortcomings:** Non-callable deposits are illiquid and not eligible collateral deposits.

18. CREDIT INFORMATION COMPANIES (CICS)

The Reserve Bank of India (RBI) has directed credit information companies (CICs) to alert customers when their Credit Information Report is accessed by banks and non-banking finance companies (NBFCs).

WHAT ARE CICs?

- **Regulated By:** Reserve Bank of India (RBI) under Credit Information Companies (Regulation) Act, 2005 (CICRA 2005).
- **Functions:** CICs **collect public data**, credit transactions and payment histories of individuals and companies **regarding loans and credit cards**. Based on the collected data, **CICs form a credit report and generate a score.**
- **Importance:** Banks and NBFCs refer to the CIC's report and credit score to **decide borrowers' creditworthiness** before granting a loan or issuing a credit card.
- A customer can get a loan at a relatively attractive rate if their credit score is high. If the credit score is low — due to defaults on earlier loans — they may not get a loan or a credit card.
- TransUnion, CIBIL Ltd, Equifax India, and CRIF High Mark are some prominent CICs in India.

19. RBI GUIDELINES ON INOPERATIVE ACCOUNTS & UNCLAIMED DEPOSITS

INOPERATIVE ACCOUNT	UNCLAIMED DEPOSITS
• A savings/current account shall be treated as inoperative if there are no 'customer induced transactions' in the account for a period of over two years. Thus, bank induced transactions will not be considered for classifying any account as inoperative. • Interest on savings accounts shall be credited on a regular basis irrespective of the fact that the account is in operation or not. • Banks shall activate inoperative accounts/unclaimed deposits, including freeze accounts only after adhering to KYC guidelines such as Customer Due Diligence, Customer identification, risk categorisation etc. • Accounts opened for scholarships and direct benefit transfer under Government Schemes are exempted from this classification.	• The credit balance in any deposit account maintained with banks, which have **not been operated upon for ten years or more** are classified as Unclaimed deposits. • The unclaimed deposits to be transferred by banks to **Depositor Education and Awareness (DEA) Fund Scheme** maintained by the RBI.

20. INTEREST RATE RISK IN BANKING BOOK (IRRBB)

Reserve Bank issued final guidelines on Interest Rate Risk in Banking Book (IRRBB) which require banks to measure, monitor, and disclose their exposure to IRRBB that may impact the capital base and future earnings of lenders.

ABOUT IRRBB

- Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions.
- When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value.
- Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).
- Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

21. MEASURES TAKEN TO IMPROVE REGULATION OF FINANCIAL INSTITUTIONS

- **Capital Adequacy Ratio (CAR):**
  - The CAR has been laid down by the BASEL Committee on Banking Supervision under the Bank of International Settlement located in Basel, Switzerland. It has been laid down to ensure financial stability and to prevent failure of banks.
  - So far, 3 BASEL Norms have been laid down: Basel I (1998), Basel II (2004), Basel III (2009).
  - CAR is the ratio of a bank's capital to its risk. It is also known as the Capital to Risk (Weighted) Assets Ratio (CRAR).
  - Banks' regulatory capital is divided into Tier 1 and Tier 2, while Tier 1 is subdivided into Common Equity Tier-1 (CET-1) and Additional Tier-1 (AT-1) capital.
  - CAR= (Tier-1 Capital + Tier-2 Capital)/ RWAs * 100.
  - The Banks in India are required to maintain a CAR of 9% (Tier-1 capital: 7% + Tier-2 Capital: 2%) along with a Capital Conservation buffer (CCB) of 2.5%.
  - Hence, unlike the BASEL III norms, which stipulate capital adequacy of 10.5% (8%-CAR + 2.5% CCB), the RBI has mandated to maintain capital adequacy of 11.5% (9% CAR + 2.5% CCB)
- **Domestic Systemically Important Banks (D-SIBs):** RBI has classified SBI, ICICI Bank, and HDFC Bank as D-SIBs.
  - Under the D-SIB framework, the RBI is required to disclose the names of banks designated as D-SIBs, and to place them in appropriate buckets depending upon their Systemic Importance Scores (SISs).
  - Depending on the bucket in which a D-SIB is placed, an additional common equity requirement is applicable to it. The additional CET1 requirement was in addition to the capital conservation buffer. It means that these banks must earmark additional capital and provisions to safeguard their operations.
- **Deposit insurance:** With a view to providing a greater measure of protection to depositors in banks, DICGC raised the limit of insurance cover for depositors in insured banks from the earlier level of ₹1 lakh to ₹5 lakh per depositor.
  - Accordingly, the number of fully protected accounts at end-March 2022 constituted 97.9% of the total number of accounts. In terms of amount, the total insured deposits as at end- March 2022 stood at ₹81,10,431 crore and constituted 49.0% of assessable deposits (₹1,65,49,630 crore).
  - This is higher than the guidance of the International Association for Deposit Insurance (IADI) which recommends coverage of the number of accounts up to 80% and 20-30% in value terms.
- **Prompt Corrective Action (PCA) Framework:**
  - The PCA norm is a supervisory tool and is imposed when a bank breach certain regulatory threshold. Capital, Asset Quality and Leverage are 3 parameters which will be the key areas for monitoring in the revised framework and there are three risk thresholds, from 1 to 3, in the increasing order of severity. The revised framework has removed return on assets as an indicator.

- **Applicability:** PCA Framework would apply to all banks operating in India including foreign banks operating through branches or subsidiaries based on breach of risk thresholds of identified indicators. However, payments banks & SFBs have been removed from the list of lenders where PCA can be initiated.
- **Withdrawal of Restrictions under PCA:** If no breaches in risk thresholds in any of the parameters are observed in four continuous quarterly financial statements based on Supervisory comfort of the RBI. This also includes an assessment on sustainability of profitability of the bank.

- **Consumer Protection Measures:**
  - Banks in India are subject to consumer protection laws. It acts as an alternative and speedy remedy to approaching courts, a process that can be expensive and time-consuming.
  - **The Consumer Protection Act 1986:** The relationship between a bank and its customer is regarded as that of a consumer and service provider, therefore bringing them under the ambit of the Consumer Protection Act.
  - **Banking Ombudsman Scheme:** for the purpose of adjudication of disputes between a bank and its customers.
    - The scheme provides for a grievance redressal mechanism enabling speedy resolution of customer complaints in relation to services rendered by banks.
    - The banking ombudsman is a quasi-judicial authority appointed by the RBI to deal with banking customer complaints relating to deficiency of services by a bank and facilitate resolution through mediation or passing an award.
    - A complaint under the scheme has to be filed within one year of the cause of action having arisen.

22. MONETARY POLICY

Monetary policy refers to a policy of central bank to regulate money supply in the economy to achieve certain objectives like price stability, accelerating economic growth or exchange rate stabilization. RBI uses various tools to achieve these objectives. One such tool is Liquid adjustment facility (LAF)

- **Liquid adjustment facility (LAF):** It is a facility provided by RBI to scheduled commercial banks to avail of liquidity in case of need or to park excess funds with RBI on an overnight basis against the collateral of government securities.
- **Repo rate** is interest rate charged by the RBI on overnight loans given to the commercial banks under the Liquidity Adjustment Facility.
- **Reverse repo rate** is an interest rate given by the RBI to commercial banks when the latter parks one-day deposits with the RBI.
- These rates are referred as key policy rates.

	Expansionary Monetary Policy	**Contractionary Monetary Policy**
Action	To infuse liquid into the market	To absorb liquid from the market
Tool	Reduce policy rates	Increase policy rates
Goal	Accelerate economic growth	Inflation control

23. MONETARY POLICY TRANSMISSION

A recent RBI report has claimed that the external benchmark-based lending rate (EBLR) system of loan pricing, calibrated normalisation of surplus liquidity and robust credit growth strengthened the monetary policy transmission during the current rate tightening cycle.

WHAT IS MONETARY POLICY TRANSMISSION?

Monetary Policy Transmission refers to the process through which changes in central bank's policy rate get transmitted to banks' deposit and lending rates to meet the monetary policy objectives.

As per the RBI report, Monetary Policy has been efficient during the pandemic-phase of the easing cycle and during the current tightening phase.

Reasons:

- ***EBLR system:*** Since 2019, all the banks had to link their retail and MSME lending rates to any one of the 4 benchmarks- Repo rate, T-91,T-182 or any benchmark published by FBIL. Unlike MCLR, External benchmark is influenced solely by the policy rates leading to higher efficiency and greater transparency.
- ***Normalisation of surplus liquidity:*** RBI took steps towards normalisation of liquidity to pre-pandemic levels, with the introduction of the standing deposit facility (SDF) as the basic tool to absorb excess liquidity, and narrowing the liquidity adjustment facility (LAF) to 0.50% from the 0.90%.
- ***Credit growth:*** With the sustained robust credit demand, banks increased their term deposit rates significantly to attract fresh deposits, thereby passing on the increasing rates to deposits.
- the groundwork for shifting to cash-flow based lending from asset-based lending.

24. FRAMEWORK FOR LENDING AND BORROWING OF G-SECS

RBI has issued guidelines for lending and borrowing in Government securities. This move is expected to add depth and liquidity to Government Securities market aiding in better price discovery for Government securities.

SALIENT FEATURES

- **Government Securities Lending Transaction:**
  - Refers to dealing in Government securities involving lending of eligible Government securities for a fee, by the owner of those securities (lender) to a borrower, on the collateral of other Government securities.
  - The GSL Transaction should be for a specified period of time with an agreement that the borrower shall return to the lender the security and lender shall return the securities received as collateral to the borrower at the end of the agreed period.
  - Government Security Lending Fee is the feed paid by the borrower to the lender of Government Security as mutually agreed between them for undertaking the transaction. (RBI will not mandate the fee).
- **Eligible securities for lending/borrowing:**
  - All Government Securities issued by the Central Government **(excluding Treasury Bills)** would be eligible for lending/borrowing under a Government Security Lending (GSL) transaction.
  - Securities obtained under a repo transaction, including through RBI's Liquidity Adjustment Facility or borrowed under another GSL transaction will also be eligible for lending under GSL transaction.
- **Collateral for lending/borrowing:**
  - G-Secs issued by Central Government **(including Treasury Bills)** and State Government Bonds would be eligible for placing as collateral under a GSL transaction.
  - Also, securities obtained under a repo transaction, including through RBI's Liquidity Adjustment Facility, or borrowed under another GSL transaction are also eligible to be placed under a GSL transaction.
- **Eligible participants:**
  - Eligible entities for lending of securities for GSL Transaction:
  - Eligible entities for borrowing of securities for GSL Transaction: Scheduled Commercial Banks, Primary Dealers, Urban Cooperative Banks.
- **Pricing of securities/collateral:** In a GSL transaction, the securities should be lent (placed as collateral) in the first leg at market related prices and received in the second leg at the same prices. The second leg would involve a consideration amount viz. the GSL fee to be paid by the borrower to the lender of the security.
- **Computation of Statutory Liquidity Ratio (SLR)**
  - SLR eligible securities borrowed under a GSL Transaction to counted as SLR by the borrower. Such securities lent under a GSL transaction to be not accounted for SLR by the lender. (Similarly for the collateral).

- **Maturity of GSL Transactions:** Minimum tenor of a GSL transaction shall be one day and maximum tenor shall be maximum tenor shall be maximum period prescribed to cover short sells.
- **Lending/borrowing process:**
  - GSL Transactions may be contracted using any mutually agreed process/platform, including but not limited to, bilateral or multilateral, quote driven or order driven process, anonymous or otherwise.
  - Settlement of all GSL Transactions will be on a Delivery versus Delivery basis and shall settle through Clearing Corporation of India limited or any other central counterparty or clearing arrangement approved by RBI.

25. RBI DIVIDEND PAYMENTS TO GOVERNMENT

Central Board of Directors of Reserve Bank of India (RBI) recently approved the transfer of ₹87,416 crore as surplus to the Union government for the accounting year 2022-23, almost thrice the ₹30,307 crore transferred for the previous fiscal year. The RBI's board also decided to raise the Contingency Risk Buffer to 6% from 5.5% in the preceding year.

SOURCE OF EARNINGS FOR RBI

- Interest on Government securities held
- Interests on loans and advances made
- Interest earned on Liquid Adjustment Facility operations
- Interest income from foreign currency assets held
- Earnings from forex swaps
- Seigniorage

Composition of RBI's balance sheet	
Liabilities	**Assets**
• Capital Reserves • Revaluation Accounts • Deposits of Banks and Government • Currency notes in circulation	• Foreign Currency Assets • Gold • Investments in domestic securities • Loans & Advances

- **Capital reserves:** Two important components are
  - **Contingency fund:** The fund is set aside by RBI for meeting unforeseen contingencies like risks arising out of monetary policy operations, exchange rate risks or systemic risks.
  - **Asset development fund:** This fund is set aside for investments in subsidiaries and associate institutions and to meet internal capital expenditure.

    These two funds are considered as Risk provisions of the RBI and provisioned from the earnings of RBI. Such capital required to withstand risks is also known as Economic Capital.
- **Revaluation Accounts:** RBI maintains revaluation accounts to insulate its assets (Gold, foreign currency, Investments in domestic and foreign securities) from prevailing market trends. They include Currency and Gold Revaluation Account (CGRA), Investment Revaluation Account (IRA) and Foreign Exchange Forward Contracts Valuation Account (FCVA).
- **Deposits:** In its traditional role as a banker to the government, RBI usually accepts government deposits, which constitutes a liability for the central bank. The central bank also accepts deposits from other banks and other financial institutions.
- **Currency notes in circulation** is a liability of the central bank.

HOW SURPLUS IS SHARED WITH CENTRAL GOVERNMENT?

After meeting the risk provisions and other operational expenditures (salaries etc.) from the earnings of RBI, the surplus is transferred to the central government in the form of dividends. Surplus transfer from the Reserve Bank is an important component of non-tax revenues to the central government. However, the quantum of dividends shared with the central government depends upon the amount of money provided for risk provisioning, especially for contingency fund.

There occurred a controversy regarding the excess capital reserves accumulated with the RBI and sharing of dividend with the central government in 2018. To sort out this controversy a committee (Bimal Jalan committee) was appointed to review the Economic Capital Framework. The Committee had prescribed a Contingency Risk Buffer in the range of 5.5% to 6.5% of its balance sheet.

26. WITHDRAWAL OF ₹2000 CURRENCY NOTES

WHY WERE ₹2000 CURRENCY NOTES INTRODUCED?

The **₹2000 denomination banknote was introduced** in November 2016 **under Section 24(1) of Reserve Bank of India Act, 1934 (RBI Act)** to **meet the currency requirement of the economy in an expeditious manner** after withdrawal of the legal tender status of all ₹500 and ₹1000 banknotes in circulation at that time.

WHY ARE THESE NOTES BEING WITHDRAWN?

- **Availability of Other Banknotes:** Banknotes of other denominations are available in adequate quantities. Therefore, printing of ₹2000 banknotes was stopped in 2018-19.
- **Clean Notes Policy:** Whereas, a majority of the ₹2000 banknotes were issued prior to March 2017 and are at the end of their estimated life-span of 4-5 years. Hence, the RBI wants to ensure the availability of good quality banknotes to members of the public.
- **Non-usage in Daily Transactions:** It was also observed that ₹2000 banknotes are not commonly used for transactions.

CURRENT LEGAL STATUS OF ₹2000 CURRENCY NOTES

The **₹2000 banknote will continue to maintain its legal tender status.**

WHO HAS THE POWER TO WITHDRAW BANKNOTES?

Under **Section 24(2) of Reserve Bank of India Act, 1934 (RBI Act)**, the **Central Government, on the recommendation of the Central Board of RBI,** may direct the non-issue or the discontinuance of issue of bank notes.

27. FOREX SWAP AUCTION

In April last year, the RBI conducted a dollar/rupee (USD/INR) sell-buy swap auction for an amount of $ 5 billion which matured in October, 2023.

WHAT IS A FOREX SELL/BUY SWAP AUCTION?

- It is a **forex management tool** under which the Central Bank (RBI) sells foreign currency (US Dollar) to banks and then buys the same from the bank at a later date.
- Thus, under the Dollar-Rupee sell/buy swap, **RBI sold $5 billion dollars to Indian banks in exchange of rupees** and immediately entered into an agreement with dollar buying banks. **promising to buy dollars at a later date**.

SIGNIFICANCE OF THE MOVE

- The issuance of Forex sell/buy swap **reduced the availability of rupee in the Indian markets** and **reduced inflationary pressures** on the Indian economy.
- This **helps to control inflation without increasing the Repo Rate** which hurts the businesses.
- The issuance of Forex buy/sell swap also **strengthened the demand of the rupee vis-a-vis the dollars**.

28. PROGRAMMABILITY AND OFFLINE FUNCTIONALITY IN CENTRAL BANK DIGITAL CURRENCY (CBDC)

RBI has introduced programmability and Offline Functionality in Central Bank Digital Currency (CBDC).

BENEFIT OF INTRODUCING PROGRAMMABILITY AND OFFLINE FUNCTIONALITY FOR CBDC

- **Offline transactions** will open new possibilities for **financial inclusion**, bridging the gap for those in remote or underserved regions.
- **SBI Research** in its **Ecowrap report** said introducing an offline functionality that enables transactions in areas with limited internet connectivity could be a game changer **as on-boarding people from fringe areas into the CBDC architecture would enhance its acceptability exponentially.**
- **Programmability** will permit users like, for instance, government agencies to ensure that payments are made for defined benefits, thereby enabling better targeting of government schemes and subsidies.
- **Corporates will be able to program specified expenditures like business travel** for their employees. Additional features like validity period or geographical areas within which CBDC may be used can also be programmed, such as **programming the benefits for tribal areas and preventing fund diversion.**

  Note: The **programmability feature will compromise the fungibility** aspect of CBDC as a programmed CBDC can only be used for the defined benefit to avail. Ex: A CBDC programmed for buying urea cannot be used to purchase an agricultural machinery or any other thing.

WHAT IS A CENTRAL BANK DIGITAL CURRENCY (CBDC)?

- Digital currency backed by the central bank of a country. Just like currency notes issued by the Central Bank, the CDBC is a legal tender and accepted for the payment of various transactions within a country.
- It is akin to sovereign paper currency but takes a different form, exchangeable at par with the existing currency and shall be accepted as a medium of payment, legal tender and a safe store of value.
- CBDCs would appear as liability on a central bank's balance sheet. That is, a central bank liability, denominated in an existing unit of account, which serves both as a medium of exchange and a store of value.
- It is substantially not different from banknotes, but being digital it is likely to be easier, faster and cheaper. It also has all the transactional benefits of other forms of digital money.
- CBDC, being a sovereign currency, holds unique advantages of central bank money viz. trust, safety, liquidity, settlement finality and integrity.

FEATURES OF CBDC

- CBDC is **sovereign currency** issued by Central Banks in alignment with their monetary policy.
- It appears as a **liability** on the central bank's balance sheet.
- Must be accepted as a **medium of payment**, **legal tender**, and a safe **store of value** by all citizens, enterprises, and government agencies.
- **Freely convertible** against commercial bank money and cash.
- **Fungible legal tender** for which holders need not have a bank account.
- Expected to lower the cost of issuance of money and transactions.
- eRupee can be used 24 hours per day, 7 days a week and 365 days a year.
- There is no minimum balance required to open/ maintain eRupee wallet.

	Fiat Currency	CBDC	Crypto currency	Stable Coin
Issuer	Central Bank	Central Bank	Private Entity	Private Entity
Value	Derives its value from the guarantee provided by Central Bank	Derives its value from the guarantee provided by Central Bank	None	Value pegged to other currency such as Diem, TrueINR (Refer to Budget Video for more details)

Legal Tender	Yes	Yes	May be given status of Legal Tender Example: El Salvador	May be given status of Legal Tender
Medium of Payment	Yes	Yes	May be allowed	May be allowed.
Examples	Physical Currency Notes	eDINAR, Sistema, Petro, e-krona etc.	Bitcoin, Ethereum, dogecoin etc.	Diem, TrueINR, Tether etc.

- Digital Rupee (e₹) is available in the same denominations of cash i.e., ₹ 1, ₹ 2, ₹ 10, ₹ 20, ₹ 50, ₹ 100, ₹ 500 it also offers coins of 50 paise and 1 Rupee.

TYPES OF CBDC

- Retail CBDC: CBDC that can be used for people for day-to-day transactions.
- Wholesale CBDC: CBDC that can be used only by financial institutions such as Banks, NBFCs etc.
- RBI has introduced both retail and wholesale version of it.

LEGAL FRAMEWORK FOR ISSUANCE OF CBDC

- Finance Act 2022 has amended the RBI Act, enabling it to introduce Central Bank Digital Currency. The definition of bank note was amended wherein RBI was allowed to issue both physical and digital currency by amending Section 2 of RBI Act, 1934.
- RBI has introduced both retail and wholesale version of CBDC.

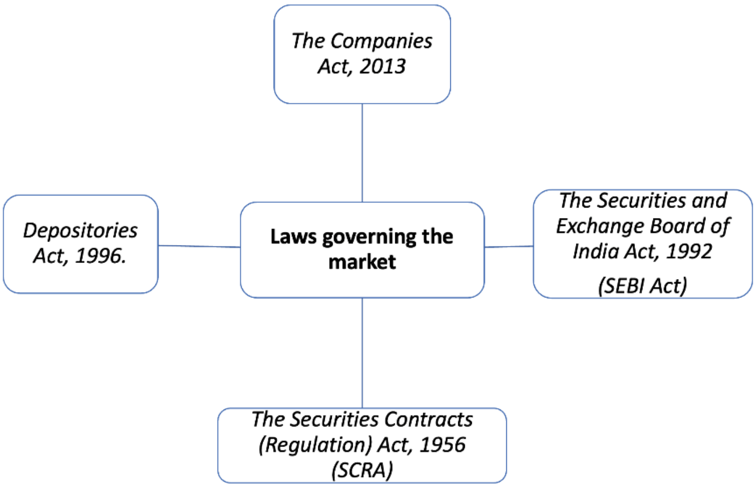
2 CHAPTER FINANCIAL MARKETS

1. STOCK MARKET REGULATION IN INDIA

The Supreme Court asked the Securities and Exchange Board of India (SEBI) and the Government to produce the existing regulatory framework in place to protect investors from share market volatility.

ABOUT STOCK MARKETS

- It is a place where shares of public listed companies are traded.
- The primary market is where companies float shares to the public in an initial public offering (IPO) to raise capital.
- Once new securities have been sold in the primary market, they are traded in the secondary market - where one investor buys shares from another investor at the prevailing market price or at whatever price both the buyer and seller agree upon. The secondary market or the stock exchanges are regulated by the regulatory authority.
- In India, the secondary and primary markets are governed by the Security and Exchange Board of India (SEBI).
- A stock exchange facilitates stockbrokers to trade company stocks and other securities. A stock may be bought or sold only if it is listed on an exchange. Thus, it is the meeting place of the stock buyers and sellers. India's premier stock exchanges are the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).



2. VIRTUAL DIGITAL ASSETS

Recently the finance ministry placed all the transactions involving Virtual Digital Assets (VDAs) under the purview of Prevention of Money Laundering Act (PMLA).

DEFINITION OF VDA UNDER FINANCE ACT 2022

- Any information/code/number/token generated through cryptographic means providing a digital representation of value exchanged. Virtual Digital Assets can be transferred, stored or traded electronically. They can have some inherent value or function as a store of value or Unit of Account or Used for Financial Transaction or Investment.

  E.g., Crypto currencies like Bitcoin and Non-fungible tokens.

TAXATION OF VIRTUAL DIGITAL ASSETS

- Any income arising from the transfer of virtual digital assets will attract tax on the capital gains at the rate of 30%. Additionally, a withholding tax at the rate of 1% will be applicable on the sale of virtual digital assets, if such sale consideration cumulatively exceeds INR 10,000 (approx. USD 130) in any financial year.
- Expenses associated with acquiring, holding or selling virtual digital assets are not deductible from the gains arising from their transfer when determining the tax incidence.

***E.g.,** Cost of crypto mining or any other cost cannot be shown as expense to reduce the profit.*

- Loss from transfer of virtual digital asset cannot be set off against any capital gain made from any other sources like Housing property/shares while paying capital gains tax.
- Gifts of virtual digital assets would also be taxable.

VDA UNDER PMLA

- The government brought all the transactions involving crypto assets under the Prevention of Money Laundering Act.
- Nature of transactions to be covered under PMLA:
  - Exchange of virtual digital assets ("VDAs") with fiat currencies or other VDAs;
  - Transfer of VDAs;
  - Provide safekeeping or administration of VDAs or instruments that enable control over VDAs; and
  - Participate and provide financial services related to an issuer's offer and sale of VDAs.
- All the individuals/institutions involved in the above transactions are required to implement KYC procedure to verify identity of their clients.
- They are also required to maintain a record of certain transactions for at least 5 years from the date of each such transaction.
- Indian crypto exchanges will have to report suspicious activity to the Financial Intelligence Unit India (FIU-IND).

3. INVESTOR RISK REDUCTION ACCESS PLATFORM

India's stock exchanges, including BSE and NSE, have jointly developed the IRRA platform to reduce risks faced by investors due to certain technical glitches.

Need for IRRA: With increasing dependence on technology in the securities market, there has been a rise in instances of glitches in trading members' systems, some of which led to disruption of trading services and investor complaints. In such instances, investors with open positions are at risk of non-availability of avenues to close their positions, particularly if markets are volatile.

WORKING OF IRRA

- IRRA can be invoked by trading members when they are faced with any technical glitch at their end impacting their ability to service clients.
- On invocation, the platform sends a link to the investors to access IRRA.
- Once the investors are authorized to access the IRRA platform, investors can complete the pending orders and close their open positions.

Thus, IRRA platform helps as a safety net in case of any technical glitches faced by a trading member or stock broker in a stock exchange.

4. BOND YIELD

The yield on 10-year government bonds in the US, the benchmark for asset prices across the globe, rose to hit 5.02 per cent, its highest level since July 2007. The yield of the Indian 10-year benchmark Government Security (G-Sec) also hardened to 7.50%, tracking the rise in US Treasury yields.

Bond is debt instrument issued by governments and corporates to raise capital. The value at which the bond is issued is regarded as its face value and the value at which the bond is traded in the secondary market is referred to as its market value.

Bond Yield: The return received by the investor on the capital invested on a particular bond. The yield of the bond depends on the market value of the bond.

- If the market value increases above the face value of bond (the price at which it is purchased in the primary market when it was issued), then the rate of returns on the purchase of the bond in secondary market decreases. This phenomenon is often known as softening of bond yields.

- On the other hand, if the market value decreases below the face value of the bond, then the rate of returns on the purchase of bond in secondary market increases. This phenomenon is known as hardening of bond yields.

DEMAND FOR THE BONDS

DECREASES	INCREASES
Market price of the bond decreases	Market price of the bond increases
Bond Yield increases (Yield hardening)	Bond yield decreases (Yield softening)
Reasons: • Increased Inflation • Sale of G-secs by the central bank under open market operations • Increased borrowings by the government (Increased fiscal deficit)	***Reasons:*** • Deflationary trends in the economy • Purchase of G-secs by the Central bank under open market operations • Reduced borrowings by the government
Loss to the bond holder	No loss to the bond holder

IMPACT OF HARDENING OF BOND YIELD

- **Loss to the banks:** Since commercial banks in India hold significant size of g-secs owing to their SLR requirements and LAF purposes, increasing bond yield as a rise in yields leads to a fall in bond prices and therefore these losses have to be booked by the banks.
- **Loss to the mutual funds:** Mutual funds holding significant size of g-secs also face similar losses.
- **Increased cost of borrowings:**
  - Higher yield on G-secs would mean that the government will have to offer higher interest rates on fresh borrowings.
  - Corporates also need to increase interest rates on their bonds as result of increasing bond yields in the market. Since Indian banks follow interest rates of long-term G-secs to fix their lending rates, hardening yields of g-secs may increase their lending rates as well.
- **Impact on equity market:** As bond yields rises, the opportunity cost of investing in equities goes up and therefore equities become less attractive.

5. INDIAN GOVERNMENT BOND IN GLOBAL BOND INDEX

JPMorgan announced that Indian government bonds will be a part of its Government Bond Index-Emerging Markets (GBI-EM) global index suite from June 2024.

A bond index is fixed-income index and a benchmark that measures the performance of a specific segment of the bond market. Bond indices are used by investors to track the overall performance of a group of bonds.

ADVANTAGES	POTENTIAL RISKS
• ***Reduces cost of borrowing:*** Inclusion of Indian government bonds in this global index will broaden its bond market and helps in mobilizing resources at cheaper cost. • ***Reduces interest rates in the domestic market:*** Since market interests' rates in India are benchmarked to g-secs, any reduction in g-sec interest rates will eventually be translated into reduction in interest rates of the banks.	• ***Currency appreciation:*** Increased foreign inflows as a result of inclusion of Indian bonds in the global index may appreciate the Indian currency thereby making Indian exports uncompetitive. • ***Vulnerability to external factors:*** During globally uncertain times, there could be volatility in the Indian bond market or in the

• ***Accumulation of forex reserves:*** It is expected that around $30 billion are going to be pumped into India's sovereign bond market within a year and it will help India in building huge forex reserve base. • ***Deepening of corporate bond market:*** Inclusion of IGB in global indices will enable the government to vacate domestic market space for corporate bonds there by deepening the corporate bond market in India. • ***Internationalisation of currency:*** This move will boost confidence of investors over our currency and helps in achieving the goal of internationalisation of Indian rupee.	currency because of the holding of Indian G-Sec by foreigners. • ***Monetary policy priorities:*** With growing demand for G-secs from foreign investors, the monetary policy may need to control the volatility of yield of g-secs which may come in conflict with its objective of inflation control.

ABOUT FULLY ACCESSIBLE ROUTE

- RBI, in consultation with Government of India, introduced the 'Fully Accessible Route' channel to enable non-residents to invest in specified Government of India dated securities.
- Eligible investors can invest in specified Government securities **without being subject to any investment ceilings.**
- All Sovereign Green Bonds have been declared as 'specified instruments' by RBI for investment under Fully Accessible Route.
- Other routes for investments by foreigners in India are: **(i) Medium Term Framework (ii) Voluntary Retention Route.**

6. SOCIAL STOCK EXCHANGE (SSE)

- Social Stock Exchange (SSE) is a separate segment of the existing Stock Exchange, that can help Social Enterprises to raise funds from public through the stock exchange mechanism.
- Social Stock Exchange identifies the following two forms of social enterprises: Not-for-profit organization and For-profit social enterprise.

Not-for-profit Organisations	For Profit Organisations
• Not for profit organisations are either charitable societies registered under the Societies Registration Act, 1860 or section 8 companies under Companies act 2013.	• For-profit company is any company under the Companies Act, 2013, operating for profit and does not include a company incorporated under section 8 of the Companies Act, 2013.
• A Not-for-Profit organization may raise funds on Social Stock Exchange through: ○ Issuance of Zero Coupon Zero Principal Instruments. ○ Donations through Mutual Fund Schemes.	• A For Profit Social Enterprise may raise funds through: ○ Issue of equity shares ○ Issue of equity shares to mutual funds ○ Issue of debt-instruments
• Zero Coupon Zero Principal Instruments shall be issued only by a Not-for-Profit Organization registered on a Social Stock Exchange.	• For-profit organisations cannot issue Zero Coupon Zero Principal bonds.
• The instruments issued by Not-for-Profit Organizations are not available for trading in secondary market.	• the instruments issued by For-Profit Organizations are available for trading in secondary market on respective platforms of the Stock Exchanges, on which they are listed.

Zero Coupon Zero Principal Instruments:

- ZCZP instruments are structured like a bond. In a regular bond, the entity raising money using a bond, has to make interest payments and principal payments when the bond matures. However, the ZCZP is issued by an entity not raising loans but donations. Thus, the ZCZP issuing entity does not have to pay interest (zero coupon) and does not have to pay the principal (zero principal) either.
- ZCZP are non-transferable.

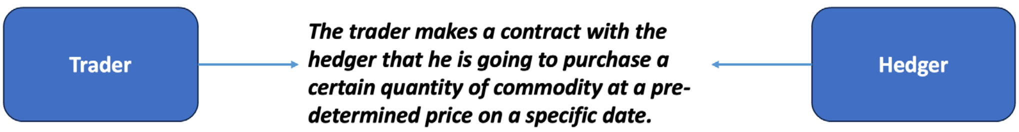
7. COMMODITY DERIVATIVES MARKET

The Indian government has permitted derivatives trading in 11 more commodities including skimmed milk powder, cement, apple, bamboo and timber based on a recommendation from the Securities and Exchange Board of India (SEBI).

WHAT IS A DERIVATE?

A Derivative is a financial instrument whose value is based upon the value of an underlying asset like equities, currency or commodities or other financial assets. A derivative contract, which has a commodity as its underlying, is known as a 'commodity derivative' contract. Most common types of derivative instruments are forwards, futures, options, and swaps.

Future & Options contract in derivative market



Futures and Options are two important derivative instruments that are traded in the commodity derivative market. In future contract, the buyer has the obligation to buy/sell the assets. Whereas, in option contract, customers have no obligation to buy/sell the assets.

BENEFITS OF COMMODITY DERIVATE MARKETS

- ***Hedging:*** It is a price risk management tool adopted by actual users such as processors, miners, exporters, importers, manufacturers, etc. Hedging means taking a position in the derivatives market with an objective of reducing or limiting risks associated with price changes.
- ***Price discovery:*** Speculation is the practise of trading in order to profit quickly from price changes. Speculators never use the item for physical purposes because their goal is to benefit quickly from price fluctuations. This contributes to transparent price discovery in the underlying commodity markets.

Commodities that are suitable for derivative trading:

- The commodity should have relatively large demand and supply.
- Prices should be adequately volatile.
- The commodity should be free from substantial control from Govt.
- Regulations in terms of supply, distribution and prices.
- The commodity should preferably have a long shelf-life.

8. NATIONAL FINANCIAL INFORMATION REGISTRY (NFIR)

- NFIR is aimed at expediting loan sanctions and credit flows by providing lenders a "360 degree" perspective on potential borrowers.
- The objective is to build a public infrastructure for credit-related information and right information can be made available by the NFIR to lending agencies.
- An NFIR will serve as the central repository of financial and ancillary information.

- Apart from having information about loans, the proposed NFIR would be a repository for ancillary information like tax paid and electricity-consumed patterns.
- This will strengthen cash flow-based lending from collateral-backed sources, facilitate efficient flow of credit, promote financial inclusion, and foster financial stability.

9. CORPORATE DEBT MARKET DEVELOPMENT FUND

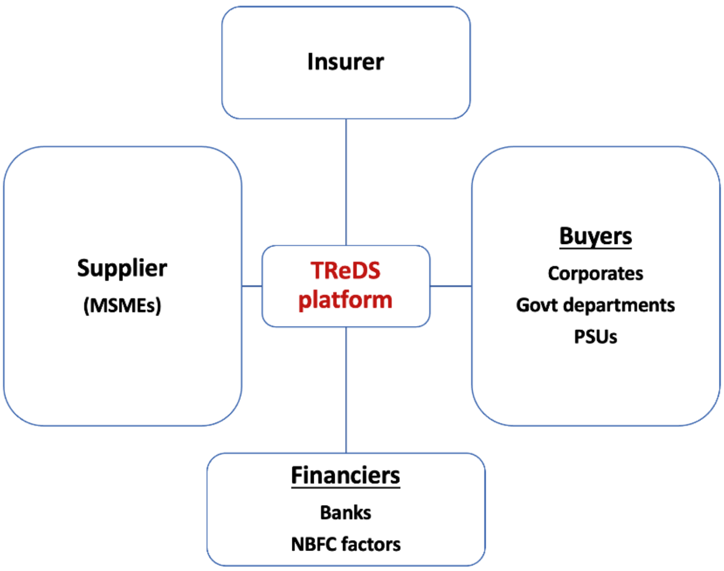
Union Finance Minister has recently launched the Rs 33,000 crore backstop fund called the Corporate Debt Market Development Fund (CDMDF) for mutual funds (MFs).

ABOUT THE FUND

- **Regulated by:** Securities and Exchange Board of India (SEBI).
- It is an **alternative investment fund (AIF)**, which will act as a backstop facility for purchase of investment grade corporate debt securities.
- CDMDF is **launched as a close-ended scheme with an initial tenure of 15 years** (extendable) from the date of its initial closing.
- During normal times, CDMDF will deal in low duration government securities (G-sec), treasury bills, tri-party repo on G-secs and guaranteed corporate bond repo with maturity not exceeding seven days.
- Corporate debt securities to be bought by CDMDF during market dislocation include listed money market instruments, for which the long-term rating of issuers will be considered.
- Hence, CDMDF **will buy only investment-grade securities from secondary markets, listed and having residual maturity of up to five years.**
- It **will not buy any unlisted, below-investment-grade or defaulted debt securities** or securities in respect of which there is a material possibility of default or adverse credit news or views.
- The facility **will help instil confidence amongst the** participants **in the Corporate Debt Market during times of stress and to generally enhance secondary market liquidity** by creating a permanent institutional framework for activation in times of market stress.

10. TRADE RECEIVABLES ELECTRONIC DISCOUNTING SYSTEM (TReDS)

- TReDS is an electronic bill discounting platform regulated by the RBI framework and a joint venture between SIDBI and NSE to provide MSMEs instant payments for outstanding trade receivables.
- It facilitates the financing / discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers. These receivables can be due from corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs).



- Only MSMEs can participate as sellers in TReDS. Corporates, Government Departments, PSUs and any other entity can participate as buyers in

TReDS. Banks, NBFC - Factors and other financial institutions as permitted by the Reserve Bank of India (RBI), can participate as financiers in TReDS.

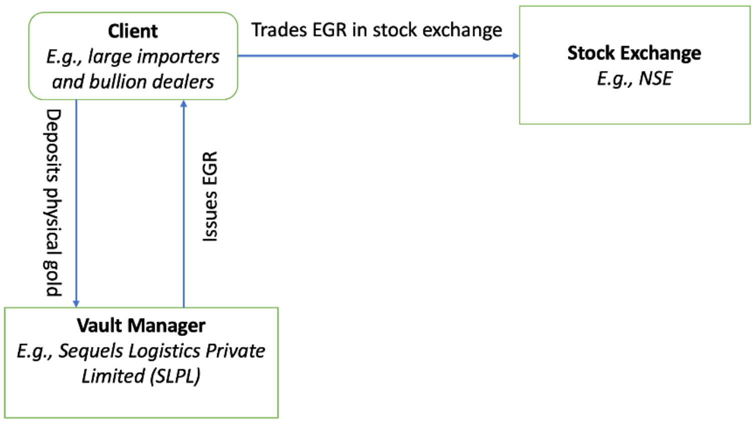
- Recently RBI expanded the scope of TReDS to give further impetus to MSMEs:
    - Insurance companies will be permitted to participate as a "fourth participant" on TReDS, apart from the MSME sellers, buyers and financiers.
    - All entities / institutions eligible to undertake factoring business under the Factoring Regulation Act will be permitted to participate as financiers in TReDS.
    - Secondary market operations will now be enabled on TReDS platforms. This would allow financiers to offload their existing portfolio to other financiers within the same TReDS platform, if required.

11. TRANSITION BONDS

'Transition Bonds' are debt instruments that facilitate transition of a carbon-intensive business into decarbonizing business and eventually achieving the Net Zero emissions targets. These bonds enable India to achieve its Intended Nationally Determined Contributions committed under Paris agreement.

12. ELECTRONIC GOLD RECEIPT (EGR)

- EGR is an electronic receipt issued by the Vault Manager against the gold deposited with them. EGR is notified as a "security" and will be traded on the stock exchange like any other security.
- The client, who receives EGR on depositing gold with the vault manager, can trade in EGR online by registering with a stockbroker.



- The buyer of the EGR can continue to hold the EGR in demat account for further trading or take the physical delivery of gold from the Vault Manager. Once the physical gold is delivered, the EGR issued by the vault manager is extinguished.
- In general, electronic gold trading happens in India through gold derivatives or gold exchange-traded funds on the designated stock exchanges. Electronic Gold Receipt is the first spot physical gold exchange trading product.
- EGRs are a way of getting people to not hoard gold physically by creating an exchange that provides transparent pricing and liquidity (to cash or back to gold).

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3 CHAPTER PAYMENTS SYSTEMS

1. PAYMENTS INFRASTRUCTURE DEVELOPMENT FUND (PIDF) SCHEME

Multi-fold Increase in the deployment of payment acceptance devices by adding 30 lakh touch points every year. The scheme is expected to benefit acquiring banks/non-banks and merchants by lowering overall acceptance infrastructure cost.

- Set up by the RBI to encourage acquirers to deploy Points of Sale (PoS) infrastructure (both physical and digital modes).
- The RBI will make an initial contribution of Rs 250 crores to the PIDF covering half the fund and remaining contribution will be from card issuing banks and card networks operating in the country.

TYPES OF ACCEPTANCE DEVICES COVERED

- Physical devices supporting underlying card payments, such as physical PoS, mPoS (mobile PoS), GPRS (General Packet Radio Service), PSTN (Public Switched Telephone Network) etc.
- Digital devices such as QR code-based acceptance infrastructure.
- Other contemporary devices with hybrid or alternative mode of acceptance
  - **Soundbox devices:** Providing instant audio payment confirmation, along with payment acceptance by 'scan & pay' and Near Field Communication.
  - **Aadhaar-enabled biometric devices:** Certified biometric scanner devices facilitating Aadhaar authentication for acceptance of payment by merchant through BHIM Aadhaar Pay.

RECURRING CONTRIBUTION

- Besides the initial corpus, PIDF will receive annual contribution from card networks and card issuing banks:
- **Turnover based contribution from card networks:** 0.01 paisa per Rupee of transaction.
- **Turnover based contribution from card issuing banks:** 0.01 paisa and 0.02 paisa per Rupee of transaction for debit and credit cards respectively.
- RBI shall contribute to yearly shortfalls, in any.

2. NPCI'S CIRCULAR ON LEVY CHARGES

CIRCULAR ON LEVY CHARGES

- National Payments Corporation of India (NPCI), which governs UPI - intimated banks and payment service providers that they can now levy charges on merchant transactions made through Prepaid Instrument wallets using UPI. For using prepaid payment instruments (PPIs) such as gift cards, wallets etc for transactions on UPI, an interchange fee of up to 1.1% has been levied from April 1, 2023.
- It also issued a clarification stating that normal bank-to-bank UPI transactions will not be charged and that customers will not have to pay for transactions made via PPI on UPI.
- New interchange charges are only applicable for Prepaid Payment Instruments' (PPI) merchant transactions. The interchange fee, generally associated with card payments to cover the transaction cost, has now brought PPI wallets also under its fold.

WHAT ARE PPIS?

- Prepaid Payment Instruments (PPIs) are payment methods that can be used to purchase goods and services and send/receive money by using the stored value in the wallet.
- Users have to pre-load the wallet with a desired amount.
- The amount can be loaded/reloaded against cash or through debit to bank account, or by using credit/debit cards, UPI, or any other approved payment method in India. PPIs can only be used in Indian rupees.

PPIs can be in the form of mobile wallets, physical smart cards, secure tokens, vouchers, or any other method that allows access to prepaid funds.

3. AADHAAR-ENABLED PAYMENT SYSTEM (AEPS)

Amid increasing instances of fraud related to the Aadhaar-enabled payment system (AePS), the Reserve Bank of India (RBI) has proposed to streamline the process of onboarding AePS service providers.

ABOUT AADHAR-ENABLED PAYMENT SYSTEM (AePS)

- AePS, or Aadhaar enabled Payment System, is a payment system that enables customers to **carry out financial transactions through Aadhaar-based authentication at Point of Sale (PoS) devices and micro-ATMs.**
- Aadhaar is a unique identification number containing demographic and biometric data issued to Indian residents.
- **National Payments Corporation of India (NPCI) introduced AePS** system to promote financial inclusion and make banking services accessible to all, particularly those living in remote and rural areas.
- Maximum limit of **Rs. 10,000 on a single transaction.** But the overall limit is set by respective banks.
- Monthly transaction limit of Rs 50,000 on a 30-day rolling basis.

BANKING SERVICES OFFERED BY AePS

- Cash Deposit
- Cash Withdrawal
- Balance Enquiry
- Mini Statement
- Aadhaar to Aadhaar Fund Transfer
- Authentication
- BHIM Aadhaar Pay

4. OPEN NETWORK FOR DIGITAL COMMERCE (ONDC)

As the platform recently surpassed the 10,000 daily order mark, Open Network for Digital Commerce (ONDC) is all set to change the duopoly in online food delivery services in India by cutting down the middleman between the business and the consumer. Currently, the service is live in select cities like Bengaluru, and ONDC is said to benefit both businesses and customers at the same time.

WHAT IS ONDC?

- ONDC is being established as a first-of-its-kind initiative globally to pave the way for reimagining digital commerce in India and establishing a globally replicable model for digital commerce.
- It represents a **paradigm shift from an operator-driven monolithic platform-centric model**, where the buyer and seller must be part of the same platform/ application to enable transactions between them. Instead, **it encourages a facilitator-driven, interoperable decentralised network**, where buyers and sellers can transact no matter what platform/application they use to be digitally visible/available enabling the flow of value.
- It will be an open network **developed on open protocols** based on **open-source specifications** with established **registries**, enabling **wide-scale participation** by digital commerce ecosystem players in India through **multiple gateways**.

- ONDC is a network that enables location-aware, local digital commerce stores across industries to be discovered and engaged by any network-enabled applications. It is **neither a super aggregator app nor a hosting platform**. All existing digital commerce apps and platforms can voluntarily choose to adopt and be a part of the ONDC network. In addition, the responsibility for onboarding of sellers and buyers and the management of the end-to-end order lifecycle will also continue to reside with the network-enabled applications.

- ONDC will **enable large-scale democratisation of digital commerce** in India by **providing a level playing field for large and small digital commerce apps and platforms** through the opportunity to be ONDC enabled and make buyers/sellers registered with them **visible and discoverable**.

5. BHARAT BILLPAY PAYMENT SYSTEM

- Bharat BillPay was **conceptualised by the RBI.**
- **One-stop ecosystem for payment of all bills** like electricity, telecom, DTH, gas, water bills, etc. and other repetitive payments like insurance premium, mutual funds, school fees, institution fees, credit cards.
- **Transaction can be initiated through multiple payment channels** like Internet, Mobile-Banking, Mobile Wallets, Kiosk, ATM, Bank and Business Correspondents
- **The NPCI has been authorized by Reserve Bank of India (RBI) as the Bharat Bill Payment Central Unit (BBPCU)**. It is responsible for setting standards, rules, and procedures for all participants. The BBPCU also undertakes clearing and settlement activities related to transactions routed through BBPS.
- The BBPCU will be the nodal agency for providing a framework for the redressal of consumer disputes and also provide guaranteed settlement of all transactions routed through NBBL and **will ensure all transactions have BBPS reference number from the payment initiation stage.**
- **Bharat Bill Payment System (BBPS) is now integrated with UPI** to facilitate fetch & payment for transactions. Registered under UPI Autopay mandates. In line with this integration, UPI Autopay has been introduced as a separate payment mode in the BBPS.
- All participating COUs and BOUs shall be integrated to the centralised system and enable the customers and billers to raise and resolve disputes in accordance with the dispute resolution framework of NBBL.
- NBBL shall put in place a dispute resolution framework for centralised end-to-end complaint management in compliance with RBI's guidelines.
- **Bharat Bill Payment Operating Units (BBPOUs):** Banks (All Scheduled Commercial Banks including RRBs / Urban Cooperative Banks / State Cooperative Banks / District Central Cooperative Banks), non-bank Payment Aggregators and other existing entities authorized as BBPOUs can participate in BBPS as Operating Units. Banks and non-bank PAs, intending to operate as BBPOUs, will not require a separate authorization.
- **Bharat Bill Pay Central Unit (BBPCU):** NBBL as the BBPCU, provides a platform connecting customers and billers, through COUs and BOUs, respectively. NBBL also undertakes clearing and settlement activities for transactions routed through the BBPCU.
- **Bharat Bill Pay Central Unit (BBPCU):** BBPCU is the entity which operates BBPS; sets operational, technical, and business standards, and also undertakes clearing and settlement functions. NPCI Bharat BillPay Ltd. (NBBL) is the authorised BBPCU.

ROLES AND RESPONSIBILITIES OF THE SYSTEM OPERATOR AND SYSTEM PARTICIPANTS

- **Bharat Bill Pay Central Unit (BBPCU)**
  - Setting the rules and regulations governing participation criteria and system operations.
  - Setting the technical standards for participation in the system.
  - Providing guaranteed settlement of all transactions routed through NBBL.
  - Ensuring that all transactions have BBPS reference number from the payment initiation stage.
  - Ensuring no funds in the system flow through any TSP.
  - Providing a framework for redressal of consumer disputes.
- **Biller Operating Unit (BOU)-** entity which onboards biller(s), either directly or through biller aggregator(s), on to the BBPS platform for collection of its bills.
  - Onboarding billers to BBPS.
  - Ensuring compliance to additional due diligence requirements which may be prescribed by NBBL for specific biller categories.
  - Ensuring due diligence of the billers onboarded through biller aggregators.
- **Customer Operating Unit (COU)-**an entity which provides its customers with an interface (physical / digital) to pay bills, either directly or through agent institutions
  - Providing digital / physical interface to their customers, directly or through agent institutions.
  - Ensuring customers (including customers of their agent institutions) have access to all billers onboarded on BBPS.
  - Providing a system for raising disputes; and
  - Taking responsibility for the activities of its agent institutions, for which they have entered into agreement with the COU.

4 CHAPTER FISCAL POLICY

1. STATE OF INDIA'S EXTERNAL DEBT

RBI has released a report on states of external debt of India.

- India's external debt may be classified into ***sovereign external debt (SED)*** and ***non-SED***. SED comprises of external assistance (from bilateral and multilateral sources) on Government Account, investment in G-secs by FPIs, loans from foreign central banks and international institutions, and SDR allocations by the IMF. Non-SED comprises of trade credit, external commercial borrowings and NRI deposits.

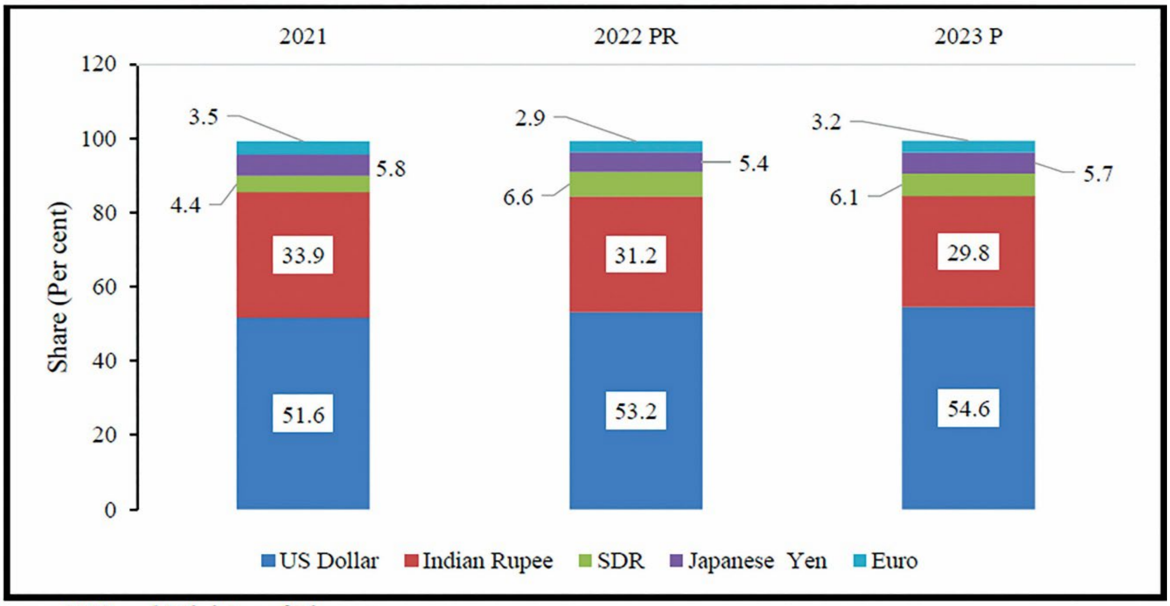
External debt

Sovereign External Debt
- ***External Assistance on govt account (loans received by the govt)***
- ***FPIs Investment in G-secs.***
- ***SDR allocation by IMF***

Non-Sovereign External Debt
- ***Trade credit***
- ***ECBs***
- ***NRI deposits***

- ***Currency Composition of external debt:*** The US dollar continues to be the leading currency of denomination accounting for 54.6 per cent of the total external debt as of end-March 2023 followed by the Indian Rupee (29.8 per cent), SDRs (6.1 per cent), Japanese Yen (5.7 per cent) and Euro (3.2 per cent).
- ***Share of SED vs Non-SED:*** Sovereign External Debt (SED) is accounting for 21.3 per cent of the total external debt while share of Non-SED is 78.7 per cent.

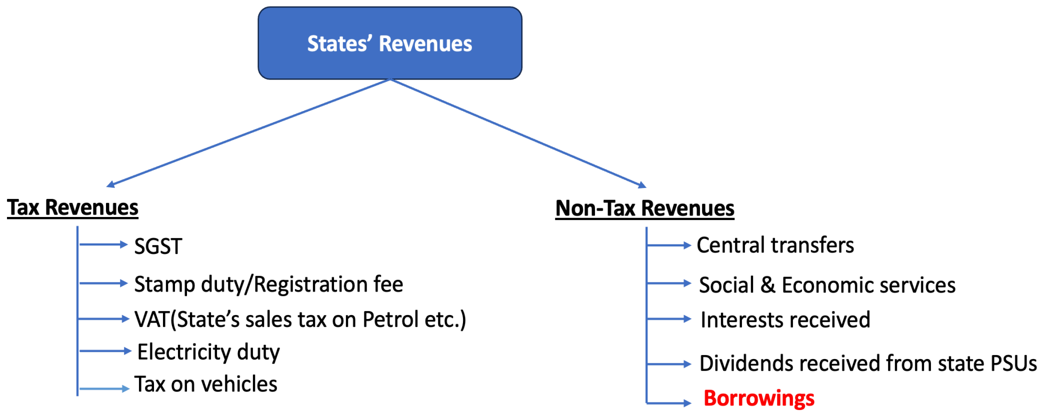
Figure : India's External Debt: Currency Composition



Source: RBI and Ministry of Finance.
Note: Data pertains to end-March.

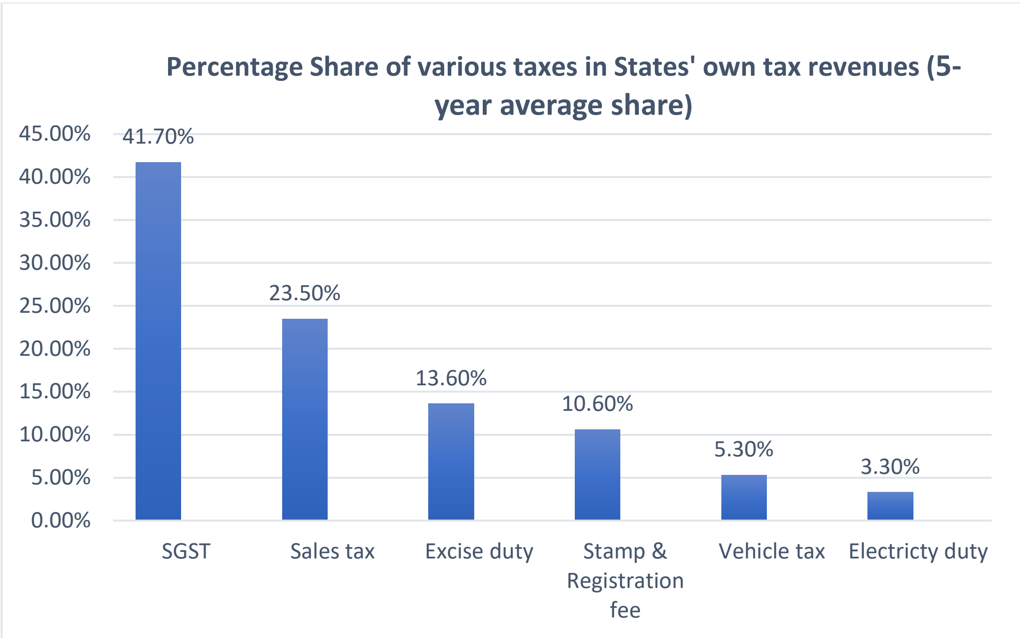
2. FISCAL POSITION OF THE STATE GOVERNMENTS

Recently RBI has released a report on fiscal position of state governments. While states' debt is budgeted to ease to 29.5% of GDP in FY23 as against 31.1% in FY21, it is still higher than the 20% recommended by the FRBM Review Committee, 2018. In this context, let us analyse the key findings of the report.



IMPORTANT TRENDS

- **Trends in Tax Revenues:**
  - For 2023-24, States have recorded a sharp rise in revenue receipts over 2022-23 (PA).
  - SGST contributes highest to States' own tax revenue collection.



Source: RBI report on States' Finances (2023)

- **Trends in Non-tax revenues:**
  - ***Transfers from central government:*** Transfers of resources from the Centre to States in India takes place through three primary channels:
    - Tax devolution recommended by the finance commission (Under article 270).
    - Grants recommended by finance commission under article 275 *(E.g., Post devolution revenue deficit grants).*
    - Grants recommended outside finance commission recommendations under Article 282 *(E.g., support for centrally sponsored schemes).*

    Tax devolution comprises of the largest share of central transfers to states. However,

    the actual tax devolution to States from Centre hovered in the range of 3-4% of GDP during the period of 14th and 15th finance commission. This is primarily due to increase in share of cesses and surcharges and shrinking of the divisible pool.
  - ***Revenues from Socio-Economic services:*** Other important source of non-tax revenues to states is user charges on economic/social services provided by the government such as irrigation, electricity, health,

education, forestry and wildlife. Revenue from economic services provided by the states comprises of 60% of their own non-tax revenues.

- **Composition of borrowings:** States finance their fiscal deficit through borrowing primarily from three sources:
  - Market (G-secs)
  - Borrowings from NSSF (Special Securities issued to NSSF)
  - Loans from centre

  States' dependence on market borrowings has increased significantly following the recommendation of the 14th Finance Commission to exclude States from the National Small Savings Fund (NSSF) financing facility. During 2023-24, States have budgeted to finance 76% of gross fiscal deficit through net market borrowing.

Table II.9: Composition of Outstanding Liabilities of State Governments and UTs
(As at end-March)

(Per cent)

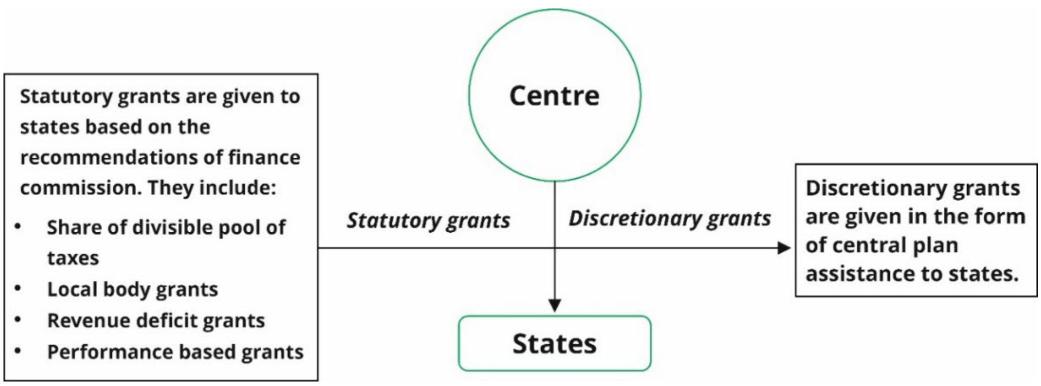
Item	2018	2019	2020	2021	2022	2023 RE	2024 BE
1	2	3	4	5	6	7	8
Total Liabilities (1 to 4)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Internal Debt	72.7	72.2	73.5	74.0	73.0	73.4	74.5
of which:							
(i) Market Loans	51.4	53.5	57.2	60.5	61.6	63.7	66.0
(ii) Special Securities Issued to NSSF	11.1	9.2	7.7	6.1	5.1	4.2	3.4
(iii) Loans from Banks and Financial Institutions	4.9	4.8	4.8	4.2	3.8	3.8	3.9
2. Loans and Advances from the Centre	3.8	3.6	3.0	5.1	7.2	7.9	8.6
3. Public Account (i to iii)	23.5	24.1	23.4	20.8	19.7	18.5	16.8
(i) State PF, etc.	10.3	10.2	9.8	8.8	8.4	8.2	7.8
(ii) Reserve Funds	4.1	4.2	3.8	3.4	3.4	3.1	2.8
(iii) Deposits & Advances	9.1	9.7	9.7	8.6	7.9	7.3	6.2
4. Contingency Fund	0.1	0.1	0.1	0.1	0.1	0.1	0.1

RE: Revised Estimate. BE: Budget Estimate.
Source: Same as that for Table II.8.

- **Debt levels of states:** Despite raising revenues, some States have budgeted for fiscal deficits exceeding 4% of GSDP in 2023-24 as against the all-India average of 3.1%. They also have debt levels exceeding 35% of GSDP as against the all-India average of 27.6%. This is well above the target of achieving the debt levels of states to 20% of GDP under FRBM act.

3. FISCAL FEDERAL ISSUES

Recently Kerala has filed a suit in the Supreme Court accusing the Centre of violating the federal structure of governance and causing "severe damage to the economy of a small State with meagre resources" by interfering with its finances.



The share of states in the central taxes for the 2021-26 period is recommended to be 41%. **The criteria for horizontal devolution is:**

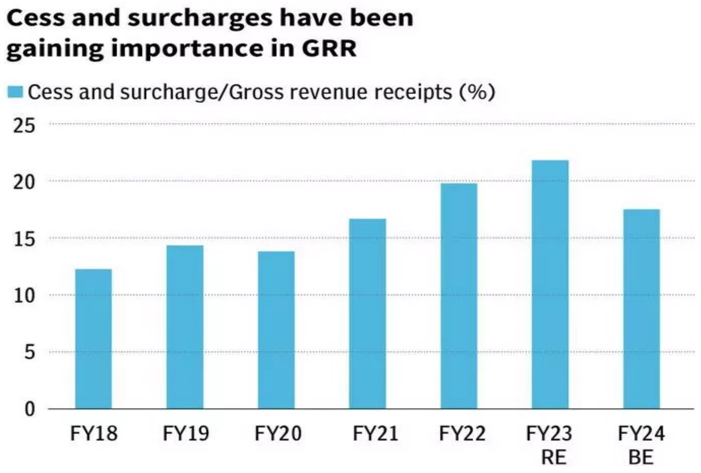
Criteria	Weightage
Income Distance	45%
Area	15%

Population (2011)	15%
Demographic Performance	12.5%
Forest and Ecology	10%
Tax and fiscal efforts	2.5%

FISCAL FEDERAL ISSUES

- **Shrinking devolution:** Though the Finance Commission enhanced states' share in the divisible pool of taxes, it didn't result in concomitant increase in the actual devolution. This is because, over the few years, central government has reduced the tax rates and increased the cess and surcharges which are not mandated to be shared with the states. Cess and surcharges are part of central taxes but not part of the divisible tax pool and do not have to be shared with States.

In fact, cess and surcharge has grown at a faster pace than gross tax revenues.



- **Ceiling on the states' borrowing:** The Union Budget has kept 3.5% of GSDP as their borrowing limit for FY24 and it restricted borrowing power of the states.

  (As per article 293, states cannot raise loans without the consent of the union if there is any outstanding loan made by the state government with a guarantee given by the centre.)

- **Loss of taxation rights under GST mechanism:** with the advent of GST, the states lost their rights to increase tax revenues by changing the tax rates on sale of many goods and services. (GST rates and slabs are decided by GST council with 3/4th majority vote).
- **Restrictions on off-budget borrowings:** The Centra had noticed in FY22 that such off-budget borrowings would be considered as borrowings made by the state. This reduced the capacity of states to increase their borrowings without violating fiscal deficit targets.

However, Union budget 2023-24 has proposed to continue with the 50-year interest-free loan to state governments that aid infrastructure investment.

4. GOVERNMENT GUARANTEES

RBI released Report of Working Group on State Government Guarantees.

ABOUT GOVERNMENT GUARANTEES

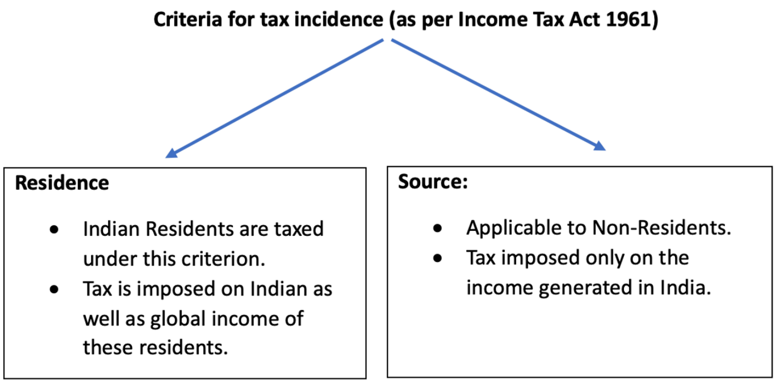
- Government guarantees are legally binding undertakings given by a government to assume responsibility for servicing a debt or the performance of an obligation, on behalf of another entity under certain specified conditions – typically a default by that entity.
- A contract of guarantee, as defined in the Indian Contracts Act, 1872 is a contract to perform the promise, or discharge the liability of a third person in case of default.
- **Constitutionality of Government Guarantees:** Article 292 of the Constitution of India (Annexure-I) extends the executive powers to the Union Government to give guarantees on the security of the Consolidated Fund of India, within such limits, if any, as may be fixed by the Parliament.
- **Guarantees under FRBM Act:**
  - The Central Government shall not give additional guarantees with respect to any loan on the security of the Consolidated Fund of India in excess of one-half percent of gross domestic product, in any financial year".

- If this limit is exceeded owing to any unforeseen circumstances, in terms of Section 7(3)(b) of FRBM Act, 2003, the Finance Minister is required to make a statement in both Houses of Parliament explaining the deviation, including whether the deviation is substantial and relates to the actual or the potential budgetary outcomes and the remedial measures the Central Government proposes to take.

- Salient Features of Government Guarantee Policy released by Department of Economic Affairs, Ministry of Finance:
  - Guarantees may be given only for principal amount and normal interest component of the underlying loan;
  - Guarantees may not be extended for external commercial borrowings;
  - Government may not extend guarantee for more than 80 per cent of the project loan5, depending on the conditions imposed by the lender;
  - Guarantees once approved, shall not be transferred to any other agency without the prior approval of the Finance Department;
  - Government guarantees shall not be provided to private sector companies/institutions; and
  - Appropriate pre-conditions may be specified by the Government while giving the guarantees, e.g., period of guarantee, levy of fee to cover risk, representation for Government on the Board of Management of the borrowing entity, mortgage or lien on its assets, submission of periodic reports and accounts to Government, right to get its accounts audited on behalf of Government, etc

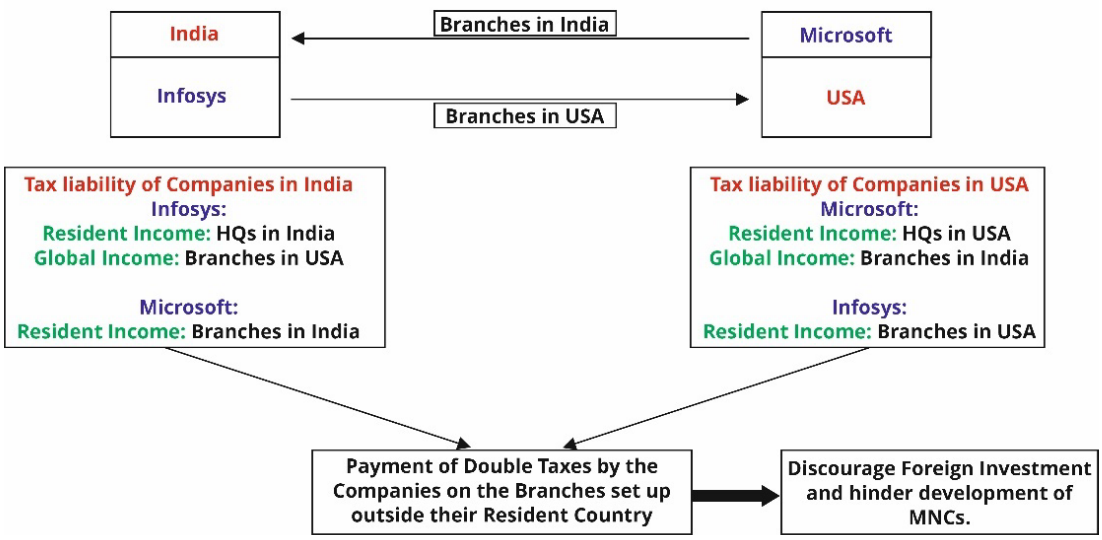
5. DOUBLE TAXATION AVOIDANCE AGREEMENT

Supreme Court, in a case, held that a Double Taxation Avoidance Agreement (DTAA) cannot be given effect unless notified under the Income Tax Act.



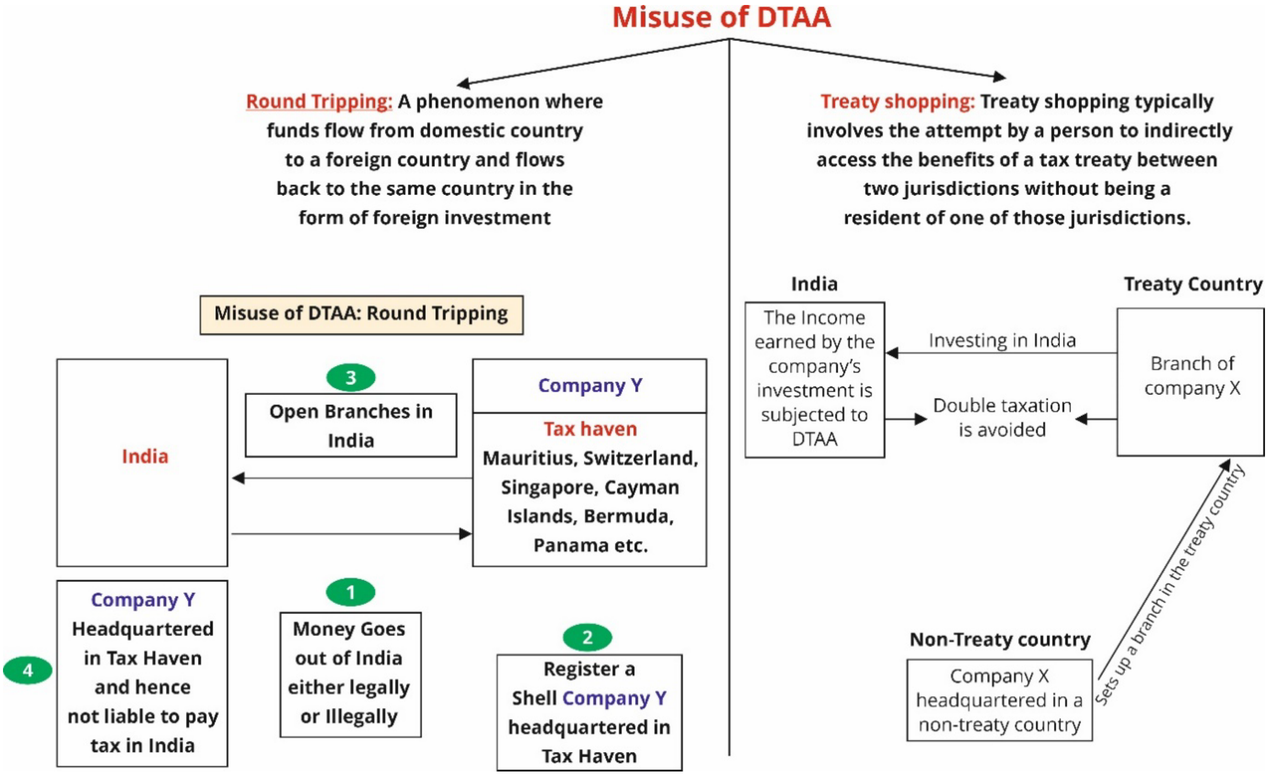
As a result of this, the same income is often taxed twice in two different jurisdictions.

DTAA: Meaning, Need and Significance



DTAA

Double Tax Avoidance Agreement (DTAA) is an agreement that is signed between two countries to avoid double taxation on individuals/companies for the same income earned in one country while being a resident of another country. India has signed DTAA with more than 80 countries.



6. ANGEL TAX

- Angel tax refers to the income tax (30.6 %) imposed on any unlisted company (usually start-up enterprises) in receipt of investment which is above the fair market value. Such investment is treated as income from other sources for the tax purpose. This tax was introduced in 2012 in the form of Section 56 (2) of the Income Tax Act to plug money laundering practices.
- Earlier, angel tax provisions were applicable only for investments received from resident investors. However, Finance Bill 2023 has extended its applicability to non-resident investors as well.

7. WINDFALL TAX

- Windfall tax is a higher tax levied by the government on specific industries when they experience unexpected and above-average profits.
- The Government imposes this tax when they notice a sudden rise in an industry's revenue due to external incidents that they are not responsible for.
  - ***E.g.,*** *Windfall tax imposed on upstream oil companies — ONGC, Oil India and GAIL- when they declared all-time high net profit in the fiscal year 2022 due to skyrocketing of oil prices following Russia-Ukraine war.*
- It is usually a one-time tax imposed retrospectively, over and above the normal tax rate.
- Some individual taxes—such as inheritance tax or taxes on lottery or game-show winnings—can also be construed as a windfall tax.

8. GST ON ONLINE GAMING

The Goods and Services Tax (GST) Council decision to levy a uniform 28 per cent tax on full face value for online gaming has come into effect from 1st of October, 2023.

TAX ON ONLINE GAMING

- The GST Council had imposed 28% GST on online gaming, casinos and horse racing on the full face value.
- Earlier, the GST regime differentiated online games based on skills versus chance. For a game of skills, such as esports, puzzles, and some card games, an 18% GST was chargeable. Whereas, for a game of chance, including gambling at casinos, a 28% GST was chargeable.
- GST law was amended to include online gaming under its scope as currently it falls under actionable claims.

ABOUT ONLINE GAMING

Online gaming refers to games that can only be played with an internet connection. Different types of online games are:

- **E-sports:** Well organised electronic sports which include professional players).
- **Fantasy sports:** Choosing real life sports players and winning points based on the players' performance in a match.
- **Skill Based:** Mental skill.
- **Chance Based:** Based on random activity like roll of a dice) online games.

9. GOVERNMENT DEBT

Recently the International Monetary Fund (IMF) has raised concerns about the long-term sustainability of India's debts.

STATUS OF GOVT DEBT IN INDIA

- **Central government's debt stood at 57% of GDP** at the end of March 2023 **(General government debt is around 85% of GDP)** and the ratio of public debt to GDP is expected to increase over the next financial year.
- The IMF has cautioned that general government debt is likely to exceed 100% of India's gross domestic product (GDP) in the near future.
- In this context let us discuss the need for managing public debt in India and how far India's debt levels are sustainable.

SUSTAINABILITY OF INDIA'S DEBT CAN BE ASSESSED BY THE FACTORS

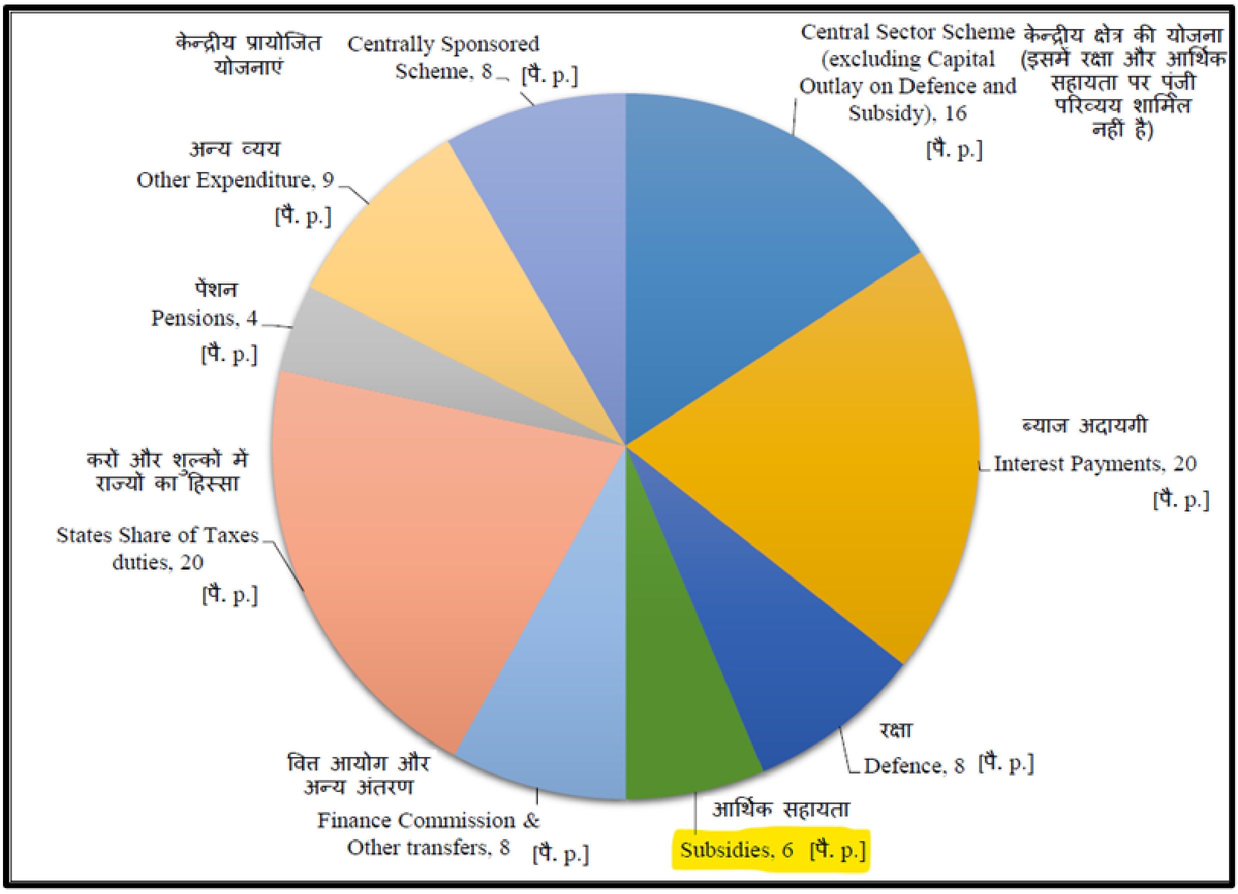
- **Low Currency Risk:** Till March 2021, 95% of Government's total net liabilities were denominated in domestic currency, and 5% constituted sovereign external debt, implying low currency risk.
- **Low Interest Risk:** Till March 2021, Public debt in India was primarily contracted at fixed-interest rates, with floating internal debt constituting only 1.7% of GDP, thus, insulating debt portfolio from interest rate volatility.
- **Maturity of Debt:** Over the last few years, the proportion of dated securities maturing in less than five years has declined, whereas long-term securities have shown an increasing trend, thus reducing rollover risk in the medium-term.
- **Stable Government's Debt Profile** without undue pressure on yields as majority of outstanding debt of government(G-secs) is subscribed by commercial banks, insurance companies and provident funds.
- **Interest Rate Growth Differential:** IRGD refers to the difference between the average interest rate that governments pay on their debt and the (nominal) growth rate of the economy. This has been negative for India which implies higher growth rate viz-a-viz interest rate, hence, public debt comes with low fiscal costs and an eventual decline in debt-to-GDP ratio.

10. DIRECT BENEFIT TRANSFERS (DBT)

Election season often witnesses promises made by political parties for direct transfers of monetary benefits. This emphasises the importance of effective implementation for such direct benefit transfer programs and poses the question of whether direct transfers are a viable alternative to government subsidies.

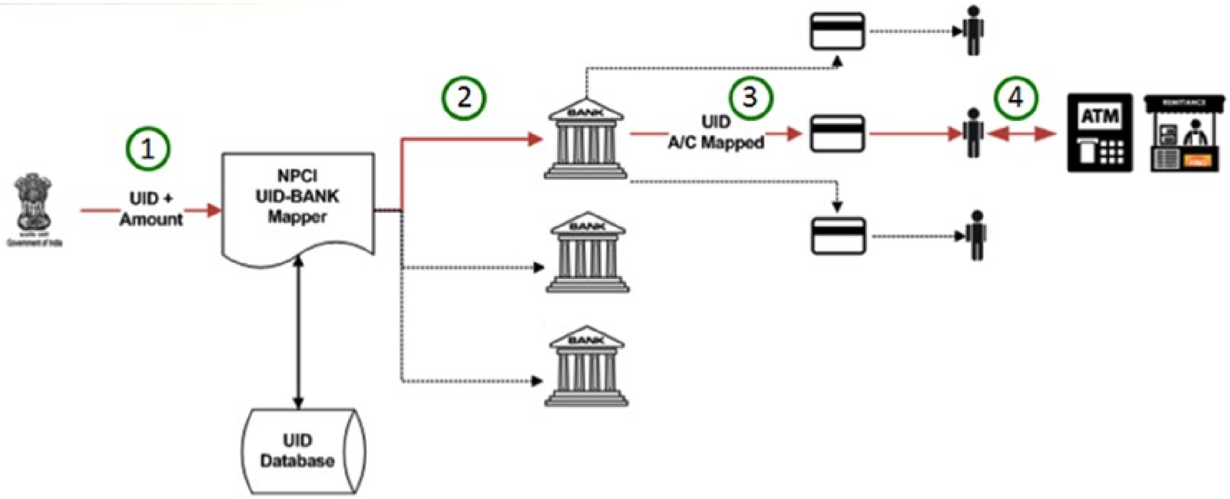
WHAT ARE SUBSIDIES?

- A subsidy is a direct or indirect payment to individuals or firms, usually in the form of a cash payment from the government with an **aim to keep the price of a commodity or service low**.
- The **Indian government provides subsidies across sectors**, including agriculture, food distribution, fuel, social welfare, export promotion, power, education, healthcare, and housing, with initiatives such as fertiliser and crop insurance subsidies, LPG subsidies, direct benefit transfers, export incentives, power and renewable energy subsidies, scholarships, medical subsidies, and housing interest subsidies.
- In terms of outlays, **the central government spends around 6% on subsidies.**



WHAT ARE DIRECT BENEFIT TRANSFERS (DBT)?

- The DBT (Direct Beneficiary Transfer) is a scheme, where the **welfare benefits provided by the Government are directly credited to the bank accounts of the accurately identified beneficiary**.
- The introduction of Direct Benefit Transfer (DBT) addressed these challenges by **leveraging Jan Dhan Bank Accounts, Aadhaar, and mobile number (JAM Trinity)** to streamline subsidy distribution, reduce leakages, and enhance the overall efficiency of welfare programs.
- Various studies and reports have since highlighted the **positive impact of DBT** in curbing corruption, improving targeting, and ensuring that subsidies reach the intended beneficiaries effectively.



1. Government releases funds against Unique Identification Number (UID)
2. National Payments Corporation of India (NPCI) maintains mapping: UID and bank account
3. Funds credited in beneficiary bank account
4. Beneficiary withdraws from multiple sources

Key enablers of Direct Benefit Transfer (DBT) in India:

- Bank accounts for all
- Unique identification for all
- Cash in/out infrastructure

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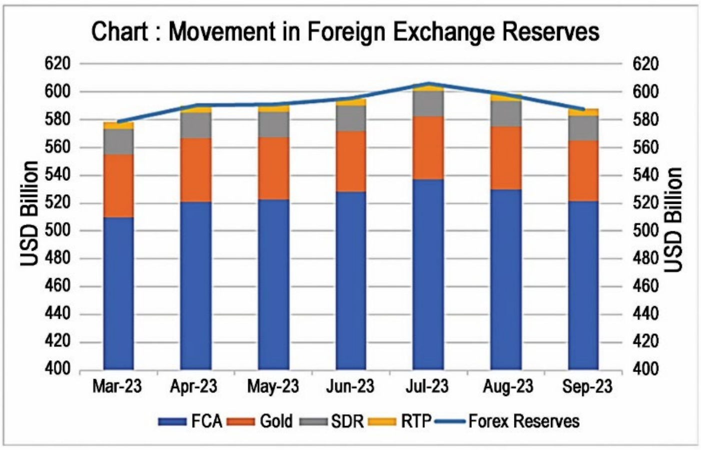
5 CHAPTER EXTERNAL SECTOR

1. FOREX RESERVES

*Foreign exchange reserves refer to the reserves of the RBI kept in the form **foreign currency assets**, **gold**, **SDR** and **reserve tranche position** with the IMF. The forex reserve is kept as a cushion against any potential balanced of payment related crisis. In India, the **Reserve Bank of India Act 1934** enabled the RBI to act as the custodian of foreign reserves.*



Foreign currency Assets > Gold > SDR >RTP

Composition of Forex reserves of India (Source: RBI)

HOW MUCH FOREX RESERVES ARE SUFFICIENT?

Though there is no objective formula/criterion to arrive at a specific amount, there are few factors that are considered to determine the adequacy of foreign exchange reserves of an economy, which include:

- **Import coverage:** One common rule of thumb is that reserves that can cover three months' worth of imports are adequate.
- **Level of short-term debt:** IMF suggests that a country's reserves should equal short-term external debt (one-year or less maturity), suggesting a ratio of reserves-to-short term debt of one.
- **Source of accretion of reserves:** Whether the forex reserves are made up of export or foreign investments (FDI&FPI) or external borrowings.
- **Levels of Current account deficit:** To what extent the CAD can be financed by the existing fore reserves is also an important factor to consider.

Thus, though the forex reserves of India declined significantly in the last one year, they are more than adequate to fulfil the above factors and deal with any short-term contingency.

2. INTERNATIONAL TRADE IN INDIAN RUPEE

NEED FOR TRADING IN LOCAL CURRENCIES

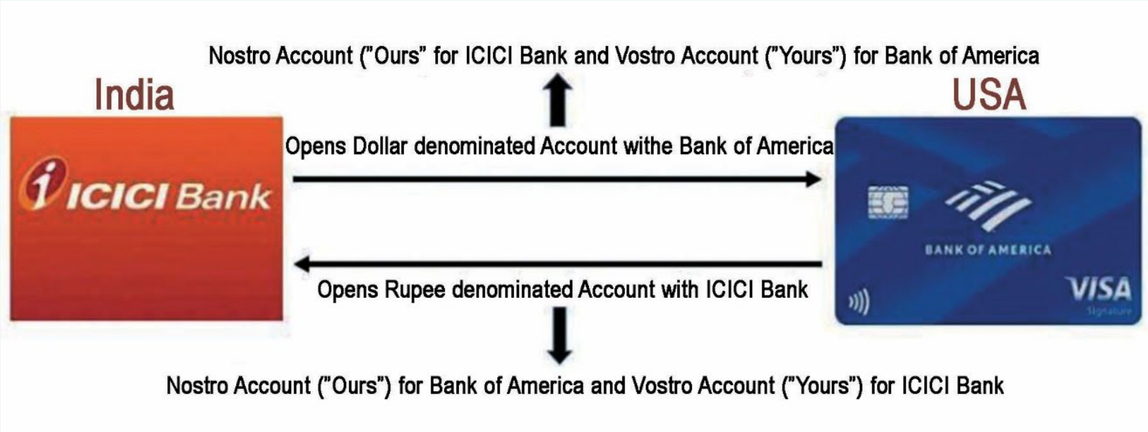
- **Reduce transaction costs:** When countries import and export goods and services, they have to make payments in a foreign currency. Since the US dollar is the world's reserve currency, most of these transactions are settled in dollars.
- **Geo-political shocks:** Geo-political tensions often create challenges in seamless trade between the countries. **E.g.,** Recent Russia-Ukraine war resulted in western sanctions on Russia which created challenges for India to trade with Russia in dollars.

- **Reduce dependency over foreign currency:** Increasing use of Indian rupee for cross-border transactions will not only reduce our dependency over foreign currency but also increases the credibility of rupee in the global market adding weight to Indian economy.
- **Insulate from external shocks:** Reducing dependence on foreign currency makes India less vulnerable to external shocks like mitigating the pain of reversal of capital flows.

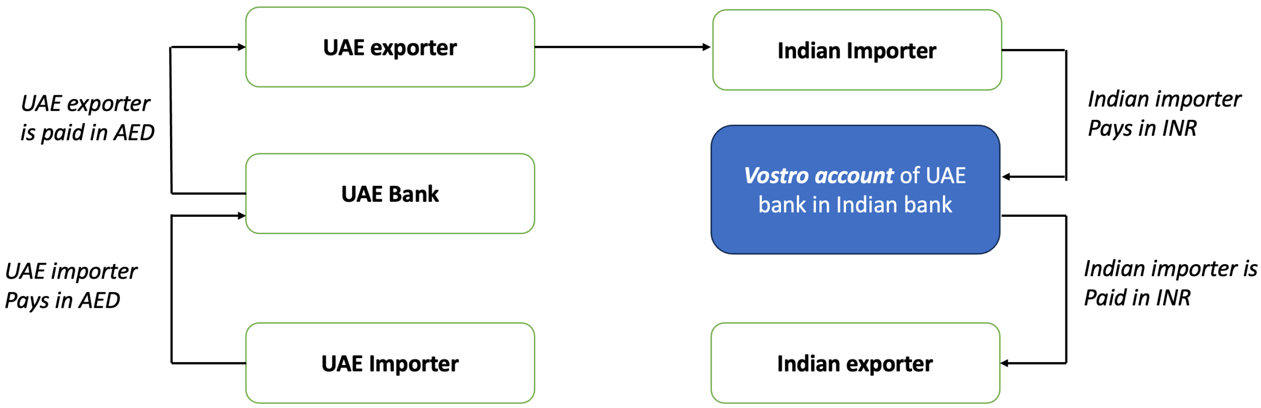
MECHANISM OF RUPEE TRADE SETTLEMENT

What are Vostro Accounts?

- Vostro accounts are accounts that a bank holds on behalf of another foreign bank.
- A Rupee Vostro account is used to facilitate international trade transactions in Indian rupee. Rupee Vostro accounts keep a foreign entity's holdings in the Indian bank, in Indian rupees.



	LOCATION OF A/C	WHO WILL OPEN	CURRENCY
NOSTRO A/C	FOREIGN BANK	DOMESTIC BANK	FOREIGN
VOSTRO A/C	DOMESTIC BANK	FOREIGN BANK	DOMESTIC



A Rupee Vostro account is used to facilitate international trade transactions in Indian rupee. When an Indian importer wants to make a payment to a foreign trader in rupees, the amount will be credited to this Vostro account, and when an Indian exporter needs to be paid for supplying goods or services, this Vostro account will be deducted, and the amount will be credited to the exporter's account.

Even though rupee invoicing for international transactions was allowed earlier, countries with whom we run trade deficit were reluctant to use this rupee settlement because the vostro accounts are left with surplus amount.

To overcome this, recently RBI released a notification allowing international trade settlement in India rupees. It allowed surplus rupee held in vostro accounts to invest in rupee assets like Government securities.

3. LIBERALISED REMITTANCE SCHEME

- Under the Liberalised Remittance Scheme (LRS), all resident individuals are allowed to freely remit up to USD 2,50,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both.
- Individuals can avail forex facility under LRS for the purposes like studies abroad, going abroad for employment, medical treatment expenses abroad, private visits to foreign countries, gifts/donations, maintenance of close relatives abroad etc.
- However, certain items like investment in FCCBs issued by Indian companies in the overseas market, trading in foreign exchange abroad are prohibited under the scheme.

CHANGES TO LRS

RBI has, in august 2022, notified changes to the scheme:

- The investor who has remitted funds under LRS can retain and reinvest the income earned from his investment made under the scheme. However, the received/unused foreign exchange, unless reinvested, shall be repatriated and surrendered to an authorised person within a period of 180 days from the date of such realisation.

4. WTO PANEL RULE AGAINST INDIA'S TARIFFS ON IT PRODUCTS

Recently, A WTO panel ruled against India in IT tariffs dispute with EU and other countries like Japan and Taiwan. In 2019, the EU challenged India's introduction of import duties of between 7.5% and 20% for a wide range of IT products, such as mobile phones and components, as well as integrated circuits, saying they exceeded the maximum rate committed by India under ***WTO Information Technology Agreement***. Japan and Taiwan filed similar complaints that same year.

WTO INFORMATION TECHNOLOGY AGREEMENT (WTO ITA):

- The Information Technology Agreement (ITA), signed in December 1996, aims to eliminate all import duties and other charges on information technology products. In 2015, it was expanded to cover over 200 more products. The ITA now covers 81 WTO members, which account for approximately 97% of world trade in information technology products.
- The agreement covers a large number of high technology products, including computers, telecommunication equipment, semiconductors, semiconductor manufacturing and testing equipment, software, scientific instruments, as well as most of the parts and accessories of these products.
- ***The ITA requires each participant to eliminate and bind customs duties at zero for all products specified in the Agreement.*** Every participating member submitted to the other participants a draft schedule which spells out how the terms of the agreement would be met.
- In light of new technological developments, the participants agreed to expand the products covered by the Information Technology Agreement by eliminating tariffs on an additional list of 201 products in 2015. The new accord covers new generation semi-conductors, semi-conductor manufacturing equipment, optical lenses, GPS navigation equipment, and medical equipment such as magnetic resonance imaging products and ultra-sonic scanning apparatus.
- The agreement also contains a commitment to tackle non-tariff barriers in the IT sector, and to keep the list of products covered under review to determine whether further expansion may be needed to reflect future technological developments.

DISPUTE SETTLEMENT UNDER WTO

- Resolving trade disputes is one of the core activities of the WTO. A dispute arises when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO.

- The General Council of WTO convenes as the Dispute Settlement Body (DSB) to deal with disputes between WTO members. The DSB has authority to establish dispute settlement panels, refer matters to arbitration.
- There are two main ways to settle a dispute once a complaint has been filed in the WTO:
  i. Finding a mutually agreed solution during the phase of bilateral consultations
  ii. Through adjudication which is binding upon the parties once adopted by the DSB.
- Appellate body:

It is a standing body of 7 persons that hears appeals from reports issued by panels in disputes brought by WTO Members. The Appellate Body can uphold, modify or reverse the decisions of a panel. Appellate Body Reports are adopted by the Dispute Settlement Body (DSB) unless all members decide not to do so.

5. IMF LENDING FACILITIES

- The IMF provides concessional financial support to its low-income members through the Poverty Reduction and Growth Trust (PRGT), which has three lending facilities:
  - **Extended credit Facility (ECF):** Sustained medium- to long-term engagement in case of protracted balance of payments problems.
  - **Standby Credit Facility (SCF):** Financing for low-income countries with actual or potential short-term balance of payments and adjustment needs caused by domestic or external shocks, or policy slippages. It can also be used on a precautionary basis during times of increased risk and uncertainty.
  - **Rapid Credit Facility (RCF):** One-off disbursement for low-income countries facing urgent balance of payments needs.
- The three facilities have different maturities and grace periods and are currently interest free. The interest rate on RCF financing was set permanently at zero, while the IMF reviews interest rates for ECF and SCF facilities every two years. Currently the interest rate for these two facilities kept at zero rate.
- Just like in other facilities, lending facilities to low-income countries under PRGT are attached with conditionalities like adopting policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period.

6. EXPORT PREPAREDNESS INDEX 2022

NITI Aayog released the third edition of 'The Export Preparedness Index (EPI) 2022'.

ABOUT EPI

- It is released by NITI Aayog in association with Institute for Competitiveness
- The report seeks to comprehensively evaluate India's export scenario at the country, state, and district level.
- The evaluation is undertaken to provide valuable insights to states and other stakeholders to identify areas of improvement and implement targeted strategies.
- By encouraging peer-learning among states/ UTs, improving regional export preparedness, and harnessing India's heterogeneity, this report aims to help India in positioning itself as a lucrative trading partner in the world.
- **Classification:** States are classified as coastal, landlocked, Himalayan, and UTs/small states.

PILLARS & SUB-PILLARS

- To enhance the robustness of the index, a few new indicators have been incorporated based on stakeholder suggestions.

RANKINGS

- Tamil Nadu, Maharashtra, and Karnataka are the top performing coastal states.
- Haryana, Uttarakhand and Goa topped under landlocked, Himalayan, and UTs/small states categories respectively.

OTHER FINDINGS

- Over 99% of districts are covered under the 'One District One Product' scheme.
- Ten commodities (engineering goods, petroleum products etc.) account for nearly 80% of India's total exports.
- Only 100 districts are responsible for nearly 87% of exports.
- 49% of India's exports go to only ten destinations.

7. SHIFTING PATTERN OF REMITTANCE FLOWS

As per World Bank's latest Migration and Development Brief, India is expected to post a growth of just 0.2% in remittance inflows in 2023. It had registered a growth of more than 24% to reach a record-high $111 billion in remittances in 2022.

ABOUT REMITTANCES

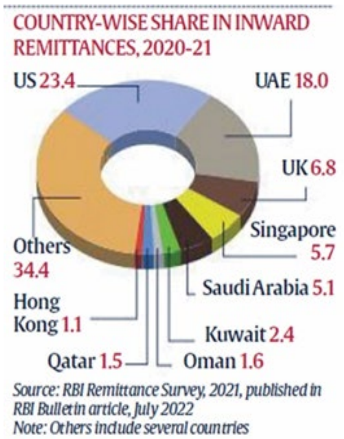
- When migrants send home part of their earnings in the form of either cash or goods to support their families, these transfers are known as workers' or migrant remittances.
- **Remittance** forms a part of the **transfer payment category** in the **current account** of the **Balance of Payments (BoP)** records in an economy.

TRENDS IN REMITTANCE FLOWS

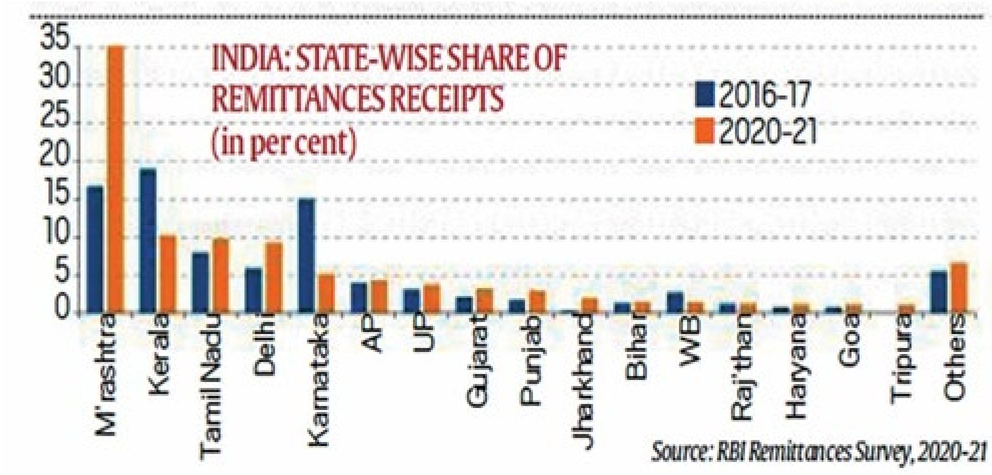
- **Country-wise Rankings:** The top recipient countries for remittances in 2022 were:

US$ Billion, 2022	
India	111.2
Mexico	61.1
China	51.0
Philippines	38.0
Pakistan	29.9
Egypt	28.3
Bangladesh	21.5
Nigeria	20.1

- **Structural Shift in Country-wise Share in India's Inward Remittances:** There has been a g**radual structural shift in Indian migrants' key destinations from largely low-skilled, informal employment in the Gulf Cooperation Council (GCC) countries to a dominant share of high-skilled jobs in high-income countries such as the United States, the United Kingdom, and East Asia**. As per RBI, the share of remittances from the US, UK and Singapore increased to 36% of the total in 2020-21, up from 26% in 2016-17. Over the same period, the share of Middle East countries - Saudi Arabia, United Arab Emirates, Kuwait, Oman, and Qatar - dropped from 54% to 28%.



- **State-wise Share of Remittances Receipts:** The share of traditional remittance recipient states such as Kerala and Karnataka, which dominated the West Asian region, fell sharply in 2020-21 compared to 2016-17. Maharashtra emerged as the top recipient state in 2020-21, surpassing Kerala, the top recipient in 2016-17.



8. REMISSION OF DUTIES AND TAXES ON EXPORTED PRODUCTS (RODTEP) SCHEME

Recently US imposed CVD on Indian file folders, rejecting arguments from the Indian government regarding the WTO compliance of RODTEP. Several months earlier, the EU similarly concluded that certain graphite electrode systems from India were subsidized through RODTEP, leading to the imposition of countervailing duties.

KEY FEATURES OF RODTEP SCHEME

- The scheme provides refund of duties and taxes which are levied at central, state and local level and are not refunded under any other mechanism. They include:
  - Central and State Excise Duty on fuel for transportation of export goods (petrol, diesel, CNG, PNG, etc.)

- Coal cess or duty levied by States on electricity consumed for manufacturing of export goods
- Mandi tax levied by APMCs
- Toll tax and stamp duties on import-export documentation
- Value added tax (VAT) wherever applicable

- Refunds under the scheme would be issued in the form of transferrable e-scrips which could be used for paying Basic Customs Duty on import of goods or may be transferred electronically to other party. The benefit will not be in the form of direct credit to the bank account.

When the RoDTEP scheme was introduced, sectors like pharmaceuticals, chemicals and iron & steel were excluded from the scheme due to fiscal constraints as well as on the grounds that their exports were doing well even without such benefits. However, with India's exports momentum hit by waning global demand, government decided to extend the scheme to these sectors as well.

Countervailing Duty (CVD): Countervailing duties or CVDs are tariffs on imported goods that are imposed to offset subsidies given by the exporting country's government. WTO's agreement on subsidies and countervailing measures (SCM) allows the importing countries to impose CVD against such subsidies which injures the domestic industry of importing country.

9. EXPORT CREDIT GUARANTEE CORPORATION (ECGC)

Centre is looking to expand the Export Credit Guarantee Corporation (ECGC) cover to exporters of gems and jewellery.

ABOUT EXPORT CREDIT GUARANTEE CORPORATION (ECGC)

- It is **wholly owned by the Government of India** and was set up in 1957 with the objective of promoting exports from the country.
- The insurance covers provided by ECGC **enables the banks to extend timely and adequate export credit facilities to the exporters.**
- **ECGC provides:**
    - A range of **insurance cover to Indian exporters** against the risk of non-realization of export proceeds due to commercial or political risks.
    - Different types of **credit insurance covers to banks and other financial institutions** to enable them to extend credit facilities to exporters
    - **Export Factoring facility for MSME sector** which is a package of financial products consisting of **working capital financing, credit risk protection, maintenance of sales ledger and collection of export receivables from the buyer** located in an overseas country.
- It also **administers the National Export Insurance Account (NEIA) Trust** which caters to project exports of strategic and national importance.

10. FDI IN SPACE SECTOR

Union Government has amended its foreign direct investment (FDI) policy for the space sector.

WHAT IS FOREIGN DIRECT INVESTMENT (FDI)?

FDI is the investment through 'capital instruments' by a person resident outside India:

- In an unlisted Indian company; or
- In 10% or more of the equity capital of a listed Indian company

ROUTES FOR FDI

- **Automatic Route:** Under it, the non-resident investor or the Indian company **does not require any approval** from the Government of India for the investment.

- **<u>Government Route:</u>** Under it, prior to investment, approval from the Government of India is required. **Proposals** for FDI under Government route are **considered by the respective Administrative Ministry/ Department.**

ABOUT THE POLICY CHANGE

The Union Government has tweaked how much percentage of equity a foreign entity may acquire in **three different sub-sectors through the automatic route:**

- 49% in launch vehicle manufacture and spaceports
- 74% in satellite manufacture
- 100% in components and sub-systems for satellites and ground station hardware.

These numbers are not FDI limits, but the percentages allowed through the 'automatic route' — **higher holding is possible with government approval.**

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6 CHAPTER INFRASTRUCTURE

1. COMMITTEE TO DEFINE INFRASTRUCTURE

The finance ministry has tasked a high-level committee under Bibek Debroy, chairman of the Economic Advisory Council to PM, to undertake a comprehensive assessment of the characteristics or parameters defining infrastructure and its financing framework.

Infrastructure refers to basic physical and structural facilities, which are essential for an economy to function. There is no universally accepted definition of infrastructure. National Statistical Commission headed by C. Rangarajan identified six characteristics of infrastructure sector.

CHARACTERISTICS OF INFRASTRUCTURE

1) ***Natural Monopoly:*** A natural monopoly typically has high fixed costs meaning that it is impractical to have more than one firm competing to provide same good or services.

   E.g., Electricity transmission lines, Gas pipelines.

2) ***High Sunk Costs:*** Sunk cost refers to the money that has already been spent and cannot be recovered even when the firm goes out of business. Typically, infrastructure projects incur high sunk costs.

3) ***Non-tradability of output:*** Non-tradable outputs are those which are produced and sold at the same location and cannot be transported to other location. Generally, the infrastructure outputs are consumed at the place they are produced and are non-tradeable. ***E.g.,*** Fly over.

   To give an example: should there be insufficient demand for electricity in place A, its supply may be diverted to place B; however, one will not be able to do that for the transmission system that brings electricity to place A. Hence the transmission system is non-tradable even though electric power itself may be tradable.

4) ***Non-rivalness in consumption***: non-rivalness implies that the cost of providing a good or service to an additional individual is zero. That means consumption of an individual does not affect the consumption of others.

5) ***Price exclusion:*** Price exclusion means that the enjoyment of benefits is contingent on payment of user charges.

6) ***Externalities:*** The benefits of Infrastructure projects go beyond the immediate provision of services for which they are built, which are not directly measured.

   E.g., A gas pipeline contributes not only provides access to energy but also results in environmental and social benefits.

Based on the above features, Harmonized Master List of Infrastructure sub-sectors is updated from time to time. The latest updated list is as follows.

HARMONIZED MASTER LIST OF INFRASTRUCTURE SUB-SECTORS

CATEGORY	INFRASTRUCTURE SUB-SECTORS
Transport and Logistics	• Roads and bridges • Ports • Shipyards • Inland Waterways • Airport • Railway track including electrical & signaling system, tunnels, viaducts, bridges • Railway rolling stock along with workshop and associated maintenance facilities

	• Railway terminal infrastructure including stations and adjoining commercial infrastructure • Urban Public Transport (except rolling stock in case of urban road transport) • Logistics Infrastructure • Bulk Material Transportation Pipelines
Energy	• Electricity Generation • Electricity Transmission • Electricity Distribution • Oil/Gas/Liquefied Natural Gas (LNG) storage facility • Energy storage systems including dense charging infrastructure and grid-scale battery systems
Water & Sanitation	• Solid Waste Management • Water treatment plants • Sewage collection, treatment and disposal system • Irrigation (dams, channels, embankments, etc.) • Storm Water Drainage System
Communication	• Telecommunication (fixed network) • Telecommunication towers • Telecommunication & Telecom Services • Data centers
Social and commercial infrastructure	• Education Institutions (capital stock) • Sports Infrastructure • Hospitals (capital stock) • Tourism infrastructure • Common infrastructure for Industrial Parks • Post-harvest storage infrastructure • Terminal markets • Soil-testing laboratories • Cold Chain • Affordable Housing • Affordable Rental Housing Complex • Exhibition-cum-Convention Centre

2. LOGISTICS PERFORMANCE INDEX (LPI) 2023

Recently, the Logistics Performance Index 2023 was released by the World Bank. India's ranking on the LPI improved by 6 places to reach 38th place in 2023 edition of LPI as compared to 2018 edition of LPI.

ABOUT LOGISTICS PERFORMANCE INDEX

- It is an index compiled by the World Bank to help countries identify challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance.
- 139 countries are ranked in the 2023 edition of LPI.
- The 2023 edition of LPI only conducted a survey on the international component of LPI. Earlier editions of LPI, focused on both domestic & international surveys.

COMPONENTS OF LOGISTICS PERFORMANCE INDEX (LPI)

- Efficiency of customs & border management clearance
- Quality of trade and transport related infrastructure
- Ease of arranging competitively priced international shipments
- Competence and quality of logistics services
- Ability to track & trace consignments
- Frequency with which shipments reach consignees within the scheduled or expected delivery time.

3. PM e-Bus SEWA SCHEME

The Cabinet approved a bus scheme called "PM-e-Bus-Sewa" under which 10,000 e-buses will be rolled out on public-private partnership model. The government will pay the bus operator a fixed sum per km of operation. The scheme would have an estimated cost of ₹57,613 crore. While the Union government will provide only Rs20,000 crore, the remaining fund will come from state governments. In this 10-year duration scheme, electric buses will get priority across the selected cities.

The scheme entails two components:

Augmenting the city bus services (169 cities)	Green Urban Mobility Initiatives (181 cities)
• Augment city bus operations with 10,000 e-bus on PPP model. • Development of associated Infrastructure like depot infrastructure, substations etc. for e-buses.	• Green initiatives like bus priority, infrastructure, multimodal interchange facilities, common mobility card based automated fare collection system, charging infrastructure etc.

In this context, let us analyse the need for electric mobility and initiatives taken in this regard.

FAME SCHEME

Faster Adoption and Manufacturing of Hybrid & Electric Vehicles in India (FAME-II) is a subsidy scheme which was introduced by the government of India on April 1, 2019, for a period of three years, which was further extended for a period of two years up to March 31, 2024.

The three major components of the Scheme:

1) Demand Incentives:

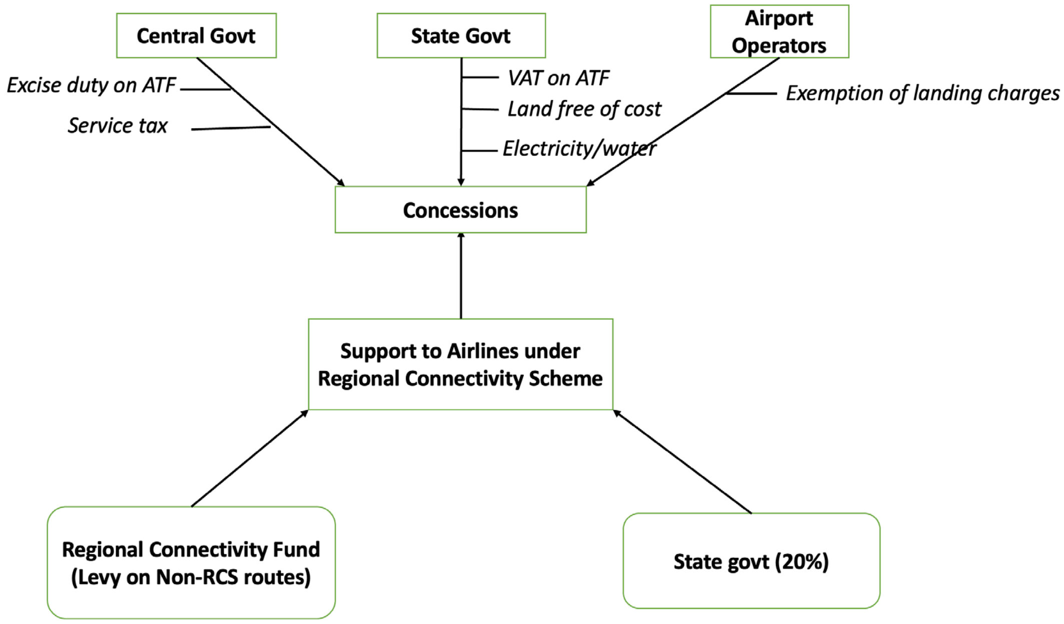
- To create demand for e-vehicles, incentives (Subsidies) are provided to the manufacturers, who in turn pass on the benefits to the final consumer.
- The scheme is exclusively for public and commercial transport in the segments of electric three-wheelers (e-3W), electric four-wheelers (e-4W) and electric buses. The benefit of the incentive is available to privately owned registered electric two-wheelers (e-2W).
- The incentives are tied to power of the battery used and final price of the vehicle.
- Localised content: To be eligible for the scheme, the manufacture is required to fit the vehicle with 50% of locally made parts by vehicle value.

2) ***Establishment of network of Charging Stations:*** 2500 charging stations to be established so that there will be availability of at least one charging station in a grid of 3 km x 3 km.

3) ***Publicity and IEC (Information, Education & Communication) activities***

4. REGIONAL CONNECTIVITY SCHEME

- Ministry of Civil Aviation has launched Regional Connectivity Scheme (RCS)-UDAN (Ude Desh ka Aam Nagrik) in 2016 to enhance regional air connectivity from unserved and underserved airports in the country and making air travel affordable to the masses.



- **Features of the scheme:**
    - Airfare cap at Rs.2500 for a one-hour journey of approximately 500 km.
    - The gap in costs and revenues, if any, will be compensated through Viability Gap Funding (VGF). For this purpose, A Regional Connectivity Fund (RCF) is created to fund the scheme through a levy on certain flights. States are expected to contribute 20 per cent to the fund.
    - Airlines are selected under the scheme based on reverse bidding.
    - Airline operators also receives other benefits like tax concessions on aviation turbine fuel and concessions on landing charges at airports.

5. InvITs

According to Sebi data, Rs 18,658 crore was collected through these emerging investment vehicles in the April-September period of 2023-24. This comprises Rs 12,753 crore through InvITs and the remaining Rs 5,905 crore via REITs.

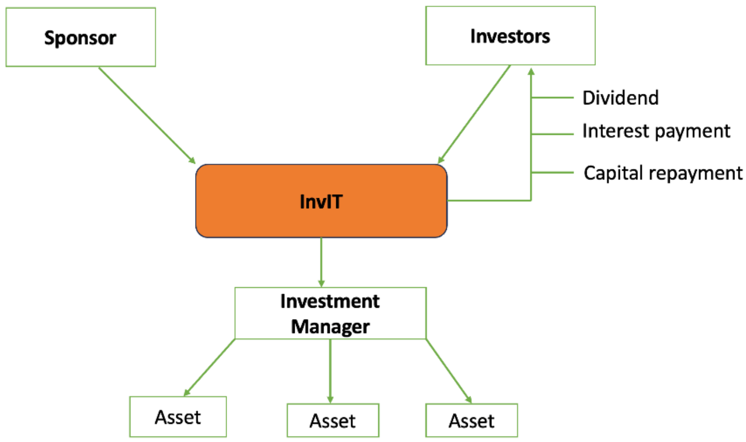
WHAT ARE InvITs?

Infrastructure Investment Trusts ('InvITs') are pooled investment vehicles similar to mutual funds which were introduced to make investment in infrastructure assets accessible to private and retail investors. InvITs invest in long-term infrastructure projects such as roads, gas pipelines, transmission lines, renewable assets, etc. ***They are regulated by SEBI.***

DESIGN AND FEATURES OF InvITs

The InvITs designed as a tiered structure with a sponsor setting up the InvIT which in turn invests into the eligible infrastructure projects either directly or via special purpose vehicles (SPVs).

- ***Who can Invest?***
    - The minimum subscription limit for InvITs is 1 lakh. Hence apart from institutional investors like Banks, Insurance companies, pension funds and sovereign wealth funds, Retail investors also can invest in InviTs. The investors receive units for their investment; hence they are also referred as Unit holders.



- Some part of the investment is used by the InvIT as loan while other portion is used as capital. Hence, the unit holders receive returns in the form of Dividend and Interest. ***Both the dividend and interest are taxed.***
- If the investor receives profit upon selling his units, Capital gains tax is imposed on any such gain.

- **Low Risk:**
  - As per the SEBI regulations***, InvITs must invest at least 80% of their assets in projects that are completed and revenue-generating***. This lowers the risk for investors as this reduces the typical risk associated with the infrastructure sector i.e., delay in completion, due to lack of regulatory approvals, poor project management etc.
  - ***InvITs and REITs are recognised as borrowers under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act***. This enables the investors, especially banks, to initiate action against the trustees of InvITs in case of any default.

6. SCHEME FOR SPECIAL ASSISTANCE TO STATES FOR CAPITAL INVESTMENT 2023-24

Department of Expenditure, Ministry of Finance, Government of India, has approved capital investment proposals of Rs. 56,415 crores in 16 States in the current financial year. Approval has been given under the scheme entitled 'Special Assistance to States for Capital Investment 2023-24'.

ABOUT THE SCHEME

- In view of a **higher multiplier effect of capital expenditure** and in order to **provide a boost to capital spending by States**, the scheme 'Special Assistance to States for Capital Investment 2023-24' was announced in the Union Budget 2023-24.
- Under the scheme, special assistance is being provided to the State Governments in the form of **50-year interest free loan** for capital investment projects up to an overall sum of Rs. 1.3 lakh crore during the financial year 2023-24.

COMPONENTS OF THE SCHEME

- **Part I:** It is the largest part having the allocation of Rs. 1 lakh crore. This amount has been **allocated amongst States in proportion to their share of central taxes & duties as per the award of the 15th Finance Commission**. Other parts of the scheme are either linked to reforms or are for sector specific projects.
- **Part II:** In this part of the scheme, an amount of Rs. 3,000 crores have been set aside for providing **incentives to States for scrapping of State Government vehicles** and ambulances, waiver of liabilities on old vehicles, providing tax concessions to individuals for scrapping of old vehicles and setting up of automated vehicle testing facilities.
- **Part III & IV:** This part aims at providing **incentives to States for reforms in Urban Planning and Urban Finance**. An amount of Rs. 15,000 crore is earmarked for Urban Planning Reforms, while additional Rs. 5,000 crore is for incentivising the States for making Urban Local Bodies creditworthy and improving their finances.
- **Part V:** This aims at **increasing the housing stock for the police personnel** and their families within the police stations in urban areas. An amount of Rs. 2,000 crore is earmarked for this purpose under the scheme.

- **Part VI:** Another objective of the Scheme is to promote national integration, **carry forward the concept of "Make in** India**" and promote the concept of "One District, One Product (ODOP)"** through construction of Unity Mall in each State. An amount of Rs. 5,000 crores have been set aside for this purpose under the scheme.
- **Part-VII:** of the Scheme, with an allocation of Rs. 5,000 crore is for providing **financial assistance to States for setting up libraries with digital infrastructure at Panchayat and Ward level** for children and adolescents.
- **Part VIII:** of the scheme **incentivises States for implementation of "Just-in-Time" release of Centrally Sponsored Schemes (CSS) funds by State Government** to vendors and beneficiaries using RBI's e-Kuber Model and for timely release of Central & State share of funds to Single Nodal Agency accounts.

CONDITIONS TO BE FULFILLED BY STATES

The scheme guidelines include mandatory conditions which the States need to fulfil in order to avail benefits under any Part of the Scheme. These are:

- **Full compliance with the official name of all CSSs** and any guidelines/instructions issued by the Government of India regarding branding of CSSs, in all schemes of all ministries. However, correct translation of the official name of CSSs in local language is permitted.
- **Integration of State treasuries with Public Finance Management System (PFMS)** and exchange of data between State treasuries and PFMS in respect of all State Linked Scheme for CSS in a state for which the state has received funds from the Central Government in the past 21 days.
- **Deposit of central share of interest earned in Single Nodal Agency accounts** till 31st March, 2023 in the Consolidated Funds of India and submission of certificate to this effect in the format, signed by the Finance Secretary of the State Government.

7. TAKEOUT FINANCING

National Bank for Financing Infrastructure and Development (NaBFID) plans to introduce takeout financing products to help finance projects and allow timely exits for commercial lenders.

WHAT IS TAKEOUT FINANCING?

- Take out financing scheme means a long-term lending institution in the infrastructure sector like the NaBFID is purchasing the infrastructure loan sanction given by a commercial bank from its book.
- This will relieve the commercial bank from locking assets in a long-term manner.
- Takeout financing offers a window to the banks to free their balance sheet from exposure to infrastructure loans, lend to new projects and also enable better management of the asset liability position.
- Hence, takeout financing enables financing longer term projects with medium-term funds.

8. REFORMS IN DOMESTIC GAS PRICING IN INDIA

Context: Based on the recommendations of Kirit Parekh Committee report, Ministry of Petroleum and Natural Gas (MoPNG) introduced comprehensive changes to the formula of Domestic Gas Pricing in India.

SALIENT FEATURES OF NEW DOMESTIC GAS PRICING FORMULA

- **Domestic Natural Gas Price (APM price)** will be 10% of Indian Crude Basket Price as defined by **Petroleum Planning and Analysis Cell (PPAC).**
- APM prices would be declared on monthly basis by PPAC on the last day of current month based on average of daily prices data of India Crude Basket price shall be taken for the period of 26th of previous month to the 25th day of current month.
- Applicability of this APM formula:
  - Gas produced by ONGC & OIL from their nomination fields will be subject to floor and ceiling price of \$4/MMBTU and \$6.5/MMBTU respectively. The ceiling will remain at this level for two years i.e., till 2025 and will then be revised by 0.25/MMBTU each year.

- However, 20% premium will be allowed in nomination fields if gas is produced from new wells or any well intervention. This gas will be separately from APM gas by MOPNG but will be subject to government's policy on commercial utilisation of natural gas.
- Gas produced from Production Sharing Contracts of NELP Blocks and Pre-NELP Blocks. However, floor and ceiling price will not be applicable to such APM price for gas.
- PPAC will maintain a portal for monitoring CNG/PNG consumer prices on a dynamic basis.

- **Indian Basket of crude oil** represents a derived basket comprising of sour grade (Oman & Dubai average) and sweet grade (Brent dated) of crude oil processed in Indian refineries in a ratio of 75.62: 24.38. Despite the increased imports of Russian crude oil by Indian refineries, Russian oil prices are not a part of this indicator.
- **Note:**
  - Domestic gas produced from Discovered Small Fields, Coal Bed Methane fields and North-Eastern Region and new gas discoveries after March 2019 under all regimes has been provided marketing freedom. (These players can sell this gas at the price of their choice).
  - Gas produced from High Pressure – High Temperature reservoirs, Deepwater and Ultra-Deepwater areas have been given marketing freedom subject to

ABOUT PETROLEUM PLANNING & ANALYSIS CELL (PPAC)

- PPAC was established as an attached office of MOPNG in 2002. It is a non-statutory body.
- PPAC is expected to assist Government of India in the following functions:
  - Maintenance of an information data bank on Oil & Gas Sector.
  - Analyzing trends in the international oil market & domestic prices.
  - Petroleum oil products demand forecasting
  - Conducting studies in the Oil & Gas and Energy Sector
  - Forecasting and evaluation of petroleum import & export trends
  - Provide inputs to Government particularly on pricing of petroleum products and administration of subsidy schemes including PMUY.
  - Determination & notification of Domestic Natural Gas price & HT—HP Gas price ceiling on six monthly basis as per Government guidelines.

9. URBAN INFRASTRUCTURE DEVELOPMENT FUND (UIDF)

In the budget FY 2023-24, Union Finance Minister declared the creation of a new fund called Urban Infrastructure Development Fund (UIDF) established through **Priority Sector Lending shortfall**. The proceeds of the UIDF were to be used by public agencies to create urban infrastructure in Tier 2 & Tier 3 cities.

ABOUT URBAN INFRASTRUCTURE DEVELOPMENT FUND (UIDF)

- UIDF is managed by National Housing Bank and loans will be sanctioned by NHB to States.
- Normative allocation of funds to respective states/UTs will be based on population of eligible cities of each states/UT. State wise allocation of corpus shall be based on urban population in the cities as per latest census data (Census 2011) as:

$$\textit{Ratio of State wise corpus} = \frac{\textit{Urban population in state in eligible towns or cities}}{\textit{Total population in eligible town or cities in the country}}$$

- Borrowings under UIDF shall be governed by Article 293(3) of Indian Constitution. Hence, Finance Department of respective States shall be nodal agency for all activities under UIDF.
- States shall endeavor to utilize minimum 5% of allocated corpus for projects generating user charges or revenue sufficient to at least meet their O&M expenditure.

OBJECTIVE OF UIDF

- Supplement efforts of State Governments/UTs for urban infrastructure development work implemented through Public/State Agencies, Municipal Corporations, Urban Local Bodies in Tier 2 and Tier 3 cities by providing a stable and predictable source of financing.
- Address the problem of skewed regional development.
- Allows for pooling of resources and expertise, enabling creation of comprehensive infrastructure solutions that addresses the unique needs of each urban area.
- Stable and predictable source of finance under UIDF will allow holistic planning by States to create Future Ready Tier 2 and Tier 3 cities leading to drive economic growth in the years ahead.

TARGET CITIES OF UIDF

- UIDF will focus on cities/Urban local bodies in the population group of 50,000 and 9,99,999 as per latest census data, covering about 40% of urban population.
  - **Tier 2 cities:** 459 towns with population between 1 lakh to 9,99,999 as per latest census data.
  - **Tier 3 cities:** 580 towns with population between 50,000 and 99,999 as per latest census data.
- UIDF would focus on mid-sized cities with the potential to develop them into regional economic hubs (Metropolitan and mega cities are outside the scope of UIDF).

ELIGIBLE ACTIVITIES UNDER UIDF

Eligible activities for UIDF will be aligned to missions and programs of Ministry of Housing and Urban Affairs.

List of eligible activities under UIDF are:

- Water Supply & Sanitation (new/augmentation/rehabilitation)
- Construction of drains & storm water drains
- Sewerage network and sewage treatment plants
- Comprehensive projects of pay and use toilets, operated and managed by private sector.
- Solid Waste Management (new/augmentation)
- Construction of roads (excluding maintenance works) with provision of all utilities to be taken through an underground conduit, over bridges, grade separators, underpasses
- Local area plan for decongestion
- Electric/gas crematorium
- Comprehensive area development programs:
  - Local area plan for decongestion
  - Heritage conservation
  - Transit oriented development for creating dense, mixed-use developments near public transportation.
  - Town planning schemes for greenfield development
  - Parks with open Gym not involving major construction work.
- **Note:** Proceeds from UIDF will not be used for maintenance works or for administrative/establishment expenses.

TERMS & CONDITIONS

- **Eligible Loan Amount** for financing under UIDF will be based on size of project and geographical location of the project. Percentage of project cost that can be considered for various projects are as follows: (Minimum loan amount Rs. 5 crore (1 crore for North East and Hilly States) and Maximum loan amount Rs. 100 crores).

Size of project	Other than NE & Hilly States	NE & Hilly States
5 - 10 crores (1 - 10 for Northeast & Hilly States	90%	95%
10 - 50 crores	85%	90%
50 - 100 crores	75%	85%

- **Clubbing of projects:** State Governments may club small sized project in single Detailed Project Report (DPR).
- **Rate of Interest:** Interest rate on deposits placed by banks and loans under UIDF shall be decided by RBI. Lending rate on UIDF loan is linked to Bank Rate prevailing at the time of deposit of funds by banks i.e., Bank Rate minus 1.5%.

7 CHAPTER INCLUSIVE GROWTH

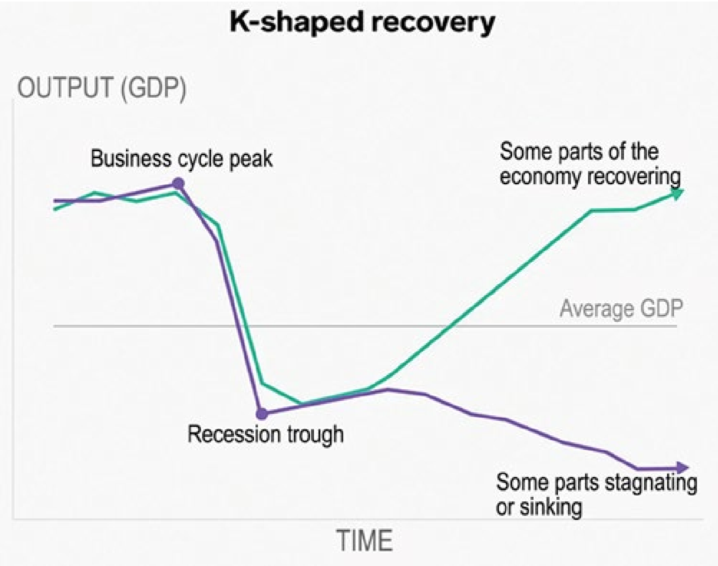
1. K-SHAPED ECONOMIC RECOVERY IN INDIA

State Bank of India's report has rejected the claims of K-shaped economic recovery in India because income inequality has declined in India with a higher tax base and a shift in taxpayers from lower income to higher income tax bracket.

DIFFERENT TYPES OF ECONOMIC RECOVERY

K-shaped

- It is a recovery in which the performance of different parts of the economy diverges like the arms of the letter "K."
- In a K-shaped recovery, some parts of the economy may experience strong growth while others continue to decline.

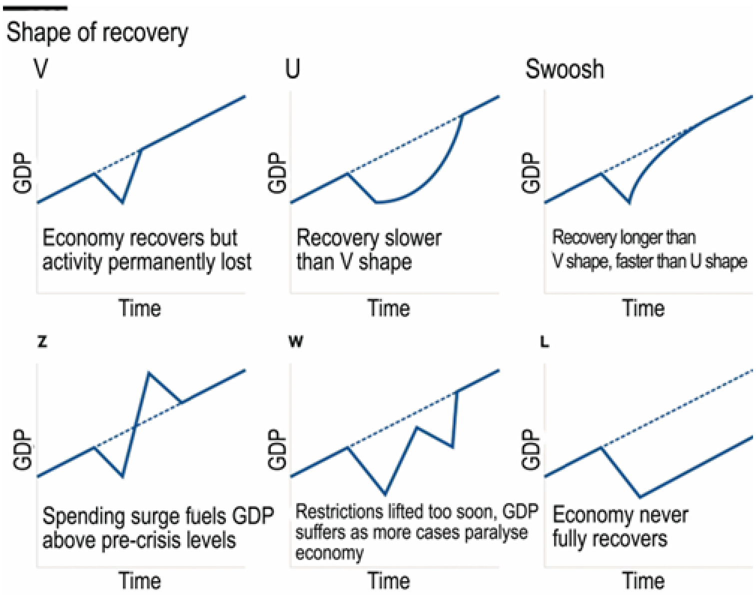


V-shaped

- It is characterised by a quick and sustained recovery in measures of economic performance after a sharp economic decline.
- Because of the speed of economic adjustment and recovery in macroeconomic performance, a V-shaped recovery is a best-case scenario given the recession.

U-shaped

- U-shaped recoveries happen when a recession occurs and the economy does not immediately bounce back, instead tumbling along the bottom for a few quarters.
- It is similar to a V-shaped recovery but more prolonged.



W-shaped

- A W-shaped recovery is when an economy passes through a recession into recovery and then immediately turns down into another recession.
- Hence, it is also known as a double-dip recession.
- W-shaped recessions can be particularly painful because the brief recovery that occurs can fool investors into getting back in too early.

L-shaped

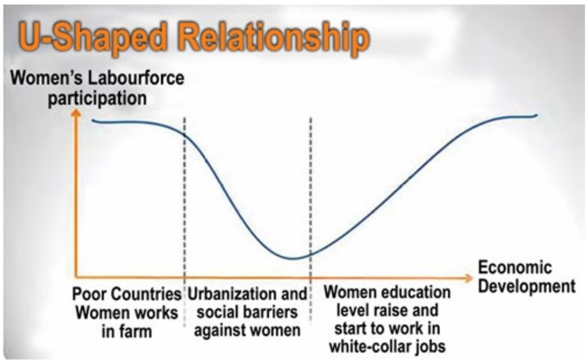
- It occurs when, after a steep recession, the economy experiences a slow rate of recovery.
- L-shaped recoveries are characterised by persistently high unemployment, a slow return of businesses' investment activity, and a sluggish rate of growth in economic output.
- They have been associated with some of the worst economic episodes throughout history.

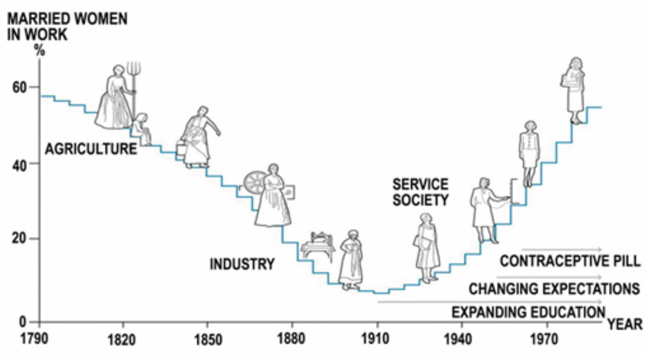
2. NOBEL PRIZE IN ECONOMICS 2023

Claudia Goldin bagged this year's Nobel prize in economics for her pioneering research that advances our understanding of labour market outcomes for women.

GOLDIN'S 'U'- SHAPED CURVE HYPOTHESIS ON FEMALE LABOUR PARTICIPATION RATE

- Claudia Goldin (1994) had stated that Female labour force participation rate (FLFPR) exhibits a U-shape during the process of economic development. The downward trend in 'U' was due to rise in Household incomes because of expansion of markets and shift from farm activities to factory work. However, when educational level rises and economy moves towards service sector, as value of women's time in the market increases further, they move back into the paid labour force.





- **Gender inequality at work:** Goldin's findings also showed that despite increasing FLPR with the rise of service sector, the gender gap in earnings remained high—in fact, the difference between men and **women** workers in the same occupation rose with the birth of the first child.

GENDER INEQUALITIES IN EMPLOYMENT

INDIA'S EXPERIENCE

Despite experiencing structural changes such as decline in fertility rates and expansion of women's education, Indian FLFPR has been stagnated. While NSSO found that 25.9% of all women worked in 1999-2000, female labour force participation rate in 2020-21, according to PLFS report, is only 25.1%.

3. MAHILA SAMMAN SAVINGS CERTIFICATE, 2023

Union Budget 2023-24 announced a one-time new small savings scheme, Mahila Samman Savings Certificate which will be made available for a two-year period up to March 2025.

Objective	To promote saving and investment among women and girls.
Eligibility	Any Indian woman, irrespective of age, has the opportunity to open an account and invest under the scheme.
Deposit limit	The cumulative deposit across all accounts for a single woman is capped at ₹2 lakhs.
Interest rate	7.5%
Maturity	Deposit shall mature on completion of two years from the date of deposit.

4. HOUSEHOLD CONSUMPTION EXPENDITURE SURVEY (HCES)

National Sample Survey Office (NSSO) has released the summary results of Household Consumption Expenditure Survey (HCES) 2022-23 in a form of factsheet. The detailed report of the survey is expected to be released in the near future.

ABOUT THE SURVEY

- The Household Consumption Expenditure Survey (HCES) is a **quinquennial survey** (conducted every five years) by **National Sample Survey Office (NSSO)**, Ministry of Statistics and Programme Implementation.
- It **collects information about the consumption of goods and services** by the households.
- It also collects some auxiliary **information on household characteristics and demographic particulars of the households**.
- This **information is invaluable to policymakers** because of its **wide coverage**, covering the whole of the Indian Union (except a few inaccessible villages in the Andaman and Nicobar Islands) and has a **big sample size comprising 2.6 lakh households.** Of these, 1.5 lakh are from rural areas and 1.1 lakh from urban areas.
- The latest survey was **released after a decade** because the previous household consumption survey conducted in 2017-18 was scrapped.

MAJOR FINDINGS

- **<u>Decline in Food Spending:</u>** Indians have been consistently spending less on food. This marks a significant shift in spending patterns.
- **<u>Moving Beyond Cereals:</u>** Expenditure on cereals has reduced.
- **<u>Spending More on Foods having High-value & Nutritional Items:</u>** on items such as eggs, fish and meat, and fruits and vegetables.
- **<u>Lowering Rural-Urban Divide:</u>** Another positive outcome of the survey is that the difference between how much rural and urban households are spending has decreased. This means that consumption expenditure in rural areas has been growing at a faster rate than urban areas during the 11-year period.
- **<u>Rising Inequality:</u>** Rural and urban households might be spending higher but the difference between the bottom-most and the top-most strata is alarming.

5. NATIONAL MULTIDIMENSIONAL POVERTY INDEX, 2023

India aims to reduce poverty in all its forms by at least half by 2030 (SDG target 1.2). To measure India's progress in this respect, NITI Aayog has developed an indigenised index to monitor and address multidimensional poverty. The baseline edition of the national multidimensional poverty index was launched in 2021. This present second edition of National MPI has been developed based on National Family Health Survey-5 (NFHS-5).

ABOUT THE SECOND EDITION

- The National Multidimensional Poverty Index: A Progress Review 2023 presents the second edition of the national MPI and is a follow-up to the Baseline Report published in November 2021.
- It provides multidimensional poverty estimates for India's 36 States & Union Territories, along with 707 administrative districts across 12 indicators of the national MPI.
- These estimates have been computed using data from the 5th round of the NFHS (NFHS-5) conducted in 2019-21, employing the same methodology as the baseline report.
- This edition also presents the changes in multidimensional poverty between the survey periods of NFHS-4 (2015-16) and NFHS-5 (2019-21).

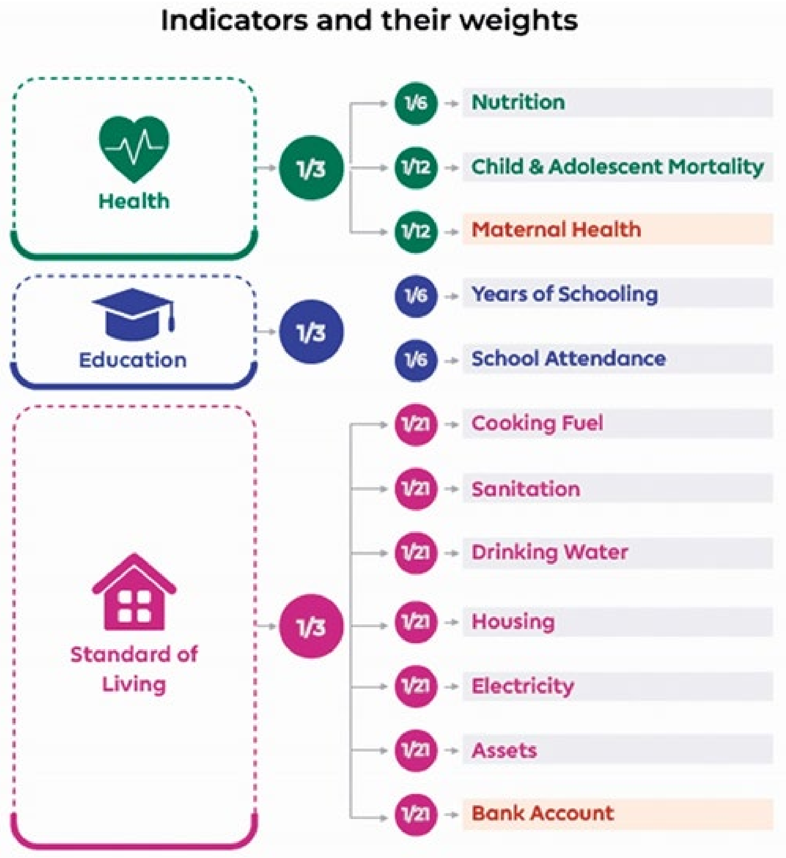
INDICATORS AND WEIGHTS USED IN MPI

- India's national MPI has **<u>three equally weighted dimensions – Health, Education, and Standard of living – which are represented by 12 indicators.</u>** These are depicted by the following graphic:

SUB-INDICES OF THE NATIONAL MPI

The indices of the national MPI comprise:

- **Headcount Ratio:** Proportion of multidimensionally poor in the population, which is arrived at by dividing the number of multidimensionally poor reasons by total population.
- **Intensity of Poverty:** Average proportion of deprivations which is experienced by multidimensionally poor individuals. To compute intensity, the weighted deprivation scores of all poor people are summed and then divided by the total number of poor people.
- **MPI value is arrived at by multiplying the headcount ratio (H) and intensity of poverty (A)**, reflecting both the share of people in poverty and the degree to which they are deprived (MPI = H X A).



6. CRITERIA FOR DEVELOPED COUNTRY

Government aims to make India a developed country by 2047.

CRITERIA FOR DEVELOPED COUNTRIES

There is no one unique commonly accepted definition of developed country. Different Institutions use different criteria for classifying countries.

1. **World Bank Methodology: (**Based on Income Criteria)

- World Bank categories countries into four groups: (a) Low Income Countries (b) Lower Middle-Income Countries (c) Upper Middle-Income Countries and (d) High Income Income Countries.
- These classifications are based on the Gross National Income per capita of the previous year. GNI measures are expressed in US Dollars and are determined using conversion factors derived from the Atlas Method.
- These classifications are updated each year on July 1.
- Classification thresholds for different levels are revised to keep income calculations threshold fixed in real terms, they are adjusted annually for inflation using the Special Drawing Rights deflator (a weighted average of GDP deflators of China, Japan, UK, USA and EU).
- **Atlas Method:** For cross-national comparisons, estimates are converted from local currency units (LCU) to current U.S. dollars using the Atlas method, referring to a former World Bank publication called the Atlas of Global Development. The Atlas method smooths exchange rate fluctuations using a three-year moving average, price-adjusted conversion factor.

	Low Income	Lower-middle Income	Upper-middle Income	High Income
July 1, 2023 – for FY24 (new)	<=1,135	1,136 – 4,465	4,466 – 13,845	> 13,845

July 1, 2022 – for FY23 (previous)	<=1,085	1,086 – 4,255	4,256 – 13,205	> 13,205

- Thus, if a country has a per-capita income of more than $13,845 in 2023 it will be classified as a High-Income country in 2023. In 2022, India's per capita income stood around $2410.

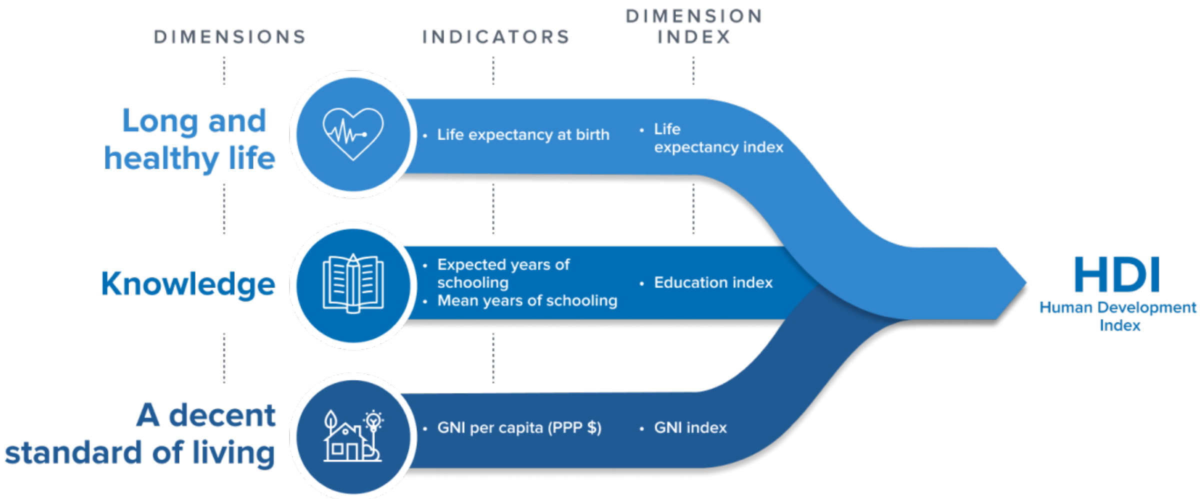
2. **UN's Methodology (**Published in World Economic Situation and Prospects 2024 Report)

- Classifies all countries into three categories: (a) Developed economies (b) Economies in transition (c) Developing Economies. This classification aims to reflect the basic economic country conditions.

3. **International Monetary Fund (IMF)** classifies countries into two major groups: advanced economies (AEs) and emerging market and developing economies (EMDEs) based on three criteria: (i) per capita gross domestic product (GDP); (ii) export diversification; and (iii) global financial integration. As PCI is the only common criterion and no PCI threshold is given for the advanced country category by the IMF, the lowest PCI recorded (US$ 18,427 for Croatia) among the AEs in 2022 is considered in this article as a benchmark to evaluate a country as an 'advanced' economy.

NON-INCOME CRITERIA

1. Human Developed Index: Measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living. Released by UNDP and Developed by Economists Amartya Sen and Mahbub-ul-Haq (Pakistan).



7. PERIODIC LABOUR FORCE REPORT 2023

Annual Periodic Labour Force Report is released by the National Statistical Organisation (NSO) under MoSPI.

SALIENT FEATURES OF THE REPORT

Rising Labour Force Participation Rate (LFPR): LFPR has shown a rising trend from 49.8% in 2017-18 to 57.9% in 2022-23. This was primarily driven by surge in rural female LFPR.

Unemployment Rate: Unemployment rate has declined substantially from 6% in 2017-18 (When the first round of the survey was conducted) to 3.2% in 2022-23. The same trend was visible across male and female workers in rural and urban areas.

Youth Employment: Youth (15-29 years age) unemployment rate has declined from 17.8% in 2017-18 to 10% in 2022-23. (Note: Youth Unemployment has been way more than general unemployment rate, despite a decline in youth unemployment in recent times). Also, Youth LFPR has expanded from 38.2% in 2017-18 to 44.5% in 2022-23. WPR in this age group has increased from 31.4 per cent in 2017-18 to 40.1 per cent in 2022-23. This implies an additional 35 million people have found work, even though the population in that segment has increased only by 17 million.

RISING FEMALE LFPR

- India's Female LFPR started to decline sharply from 2000 onwards, despite a spike in the educational achievements of females.
- This was evidenced by doubling of female enrollment in from 24.5 per cent in 2004-05 to 58.2 per cent in 2021-22, and the female GER in higher education quadrupled from 6.7 per cent in FY2001 to 27.9 per cent in FY21.
- However, Female Labour Force Participation Rate has been on a rising trajectory in the last 6 years now. FLFPR has been rising from 23.3 per cent in 2017-18 to **37 per cent in 2022-23.**
- While urban FLFPR has also been rising, the rural FLFPR has seen a sharp growth. The rise in rural female LFPR has been accompanied by a rise in the share of self-employment and agriculture among working women, points which deserve greater scrutiny.
- Rising rural female employment has contributed by both own account worker/employer category (rising from 19% in 2017-18 to 27.9% in 2022-23) and unpaid helper category ((share rising from 38.7 per cent to 43.1 per cent, which is a relatively smaller rise), indicating a rising contribution of females to rural production.
- Composition of the female workforce has been tilting towards agriculture, that of the male workforce is tilting away from agriculture. rise in the share of agriculture in the rural female workforce from 73.2 per cent in 2017-18 to 76.2 per cent in 2022-23 coincides with a more significant decline in the share of agriculture in the rural male workforce from 55 per cent in 2017-18 to 49.1 per cent in 2022-23.
- Within the rural female workforce, there has been a structural shift marked by a rising proportion of skilled agriculture labour (up from 48 per cent in 2018-19 to 59.4 per cent in 2022-23) and a decline in the share of elementary agriculture labourers using considerable physical effort, from 23.4 per cent to 16.6 per cent over the same period.

Table: Annual Labour Market Indicators (usual status, age 15 years and above)

(Values in per cent)

		Rural		Urban		Rural + Urban	
		2017-18	**2022-23**	**2017-18**	**2022-23**	**2017-18**	**2022-23**
Male	LFPR	76.4	80.2	74.5	74.5	75.8	78.5
	WPR	72.0	78.0	69.3	71.0	71.2	76.0
	UR	5.7	2.7	6.9	4.7	6.1	3.3
Female	LFPR	24.6	41.5	20.4	25.4	23.3	37.0
	WPR	23.7	40.7	18.2	23.5	22.0	35.9
	UR	3.8	1.8	10.8	7.5	5.6	2.9
Person	LFPR	50.7	60.8	47.6	50.4	49.8	57.9
	WPR	48.1	59.4	43.9	47.7	46.8	56.0
	UR	5.3	2.4	7.7	5.4	6.0	3.2

Source: Annual Periodic Labour Force Survey (PLFS)

8. COMPETITION (AMENDMENT) ACT, 2023

- Parliament cleared the Competition (Amendment) Bill, 2023, paving the way for the government to enact some significant changes to the country's antitrust regime, including swifter clearances for mergers and acquisitions (M&As).

THE COMPETITION ACT

- The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, follows the philosophy of modern competition laws.
- The Act prohibits anti-competitive agreements, abuse of dominant position by enterprises and regulates combinations (acquisition, acquiring of control and M&A), which causes or likely to cause an appreciable adverse effect on competition within India.

COMPETITION COMMISSION OF INDIA

- The objectives of the Competition Act are sought to be achieved through the Competition Commission of India, which has been established by the Central Government with effect from 14th October 2003.
- **Composition:** It shall consist of a Chairperson and 6 Members appointed by the Central Government.
- It is the duty of the Commission to eliminate practices having adverse effects on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India.
- The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

THE COMPETITION (AMENDMENT) ACT, 2023: KEY FEATURES

- **Regulation of combinations based on transaction value:** The Act prohibits any person or enterprise from entering into a combination which may cause an appreciable adverse effect on competition. Combinations imply mergers, acquisitions, or amalgamation of enterprises. The prohibition applies to transactions where parties involved have: (i) cumulative assets of more than Rs 1,000 crore, or (ii) cumulative turnover of more than Rs 3,000 crore, subject to certain other conditions. **The Amendment expands the definition of combinations to include transactions with a value above Rs 2,000 crore.**
- **Time limit for approval of combinations:** The Act requires the CCI to pass an order on an application for approval of combinations within 210 days. **The Amendment reduces this time limit to 150 days.**
- **Definition of control for classification of combinations:** For classification of combinations, the Act defines control as control over the affairs or management by one or more enterprises over another enterprise or group. **The Amendment modifies the definition of control as the ability to exercise material influence over the management, affairs, or strategic commercial decisions**.
- **Anti-competitive agreements:** Under the Act, anti-competitive agreements include any agreement related to production, supply, storage, or control of goods or services, which can cause an appreciable adverse effect on competition in India. Any agreement between enterprises or persons, engaged in identical or similar businesses, will have such adverse effect on competition if it meets certain criteria. These include: (i) directly or indirectly determining purchase or sale prices, (ii) controlling production, supply, markets, or provision of services, or (iii) directly or indirectly leading to collusive bidding. **The Amendment adds that enterprises or persons not engaged in identical or similar businesses shall be presumed to be part of such agreements, if they actively participate in the furtherance of such agreements.**
- **Settlement and Commitment in anti-competitive proceedings:** Under the Act, CCI may initiate proceedings against enterprises on grounds of: (i) entering into anti-competitive agreements, or (ii) abuse of dominant position. Abuse of dominant position includes: (i) discriminatory conditions in the purchase or sale of goods or services, (ii) restricting production of goods or services, or (iii) indulging in practices leading to the denial of market access. **The Amendment permits CCI to close inquiry proceedings if the enterprise offers: (i) settlement (may involve payment), or (ii) commitments (may be structural or behavioural in nature). The manner and implementation of the framework of settlement and commitment may be specified by CCI through regulations.**
- **Decriminalisation of certain offences: The Amendment changes the nature of punishment for certain offences** from **imposition of fine to penalty.** These offences include failure to comply with orders of CCI and directions of Director General with regard to anti-competitive agreements and abuse of dominant position.

9. LESSER PENALTY PLUS REGIME NOTIFIED BY COMPETITION COMMISSION OF INDIA

Competition Commission of India (CCI) has implemented regulations for the 'Lesser penalty plus' mechanism to prevent cartelisation. The Lesser Penalty Plus mechanism is also popularly known as the **'leniency-plus regime'.**

ABOUT LENIENCY PLUS REGULATION

- Leniency Plus regime allows companies involved in cartelisation to **report other cartels and receive reduced penalties.**
- The CCI can **reduce penalties by up to 30%** for involvement in the first cartel **and up to 100%** for newly-disclosed cartels.
- The amount of penalty reduction will be **based on the evidence provided** by the applicant.

WHAT IS A LENIENCY & LENIENCY PLUS REGIME?

- The **current Competition Act 2002 already has a leniency programme**, which allows companies that provide sufficient information about a cartel in which they have participated to receive partial immunity from penalty.
- Under the **existing leniency (lesser penalty rule) framework**, CCI may impose a lesser penalty on a person involved in a cartel if such person has made a full and true disclosure in respect of alleged violations and such disclosure is vital.
- **Under 'Leniency Plus',** a cartelist who is cooperating with CCI for leniency, **can disclose the existence of another cartel in an unrelated market** in the course of original leniency proceedings in exchange for an additional reduction in penalty.
- Leniency Plus is a proactive antitrust enforcement strategy aimed at attracting leniency applications by **encouraging companies already under investigation for one cartel to report other cartels unknown to the competition regulator**.
- **<u>Benefits:</u>** This leniency plus regime is expected to further incentivize applicants to come forward with disclosures regarding multiple cartels, thereby enabling the CCI to save time and resources on cartel investigation.

WHAT IS A CARTEL?

- In India, **cartelisation is a civil offence** prohibited under the Competition Act, 2002.
- **Section 2(c) of the Competition Act, 2002 defines a cartel** as including an association of producers, sellers, distributors, traders or service providers who, by an agreement amongst themselves, limit control or attempt to control the production, distribution, sale or price of, or trade in, goods or provision of services.

WHAT KIND OF ACTIVITIES ARE PROHIBITED?

Section 3(3) of the Competition Act, 2002 is the specific substantive provision which prohibits anti-competitive agreements in India, including horizontal agreements (and cartels), between enterprises that:

- **Directly or indirectly determine purchase or sales prices**;
- **Limit or control** production, supply, markets, technical development, investment or the provision of services;
- **Allocate geographic markets or customers**; or
- **Directly or indirectly result in bid rigging or collusive** bidding**.** Such agreements are presumed to have an AAEC and are consequently void.

10. WORLD HAPPINESS REPORT

- The report is published by the UN Sustainable Development Solutions Network.
- The World Happiness Report reflects a worldwide demand for more attention to happiness and well-being as criteria for government policy. It reviews the state of happiness in the world today and shows how the science of happiness explains personal and national variations in happiness.
- It is released on International Day of Happiness, observed on March 20, the report ranks global happiness-based survey data from people in over 150 countries.
- It ranks countries on happiness which is based on three preceding years' data of their average life evaluations.
- The ranking uses six key factors to measure happiness — social support, income, health, freedom, generosity, and absence of corruption.

- The report once again lists many of the same Nordic countries in the top spots. For the sixth year in a row, Finland has been crowned as the happiest nation. While Denmark is at number two, followed by Iceland at number three.
- According to the report, India ranks at 125th position out of 136 countries, making it one of the least happy countries in the world. It even lags its neighbouring nations like Nepal, China, Bangladesh and Sri Lanka.
- At the very bottom of the list is Afghanistan.

11. GROWTH HUB PROGRAM

NITI Aayog has started the Growth Hub Program focused on developing city regions as growth hubs.

ABOUT GROWTH HUB PROGRAM

- To leverage urbanisation for economic growth, NITI Aayog has conceived developing city-regions as growth hubs.
- The program endeavours to forge a robust economic growth strategy for city-regions across India and prepare a roadmap for achieving the same.
- Under the initiative, NITI Aayog will work in close collaboration with the State governments.
- During the initial stage, four city regions will be taken up on a pilot basis to develop a template for devising an economic strategy. Later, 16 more cities will be taken up.
- The economic strategy template will act as the model strategy for other city-regions across the country for achieving desired economic targets.
- Economy growth strategy for cities: Under the program, a roadmap for developing economic growth strategy will be developed for each city region.
- For developing these following activities will be taken up:
    - Comprehensive baseline assessment of city region's economy
    - SWOT analysis for understanding the strengths and challenges of the region
    - Identification of growth drivers, setting economic goals
    - Designing policy enablers
    - Proposing governance structure for projectization of proposed strategies
- Initial focus cities: Mumbai, Surat, Vishakhapatnam have been identified.

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8 CHAPTER AGRICULTURE

1. DEMAND FOR LEGALISATION OF MSP

Farmers organisations have been demanding legalisation of Minimum Support Price Regime in India.

WHAT IS MINIMUM SUPPORT PRICE?

- Minimum Support Price (MSP) is a form of market intervention by the Government of India to ensure agricultural producers against any sharp fall in farm prices.
- **Announced by Cabinet Committee on Economic Affairs at the beginning of the sowing season** for 22 mandated crops and fair and remunerative price (FRP) for sugarcane based on the recommendations of the **Commission for Agricultural Costs and Prices (CACP).**
- Price fixed by Government of India to protect the producer – farmers – against excessive fall in price during bumper production years. They are a guaranteed price for farmer's produce from the Government.
- List of crops are as follows: -
    - Cereals (7) – paddy, wheat, barley, jowar, bajra, maize and ragi
    - Pulses (5) – gram, arhar/tur, moong, urad and lentil
    - Oilseeds (8) – groundnut, rapeseed/mustard, toria, soyabean, sunflower seed, sesamum, safflower seed and nigerseed
    - Raw cotton
    - Raw jute
    - Copra
    - De-husked coconut
    - Sugarcane (Fair and remunerative price)
    - Virginia flu cured (VFC) tobacco

ORIGIN OF MSP IN INDIA

- In the early 1960s, India was facing an enormous shortage of cereals. In this regard, new agricultural policies were born marking the start of the Green Revolution.
- In 1964, the government set up the **Food Corporation of India (FCI)** to procure food grains from farmers at remunerative prices, and through the public distribution system distribute them to consumers and maintain buffer stock for food security.
- To buy food grains, there had to be a policy on pricing. In 1965, an Agricultural Prices Commission was set up to advise on the pricing policy for agricultural commodities and its impact on the economy.
- It was then that the Price Support Policy of the Government came in, providing a fool proof solution to agricultural producers against a sharp fall in farm prices. The minimum guaranteed prices are fixed to set a floor below which market prices cannot fall. If no one else buys it, the government will buy the stock at this minimum guaranteed price. This is what came to be known as the minimum support price or MSP.
- CACP is a non-statutory recommendatory body. Currently, the Commission comprises a Chairman, Member Secretary, one Member (Official) and two Members (Non-Official). The non-official members are representatives of the farming community and usually have an active association with the farming community. The body came into existence in 1965 when it was known as Agricultural Prices Commission. Agricultural Prices Commission was renamed as CACP in 1985.

DETERMINATION OF MSP IN INDIA

Factors considered:

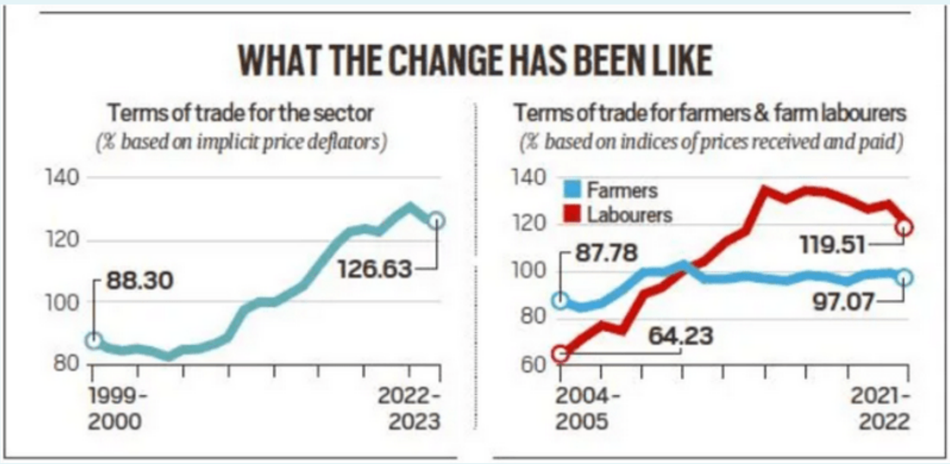
- Cost of production
- Changes in input prices
- Input-output price parity.
- Trends in market prices
- Demand and supply.
- Terms of trade between agriculture and non-agriculture
- Inter-crop price parity
- Effect on industrial cost structure.
- Effect on cost of living.
- Effect on general price level.
- International price situation
- Parity between prices paid and prices received by the farmers.
- Effect on issue prices and implications for subsidy.

Different methodologies may be used to calculate the MSPs. These are

- **A2 Approach,** which includes cost of inputs such as seeds, fertilizer, labour;
- **A2+FL Approach**, which includes A2 and the implied cost of family labour (FL); and
- **C2 Approach**, which includes the implied rent on land and interest on capital assets and A2+FL.

TERMS OF TRADE

- Terms of trade, specifically, the terms of trade between agriculture and industry are the ratio of agricultural prices to industrial prices, both measured as price indices.
- ToT can be calculated using so-called implicit price deflators. Gross Value Added (GVA) — the value of all goods and services produced in an economy minus the value of their inputs consumed during a given year, net of product taxes and subsidies — is estimated at both current and constant prices. Current prices are price levels for the given year, while constant prices are those that prevailed during a fixed "base" year.
- unfavourable terms of trade in agriculture basically shows that farmers are paying higher price for their inputs which includes diesel, fertilisers and also for consumption services such as health and education in comparison to the price that they receive by selling their produce.



- **NOTE: The pricing of sugarcane is governed by the statutory provisions of the Sugarcane (Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955. So, there is a statutory binding on the sugar factories to pay the FRP declared by the government each year.**

2. PULSES

India is set to become the world's largest producer of lentil (masoor) during the 2023-24 crop year on account of higher acreage. Despite being among the world's top five lentil growers, second only to Canada, it depends on imports to meet its domestic demands.

ABOUT PULSES

- Pulses are annual leguminous crops yielding between one and 12 grains or seeds of variable size, shape and colour within a pod, used for both food and feed.
- **Importance:**
  - **High Protein Content:** Pulses are **20 to 25 percent protein by weight** which is double the protein content of wheat and three times that of rice.
  - **Nitrogen Fixation:** Besides serving as an important source of protein for a large portion of the global population, pulses contribute to healthy soils and climate change mitigation through their nitrogen-fixing properties.
- India is the **largest producer (25% of global production)**, **consumer (27% of world consumption)** and **importer (14%)** of pulses in the world.
- **Major Pulses Grown & Consumed in India:** Bengal Gram (Desi Chickpea/Desi Chana), Pigeon Peas (Arhar/Toor/ Red Gram), Green Beans (Moong Beans) etc.
- Pulses account for around **20 percent of the area under food grains** and contribute around 7-10 per cent of the total food grains production in the country.
- Though pulses are grown in both Kharif and Rabi seasons, **Rabi pulses contribute more than 60 per cent of the total production.**
- **Gram is the most dominant pulse having a share of around 40 per cent in the total production** followed by Tur/Arhar at 15 to 20 per cent and Urad/Black Matpe and Moong at around 8-10 per cent each.
- Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh and Karnataka are the **top five pulses producing States.**

3. NATURAL RUBBER

Union government has increased the allocation **sustainable and inclusive development of the natural rubber sector scheme** for the next two financial years (2024-26).

- India is the **third largest producer**, **fourth largest consumer** of natural rubber in the world.
- Major rubber producing states include **Kerala, Tamil Nadu, Tripura, Assam.**

ABOUT SUSTAINABLE AND INCLUSIVE DEVELOPMENT OF NATURAL RUBBER SECTOR

Nodal Ministry	Ministry of Commerce and Industry
Implementing Agency	Rubber Board
Objective and Features	To enhance rubber production and productivity through: • Expanding rubber plantation in non-traditional regions including the North-East. • Research to evolve appropriate technologies for rubber cultivation • Training and extension services.
Mechanism	Rubber Board provides • **subsidies for new planting and replanting** (of senile plantations) to growers. • Quality planting material • Promoting Rubber Producer Societies (RPS)

	• provides assistance for rain guarding to increase number of tapping days and provides assistance for prevention of diseases in rubber plantations.

4. FERTILIZER SUBSIDIES

Fertilizers provide key nutrients (N, P and K) to the soil. Important fertilizers are Urea (N-based), DAP (P-based) and MOP (K-based). With the objective of enhanced agricultural growth, the Government of India has been providing subsidized fertilizers to the farmers since 1970s. Over the period Govt has devised separate mechanisms for Urea(N) Subsidy and Non urea (P, K) fertilizer subsidy.

- **Subsidy mechanism for Urea:**
    - ***Cost-Plus method***- Under this method, The MRP of urea is statutorily fixed by the Government of India and the difference between MRP and Cost of production is provided to the manufacturing company as a subsidy. Different amounts are given to different manufacturers based on their Cost of production.
    - Since this method encourages the fertilizer companies to remain inefficient, the new urea policy (2015) addressed this anomaly.
    - Under New urea policy (2015) all the gas-based urea manufacturing plants are divided into three groups and a specific energy norm is fixed for each group. Urea plants falling in same group will be getting the same amount of subsidy irrespective of their actual cost of production (actual consumption of energy). This will force plants to become more energy efficient.
- **Subsidy mechanism for Non-urea (P, K) Fertilizers**:
    - ***Nutrient-based subsidy (NBS)-*** The market prices of these fertilizers are deregulated. Manufacturers are free to decide the market price at which they want to sell and they receive a fixed subsidy from the government based on the amount of nutrient (N, P & K) present in each amount of fertilizer. NBS to be paid on each nutrient namely 'N,' 'P,' 'K' and 'Sulphur'(S) would be decided (per kg) annually by the govt. NBS, so decided, would be converted into a subsidy per tonne for each subsidized fertilizer.
    - Under NBS policy, freight cost is also reimbursed to the fertilizer companies on account of the movement of P&K fertilizers.

DBT IN FERTILIZERS

- The DBT model in fertilizers is different from the conventional system of DBT being implemented in LPG.
- Under this, farmers would continue to get fertilizer at a subsidised price whereas the fertilizer companies receive subsidy only after the fertilizers are sold to farmers by the retailers through Point of Sale (PoS) machines (linked to the Department of Fertilizers' e-Urvarak DBT portal) through biometric authentication by Aadhar Card.

5. UREA GOLD

Context: Ministry of Chemicals and Fertilizer has introduced a new fortified Urea Combination, Sulphur Coated Urea, which is also known as Urea Gold.

SULPHUR COATED UREA - UREA GOLD

- It is a non-organic slow-release fertiliser that is a result of coating urea with Sulphur.
- Coating of sulphur results in formation of a membrane that regulates the availability of nitrogen for plant growth.
- It contains about 37% of Nitrogen and 17% of Sulphur. Ordinary urea has 46 per cent nitrogen. Thus, SCU has about 20 per cent lower nitrogen content than ordinary urea.
- It is prepared by coating pre-heated urea granules with molten Sulphur.
- Besides improving nitrogen use efficiency, the availability of Sulphur also improves plant growth.

BENEFITS OF SULPHUR COATED UREA

- Use of Sulphur coated Urea (SCU) leads to reduction in urea consumption by 25%.

- There is mostly deficiency of Sulphur content in the soil, which is also being addressed by Urea Gold.
- It has basically two advantages; first is its slow-release mechanism and second, it increases the nitrogen adsorption efficiency by 40%. Moreover, it improves the plant growth/ quality and the yield of seeds, especially oilseeds.
- Oilseeds and pulses need more sulphur. Thus, use of Urea Gold will boost the productivity of these crops.

COST OF SULPHUR COATED UREA

Government has mandated that SCU will be sold in 40 kg bags and the selling price will be the same as for a 45 kg bag of ordinary urea.

6. ORGANIC FERTILISERS & BIOFERTILISERS

ORGANIC FERTILISERS

- Organic fertilisers are substances made up of one or more unprocessed materials of a biological nature (plant/animal) and may include unprocessed mineral materials that have been altered through the microbiological decomposition process.
- Organic fertilisers are composted/fermented products made from organic wastes (city waste, agro-waste, crop residue, livestock waste, food processing industry waste etc.)
- Organic fertilisers specified under Fertiliser (Inorganic, Organic or Mixed) (Control) Order, 1985 (FCO) are classified into the following categories:
    - City compost
    - Vermicompost
    - Phosphate-rich organic manure
    - Organic manure
    - Bio-enriched organic manure
    - Bone meal (raw/steamed)
    - Potash derived from rhodophytes.
    - Fermented organic manure.
    - Liquid-fermented organic manure

BIOFERTILIZERS

- Biofertilizers are different from organic fertilisers. Biofertilizers are defined as a product containing carrier-based (solid or liquid) living microorganisms which are agriculturally useful in terms of nitrogen fixation, phosphorus solubilisation or nutrient mobilisation, to increase the productivity of soil and/or crop (FCO 1985).
- Upon application to seed or soil, these microbial preparations multiply rapidly around emerging crop roots and fix/mobilise nutrients from air and soil, from unavailable form to available form.
- Nutrient solubilizers (Phosphorous, Potassium or Zinc solubilizers) transform insoluble nutrients present in the soil to soluble form for easy uptake by crop plants.
- Average dose of mixed biofertilizers application is 6 litre/hectare for liquid formulations and 12 kg/hectare for solid carrier-based for solid carrier-based, for fixation/solubilisation of 20-25 kg nutrients/hectare.
- Biofertilizers are available in four different forms:
    - Nitrogen fixers (Rhizobium, Azotobacter, Azospirillum, Gluconacetobacter)
    - Phosphorus solubilizers (Wide range of bacteria, fungi and Mycorrhiza)
    - Potassium solubilizers (Bacillus mucilaginous, Bacillus edaphicus, Bacillus circulanscan, Frateuriaaurentia)
    - Zinc and other micronutrient solubilizers.

REGULATION OF ORGANIC & BIOFERTILIZERS

- Organic & Biofertilizers are regulated by the Fertiliser (Inorganic, Organic or Mixed) (Control) Order (FCO, 1985) under the Union Ministry of Agriculture & Farmers' Welfare.

  Currently, 11 bio fertilisers & 10 organic fertilisers are approved under FCO for use in India as of now.

7. PRADHAN MANTRI KISAN SAMRIDDHI KENDRA (PMKSK)

Department of Fertilisers under Ministry of Chemicals and Fertilisers has decided to convert existing village, block/sub-district/taluk and district level fertiliser retail shops or to establish new ones into Model Fertiliser Retail Shops that will act as **'One Stop Shop'** for all the agriculture related inputs and services.

There are currently 3.3 lakh fertiliser retail shops which will convert into PMKSK centres by 2023 in three phases.

The Model Fertiliser Retail Shops would be known as Pradhan Mantri Kisan Samriddhi Kendra (PMKSK).

OBJECTIVES OF PMKSK

- Provide quality agri-inputs like fertilisers, seeds, pesticides at reasonable prices under one roof.
- Provide soil/seed/fertiliser testing facilities (or) connecting the farmers to those facility centres.
- Ensure availability of small and large farm implements through sale or custom hiring centres.
- Create awareness among farmers regarding good agricultural practices
- Provide information regarding various government schemes related to farmers etc.
- Ensure regular capacity building of retailers at block/district level outlets.

SERVICES TO OFFERED AT PMKSK

Agri-inputs

- All kinds of Quality Fertilisers such as Nitrogenous/Phosphatic/Potassic fertilisers, secondary and micro-nutrients, water soluble fertilisers, alternative, bio and organic fertilisers will be sold at PMKSK centres. Government has advised to achieve a share of 20% alternative fertiliser in total sale of fertilisers through PMKSK.
- Other agri-inputs like pesticides, insecticides, seeds and small farm implements such as spades, sickles, sprayers etc. should also be sold to farmers through PMKSK centres.
- PMKSK centres shall also provide linkages to custom hiring centres for hiring large/small farm equipment including drones for spraying of liquid fertilisers/pesticides.

Testing facilities: Testing facilities for soil and fertiliser quality testing especially at block/sub district and district levels.

Advisory services

- Help farmers to adopt of package and practices of various crops as recommended and good agriculture practices (GAP) advocated by concerned state agriculture university.
- Provide information on various government schemes available for farmers.
- Assist farmers through help desks/common service centres for
  - Soil analysis and application of nutrients based on soil test.
  - Promotion of integrated and balanced use of nutrients.
  - Adoption of package of practices of various crops.
  - Information on farm commodities with respect to their arrivals and price levels in different mandis.
  - Weather forecast
  - Crop insurance
  - Purchasing of drones
  - Training to fly the drone
- **Kisan-ki-baat:** Interaction of farmers from nearby areas will be conducted etc. on monthly basis.

8. CHANGES IN OPEN MARKET SALE SCHEME (OMSS)

ABOUT OPEN MARKET SALE SCHEME (OMSS)

- Open Market Sale Scheme (OMSS) refers to selling of foodgrains (especially Rice and Wheat) by Government / Government agencies at predetermined prices in the open market from time to time to enhance the supply of grains especially during the lean season and thereby to moderate the general open market prices.
- **Objective:** Food Corporation of India (FCI) on the instructions from the Government, sells wheat and rice in the open market from time to time to enhance the supply of wheat and rice especially during the lean season and to moderate the open market prices especially in the deficit regions.
- **Mode of Auction:** For transparency in operations, the Corporation has switched over to e- auction for sale under Open Market Sale Scheme (Domestic). The FCI conducts a weekly auction to conduct this scheme in the open market using the platform of commodity exchange NCDEX (National Commodity and Derivatives Exchange Limited).
- **Participants:** The State Governments/ Union Territory Administrations are also allowed to participate in the e-auction, if they require wheat and rice outside the Targeted Public Distribution Scheme (TPDS) and Other Welfare Schemes (OWS).
- **Pricing:** The reserve price is fixed by the government. In the tenders floated by the FCI, the bidders cannot quote less than the reserve price.

RECENT CHANGES TO OMSS

- **Limits on Quantity Procured:** Imposed limits on the maximum quantity that a bidder can purchase in a single bid to ranges from 10 to 100 metric tons.
- **Exclusion of State Governments:** As part of the revised policy, the government has also decided to exclude state governments from the purview of OMSS(D) to maintain adequate stock levels in the central pool while controlling prices.

These changes were aimed to accommodate more small and marginal buyers, ensuring a wider reach of the scheme and immediate availability of stocks to the public.

9. BHARAT RICE

Centre launches sale of 'Bharat' Rice at an MRP of Rs. 29/kg in 5Kg and 10Kg packs.

WHAT IS BHARAT RICE

- It is the retail sale of Food corporation of India's (FCI) rice to general consumers at a subsidised rate.
- **Ministry** - *Ministry of Consumer Affairs, food and public distribution.*
- **Agencies**
  - *Kendriya Bhandar*
  - *National Agricultural Cooperative Marketing Federation of India (NAFED)*
  - *National Cooperative Consumers' Federation of India (NCCF)*
- The Bharat Rice will be available for purchase from mobile vans and physical outlets of the three central cooperative agencies.
- As per the ministry in future, it will be expanded to other retail outlets and e-commerce platforms.

WHY THIS STEP?

- Government received a lukewarm response for sale of rice to bulk users at the same rate through the Open Market Sale Scheme (OMSS).
- To check inflationary trends in the food economy, as prices of rice are increasing despite good produce in the Kharif season.
- Ample stock in FCI is lying idle due to various regulations on rice exports.

Significance: The launch of retail sale of 'Bharat' Rice will increase supplies in the market at affordable rates and will help in continued moderation of prices of this important food item.

OTHER COMMODITIES

- **Bharat Atta (wheat flour)** is already being sold by these 3 agencies @ Rs. 27.50 per Kg in 5Kg and 10 Kg packs.
- Similarly, **Bharat Dal (chana dal / Chickpea)** is also being sold by these 3 agencies @ Rs.60 per kg for 1kg pack and Rs.55 per kg for 30 kg pack along with **onions @ Rs.25 per kg.**
- Apart from these 3 agencies, state- controlled cooperatives of Telangana, Maharashtra and Gujarat are also involved in retail sale of Bharat Dal.

NATIONAL AGRICULTURAL COOPERATIVE MARKETING FEDERATION OF INDIA (NAFED)

- It was established in the year 1958.
- It is registered under the Multi State Co-operative Societies Act.
- It was setup with the object to promote Co-operative marketing of agricultural produce to benefit the farmers.
- Agricultural farmers are the main members of Nafed, who have the authority to say in the form of members of the General Body in the working of Nafed.
- Headquarters is situated in New Delhi.

NATIONAL COOPERATIVE CONSUMERS' FEDERATION OF INDIA (NCCF)

- It was established in 1965 to function as the apex body of consumer cooperatives in the country.
- It is registered under the Multi-State Co-operative Societies Act, 2002.
- It operates through a network of 24 Branch Offices located in different parts of the country.
- NCCF Headquarters is situated in New Delhi.

KENDRIYA BHANDAR

- The Central Govt. Employees Consumer Cooperative Society Ltd. popularly known as Kendriya Bhandar
- It was set up in 1963 as a welfare project for the benefit of Central Govt. employees and public at large.
- It functions under aegis of Ministry of Personnel, Public Grievances & Pensions, Govt. of India.
- It is registered with Central Registrar of Cooperative Societies, Govt. of India as a Multi-State Consumer Cooperative Society.

FOOD CORPORATION OF INDIA'S (FCI)

- It is a statutory body setup under the Food Corporation's Act 1964

- It is a public sector undertaking under Department of food & Public distribution, Ministry of Consumer Affairs, Food and Public Distribution.
- **Objective**
    - Effective price support operations for safeguarding the interests of the farmers.
    - Distribution of food grains throughout the country for public distribution system.
    - Maintaining satisfactory level of operational and buffer stocks of foodgrains to ensure National Food Security

10. NATIONAL TURMERIC BOARD

Ministry of Commerce & Industry notified the creation of National Turmeric Board.

STATUS OF TURMERIC IN INDIA

- India is the **largest producer, consumer and exporter of turmeric in the world**.
- In the year 2022-23, an area of 3.24 lakh ha was under turmeric cultivation in India with a production of 11.61 lakh tonnes **(over 75% of global turmeric production).**
- More than 30 varieties of Turmeric are grown in India and it is grown in over 20 states in the country. The largest producing states of Turmeric are Maharashtra, Telangana, Karnataka and Tamil Nadu.
- India has **more than 62% share of world trade in turmeric.** During 2022-23, 1.534 lakh tonnes of turmeric and turmeric products **valued at 207.45 million USD.**
- The leading export markets for Indian Turmeric are Bangladesh, UAE, USA and Malaysia.

ABOUT NATIONAL TURMERIC BOARD

Nature: It is not a statutory body.

Nodal Ministry: Ministry of Commerce & Industry.

Membership: The Board shall have a

- **Chairperson** to be appointed by the Central Government.
- **Members** from the Ministry of AYUSH, Departments of Pharmaceuticals, Agriculture & Farmers Welfare, Commerce & Industry of the Union Government.
- Senior State Government representatives **from three states (on rotation basis).**
- **Select national/state institutions involved in research.**
- Representatives of **turmeric farmers and exporters.**
- Secretary to be appointed by the Department of Commerce.

11. WORLD'S LARGEST GRAIN STORAGE PLAN IN THE COOPERATIVE SECTOR

Union Cabinet recently approved the constitution of an Inter-Ministerial Committee (IMC) to facilitate the world's largest grain storage plan in the cooperative sector.

WHAT IS THE WORLD'S LARGEST GRAIN STORAGE PLAN IN THE COOPERATIVE SECTOR?

- Agencies involved in grain management presently:
    - Food Corporation of India (FCI)
    - Central Warehouse Corporation
    - Warehouse Development Regulatory Authority
    - Railways
    - Civil Supply Departments of States

- Under the new plan, the **Ministry of Cooperation aims to set up a network of integrated grain storage facilities through Primary Agricultural Credit Societies (PACS) across the country**. There are more than 1,00,000 PACS spread across the country with a huge member base of more than 13 crore farmers.

ABOUT INTEGRATED FACILITY

- New storage plan is **based on the hub and spoke model**.
- Of the 63,000 PACS across the country:
  - **55,767 PACS will function as spoke** and will have a grain storage capacity of 1,000 metric tonnes each
  - **Rest 7,233 PACS will function as hubs** and will have a storage capacity of 2,000 metric tonnes each.
  - Put together, all the 63,000 PACs will have a **combined grain storage capacity of 70 million tonnes**.
- **Area:** Spread over 1 acre of land.
- **Cost:** The facility will be built at a cost Rs 2.25 crore.
- **Facilities available:** The integrated modular PACS will have a custom hiring centre, a multi-purpose hall - procurement centres, primary processing units for cleaning and winnowing - a storage shed, and container storage and silos.
- **Funding:** Of the Rs 2.25 crore, Rs 51 lakh will come as subsidy, while the remaining will come as margin money or loan. It is expected that the PACS will earn Rs 45 lakh in a year.
- **Equipment:** PACS will purchase agricultural equipment like tillers, rotary tillers, disc harrows, harvesters, and tractors under various government schemes, such as Sub-Mission on Agricultural Mechanisation (SMAM) and Agriculture Infrastructure Fund (AIF). It will then offer this equipment to farmers on rent.
- **Modern Silos:** The modern silos will have the facility of computerised real-time monitoring systems. These will be rented out to the FCI and other private agencies.

BUDGETARY ALLOCATION

- The plan **does not have a separate allocation**.
- It will be **implemented by the convergence of 8 schemes**

  A) Ministry of Agriculture and Farmers Welfare
  - Agriculture Infrastructure Fund (AIF)
  - Agricultural Marketing Infrastructure Scheme (AMI)
  - Mission for Integrated Development of Horticulture (MIDH)
  - Sub Mission on Agricultural Mechanisation (SMAM)

  B) Ministry of Food Processing Industries
  - Pradhan Mantri Formalisation of Micro Food Processing Enterprises Scheme (PMFME)
  - Pradhan Mantri Kisan Sampada Yojana (PMKSY)

  C) Ministry of Consumer Affairs, Food and Public Distribution
  - Allocation of food grains under the National Food Security Act (NFSA).
  - Procurement operations at Minimum Support Price (MSP).

12. MAHARISHI INITIATIVE

G20 Meetings of Agricultural Chief Scientists (MACS) 2023 in Varanasi under India's Presidency saw the launch of MAHARISHI Initiative.

ABOUT MAHARISHI

- MAHARISHI stands for Millets And other Ancient Grains International Research Initiative.
- MAHARISHI secretariat shall be housed at Indian Institute of Millets Research (IIMR), Hyderabad with technical support from ICRISAT, One CGIAR Centres and other international organisations.

FOCUS AREAS OF MAHARISHI

- Establish mechanisms to connect researchers and institutions working in identified grain crops to enhance the dissemination of research findings and identify research gaps and needs.
- Establish web platforms to connect researchers, exchange data, share communication products and thematic briefs to encourage research & information sharing.
- Organise capacity building activities and international workshops & conferences.
- Performance identification and recognition to scientists.

13. AGRICULTURAL MARKET INFORMATION SYSTEM

- AMIS is an inter-agency platform to enhance food market transparency and policy response for food security launched in 2011 by G20 Ministers of Agriculture following global food price hikes in 2007/08 and 2010.
- By enhancing transparency and policy coordination in international commodity markets, AMIS has helped to prevent unexpected price hikes and strengthened global food security.
- It brings together principal trading countries of agricultural commodities, it assesses global food supplies (focusing on wheat, maize, rice & soybeans) and provides a platform for constructive dialogue.
- Membership: Composed of G20 members plus Spain and 7 additional major exporting & importing countries of AMIS crops, representing a large share of global food markets.

STRUCTURE OF AMIS

AMIS consists of three main bodies:

- **Global Food Market Information Group:** Composed of technical representatives from AMIS participants to collect market & policy information.
- **Rapid Response Forum (RRF):** Assembles policymakers to promote early discussion about critical market conditions and ways to address them. In the event of market instability, RRF of AMIS coordinates appropriate policy measures.
- **Multiagency Secretariat:** Currently, includes 11 international organisations and entities, produces short-term market outlooks, assessment and analyses, and supports all functions of the Information Group and the Rapid Response Forum.

OUTPUTS OF AMIS

- **Market Monitor:** Assessing global market situation and outlook for AMIS crops.
- **Indicator Portal:** Featuring key measures to identify critical market conditions that might require policy action.
- **Market Database:** Providing latest forecasts on production, consumption, trade and stocks.
- **Policy Database:** Compiling information on policies that might impact global food markets.

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9 CHAPTER INTERIM BUDGET-2024

1. WHAT IS A BUDGET?

- The Budget of the Central Government is not merely a statement of receipts and expenditure.
- Since Independence, it has become a significant statement of government policy. The Budget reflects and shapes, and is, in turn, shaped by the country's economy.
- The Budget is prepared by the Department of Economic Affairs, under the Ministry of Finance.

2. LIST OF DOCUMENTS LAID DOWN IN BUDGET

1. Annual Financial Statement

- Annual Financial Statements are mandated by Article 112 of the Constitution. It shows the estimated receipts and expenditure of the Government of India for a year (say 2023-24) in relation to estimates for 2022-23 as also actual expenditure for the year 2021-22.
- The receipts and disbursements are shown under three parts in which Government Accounts are kept viz., (i) The Consolidated Fund of India, (ii) The Contingency Fund of India and (iii) The Public Account of India.
- The Annual Financial Statement distinguishes the expenditure on revenue accounts from the expenditure on other accounts, as is mandated in the Constitution of India.

REVENUE BUDGET VS CAPITAL BUDGET:

Criteria	Revenue Budget	Capital Budget
Receipts	Non-redeemable receipts	Receipts which create liability or reduce financial assets.
Examples of Receipts	Tax Revenue (Direct and Indirect Taxes): GST, Income Tax, Corporate Tax, Excise Duty, Customs duty (In Declining Order) Non-Tax Revenue: Interest Receipts, Dividends and Profits of PSUs, User Charges, External Grants etc.	Debt Receipts: Market Borrowings. Non-Debt Receipts: Disinvestment, Recovery of Loans
Expenditure	Recurring: Incurred for purposes other than creation of Assets	Non-Recurring: Incurred for Asset creation
Examples of Expenditure	Interest Payments, Subsidies, Salaries and Pensions, Defence, Grants to the States for creation of Assets etc.	Creation of Roads, railways etc. and loans to States.

2. Demand for Grants

- Demand for Grants is mandated by Article 113 of the Constitution.
- Article 113 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok Sabha, be submitted in the form of Demands for Grants.
- The Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement. Generally, one Demand for Grant is presented in respect of each Ministry or Department.

- However, more than one Demand may be presented for a Ministry or Department depending on the nature of expenditure.
- With regard to Union Territories without Legislature, a separate Demand is presented for each of such Union Territories.

3. **Finance Bill: It is laid as a money bill for taxation under Article 110 of the Constitution.**
4. **Statements made under FRBM Act**

- Macro-economic Framework Statement
- Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement

5. **Expenditure Budget**
6. **Receipt Budget**
7. **Expenditure Budget**
8. **Memorandum Explaining Provisions of Finance Bill**
9. **Output Outcome Monitoring Framework**
10. **Key features of budget**
11. **Implementation of Budget Announcements**

3. WHAT IS AN INTERIM BUDGET THEN?

- Budget which is **announced in an election year** by the incumbent government and hence **applicable for a part of the financial year until the new government takes over.**
- **No provision in the Constitution** that prohibits the Government from announcing new schemes or making amendments to the taxation in the Interim Budget.
- However, **as per the established parliamentary convention, generally, the incumbent government does not announce new schemes and programs.** Similarly, on the revenue side of the budget, no tax proposals are made.
- Thus, **normally the Interim Budget does not contain Finance Bill and Economic Survey.**

HOW IS INTERIM BUDGET DIFFERENT FROM VOTE-ON-ACCOUNT?

- The **Interim Budget is an estimate of both receipts and expenditure** of the Government. Through the **Vote-on-account**, the incumbent government seeks approval from the parliament for **withdrawing money to meet its expenditure needs until the new government takes over**.
- The Interim Budget for the financial year 2024-25 has introduced a vote-on-account wherein the government has sought approval for the expenditure, which is likely to be incurred during April to July 2024.

4. FISCAL RESPONSIBILITY & BUDGET MANAGEMENT ACT, 2003

- **Objectives of FRBM Act:**
  - Ensuring Inter-generational equity in fiscal management.
  - Long term macro-economic stability by removing fiscal impediments in the effective conduct of monetary policy.
  - Prudential debt management consistent with fiscal sustainability through limits on Central Government borrowings, debt and deficits.
  - Greater transparency in fiscal operations of the Central Government.
  - Conducting fiscal policy in a medium-term framework.
- **Documents to be laid down by Central Government under the Act:**

- **Medium-term Fiscal Policy Statement:** Laid along with budget. It sets three-year rolling targets for prescribed fiscal indicators.
- **Fiscal Policy Strategy Statement:** Laid along with budget. Contains policies of the Central government on taxation, borrowing, expenditure, pricing of administered goods etc, strategic priorities of the Central Government for the ensuing financial year, key fiscal measures and rationale for any major deviation in fiscal measures and an evaluation of current policies of the Central Government in line with fiscal management principles.
- **Macro-Economic Framework Statement:** Laid along with budget. Contains assessment of growth prospects, fiscal balance and external sector balance of the economy with underlying assumptions.
- **Medium Term Expenditure Framework Statement:** Laid in the next session of the session in which the budget is presented. It sets forth a three-year rolling target for prescribed expenditure indicators. It shall also highlight expenditure commitment of major policy changes in new schemes and programs and explicit contingent liabilities.

- **Fiscal Management Principles for Central Government:**
  - **Fiscal Deficit Based Target:** Central Government's limit fiscal deficit to be less than 3% of GDP.
  - **Debt based target:** Central government will ensure that:
    - General government debt does not exceed 60% of GDP by 2024-25. (General government debt refers to the collective debt of all states along with the Central Government).
    - Central Government debt does not exceed 40% of GDP by 2024-25.
  - **Limits on Guarantees:** Central government does not give additional guarantees to any loan of the Consolidated Fund of India in excess of 0.5% of GDP.
- **Escape Clause:**
  - N K Singh Committee in its review of FRBM Act suggested changes in the act to make it an effective tool for counter-cyclical economic policy.
  - This means that **when economic growth is strong, deficits of governments should be reduced** or even surplus can be generated.
  - However, **in case of an economic downturn the government should take leadership** and spend to lift all boats.
  - Under the FRBM act, the Central Government shall prescribe the annual targets for reduction of fiscal deficit for the period.
  - **Conditions during which fiscal deficit targets can be breached** i.e., fiscal deficit higher than targeted. In these situations, **fiscal deficit can exceed by 0.5% of GDP of the target** prescribed.
    - Grounds of national security
    - Act of war
    - National calamity
    - Collapse of agriculture severely affecting farm output and incomes.
    - Structural reforms in the economy with unanticipated fiscal implications
    - Decline in real output growth of a quarter by at least three percent point below its average of previous four quarters.
  - **Conditions when fiscal deficit can be reduced than targeted:** Increase in real output growth by at least 3% point above its average of the previous 4 quarters. In this situation, the fiscal deficit can be reduced by 0.5% over what is targeted.
- **Borrowing from Reserve Bank:**
  - Central Government to not borrow from the RBI.
  - Central Government can borrow from the RBI for temporary mismatches in cash balance. (Ways and Means Mechanism)

- An amendment was done in the FRBM Act, which allowed RBI to subscribe to primary issue of Central Government securities when one of the conditions for invoking escape clause for increasing fiscal deficit is present i.e., Centre can borrow from RBI in the following cases:
  - Grounds of national security
  - Act of war
  - National calamity
  - Collapse of agriculture severely affecting farm output and incomes.
  - Structural reforms in the economy with unanticipated fiscal implications
  - Decline in real output growth of a quarter by at least three percent point below its average of previous four quarters.
- RBI can buy and sell Central Government securities from the secondary market or convert Central Government Securities held by it with other Securities of the Central Government as mutually agreed between the Reserve Bank and the Central Government.

- **Measures for Enforcement:**
  - Central government to ensure greater transparency in its fiscal operations and minimise secrecy in preparation of annual financial statements and demands for grants.
  - Union Minister of Finance to review targets and trends in receipts and expenditure in relation to targets in budget on a half-yearly basis.
  - Central Government to prepare monthly statements of its accounts.
  - In case of shortage in revenue or excess of expenditure, Central Government to take steps to increase revenue or reduce expenditure. (Nothing in this shall affect revenue charged on the Consolidated fund).
  - No deviation is allowed from the target cast on the Central Government except without approval of Parliament. However, if due to any unforeseen event a deviation occurs, the Union Minister of Finance will make a statement in both houses of Parliament highlighting reasons, outcomes and remedial measures.
  - CAG to periodically review compliance of this Act by the Central Government and table report in Parliament.

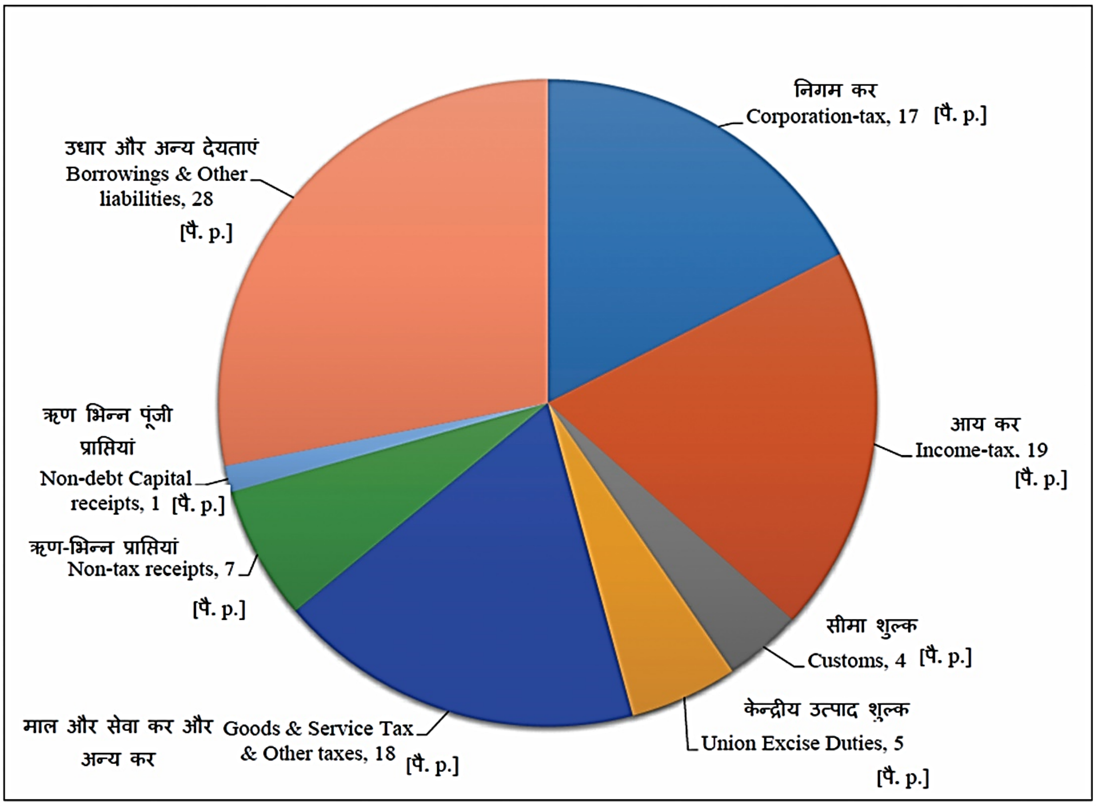
5. ASSET REGISTER

- Asset Register is published as part of Union Budget and is mandated under FRBM Rules, 2004.
- All assets above the threshold value of ₹2 lakhs are only recorded in Asset Register.
- Assets are classified under two heads: Physical Assets & Financial Assets.
  - **Physical Assets** of the Union Government includes Land, Building, Roads, Bridges, Irrigation Projects, Power Projects, Other Capital Project, Machinery & Equipment, etc.
  - **Financial Assets** of Union include Equity Investment made by Union government, Loans and Advances given by Union Government and Other Financial Investment.
- According to Asset Register, Total Assets of Union Government ₹26.3 lakh crores assets at the end of 2022-23.
  - Total Physical Assets stand at ₹8.18 lakh crores. Land alone is the largest category of physical asset under government standing at ₹3.85 lakh crores.
  - Total Financial Assets of the Union Government is ₹18.1 lakh crores. With equity investment being the largest contributor.

6. CONTEXT OF THE INTERIM BUDGET

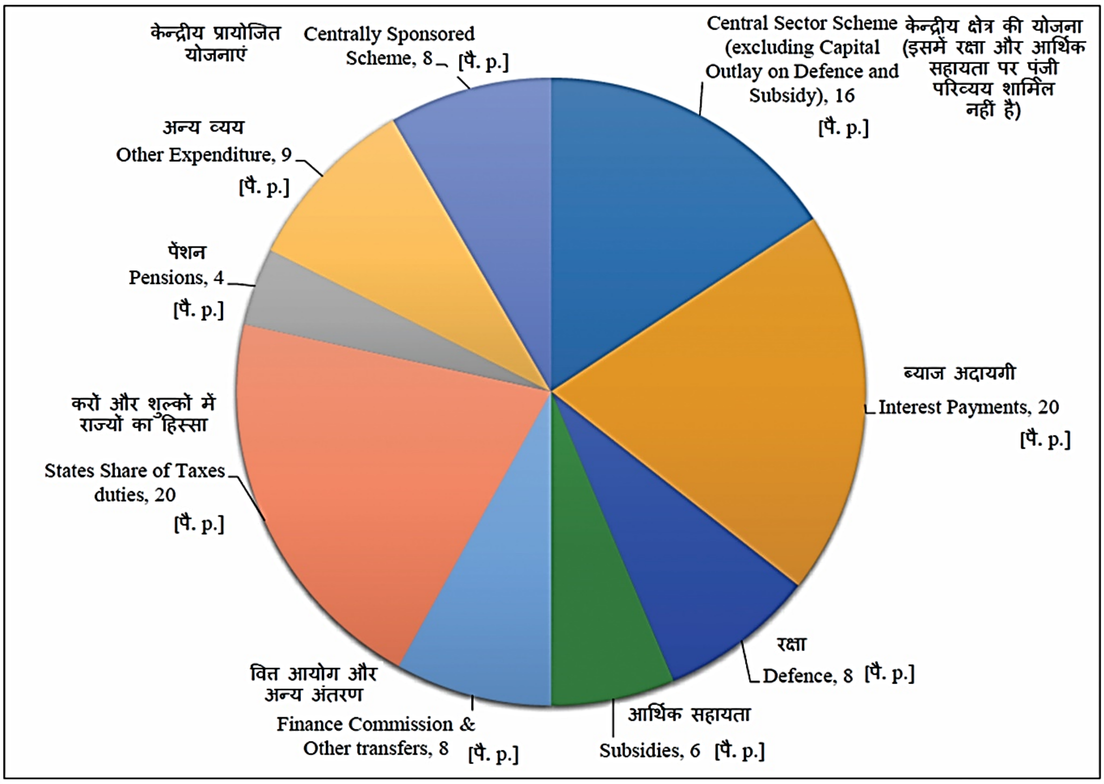
TRENDS OF INCOME OF UNION GOVERNMENT (2024-25)

- Borrowings & other liabilities form the largest component of the Union government’s income.



- However, the most significant development is that **the share of income tax (19%) in the Union government's income for the year 2024-25 is higher than that of other revenue sources** like the Goods and Services Tax (GST), corporation tax etc.

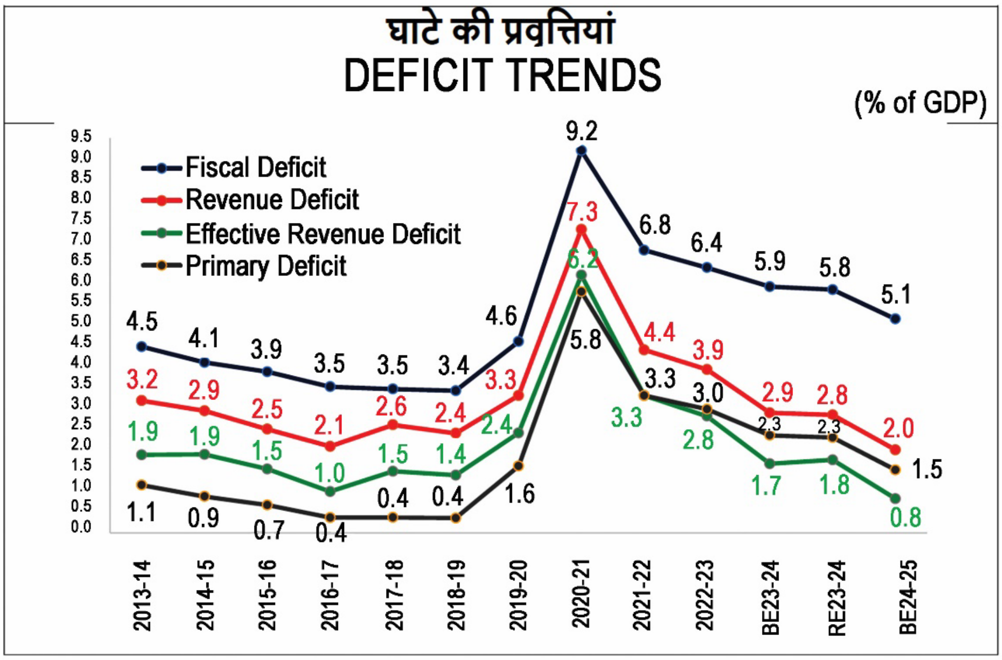
TRENDS OF EXPENDITURE OF UNION GOVERNMENT (2024-25)



- **Interest Payments** form the **largest component** of Union government's expenditure (20%).

- Subsidies account for 6% of the total Union government's expenditure. Among subsidies, **food subsidy has the highest burden** (₹2.05 lakh crore), followed by fertiliser subsidies (₹1.64 lakh crore) and petroleum subsidy (₹0.12 lakh crore).

TRENDS OF DEFICIT (2024-25)



- Fiscal Deficit which shot up remarkably during the pandemic year to record levels of 9.2% in FY 2020-21.
- However, the government announced an easing of the deficit to 6.7% of GDP in the Budget Speech of 2021-22.
- Since then, it has **continued on the path of fiscal consolidation**. Adhering to that path, the fiscal deficit in 2024-25 is estimated to be 5.1% of GDP, with an aim to reduce it further to below 4.5% by 2025-26.

7. DEFINITIONS OF DEFICIT

- **Fiscal Deficit:** It is the difference between the Revenue Receipts plus Non-Debt Capital Receipts (NDCR) and the total expenditure. It is reflective of the total borrowing requirement of the Government.
- **Revenue Deficit:** It refers to the excess of revenue expenditure over revenue receipts.
- **Effective Revenue Deficit:** Effective Revenue Deficit is the difference between Revenue Deficit and Grants for Creation of Capital Assets.
- **Primary Deficit:** Primary Deficit is measured as Fiscal Deficit less interest payments.

8. NATURE OF DEFICIT FINANCING

Sources of Financing Fiscal Deficit

(In ₹crore)

	2022-2023	2023-2024	2023-2024	2024-2025
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
1. Debt Receipts (Net)	1739378	1798604	1761424	1681944
2. Market Borrowings (G-sec)	1105836	1180911	1180456	1175182
3. Short term Borrowing (T- Bill etc.)	112009	50000	1323	50000

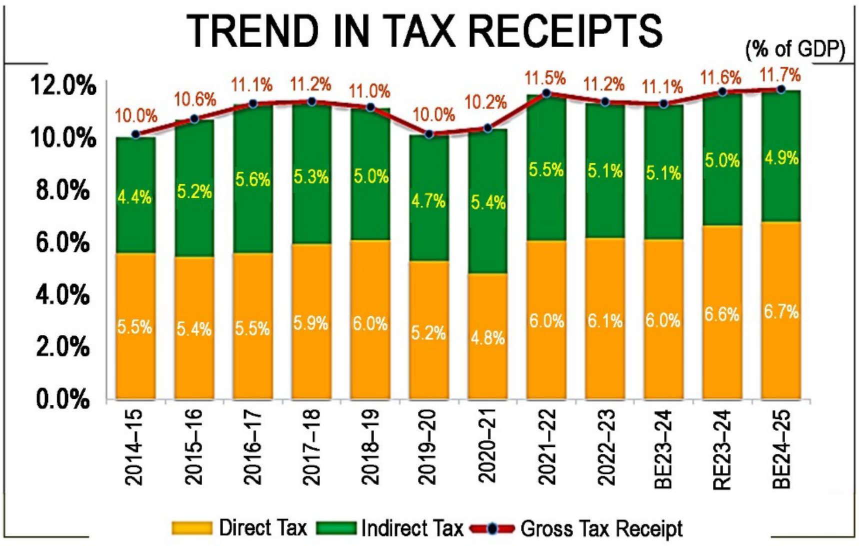
4. Securities against Small Savings	395860	471317	471317	466201
5. State Provident Funds	5089	20000	5200	5200
6. Other Receipts (Internal Debts and Public Account)	83460	54258	78296	(–)30591
7. External Debt	37124	22118	24832	15952
8. Draw Down of Cash Balance	(–)1622	(–) 11787	(–)26652	3549
Grand Total (Fiscal Deficit)	**1737755**	**1786816**	**1734773**	**1685494**

- The **gross and net market borrowings** through dated securities during 2024-25 are estimated at ₹14.13 and ₹11.75 lakh crore respectively. Both will be **less than that in 2023-24.**

OVERALL DEBT PROFILE OF THE GOVERNMENT INDICATES THAT

- **Crowding in the Private Sector:** Now that the private investments are happening at scale, the lower borrowings by the Central Government will facilitate larger availability of credit for the private sector.
- **Stable Government's Deficit Profile** without undue pressure on yields as majority of outstanding debt of government (G-secs) is subscribed by commercial banks, insurance companies and provident funds.
- **Low Currency Risk:** As external debt is financing only 0.9% of the fiscal deficit.
- **Maturity of Debt:** Over the last few years, the proportion of dated securities maturing in less than five years has declined, whereas long-term securities have shown an increasing trend, thus reducing rollover risk in the medium-term.

9. TRENDS IN TAX RECEIPTS

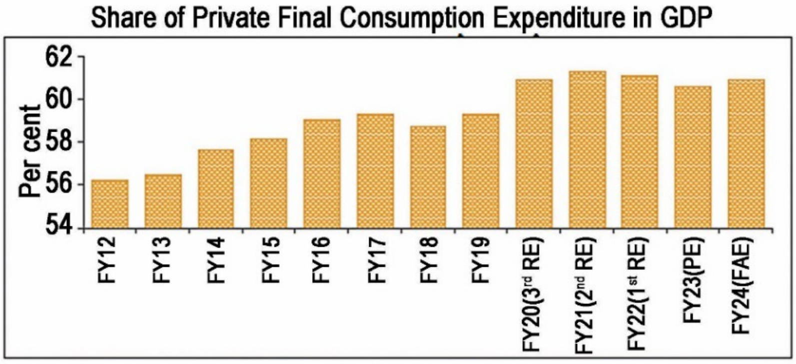


- The tax-to-GDP ratio represents the proportion of a country's tax revenue concerning its Gross Domestic Product (GDP). **An increase in this ratio could signify economic growth.**
- As of FY 2024-25, India's tax-to-GDP ratio is expected to stand at 11.7%. Of this, direct taxes constitute approximately 6.7% of the GDP, while indirect taxes account for 4.9% of the GDP.
- Two trends are significant:
  - **India's tax-to-GDP ratio** has exceeded the pre-Covid trends and is **at the highest levels in the last 10 years.**
  - A **higher share of direct taxes in tax-to-GDP ratio is considered a hallmark of progressive tax burden**.

10. MAJOR DRIVER OF INDIAN ECONOMY

Percentage Contribution of Major Drivers of Economy	
Components	**Percentage Share**
Private Final Consumption Expenditure (PFCE)	61%
Government Final Consumption Expenditure (GFCE)	10%
Gross Capital Formation (GCF)	31%
Exports	21.7%
Imports	23.7%

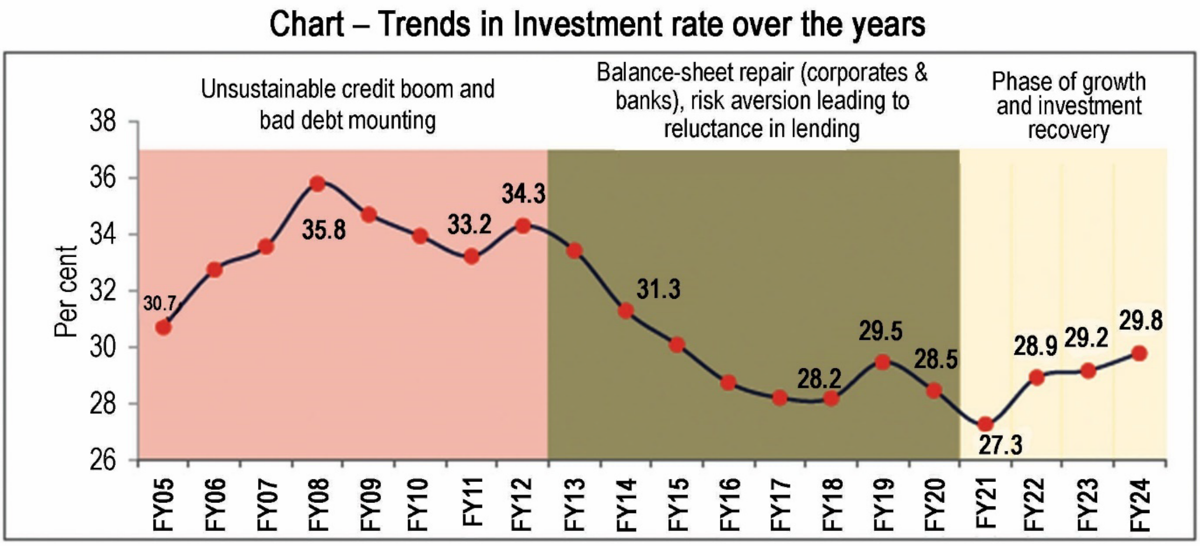
- Private Final Consumption Expenditure (PFCE) accounts for the highest share followed by Gross Capital Formation (GCF).
- Net Exports is calculated as (Exports- Imports) and is Negative for India.
- Trade-to-GDP ratio is calculated as (Exports + Imports). India's Trade-to-GDP ratio is higher than China.



Note: RE stands for Revised Estimates, PE for Provisional Estimates and FAE for First Advance Estimates

IMPORTANT TRENDS

- Share of Private Final Consumption Expenditure (PFCE) in GDP at current prices increased from an average of 58% in the eight years preceding the onset of the pandemic to 60% in the last three years.



- Investment Rate is the ratio of Nominal GFCF over Nominal GDP.
- Share of the Private sector is higher than the public sector in the Investment.

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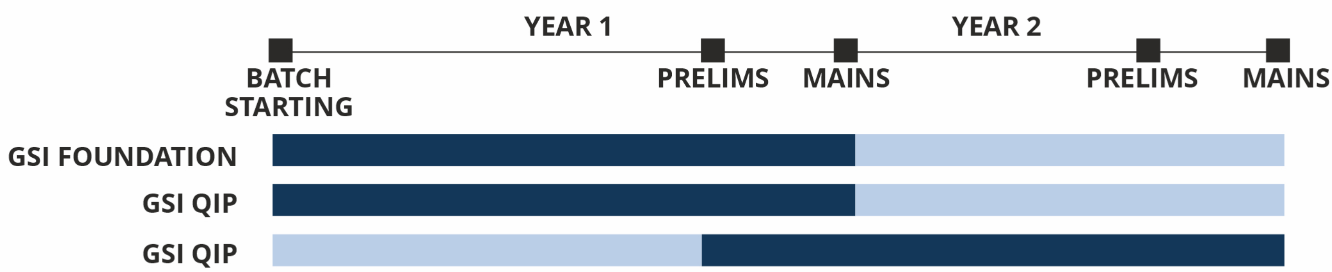

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