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TARGET 2018

ECONOMY - I

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1. PUBLIC FINANCE

1.1 Slowing Growth Rate

Central Statistics Office (CSO) released a set of data signifying the health of Indian Economy.

- India's GDP growth slowed to 5.7% in the April-June quarter of 2017-18, against 7.9% in the same quarter of 2016-17.
- This looks more dismal considering that it was recorded against expectations of a 6.5% growth.
- GVA for the April-June 2017 quarter came at 5.6%, lower than 7.6% in same quarter last fiscal.
- The GVA growth for 'manufacturing' came in at 1.2% in the quarter, substantially lower than the 10.7% growth recorded in the same quarter last fiscal.
- The eight core industries output growth for July 2017 was at 2.4%.
- Fiscal deficit in 2016-17 was 3.5 per cent of GDP.
- The fiscal deficit had risen to ₹5,04,896 crore by July 31, against the Budget target of ₹5,46,532 crore for 2017-18.
- Revenue deficit had shot up to ₹4,22,272 crore, 31 per cent in excess of the Budget Estimate of ₹3,21,734 crore.
- The reasons for slowdown are -
    1. **Demonetisation**
    2. **RERA -** The introduction of Real Estate Regulatory Act (RERA), though a very good move, has impacted the real estate sector.
    3. **Rolling out of GST**
    4. Reduction in **farm revenues** because of falling non-cereal foodgrain prices.
    5. **Fiscal tightening by the states** to keep budget deficits on track.

Terminology

- Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
- GVA provides the rupee value for the amount of goods and services produced in an economy **after deducting the cost of inputs and raw materials.**
- While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective.
- The eight core industries include Coal, Crude Oil, Refinery Products, Fertilizers, Steel, Cement and Electricity
- The difference between total revenue and total expenditure of the government is termed as fiscal deficit.
- While calculating the total revenue, borrowings are not included.
- So FD gives an indication of the total borrowings needed by the government.
- Primary deficit is one of the parts of FD.
- While fiscal deficit is the difference between total revenue and expenditure, primary deficit can be arrived by deducting interest payment made to the borrowings from fiscal deficit.
- Revenue deficit arises when the actual amount of revenue received and/or the actual amount of expenditures do not correspond with budgeted revenue and expenditure figures.
- A revenue deficit does not mean actual loss of revenue.

1.2 Widening CAD

A recent data has revealed that India's Current Account Deficit (CAD) has widened to 2.4 % of GDP in the first quarter of 2017-18, which is the highest in the last four years.

- **Trade -** Imports overall rose by over 20% year-on-year in August.
- On the other hand, exports rose by only 10% in the same period.
- The resultant higher trade deficit has translated into higher CAD.
- Half of the rise in this import is contributed by the spike in gold imports prior to the introduction of GST.

CAD

- CAD refers to the deficit arising out of the difference between inflow and outflow of foreign exchange as a result of imports and exports.
- CAD stood at $14.3 billion in the first quarter of the current financial year.
- This was valued at 2.4% of gross domestic product, compared to 0.1% last year.

- **Exchange Rate -** Rupee has appreciated by over 6% against the dollar this year.
- An over-valued currency has resulted in reduced margins and made exports uncompetitive; thus an imbalance in trade in favour of imports.

1.3 Fiscal Stimulus

India's GDP growth in the April-July quarter slumped to 5.7%.

- Demands for unleashing a fiscal stimulus have grown stronger.
- A 'stimulus' is an attempt by policymakers to kickstart a sluggish economy through a package of measures.
- A monetary stimulus will see the central bank expanding money supply or reducing interest rates to encourage consumer spending.
- A fiscal stimulus is one in which the government spends more from its own pocket or slashes tax rates.
- Stimuli puts more money in the hands of consumers and spending goes up – thereby encouraging demand & growth.

1.4 Finance Commission

The Union Cabinet has approved the setting up of the 15th Finance Commission, headed by N.K.Singh.

- It will decide on the distribution of tax proceeds among centre, states and local bodies in the post-goods and services tax (GST) era.
- The setting up of the finance commission for every 5 years is a Constitutional obligation under **Article 280 (1)** of the Constitution.
- The recommendations of the 14th Finance Commission are valid from 2015 to 2020.
- The recommendations of the 15th Finance Commission will be implemented in the period 2020 to 2025.
- The 14th Finance Commission had raised the untied share of states in net central taxes to 42% from 32% after ending discretionary resource transfers from the centre to the states.

Finance Commission

- It is a quasi judicial body, constituted by the president of India every fifth year or at such earlier time as he considers necessary.
- It consists of a Chairman and four other members.
- They hold office for such period as specified by the president in his order.
- They are eligible for reappointment.
- As per Article 280 of the Constitution, the commission is required to make recommendations on the distribution of the net proceeds of taxes between the centre and the states.
- It also suggests the principles which should govern the grants in aid of the revenues of the states out of the consolidated fund of India.

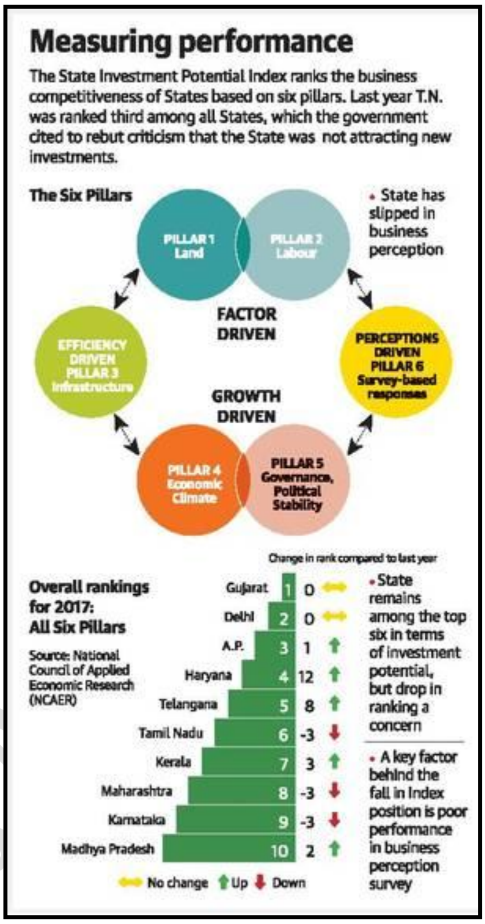
1.5 Fiscal Responsibility and Budget Management

- Section 3 of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 requires the Government to place three Statements of Fiscal Policy in both the Houses of Parliament along with Annual Financial Statement and Demands for Grants.
- The three statements are,
    i. The Medium-term Fiscal Policy Statement,
    ii. The Fiscal Policy Strategy Statement and
    iii. The Macroeconomic Framework.

- This Section was amended to require the Government to lay a Fourth Statement viz., **the Medium Term Expenditure Framework (MTEF)** Statement in both the Houses of Parliament, immediately following the Session of the Parliament in which the Budget has been presented.

1.6 Medium-Term Expenditure Framework

- The MTEF is annual, **three year rolling target** for the expenditure planning.
- It sets out the medium-term expenditure priorities and hard budget constraints against which sector plans can be developed and refined.
- The objective of the MTEF is to provide closer integration between Budget and the FRBM Statements.
- It provides medium term perspective to the fiscal management and furthers the Government's commitment towards fiscal consolidation.
- It also contains outcome criteria for the purpose of performance monitoring.



1.7 State Investment Potential Index

- The second edition of the annual State Investment Potential Index.
- Gujarat led the charts, top-scoring on economic climate and perception while Delhi scored the highest on infrastructure.
- Tamil Nadu slipped three ranks to the sixth position compared to last year, adding to the negative perception on the investment climate in the state.
- NCAER expects the survey to provide metrics of economic governance, competitiveness and growth opportunities at the state and regional levels. The Index is designed to provide a systematic and reliable "go-to" reference for policy makers, existing businesses and potential domestic and overseas investors, it said.
- Corruption continues to be the number one constraint faced by businesses.
- Getting approvals for starting a business is the second-most pressing constraint faced by businesses.
- But the perception of these two factors among businesses has been reduced since
- Other major issues of concern to businesses include the availability and quality of skilled labour, access to finance and tax policy.
- Bihar, Uttar Pradesh and West Bengal are ranked among the least favourable states for investment, but they rank higher under individual metrics.

State Investment Potential Index

- It is conducted by National Council of Applied Economic Research (NCAER) was recently released.
- It covers 20 States and Delhi and ranks states' on their competitiveness in business and their investment climate.
- The index include six pillars –
  1. Land,
  2. Labour,
  3. Infrastructure,
  4. Economic climate,
  5. Political stability and governance &
  6. Business perceptions.

1.8 McKinsey Report

- McKinsey Global Institute recently a released.
- It says that between 2011 and 2015, agricultural employment fell by 26 million, while non-farm jobs increased by 33 million.
- It has focused on the concept of "gainful employment".

Gainful Employment

- Labour-force participation and the number of jobs do not in themselves measure gainful employment.
- Gainful employment covers a range of issues, including the quantity and type of work done by people already in employment, growth in labour productivity, higher earnings, and aspects of work quality such as greater safety, cleanliness, flexibility, income security, and intellectual challenge.

- It highlights the structural shift from agriculture to the non-farm sector i.e between 2011 and 2015.
- It says that the gig economy, government spending and the consequent creation of jobs and increased entrepreneurial activity have created gainful employment for between 20 million and 26 million people between 2014 and 2017.
- It also added that automation is unlikely to immediately affect jobs in India, given the low level of wages and the cost of automation.
- The report suggests three ways to create opportunities for more gainful employment.
- These are "more appropriate statistical measurement of employment", "targeted government programmes", and "removing hurdles that stand in the way of investment and innovation."
- It has repeatedly stressing the **need for better current jobs data** in India.
- **Challenges in Job Data -** Despite the growth in non-farm employment, the overall labour force participation rate fell from 55.5% in 2011 to 52.4% in 2015.
- Same is the case for men in urban areas.
- But this challenge isn't really captured by data that are currently available.
- The declining labour force participation need not indicate a slowing growth in gainful employment.
- It can also mean more people could have stayed in the education system longer and fewer women may need to work because their families are now better off.
- Then, measuring both "employment" and gainful employment becomes tough in a country where 86% of the labour force is employed by the informal sector.
- The existing job surveys also do not capture "economic and social mobility".

Gig Economy

- In a gig economy, temporary, **flexible jobs** are commonplace and companies tend toward hiring independent contractors and freelancers instead of full-time employees.
- A gig economy undermines the traditional economy of full-time workers who rarely change positions and instead focus on a lifetime career.

Labour Force Participation Rate

- Labour force participation rate is defined as the section of working population in the age group of 16-64 in the economy currently employed or seeking employment.
- People who are still undergoing studies, housewives and those not seeking employment are not reckoned in the labour force.

1.9 Change in Financial Year

The government has appointed a committee headed by former chief economic adviser Shankar Acharya.

- Its task is to study the merits of NITI Aayog's suggestion to position the financial year with the calendar year.
- The committee has recommended for shifting of financial year from April-March to January-December.
- Accordingly, the government is also considering the proposal to change it.
- **Madhya Pradesh** became the first state to announce shifting of its financial year format to January-December from 2018.
- **Merits -** The shifting of financial year will align India with the prevailing practice of developed countries.
- This will be a progressive, convenient transition for the Indian economy as it gets increasingly integrated to the global economy.
- For MNC firms in India, which are currently dealing with two types of financial years here and at the parent country, a uniform structure will be a relief to manage their accounts.
- The change will also align the financial year with the monsoon cycle and also with the country's crop harvests both for Rabi and Kharif seasons.
- Another important factor is that at present the **budget cycle suffers due to lack of sufficient data** on crop income, monsoon forecast etc.
- Presently, before the budget presentation in February, the government doesn't get any solid data on monsoon forecast for new financial year.
- The rain gamble causes difficulties in formulating the budget.

- Most importantly, it is about time India **moved on from colonial tradition** and decided on issues based on merit.
- **Demerits -** If we want the transition, then major changes like shifting Parliamentary Sessions, Budget presentation in Nov-Dec, etc., will be needed.
- The one time **implementation cost** along with major financial reforms like GST rollout and merger of plan and non-plan expenditure may be too big a burden to handle.
- Already, there is confusion in the industry with the change in the tax system when the GST finally happens.
- Also, a host of statutes and taxation laws will need to be amended for the change to take place.
- Thus, the move will be a **costly and cumbersome** administrative exercise for both companies as well as the government.
- The economic benefits would definitely outweigh the administrative difficulties that will arise initially for the implementation.
- The change will indeed be a progressive step it seems there is no urgency to implement when the GST is still facing multiple hurdles.

1.10 Usefulness of WPI

- The wholesale price index is an index that measures and **tracks the changes in the price of goods** in the stages before the retail level.
- WPI is used as a measure of inflation in some economies.
- WPI includes three components viz,
    1. Manufactured products - 64.2%
    2. Primary articles - 22.6%
    3. Fuel and power - 13.1%
- Instead of the earlier 2004-05, base year for the WPI will be 2011-12.
- The number of items covered in the new series of the WPI has increased from 676 to 697.
- One of the striking features of the new WPI series is that the item level averaging is being **done by using geometric mean** (Earlier Arithmetic mean was used). This is as per international best practice.
- The geometric mean itself has significantly moderated WPI inflation, besides other factors such as change in the composition of basket.
- Following the Urjit Patel Committee recommendations, the RBI Act has been amended and flexible inflation targeting (FIT) has been put in place with **CPI inflation as the nominal anchor.**
- Under the FIT, as the RBI has been mandated to achieve price stability measured in terms of CPI inflation, **the use of WPI inflation has been completely done away with.**
- All projections relating to inflation are currently done in terms of CPI.
- As of now, WPI is predominantly used for converting GDP/GVA at current prices to the same at constant prices.
- In fact, the GDP deflator (often argued as the true indicator of inflation), which is defined as a ratio of GDP at current prices to GDP at constant prices multiplied by 100, closely tracks WPI inflation.
- The sharp decline in the GDP deflator and the dramatic decline in WPI inflation coincided. This contributed significantly to real GDP growth in India.
- Also, separate services sector input/output price indices are required to deflate services sector GDP for which WPI is anyway not appropriate.
- Moderation of WPI as per revised base has **pushed up real GDP considerably** during recent years.
- Exclusion of excise duty from the computation of WPI has also partly contributed to lower WPI inflation during recent years, which in turn has pushed real GDP up to some extent.

1.11 Purchasing Managers' Index (PMI)

- In the recent survey, PMI reveals that manufacturing activity slowed to a 4 month low in June due to challenges imposed by GST.
- PMI is an indicator of the economic health and investor sentiments about the manufacturing sector (there is services PMI as well).
- The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.
- Its purpose is to provide information about current business conditions to company decision makers, analysts and purchasing managers.
- For India, the PMI Data is published by Japanese firm Nikkei but compiled and constructed by Markit Economics.
- PMI and IIP - IIP (Index of Industrial Production) shows the change in production volume in major industrial subsectors like manufacturing, mining and electricity. It covers broader industrial sector compared to PMI.
- PMI shows the growth oriented positive trends and not just the volume of past production that can be traced in an ordinary Index of Industrial Production.

1.12 Veblen Good

- It is a good for which demand increases as the price increases, because of its exclusive nature and appeal as a status symbol.
- It violates the law of demand, which states that when price of a good increases, the demand decreases.
- Luxury good like diamonds, whose appeal depends on their exorbitant price is an example of a Veblen good.
- Veblen goods are similar to Giffen good which also violates the law of demand.
- The Giffen good is typically an inferior product unlike veblon good which is mostly an expensive product and status symbol.
- For e.g. when the price of a necessary good rises (eg. a food staple), consumers are forced to substitute it with even more expensive alternatives to purchase more of the staple.

1.13 Economic Advisory Council

- Union government has recently re-constituted the Economic Advisory Council to Prime Minister (EAC-PM)
- It will be a five member council headed by Niti Aayog member Bibek Debroy.
- The council would address issues of macroeconomic importance and present views to the Prime Minister.
- The body, which is an independent council, can take up the issues suo motu or on reference from the Prime Minister.
- Ratan Watal, Principal Advisor of NITI Aayog, will be the Member Secretary to the Council.
- EAC was suspended in 2014.
- Its re-constitution is a major signal that the government is aware of the state of the economy and is willing to seek professional help.

EAC-PM

- It is a non-constitutional, non-permanent and independent body constituted to give economic advice to the GOI, specifically the Prime Minister.
- It consists of a Chairperson and eminent economists as members.
- There is no fixed definition on the exact number of members and staff of the EAC-PM.
- Its role would thus be different from that of the NITI Aayog, the latter's role will be to provide the bird's eye view, while the former will focus on providing "critical interventions" to accelerate economic growth and employment.

2. GOVERNMENT INITIATIVES

2.1 Discontinuing Administered Pricing

- The government of India had formally dismantled the administered price mechanism (APM) for petrol and diesel.
- The government-owned Oil Marketing Companies (OMCs), who between them account for 90% of the retail market for fuel.

- Their petroleum prices were administered (subsidized) i.e. they are changed according to the market price only on fortnight basis.
- The loss incurred due to the change in price that happens meanwhile are accounted by the government of India as subsidies to the OMCs
- This had lead to inefficient allocation of a scarce resource and also became a huge fiscal burden.
- So a new pricing policy called dynamic pricing will be administered from now on.
- This means that, from now on, the government-owned OMCs had linked their daily sales at all their petrol pumps with the international prices of crude oil.
- Consequently, like in the US and Australia, the domestic diesel and petrol prices have now been globalized.

2.2 GST Compensation Cess

- As part of the GST reforms, this Cess has been introduced through the GST (Compensation to States) Act, 2017.
- It is levied on inter- and intra-State supply of notified goods such as aerated drinks, coal, tobacco, automobiles for 5 years.
- The proceeds will be distributed to loss-incurring States on the basis of a prescribed formula as compensation.
- The 122nd Constitution Amendment Bill initially proposed a 1% additional tax to compensate States but this was later withdrawn.
- Article 271 has been amended to state that an additional tax/surcharge cannot be imposed over and above the GST rates.
- The GST Council's power to recommend a special rate is confined to raising resources only during any natural calamity or disaster.
- So this cess cannot be justified under such power either.

Cess

- A cess is a tax on tax, levied by the government for a specific purpose.
- The contributor and beneficiary of a cess must be relatable.
- Under Article 270 of the Constitution, proceeds of a cess can be retained exclusively by the Union and need not be shared with States.
- The objective is to ensure that expenditure goes for that specific purpose.

2.3 GST Composition Scheme

- The scheme has been designed to simplify and reduce the burden of compliance for smaller taxpayers.
- It is covered under Section 10 of the Goods and Services Tax Act.
- Under the Scheme, small taxpayers with a turnover of Rs.75 lakh can file quarterly returns instead of the normal monthly returns.

2.4 Reverse Charge Mechanism

- The reverse charge mechanism of GST is an additional check that every business has to ensure that its suppliers, of both goods and services, are paying the right amount of taxes on time.
- The GST has to be typically paid by the supplier of goods and services. But in some cases, **the liability to pay the tax falls on the buyer.**
- This reverse charge is, however, applicable only under certain circumstances.
- The most common instance is when a business buys goods or services from a supplier who is not registered to pay GST.

Example:

- Let's assume that business A that is GST-compliant buys goods worth Rs. 100 from business B that is not registered to pay GST.
- If the GST on the goods supplied is Rs.5, then business A, instead of business B, will have to pay Rs. 5 to the Government.
- Business A can, however, claim input tax credit of the GST payment of Rs. 5, when it sells the goods to its client.

- Also government departments making payments to vendors above a specified limit (Rs. 2.5 lakh under one contract) are required to deduct tax (TDS) and e-commerce operators are required to collect tax (TCS) on the net value goods or services supplied through them.
- By putting the burden of paying the tax on the buyer, in cases where the supplier does not pay GST, the Government is gently coercing all businesses to sign up for GST.
- This self-policing mechanism is, therefore, expected to do the trick for the government, helping it grow the tax base as well as tax collection.

2.5 Abolition of Cesses along with GST rollout

The cesses that have been abolished from July 1 by the Taxation Laws (Amendment) Act include,

- Krishi Kalyan Cess
- Swachh Bharat Cess that was levied along with the service tax.
- Education cess on excisable goods.
- The Clean Energy Cess, which was levied on coal.
- Cesses such as those on tea, sugar and jute.

The cesses that will be continued include,

- Education cess, secondary and higher education cess on imported goods.
- Cesses on petroleum products.
- Cesses on tobacco and tobacco products.

GST has subsumed central excise duty and service tax, as well as State value added tax, local levies such as octroi.

2.6 E-waybill

- An e-waybill is an electronically generated bill documenting any transport of a good of a value of more than 50,000.
- It can be generated on GSTN either by the supplier or recipient of the consignment, before the movement of goods.
- The bill once generated, is valid for one day for consignment up to 100 km and then one additional day for every 100 km thereafter.
- It is important to note that e-way bill is required even in case of **intra-state movement (beyond 10 km)**, which was not the case earlier.
- Goods moved on non-motorised conveyance, such as carts, have been left out.
- Over 150 items of common use, including LPG cylinders, vegetables, foodgrain and jewellery, will be exempt from such transport permits, which can be checked by designated tax officials by intercepting a transporting vehicle.
- Though few items which may be exempted from GST, they would require generation of e-waybill for their transportation.
- For e.g. The National flag, temple prasadam, Khadi fabric and Gandhi caps may be exempt from GST, but for their transportation, generation of e-waybill may be required.
- Sensitive technology that goes into spacecrafts and satellites will be exempt.

2.7 Anti-Profiteering Authority

- Under GST, a five member panel will choose the members of the Anti-profiteering authority.
- The authority will have powers to take action against the companies that are not passing on the benefits of lower tax incidence to end users and to order the cancellation of companies' registration under GST.
- The authority will have the powers to debar an errant assessee from conducting business, if found to be involved in profiteering.
- The authority will cease to exist two years after its constitution.
- The authority will have a **chairman**, of the rank of a Secretary, and **four nominated members**, who have been commissioners of central or state tax departments.
- The additional director general of safeguards will be the secretary to the authority.

2.8 Consumer Protection Amendment Bill

Centre had approved a new Consumer Protection Bill in 2015 to replace the Consumer Protection Act, 1986.

- Government has recently made many changes to the bill based on the recommendations of the Parliamentary Standing Committee. This reworked bill is pending for clearance for a long time.

Provisions of the reworked bill

- Establishment of an **executive agency**, the Central Consumer Protection Authority (CCPA), which will protect and enforce the rights of consumers.
- Stringent provisions to tackle misleading **advertisements**, as well as to fix liability on endorsers and celebrities.
- Provision for consumers to **file complaints electronically.**
- Provision for **product liability** and provides enough powers to the regulatory authority to recall products and cancel licences if a consumer complaint affects more than one individual.
- Provisions aimed at simplifying the **consumer dispute resolution** process include,
    1. enhancing the pecuniary jurisdiction of the Consumer Grievance Redress Agencies
    2. powers to State and District Commissions to review their orders
    3. setting up a 'circuit bench' in order to facilitate quicker disposal of complaints
- The Bill also proposes to set up **Consumer Mediation Cells** which will be attached to the redressal commissions at the district, State and national levels, to help reduce the backlog of cases and lessen the strain on redressal forums.

2.9 Minimum Wage Code Bill

The Union Cabinet has approved the new wage code bill.

Objectives

- It aims at **integrating four labour related laws.**
- It will consolidate
    1. Minimum Wages Act, 1948
    2. Payment of Wages Act, 1936
    3. Payment of Bonus Act, 1965
    4. Equal Remuneration Act, 1976
- It signals a formal start of the process of consolidating 44 labour laws into four codes.
- **At present, every state decides** the minimum wage for different industries and labour classifications.
- The bill seeks to **empower the Centre to set a minimum wage across all sectors** in the country and states will have to maintain that.
- States will not be able to pay less than the national floor; however, states will be able to provide for **higher minimum wage** in their jurisdiction than fixed by the central government.
- At present, the minimum wages fixed by the Centre and states are applicable only to workers getting up to Rs 18,000 pay monthly.
- The new minimum wage norms would be applicable for all workers irrespective of their pay.
- The proposed legislation is expected to benefit over 4 crore employees across the country.

Concerns

- It seeks to expand the reach of minimum wage regulation to non-formal jobs. The **scope for intervention** in business by government inspectors has thus been vastly **increased**.
- The code assumes a **single national floor for wages** for a country as diverse as India, with so many variations to costs of living. This ignores local and sectoral conditions.
- Such regulations have often resulted in the **decrease of the number of such jobs.**

2.10 Amendments to Insolvency and Bankruptcy Code

Union Cabinet approved the proposal for an Ordinance to amend the Insolvency and Bankruptcy Code (IBC).

- IBC was enacted to ensure time bound corporate debt resolution through proceeding initiated by either the creditor or debtor with the 'National Company Law Tribunal – NCLT'.
- In the original IBC, there was a possibility for defaulters to apply as bidders in the liquidation (auctioning assets) process.
- This would have helped them regain control of their own companies with a reduced loan burden than before.
- This was seen as a clever way to gain loan reductions that could possibly impact the credibility of the insolvency resolutions.
- It has hence been considered necessary to prohibit unscrupulous defaulters from submitting resolution plans under IBC.
- The current ordinance specifies the categories of persons who are deemed ineligible henceforth to ensure credible debt resolution.
- The amendment seeks to explicitly ban certain persons from unfairly gaining control of defaulting companies in the pretext of a resolution applicant.
- This includes wilful defaulters, disqualified directors, those who have indulged in fraudulent transactions.
- Promoters whose account is classified as non-performing assets (NPA) beyond a prescribed duration will also be banned.

IBC

- The IBC 2016 was intended to expedite insolvency proceeding (loan recovery) against both individuals & firms.
- It provides for a legal framework for time-bound resolution to release assets locked up in NPA.
- Under IBC, either maximising the value of assets or liquidation (sale) of under-utilised resources to settle loans is done.

2.11 Reviewing Income Tax Act

Union government has decided to set up a panel to review the Income Tax Act, 1961.

- The Income-tax Act, 1961 is the charging Statute of Income Tax in India.
- It provides for levy, administration, collection and recovery of Income Tax.
- There is a controversial section in the Income Tax Act in India which states the Special provision relating to incomes of political parties.
- It states that any income of a political party which is chargeable under "Income from house property" or" Income from other sources" or any income by way of voluntary contributions received by a political party from any person shall not be included in the total income of the previous year of such political party.
- Recently, there has been lot of uproar by the civil society against this act, as Political parties have deposited huge cash after demonetization.
- The current law is unwieldy, and multiple court rulings over the past five decades have made Indian tax law confusing and opaque.
- The convenor of the eight-member panel will be Arbind Modi

2.12 Open Acreage Licensing Policy

The government has replaced the New Exploration and Licensing Policy (NELP) with the Open Acreage Licensing Policy (OALP).

- OALP was introduced as part of the new fiscal regime in exploration sector called Hydrocarbon Exploration and Licensing Policy (HELP).
- OALP gives an option to a **company** to **select the exploration blocks on its own,** without waiting for the formal bid round from the Government.
- Under OALP, a bidder intending to explore hydrocarbons may apply to the Government, seeking exploration of any new block which was not already covered by exploration.
- The Government will examine the interest and if it is suitable for award then the government will call for competitive bids after obtaining necessary environmental and other clearances.

- It enables a **faster survey and coverage** of the available geographical area which has potential for oil and gas discovery.
- Successful implementation of OALP requires building of **National Data Repository** on geo-scientific data.

Advantages in OALP over NELP

- By placing **greater discretion** in the hands of explorers and operators, the OALP attempts to address a major drawback in the NELP that forced energy explorers to bid for blocks chosen by the government.
- The blocks chosen by the government often had only a small fraction of hydrocarbon reserves.
- Companies can now apply for particular areas they think are attractive to invest in, offering government a better chance to woo serious energy investors.
- Companies may also submit applications through the year and not just at designated and often infrequent points, as was the case earlier.
- Also, from now on, the auctions will be held twice a year. This will lend more flexibility to the industry.

National Data Repository

- The government also introduced **National Data Repository (NDR).**
- It is envisaged as a centralised database of geological and hydrocarbon information that will be available to all.
- It will allow potential investors to make informed decisions and **will open up a new sector in India.**
- There are a number of companies that simply explore hydrocarbon basins and sell the information they gather. Thus via NDR, the government seeks to incentivise such prospectors.

Concerns

- The policy awards an extra five points to bidders for an acreage if they have already invested in the exploration and development of that area.
- It is highly doubtful **if this is an acceptable incentive,** since the investment needed to simply explore is significant.
- Also, **no such preference is given to mineral explorers** while auctioning mining rights.
- Instead, a revenue-share from mining operations is their recompense for exploration efforts.
- Another concern is **whether India can attract enough investment** to meet the government's objective of reducing oil imports by 10% by 2022, since there are already proven reserves in other parts of the world.

2.13 Norms for Airlines

The second volume of Economic Survey 2017 has pointed out that there is a large increase in capacity entitlements under bilateral air service agreement.

- **Sixth Freedom –** It is a part of bilateral air service agreement.
- It is the bilateral air traffic right to fly from a foreign country to another foreign country while stopping in one's own country.
- For e.g. Emirates operates flights between India and the U.K while stopping at Dubai, its home state.
- **0/20 Rule –** It is a rule to allow domestic airlines for overseas operations.
- It says that, a domestic airline needs to deploy at least 20 planes in the domestic sector before getting the right to fly on International routes from India.
- Earlier the rule was **5/20**, it required an Indian airline to have five years of domestic flying experience and 20 aircraft in its fleet before it could fly to overseas destinations.
- It was diluted in civil aviation policy 2016.

2.14 Uday Kotak committee - Corporate Governance

Uday Kotak committee established by SEBI has recently released its recommendations addressing rising concerns in corporate governance of listed Public Sector Enterprises (PSE) in India.

Board

- The committee recommended a minimum of 6 **directors** and a maximum of 8 to be on the board of listed entities.
- And at least 50% (currently one-third) of the board should have **independent directors** and compulsorily **one woman** among them.
- It also called for more transparency on **appointment** of independent directors and a more enhanced **role** for them.
- It proposed a mandatory **formal induction** for every new Independent Director appointed to the board.
- It said that **stakeholders** should approve the application to fill a casual vacancy of office of any Independent Director.
- It held that **no** person be appointed as **alternate director** for an independent director of a listed company.

Other Recommendations

- The panel suggested making a distinction between the roles of **chairman and MD/CEO** of listed companies.
- It emphasized on regular **interaction** between NEDs (non-executive director) and the senior management.
- It also suggested an **Audit Committee review** for the use of loans or investment by holding company for over Rs 100 crore.
- It suggested increasing the number of **Audit Committee meetings** to five every year.
- It also proposed making D&O (Directors and Officers) insurance for independent directors mandatory, for top 500 companies by market capitalization.

Independent Directors

- An Independent director is a non-executive director who does not have any kind of relationship, material or financial, with the company.
- Independent directors are to ensure the independence of decisions taken in matters related with the board.
- At present, the Companies Act, 2013, says that one-third of the directors on board of every public-listed company must be independent directors.

D&O insurance

- Directors and officers Insurance is a liability insurance payable to the directors and officers of a company, or to the organization itself.
- It is provided as reimbursement for losses or advancement of defense costs in the event of loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers.

2.15 Srikrishna Committee - White Paper on Data Protection Framework

As part of its mandate to draft a data protection and privacy Bill, the Sri Krishna Committee recently released a white paper in the regard.

- The committee has identified seven key principles for the data protection law, which include:
    1. **Technology agnosticism** - flexibility of the law for adapting to changing technologies and standards of compliance
    2. **Holistic application** - governing both private sector entities and the government; differential obligations for certain legitimate state aims
    3. **Informed consent** - ensuring by law the informed and meaningful consent of the individual
    4. **Data minimization** - data that is processed ought to be minimal, only for targeted and other compatible purposes
    5. **Controller accountability** - data controller shall be held accountable for any processing of data
    6. **Structured enforcement** - a high-powered statutory authority with sufficient capacity and decentralized mechanisms for enforcement of the data protection framework
    7. **Deterrent penalties** - penalties on wrongful processing of data to ensure deterrence

- **SPDI -** The white paper has laid down for the protection of sensitive personal data or information (SPDI) by which a person is identifiable.
- This essentially means that any social media site, search engine, telecom operator or government agency cannot sell or disclose SPDI of individuals.
- It has identified health and genetic information, religious beliefs and affiliation, sexual orientation, and racial and ethnic origin as SPDI.
- It has also placed caste and financial information in this category.
- The committee prescribes punishments in case of violations of regulations in using SPDI.
- At present, the IT Act rules on security practices and sensitive personal data are applicable only to private or corporate entities.

2.16 Relaxed KYC

- The Union Government has recently relaxed KYC norms for jewellery purchase.
- KYC means "Know Your Customer", it is a process by which Jewellers obtain information about the identity and address of the customers.
- The KYC procedure is to be completed by the jewellers while customers buying gold.
- The Prevention of Money Laundering Act (PMLA) was amended in August 2017, making the citation of PAN and Aadhaar mandatory for jewellery purchases beyond the threshold of Rs 50,000 per transaction.
- Recently government has decided to raise the exemption limit in the (PMLA) for jewellery purchases.
- Individuals can now purchase up to Rs 2 lakhs worth of jewellery (four times the limit earlier) at a time without documentation.
- This move will not only undermine the government's bold agenda against black money but also put more pressure on the external account.
- Repeated purchases of jewellery at below the stipulated limit will also allow the conversion of large sums of unaccounted cash.

2.17 National Infrastructure Investment Fund (NIIF)

- The Abu Dhabi Investment Authority (ADIA) became the first institutional investor in the NIIF with an investment of $1 billion.
- The NIIF is a trust that raises debt to invest in the equity of infrastructure finance companies.
- It acts like a bankers' bank in infrastructure financing. Government owns 49% of NIIF.
- It provides equity support to NBFCs/ Financial Institutions (FIs) engaged in infrastructure financing.
- It also provides equity/ debt to commercially viable projects, both Greenfield and Brownfield, including stalled projects.
- It is being considered as an Alternative Investment Fund (AIF) under SEBI regulation.
- A typical sovereign wealth fund (SWF) will be a state-owned investment company owned by governments and invests their own money in foreign countries.
- Though the NIIF acts like an SWF, it does not invest in assets such as stocks, bonds, real estate, commodities etc like an SMF do and therefore cannot be called so.

2.18 Small Savings Scheme

- In a notification, the government has allowed banks, including top three private sector lenders, to accept deposits under various small savings schemes.
- This is done mainly in order to encourage savings through schemes like National Savings Certificate (NSC), recurring deposits and monthly income plan.
- As per the notification, all public sector banks and private sector ICICI Bank, HDFC Bank and Axis Bank will receive subscription from the expanded portfolios.

- Until now, most of the small savings schemes were sold through post offices.

2.19 Higher Education Financing Agency

The Government has signed an agreement with Canara Bank to set up a non-banking financial company (NBFC) called the Higher Education Finance Agency (HEFA).

- It will be a joint venture between the **HRD Ministry** and the bank**.**
- It is formed to give a major push for creation of high quality **infrastructure in premier educational institutions.**
- HEFA will leverage the equity to rise up to Rs. 20,000 crore for the funding of world-class infrastructure at the IITs, IIMs, the National Institutes of Technology (NITs) and such other institutions.
- The HEFA would finance the civil and lab infrastructure projects through a 10-year loan.
- NBFC will rise funds from the market and also mobilize CSR funds from PSUs/Corporates and lend to government-run higher educational institutions for promoting research and innovation as well.

2.20 National Bio-Pharma Mission

- It was launched recently and it is to be implemented by Biotechnology Industry Research Assistance Council (BIRAC).
- BIRAC is a Public Sector Undertaking of Department of Biotechnology, Ministry of Science & Technology
- The mission is aimed at accelerating biopharmaceutical development in the country and is expected to bring together expertise from national and international corridors to provide strategic guidance and direction to move promising solutions
- The programme named Innovate in India (i3) will be the part of the mission and bring an investment of USD 250 million with USD 125 million as a loan from World Bank.
- It aspires to create an enabling ecosystem to promote entrepreneurship and indigenous manufacturing in the sector.

2.21 E -Shakti

- E - Shakti is a pilot project of National Bank for Agriculture and Rural Development (NABARD).
- The project aims at digitisation of Self Help Groups (SHGs).
- It was initiated to address certain aspects like improving the quality of book keeping of SHGs and to enable banks to take informed credit decisions.

2.22 Long Term Irrigation Fund

The Union Cabinet recently approved raising Extra Budgetary Resources upto Rs. 9020 crore for Long Term Irrigation Fund during the year 2017-18.

- To cater to the large fund requirement and ensure completion of these projects, Long Term Irrigation Fund (LTIF) in NABARD with an initial corpus of Rs. 20,000 crore was created.
- It is for funding of Central and State share for the identified ongoing projects under PMKSY (AIBP and CAD).
- A large number of major and medium irrigation projects taken up under Accelerated Irrigation Benefit Programme (AIBP) are languishing mainly due to inadequate provision of funds.
- During 2016-17, 99 ongoing projects under Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) - AIBP were identified for completion in phases by December-2019.
- On completion, the increased irrigation potential will increase cropping intensity, bring change in cropping pattern and promote agro processing and other ancillary activities.

2.23 AGRI UDAAN- Food and Agribusiness Accelerator 2.0

- AGRI UDAAN is a unique initiative for **upliftment of Agri start-ups.**
- It is implemented by **Indian Council of Agriculture Research** in collaboration with **IIM-Ahmadabad**.
- It aims at scaling up innovative start-ups through education, mentorship, and financing.
- The initiative has 6 month program in which shortlisted Agri startups with promising innovative business models will be mentored and guided to scale up their operations with market traction.

2.24 Saubhagya Scheme

- PM recently launched Pradhan Mantri Sahaj Bijli Har Ghar Yojana, also known as Saubhagya scheme.
- It aims to make electricity accessible to every household by the end of 2018.
- Under the scheme poor households who have no access to electricity will be provided electricity connections free of cost.
- The beneficiaries for free electricity connections would be identified using Socio Economic and Caste Census (SECC) 2011 data.
- This scheme hopes to improve electricity access within villages that are already classified as "electrified", according to the criterion that 10% of households enjoy access to electricity.
- The solar power packs with battery bank for un-electrified households located in remote and inaccessible areas will be provided.
- The Rural Electrification Corporation Limited (REC) will remain the nodal agency for the operationalization of the scheme throughout the country.

2.25 Smart Agriculture Conclave

- The conclave is organised by Department of Biotechnology under the Ministry of Science and Technology in partnership with UK research councils.
- The objective of this conclave is to set the stage for "Farmer Zone".
- It is a collective open-source data platform for smart agriculture which will use biological research and data that will be beneficial for small and marginal farmers.
- It helps in dealing with climate change, weather predictions, soil, water and seed requirements, and providing market intelligence.

2.26 National Agriculture Higher Education Project

- The World Bank and Indian Council of Agricultural Research (ICAR) have recently launched the National Agricultural Higher Education Project (NAHEP).
- It is a Rs.1,100 Cr project that will benefit all 75 agricultural universities under ICAR in the country.
- The funding for NAHEP is split into half and shared by Government of India and World Bank.
- The funds will be disbursed by ICAR to improve infrastructure and facilities, to researchers who show academic excellence and to innovative projects that need scaling up.
- NAHEP is aimed at improving the relevance and quality of higher education in agriculture.
- The project aims at reforming the agricultural higher education scenario that is infested by pervasive academic inbreeding.
- e.g. 51% of Agricultural University faculty have earned all their degrees from the same university.
- This situation has led to limited interaction with researchers and agri-industries.

3. INFRASTRUCTURE

3.1 Air India Disinvestment

The Union Cabinet gave its approval for disinvestment of government equity in Air India.

Rationale

- Air India has been surviving on a Rs. 30,000-crore bailout package put together in 2012 to help its turnaround, and the debt relief provided by public sector banks.
- More than 18,000 workers were on its rolls for a fleet of just about two dozen planes.
- It continues to post heavy **annual losses** and has a massive **outstanding debt** of Rs 46,500 crore.

3.2 ONGC-HPCL Merger

The Union Cabinet nodded to the purchase of Hindustan Petroleum Corporation Limited by the Oil and Natural Gas Corporation.

Oil firms in India

- India imports –
  1. 80% of its crude oil demand
  2. 50% of its liquefied petroleum gas (LPG) demand
  3. 35% of its natural gas requirement
- India has 18 PSU oil firms.
- Oil and Natural Gas Corporation (ONGC), is the country's largest oil producer.
- Hindustan Petroleum Corporation (HPCL) is the country's second largest fuel retailer.
- Gas (India) Limited (GAIL) is the largest state-owned natural gas processing and distribution company in India.

Need for the merger

- Addressing India's rising oil import dependency
- Improving the handle on energy security
- Creating larger entities and a national brand through merger of public sector oil companies
- Trying the model of many Asian countries that have single integrated oil companies, as the occupational and maintenance cost of various agencies for one single sector is tedious.

Advantages

- Helps India compete at the global level, and help better absorb oil price shocks
- Promotes economic growth by cut on various managing expenses
- Helps the government for proper utilization of financial resources and technological expertise
- exploring domestic oil potential

Concerns and Challenges

- Uncertainty on the financial viability of ONGC to make this deal
- Existing proofs for the inefficiency of ONGC investment on different firms
- Past slippage in HPCL's share price on the BSE
- Assimilating employees from very different work cultures
- Possible reduction in the quality of service due to lack of competition as a result of integration

3.3 Hill Area Development Programme

- The hilly areas of **Manipur, Tripura and Assam** have a distinct geo-physical entity and are lagging in socio-economic development.
- As a result of peculiar topography, there is a wide gap between the hill and valley districts in terms of infrastructure, quality of roads, health and education etc.

District Infrastructure Index

The DII is based on seven broad indicators —

1. Transport facilities in terms of road density and road quality,
2. Energy,
3. Water supply,
4. Education,
5. Health facilities,
6. Communication infrastructure &
7. Banking facilities.

- The three districts, Tamenglong, Chandel and Churachandpur, which were ranked lowest in the composite district infrastructure index, belonged to Manipur.
- To address these factors HADP was launched by the Ministry of Development of North Eastern Region (DoNER).
- The programme is aimed at giving a focused attention to the lesser developed hilly areas of these three states and will be initiated on a pilot basis in the hilly districts of Manipur.

3.4 Infrastructure Status for Logistics sector

- The union Finance Ministry has recently granted the "Infrastructure" status to the Logistics sector.
- It is being given at the time when the integrated logistics sector development is needed and logistics cost is very high compared to developed countries.
- The implications of getting infrastructure status include
  - i. It will get longer maturity loans compared to typical manufacturing sector
  - ii. It will be eligible for slightly higher equity ratios while applying for loans
  - iii. It will have certain advantages and flexibility while applying external commercial borrowing

iv. It will allow doing refinancing with specialized lenders like IDFC, IIFCL etc

- It is expected that it will improve efficiency and reduce the cost of capital in transportation and warehousing, thereby reducing the cost of logistics.

3.5 Mega Coastal Economic Zone

The government has given a green signal for setting up the country's first mega Coastal Economic Zone (CEZ) at the Jawaharlal Nehru Port in Maharashtra.

- It will stretch across Nashik, Thane, Mumbai, Pune and Raigarh.
- It is part of the Union government's plan to develop 14 such industrial clusters.
- Around 45 companies from the telecom, auto and IT sectors are soon expected to bid for 200 hectares of land to start manufacturing units in the zone
- The move is expected to see an investment of Rs 15,000 crore in the first phase and will create more than 1.5 lakh jobs

Sagarmala

- Last year, the Union Cabinet had approved setting up 14 mega CEZs under the National Perspective Plan of the Sagarmala Programme.
- According to the Ministry of Shipping, the Sagarmala Plan will substantially reduce export-import and domestic trade costs with minimal investment
- The main aim of the project is to develop port infrastructure in India that will boost transport to and from ports.

3.6 Bharatmala Project

The Union government recently launched Bharatmala project.

- It is an umbrella project under the Ministry of Road Transport and Highways.
- Under the plan the government intends to develop 83,677 km of highways and roads at an investment of around Rs 7 lakh crore over the next five years.
- In the first phase, the plan is to construct 34,800 km of highways at a cost of Rs 5.35 lakh crore.
- It focuses on the new initiatives like development of Border and International connectivity roads, Coastal & port connectivity roads, improving efficiency of National Corridors, Economic corridors and others.
- It will subsume unfinished parts of National Highway Development Program (NHDP).
- National Highways Development Project (NHDP) to potentially generate 10 million jobs and result in a 3 per cent bump-up in the gross domestic product.
- In Bharatmala programme, the focus is on economic corridors (9,000 km) is expected to ensure that investments are targeted at economic returns.

3.7 RORO Ferry Service

- PM has recently inaugurated the first phase of the 'roll-on-roll-off' (RORO) ferry service between Ghogha in Saurashtra and Dahej in south Gujarat in the Gulf of Khambhat region.
- This is the first of its kind world class RORO ferry service project for passengers in South Asia.
- In RO-RO service, vessels have either built-in or shore-based ramps that allow the cargo to be efficiently rolled on and off the vessel when in port.
- This is in opposite to the lift-on and lift-off (lo-lo) vessels, which use a crane to load and unload cargo.
- The project will reduce travel time of 8 hours to 1 hour only.
- It will reduce a distance of 360 kms by road to 31 kms only by sea.

3.8 National Power Portal (NPP)

- Ministry of Power has recently launched the National Power Portal.
- It is a centralized platform for collation and dissemination of Indian power sector information.
- It act as the single point interface for all Power Sector Apps launched previously by the Ministry, like TARANG, UJALA, VIDYUT PRAVAH, GARV, URJA, MERIT.
- It has been designed and developed to disseminate analyzed information about the sector through GIS enabled navigation and visualization chart windows.
- NPP is integrated with associated systems of Central Electricity Authority (CEA), Power Finance Corporation (PFC), Rural Electrification Corporation (REC) and other major utilities.
- It would serve as single authentic source of power sector information to apex bodies.
- The Nodal Agency for implementation of NPP and its operational control is CEA.

3.9 Startup India Virtual Hub

- It is an online platform for all stakeholders of the entrepreneurial ecosystem in India to discover, connect and engage with each other launched by the Ministry of Commerce & Industry.
- It is aimed at creating a marketplace where all the stakeholders can interact, exchange knowledge, and enable each other to grow.
- It will streamline the lifecycle of existing and potential startups, helping them access the right resources at the right time.
- It will also facilitate learning & development, networking, mentorship, funding, etc. for startups.
- India is the third largest startup ecosystem around the globe, with 3-4 startups commencing every day.

3.10 Bharat Bill Payment System (BBPS)

- Recently, RBI has given approval to National Payments Corporation of India (NPCI) to function as the Bharat Bill Payment Central Unit (BBPCU) and operate Bharat Bill Payment System (BBPS).
- This initiative will provide a major push to digital payments as it is a big step forward in formalising the bill payment system in the country.
- BBPS is an integrated bill payment system in India offering interoperable bill payment service to customers through a network of agents, enabling multiple payment modes and providing instant confirmation of payment.
- NPCI will be responsible for setting business standards, rules and procedures for technical and business requirements for all the participants.
- NPCI, as the BBPCU, will also undertake clearing and settlement activities related to transactions routed through BBPS.
- Payments through BBPS may be made using cash, transfer cheques and electronic modes.
- Bill aggregators and banks which will function as operating units, will carry out the transactions for the customers.

3.11 e-RaKAM

Government has recently launched a portal named e-Rashtriya Kisan Agri Mandi (E-RaKAM).

- The digital platform portal enables farmers to sell their agricultural products through auction.
- Various E-Rakam centers are being developed to facilitate farmers for online sale of their products across the country.
- The farmers would get the payment for their products directly into their bank accounts without any intermediaries.
- Central Rail side Warehousing Company (CRWC) Ltd, a subsidiary of the Central Warehousing Corporation Ltd, will provide logistics support for sellers and buyers in case they need it.

3.12 Electronic Negotiable Warehouse Receipt (e-NWR) System

- The Web Portal of Warehousing Development and Regulatory Authority (WDRA) & "Electronic Negotiable Warehouse Receipt (e-NWR) System" were launched by the Ministry of Consumer Affairs, Food and Public Distribution.
- The warehouse receipts have details of the quantity, quality and the warehouse where the commodity is stored.
- Till now, the receipts were issued manually. Now, it will be given in an electronic format.
- These receipts are issued in negotiable form, making them eligible as collateral for loans.
- Warehouse receipts are made negotiable under the Warehouse (Development and Regulation) Act, 2007.
- Farmers will not have to worry about losing the receipt as it will be uploaded online and will be accessible to banks while sanctioning loan.
- The e-NWRs would have no chances of any tempering, mutilation, fudging, loss or damage and with no possibility of any multiple financing.
- Hence, these NWRs will not only facilitate an easy pledge financing by banks and other financial institutions but also smooth trading on various trading centres like commodity exchanges, e-NAM and other electronic platforms.
- e-NWRs will also save expenditure in logistics as the stocks could be traded through multiple buyers without physical movement.

4. BANKING

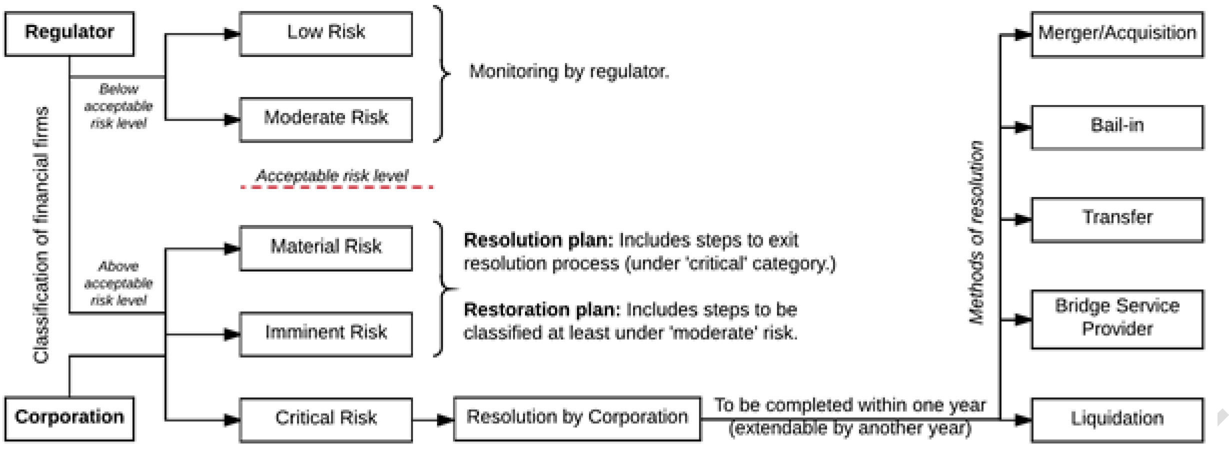
4.1 Financial Resolution and Deposit Insurance Bill

The Financial Resolution and Deposit Insurance Bill, 2017 (FRDI Bill) was recently introduced in the Parliament.

- The bill repeals the Deposit Insurance and Credit Guarantee Corporation Act, 1962 (DICGC) and amends 12 other laws.
- It seeks to create a consolidated framework for the resolution of financial firms.
- The central government will establish a Resolution Corporation in this regard.

Resolution Corporation

- It will have a Chairperson and its members will include representatives from the **Finance Ministry, RBI, and SEBI, among others**.
- **Mandates** - The Corporation will:
    1. Provide deposit insurance to banks
    2. Classify service providers based on their risk
    3. Undertake resolution of service providers in case of failure
- It may also investigate the activities of service providers, or undertake search and seizure operations if provisions of the Bill are being contravened.
- **Risk based classification -** The Corporation, in consultation with the respective regulators specify criteria for classifying service providers based on their risk of failure.



If resolution not completed within one year (extendable by another year), the financial firm will be liquidated

- A service provider categorized under the 'imminent' or 'critical' category will submit a restoration plan to the regulator, and a resolution plan to the Corporation.
- These plans will contain information, including:
  i. details of assets and liabilities
  ii. steps to improve risk based categorization
  iii. information necessary for resolution of the service provider
- **Administration -** The Corporation will take over the management of the service provider from the date it is classified as 'critical'.

Resolution

- The resolution of a service provider classified under the 'critical' category can be done using
  1. Transfer of its assets and liabilities to another person
  2. Merger or acquisition
  3. Creating a bridge financial
  4. Bail-in
  5. Liquidation
- **Time limit -** The service provider will automatically be liquidated if its resolution is not completed within the maximum time period of two years.
- **Liquidation and distribution of assets -** The Corporation will require the approval of the **National Company Law Tribunal** to liquidate the assets of a service provider.
- **Offences -** The Bill specifies penalties for offences such as concealment of property, and destruction or falsification of evidence.

Concerns

- The proposed Bill seeks closure of the **DICGC**, as the credit guarantee will be taken care of by the Resolution Corporation.
- According to Section 52 of the proposed Bill, depositors will lose their rightful claim to retrieve their **savings** in case of liquidation of banks and insurance companies.
- It does not specify the fixed **insured amount** to be paid by the bank to the resolution corporation.
- It does not even specify the amount a depositor would be paid in case of liquidation.
- It is given that corporation may decide on the **compensation** in case of any bank failure, which could well be less than Rs. 1 lakh.

Bail In

- The bill proposes 'bail-in' as one of the methods to resolution.
- Accordingly, banks **issue securities** in lieu of the money deposited, which may work against the depositors.

- Thus, there is a need to enhance insurance cover on deposits which should ideally continue to be managed by the RBI.

Difference from IBC

- Currently, there is no specialized law to resolve financial firms.
- The Bill deals only with the companies that are in the financial sector.
- These include banks, insurance companies, and stock exchanges, among others.
- The Insolvency and Bankruptcy Code, 2016 deals with companies that go bankrupt or insolvent in all other sectors.

4.2 Extending Deadline on Basel III Norms

Government is in talks with RBI to postpone the implementation of the Basel-III norms in India.

- **Basel guidelines** refer to broad supervisory standards formulated by the Basel Committee on Banking Supervision (BCBS), Basel, Switzerland.
- The purpose is to ensure that financial institutions have enough capital to meet obligations and absorb unexpected losses.
- **Basel III norms** (2009) were introduced in response to financial crisis of 2008.
- It introduced tighter capital requirements.
- **RBI guidelines** in this regard are more stringent compared with actual Basel-III norms.
- Accordingly, Indian banks must maintain by 2019
    i. a minimum common equity ratio of 8%
    ii. a total capital of 11.5%
- **Concerns** - Till March 2017, the government owned banks maintained an average common equity ratio of 8.5%.
- Mounting stressed assets in Indian banking sector makes its hard for raising the additional capital requirement to meet the norms by 2019.

4.3 PSB mergers

The consensus among policymakers about greater consolidation in the public sector banking through mergers is gaining momentum.

- Merger as an important reform was suggested by the **Narasimham Committee** in **1998**.
- It argued for a three-tier structure for Indian banks:
    i. three large banks with international presence at the top
    ii. eight to 10 national banks at tier two
    iii. a large number of regional and local banks at the bottom
- But both the structure and logic have changed now with the concern of growing non-performing assets (NPAs).
- Merging 2 PSBs with high NPAs may not be a wise decision.
- Some other limitations and challenges to mergers include:
    i. cultural compatibility among banks
    ii. employee integration
    iii. synchronizing accounting
    iv. policies for recognition of bad loans
- Clearing the NPAs, improving administration, increased transparency in the working of PSBs would be a better way out in the current situation.

State Bank of India

- Five associates and the Bharatiya Mahila Bank became part of the State Bank of India (SBI) recently.
- The financial performance of the merged State Bank of India slowed down after the merger.

4.4 Banking Ombudsman

Recently, RBI has widened the scope of the Banking Ombudsman Scheme 2006 to mobile banking and electronic banking services.

- **Banking Ombudsman Scheme** enables an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks.
- The **Banking Ombudsman** is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services.
- All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme.
- The Banking Ombudsman does not charge any fee for filing and resolving customers' complaints.
- If one is not satisfied with the decision passed by the Banking Ombudsman, one can approach the **appellate authority** which is vested with a Deputy Governor of the RBI.
- The recent change enables a customer to lodge a complaint against the bank for non-adherence to instructions related to mobile and electronic banking services.

4.5 Banking Regulation (Amendment) Bill, 2017

The Banking Regulation (Amendment) Bill, 2017 was introduced recently.

- It seeks to amend the Banking Regulation Act, 1949 and replace the Banking Regulation (Amendment) Ordinance, 2017.
- The Bill empowers the **RBI** to resolve the problem of stressed assets.
- It allows the RBI to **initiate proceedings** in case of a default in loan repayment.
- The RBI may, from time to time, issue **directions** to banks for resolution of stressed assets.
- It can appoint **authorities or committees** to advise the banking companies on stressed asset resolution.
- The members of such committees will be appointed or approved by the RBI.
- The recovery proceedings will be carried out under the **Insolvency and Bankruptcy Code**, 2016 that provides for a time-bound process to resolve defaults.
- In the case of wilful defaulters their names will be made public.
- The Bill inserts a provision to state that it will also be applicable to the **State Bank of India**, its subsidiaries, and **Regional Rural Banks**.

4.6 Marginal Cost of Funds Based Lending Rate

While cutting the repo rate by 25 basis points, RBI called on banks to reduce rates for existing borrowers too.

Earlier Base Rate System

- **Base rate** is the minimum rate set by the RBI below which banks are not allowed to lend to its customers.
- Banks calculate the lending rates to its customers based on the base rate.
- **Components** of base rate system
  - i. Cost of funds (interest rates offered by banks on deposits)
  - ii. Operating expenses to run the bank
  - iii. Minimum Rate of return (margin or profit)
  - iv. Cost of maintaining the CRR
- The repo rate and other borrowing rates were not explicitly considered under the base rate system.
- So the effect of **Repo rate is not reflected** in the base rates; banks often do not reduce their lending rate even after the reduction of repo rate, to increase their profits.
- Repo rate is the interest rate at which the RBI lends money to commercial banks.

MCLR

- In April 2016 MCLR RBI introduced MCLR, modifying the existing base rate system.
- The MCLR should be revised monthly by considering some new set of factors.

- **Components** of MCLR: are
  1. Marginal cost of funds
  2. cost for the banks in maintaining CRR with the RBI
  3. operating expenses incurred by the banks
  4. Tenor premium
- **Marginal cost -** The marginal cost that is the novel element of the MCLR.
- The Marginal Cost should be charged on the basis of following factors:
  1. Interest rate given for various types of deposits
  2. Borrowings – Short term interest rate or the Repo rate, etc., Long term rupee borrowing rate
  3. Return on networth – in accordance with capital adequacy norms.
- **Benefit -** MCLR is determined largely by the marginal cost for funds and especially by the deposit rate and by the repo rate.
- So any change in repo rate brings changes in marginal cost and hence the MCLR should also be changed, thereby reflecting in the banks' lending rates too.
- **Concern -** A large proportion of loans are still linked to the base rate and such borrowers have not benefited to the extent of the new borrowers.
- While banks cut the marginal cost of funds based lending rate (MCLR) by up to 90 bps, the reduction in the base rate was much lower.
- The difference between the base rate and MCLR, for some banks, is as high as 90-100 bps.

4.7 External Benchmark - Loan Pricing

- The present loan pricing regime is based on marginal cost of fund based lending rate (MCLR).
- Though MCLR includes repo rate, the effect of change in repo by RBI is not fully translated to the public.
- So an internal Study Group headed by Dr Janak Raj, constituted by the RBI has recommended basing external benchmark for setting bank interest rates.
- **Benchmark -** The study group has cited some 13 possible options as external benchmarks for determining interest rates.
- The group has shortlisted 3 among these, one of which is to be selected by the RBI. Those are-
  1. T-Bill rate
  2. Certificates of Deposit (CD) rate
  3. RBI's policy repo rate
- It has been recommended that all floating rate loans extended beginning April 1, 2018 could be referenced to the selected external benchmark.
- Banks may be advised to facilitate existing loans to shift to new benchmark without any conversion fee or any other charges within one year of its introduction.

Interest Rate Spread

- Spread refers to the difference in borrowing rates and lending rates of financial institutions.
- In other words it is the interest yield on earning assets such as a loan minus interest rates paid on borrowed funds.

T-Bill Rate

- Treasury Bills are government bonds or debt securities with maturity of less than a year.
- T-Bill Rates are determined by the central and used as a primary instrument for regulating money supply and raising funds.

Certificate of Deposit

- A certificate of deposit (CD) is a savings certificate with a fixed maturity date and specified fixed interest rate.
- A CD restricts access to the funds until the maturity date of the investment.

- **Interest Rate Spread -** Also, the decision on the interest rate spread over the external benchmark should be left to the commercial judgment of banks.

4.8 Reform on Floating Rates

A committee tasked by RBI to look into banks' loan charges has suggested their recommendations.

- It has suggested that floating interest rates for home and personal loans must be linked to an external indicator.
- External indicators can be like the RBI's repo rate, the Treasury bill rate or the interest rate on certificates of loan deposits.
- It suggests updating the floating rates in response to the policy rate on a quarterly rather than an annual basis.
- It also forbids the bank from converting loans to different interest rates following a change in the policy rate.

Floating Interest Rates

- A floating interest rate, also known as a variable or adjustable rate, refers to any type of debt instrument, such as a loan, bond, mortgage, or credit.
- Floating interest rates typically change based on a reference rate like a benchmark of any financial factor, such as the Consumer Price Index.
- The basis of float will be agreed between the borrower and lender, but 1, 3, 6 or 12 month money market rates are commonly used for commercial loans.

4.9 RBI's Surplus

RBI's recent transfer of surplus to the Government of India was less than half of the surplus transfer in the previous year.

- RBI's surplus represents the difference of income over its expenditure.
- The transfer of profits from RBI to the government is provided in Section 47 of the RBI Act.
- It states that the balance of the profits of the bank is required to be paid to the Central government.
- The key source of income for the Central bank is the interest arising from its foreign assets and domestic assets.
- It includes the interests earned on bond holdings through open market operations or purchase and sale of government securities.

YH Malegam Committee

- In 2012-13, YH Malegam Committee recommended the central bank to transfer its entire surplus to the government.
- The transfer is without allocating anything to RBI's various reserve funds, because it had adequate reserve funds.
- Thus, RBI has been transferring its entire surplus to the government since 2013-14.

Possible reasons for decline

- **Demonetisation -** RBI's expenses would have gone up on account of the demonetisation exercise.
- Also the notes that are not returned remain as the RBI's liability and cannot be passed on to the government.
- **Reverse repo -** Reverse repo rate is the interest rate paid by RBI when it borrows money from banks by lending securities.
- Multiple Reverse-repo auctions were conducted by RBI to drain surplus liquidity with the banking system after the demonetisation.
- On an average, RBI paid 6% interest on them, further reducing its surplus.
- **Rupee Appreciation -** The rupee has appreciated by more than 6% against the dollar since January 2017.
- This had depressed returns, in rupee terms, on the RBI's foreign holdings.
- Lower surplus will exert pressure on the government to meet its fiscal deficit (FD).

4.10 Failure of Bank Board Bureau

- The bank board bureau setup created to monitor public sector banks is being irrelevant.
- The government bank formed Bank Board Bureau headed by former Comptroller & Auditor General.

- It been set up to examine how the functioning and governance of PSBs could be reformed.
- The Bureau was entrusted with the task of choosing the top leadership of PSBs and improving governance norms.
- It is seen as a step towards increasing PSBs' independence and raising their level of competence.
- Its main purpose was to separate the day-to-day governance and supervision of the banks from the concerns of their ultimate owner, the government.
- The Bureau when it was eventually formed did not have the power to oversee all senior appointments, including board-level choices.
- It was reduced essentially to recommending names of the heads of PSBs and financial institutions.
- Some new members of boards "non-official directors" are also members of the ruling, who act according to political desires.

4.11 Recapitalisation Bonds

The Centre announced that it was working on a Rs.2.11 lakh crore recapitalisation package for PSBs.

- PSBs account for 70% of NPAs in the banking system at Rs 7.33 lakh crore.
- Indiscriminate lending earlier by banks led to a high level of NPAs.
- Private investments remain elusive in the face of the "twin-balance sheet problem" afflicting corporate India and public sector banks reflected in slow bank credit growth.
- Banks have also found it difficult to raise capital on their own through equity issuances and sale of non-core assets..
- The Government being the majority shareholder in PSBs is obliged to provide this capital.
- The Rs.18,139 crore infusion is to be done from the Budget i.e from recapitalisation plan under Indradhanush.
- Rs.58,000 crore is to be raised from PSB stake sales/disinvestment.
- The rest Rs.1.35 lakh crore is to be raised via recapitalisation bonds.

Recap Bonds

- The issue of recapitalisation bonds will essentially mean that the government issues bonds to banks in lieu of capital.
- Recap Bonds are used as payment for the shares bought by the government to ailing banks in a bid to raise their capitals.
- Banks will subscribe to these bonds as part of their investment portfolio.
- They will use excess deposits they acquired from the demonetisation drive to invest in the bonds.
- The money raised by the government will then be used to infuse fresh equity into banks.
- The government will follow a differential approach, based on their performance and potential, in injecting funds into the banks.
- PSBs that can lend effectively to the private sector will be given priority in fund infusion.

4.12 Domestic Systemically Important Banks (D-SIBs)

- Following the global financial crisis of 2008, it was observed that problems faced by certain large and highly interconnected financial institutions hampered the functioning of the financial system.
- This in turn negatively impacted the real economy.
- It was decided to identify such institutions and prescribe them higher capital requirements.
- Following this, RBI had started listing D-SIBs from August 2015.
- The banking regulator prescribes higher capital requirements for such entities.
- HDFC Bank is the second largest private sector lender of the country
- RBI has added HDFC in the list of D-SIBs.
- State Bank of India and ICICI Bank are also in this category.

4.13 Bhandhan Bank

Bandhan bank has initiated the process of an Initial Public Offering (IPO).

- Bandhan is the first microfinance institution to receive universal banking licence in 2015.
- Universal banking combines the services of a commercial bank and an investment bank, providing all services within one entity.
- The services can include deposit accounts, a variety of investment services and may even provide insurance services.
- The RBI's guidelines mandate the bank to get listed within three years from commencement of banking operations.

4.14 WLTF Banks

RBI recently specified the eligibility criteria of projects that can be funded by wholesale and long-term finance (WLTF) banks.

- The objective of WLTF banks is to fund long-term infrastructure and corporate projects.
- These banks will fill the funding gaps which are left by the commercial banks.
- The RBI proposes an initial minimum capital of Rs 1,000 crore.
- In the long term, these banks are funded appropriately to the risk in their assets.

Source of funding

- WLTF banks are **not** expected to accept **savings deposits**.
- **Current account and term deposits** may be mobilized by these banks, with a higher threshold for term deposits, say above Rs 10 crore.
- There could be reasonable **restrictions on premature withdrawal** of these deposits
- Issuance of **bonds** locally or abroad in rupee-denomination could be another source.
- Other funding sources such as commercial bank borrowing, certificate of deposits, securitization of assets etc. should be available for WLTF banks.

Concerns

- The funds which are received by small marginal banks from RBI could be diverted due to these new banks.
- These banks may be counter-productive for the commercial banks and a greater challenge for payment banks and small finance banks.

4.15 Peer to Peer (P2P) Lending

RBI is looking at allowing players in the P2P lending sector to have an offline presence besides an online one.

- P2P lending is a form of crowd-sourcing where individuals or businesses can borrow money via online platforms.
- This can be without the use of an official financial institution as an intermediary.
- P2P lending platforms are largely technology companies registered under the Companies Act.
- These platforms act as aggregators for lenders and borrowers.
- The interest rate may be set by the platform or by mutual agreement between the borrower and the lender.
- The platform provides the service of collecting loan repayments and doing preliminary assessment on the borrower's creditworthiness. It makes a profit from arrangement fees.
- If it is allowed to have offline presence, it will be just like chit funds.
- Further, to attract more players into the P2P space, entities other than those registered under the Companies Act may be allowed entry.

4.16 Financial Data Management Centre

Law Ministry has recently approved the creation of the Financial Data Management Centre (FDMC).

- RBI would soon no longer be the sole collector and custodian of financial data.

- FDMC will collect data in electronic format directly from the financial regulators.
- **Legal** - In order to facilitate FDMC functioning, "consequential amendments" in the RBI Act, Banking Regulation Act and the Payment and Settlement Systems Act are also required.
- This is because the confidentiality clauses do not allow access to raw data.
- Moreover, the RBI is against sharing raw data that it gets from banks and other market sources with FDMC.
- As, it is not obliged to share confidential client information of banks with anybody.
- The only exception is when a law enforcement agency has to get specifics on an individual company for investigation purpose.

4.17 Public Credit Registry

RBI has constituted a High Level Task Force on Public Credit Registry (PCR)

- This will suggest a roadmap for developing a transparent, comprehensive and near-real-time PCR for India.
- **PCR** is an extensive central database of bank loans (credit information) that is accessible to all stakeholders.
- PCR will be managed by a public authority like the central bank.
- It captures credit data on all kinds of loans.
- This will be helpful in improving assessment of credit risk by the banks, early detection of non-performing assets (NPAs), and to improve recovery of loans.
- It certifies the details of collaterals, enables the writing of contracts that prevent over-pledging of collateral by a borrower.
- It will also help to prevent multiple financing against the same property.
- Initially, PCR will cover banks' customers; it can then be expanded to cover other financial institutions (NBFCs).
- In all, PCR could help enhancing efficiency of the credit market, increase financial inclusion, and improve ease of doing business.

4.18 Information Utility

- India's first Information Utility (IU) under the Insolvency and Bankruptcy Code (IBC) was launched recently.
- The IBC regulator Insolvency and Bankruptcy Board of India (IBBC) granted the National e-Governance Services Ltd (NeSL) renewal registration for Information Utility till 2022.
- IU will serve as a store of information on all financial transactions of lenders and authenticated by borrowers and creditors.
- It store details of borrowers, defaults and security interest with safeguards.
- It is mandatory for financial creditors to provide financial information to the information utility.
- Hence, database and records maintained by them would help lenders in taking informed decisions about credit transactions.
- Information available with the utility can be used as evidence in bankruptcy cases before the National Company Law Tribunal.
- They are governed by the Insolvency and Bankruptcy code 2016 and IBBI (Information Utilities) Regulations 2017 and IBBI overseas aspects such as registration and cancellation of these entities, their shareholding and governance among others.

5. FINANCIAL MARKET

5.1 Municipal Bonds in India

Pune Municipal Corporation recently succeeded by issuing municipal bond, serving as a role model for local bodies.

- **Municipal bond** is a debt security issued by a state, municipality or county to finance its capital expenditures.
- Municipal bonds are mostly exempt from federal taxes and from most state and local taxes if they conform to certain rules, making them especially attractive to people in high income tax brackets.

- Their interest rates will be market-linked.
- Both public issue and private issue can be adopted for municipal bonds.
- **Revenue Bond** - In 2015, SEBI made fresh guidelines for the issue of municipal bonds for enabling the ULBs to mobilise money.
- SEBI allowed urban local bodies to raise money through the issue of revenue bonds as well.
- Municipal bonds where the funds raised are kept for one project are termed revenue bonds. Servicing of these bonds can be made from revenue accrued from the project.
- **Need** - Municipalities and Panchayats have only limited revenues and more importantly, very limited options to borrow from the market.
- ULBs increasingly need money to finance infrastructural expenditure, especially smart cities and other urban development projects such as AMRUT necessitate them to create finance and be self-sustaining.

5.2 Options Trading in Commodity Futures

Securities and Exchange Board of India (SEBI) recently laid out rules for the introduction of commodity options. SEBI has also permitted options trading in commodity futures.

Futures and Options

- **Derivatives** are financial instruments with a price that is dependent upon or derived from one or more underlying assets.
- Futures and options represent two of the most common forms of "Derivatives".
- An **option** gives the buyer the right, but not the obligation to buy (or sell) a certain asset at a specific price at any time during the life of the contract.
- In **futures** contract buyer has the obligation to purchase a specific asset, and the seller has to sell and deliver that asset at a specific future date.

Options trading in commodity futures

- SEBI allowed commodity exchanges to launch options in agri and non-agri commodity futures if they pass the minimum average daily volume requirement.
- Options are better hedging-and-trading tools than futures as losses are limited for the buyer and costs are lower. Buyer is less affected by volatility in market price.
- The launch of options will boost overall market participation and also complement the existing futures.
- The combination of futures and options can give market participants the benefit of price discovery of futures.

5.3 Green Bonds by REC

Recently REC has become the first Indian PSU to issue USD green bonds and raised USD 450 million from international markets.

- Green bonds are bonds specially created to fund projects that have positive environmental/climate benefits.
- REC is a Navratna company under the administrative control of the Ministry of Power.
- It provides financial assistance to the power sector in all segments, including Generation, Transmission or Distribution.
- It is the nodal agency by the Government of India for implementation of Deendayal Upadhyaya Gram Jyoti Yojana.
- It is also the coordinating agency for rolling out Ujwal Discom Assurance Yojana.
- It funds its business with market borrowings, including bonds and term loans apart from foreign borrowings.
- REC's green bond is the first to be listed on the

Climate Bonds Standard and Certification Scheme

- It is a Fair Trade-like labelling scheme for bonds.
- The Scheme is used globally by bond issuers, governments, investors and the financial markets to prioritise investments which genuinely contribute to addressing climate change.
- Scientific criteria ensure that it is consistent with the 2 Celsius warming limit.

International Securities Market segment of London Stock Exchange.

- The proceeds will be allocated for financing existing projects.
- These include re-financing and new eligible green projects in solar, wind, biomass and small hydro (less than 25MW), subject to availability of sector-specific technical criteria under Climate Bonds Standard.

5.4 Green Masala Bonds

- Indian Renewable Energy Development Agency (IREDA) has raised $300 million via "Green Masala Bonds" at the London Stock Exchange (LSE).
- This is the first green masala bond on LSE's new International Securities Market.
- The money raised from the green bond will go towards financing renewable energy project across India.
- The bonds are certified by Climate Bonds Initiative, an international, not-for-profit organisation that helps build robust framework around green bond investment.
- IREDA, a state-owned company established non-banking financial institution.
- It extends financial assistance for renewable energy and energy efficiency conservation projects in India.

5.5 Bharat-22 ETF

The Government has recently launched the new Exchange Traded Fund Bharat-22.

- Bharat 22 is an ETF that will **track the performance of 22 stocks**, which the government plans to **disinvest**.
- The Bharat 22 ETF to be offered now allows the Government to park its holdings in selected PSUs in an ETF and raise disinvestment money from investors at one go.
- It will span **six sectors** such as:
    1. basic materials
    2. energy
    3. finance
    4. FMCG (Fast-moving consumer goods)
    5. industrials
    6. utilities

Exchange Traded Fund (ETF)

- Unlike mutual funds, ETF is an **investment fund traded on stock exchanges**, much like stocks.
- An ETF is a type of fund that owns the **underlying assets** which can be shares of stock, bonds, gold bars, foreign currency, etc.
- It divides ownership of those assets into shares.
- It is a marketable security that **tracks an index**, a commodity, bonds, or a basket of assets like an index fund.
- ETFs typically have **higher daily liquidity** and **lower fees** than mutual fund shares, making them an attractive alternative for individual investors.
- The ETF mechanism is a smart, effective way for the government to help meet its **disinvestment targets**.
- The **state** gets its money, **investors** get a piece of PSUs and **employees** stay under the PSU umbrella.

- The ETF will include public sector banks, miners, construction companies, and energy majors, as also some of the government's holdings in SUUTI (Specified Undertaking of Unit Trust of India).
- The Bharat 22 ETF will be managed by **ICICI Prudential AMC** while **Asia Index Private Limited** will be the index provider.
- The index is made up of 22 PSU stocks and with a few private sector companies, and will be rebalanced annually.
- Bharat 22 ETF is the **second ETF** from the Government of India after CPSE ETF.

Advantage over CPSE ETF

- CPSE ETF had exposure of over 62% in the public sector energy giants, with marginal weights in other firms.
- This single sector concentration made it quite a risky portfolio to own.
- With 22 firms drawn from six different sectors, Bharat 22 fund offers a more diversified, mutual fund-like basket to retail investors.

5.6 Sovereign Gold Bond Scheme

The government of India recently launched a Sovereign Gold Scheme to provide an alternate option to owning gold.

- Under the Sovereign Gold Bond Scheme, the **Reserve Bank of India** will issue the bonds on behalf of the Government of India.
- The bonds will be sold at **post offices and banks** and will be denominated in **multiples of gram(s)** of gold with a basic unit of 1 gram.
- They will issue these bonds on payment of money. Later on, the bonds will be connected to the price of gold.
- Recently, RBI has increased the maximum investment to 4 kg (from 500g) for individuals and Hindu Undivided Family (HUF) and 20 kg for Trusts.
- The interest rate is fixed at the rate of 2.50% per annum.
- The tenor of the bond will be for a period of 8 years with exit option from 5th year.
- The interest on Gold Bonds shall be taxable.
- This scheme aims to reduce the demand for physical gold, thereby keeping a tab on gold imports and utilising resources effectively.

Gold Option

- It is a derivative instrument, which allows investors to buy or sell gold bullion at a future date at a predetermined price.
- An option is similar to a futures contract in that the price, date and amount are pre-set for both.
- The main difference between the two is that a futures contract is an obligation, or promise, made by the investor to uphold the contract whereas an option is not obligation. This gives the impression that the amount is going unfairly into the oil companies' coffers.

5.7 Gold Option Contract

Recently Multi Commodity Exchange has introduced gold option contracts for the first time in India.

- It allows investors to evade any volatility in the price of the metal, for a price.
- These options usually also turn out to be cheaper than binding future agreements
- It will help in the wider participation of investors in the realm of commodity speculation
- Gold options will also help bring into formal channels more of the gold that is traded.
- Options, like other financial derivatives, allow price risks to be transferred between market players in an efficient manner.
- The business of anticipating prices in the future is left to professional speculators while their clients benefit from the prospect of stable prices.
- These derivatives can facilitate the conduct of real economic activity in higher risk segments including in agriculture and industrial activity that would not happen otherwise.

5.8 AT-1 Bonds

Recently, three government-owned banks have decided to raise capital through AT-1 bonds to meet their Capital Adequacy Ratio (CAR).

- While private banks have been able to raise funds from the capital market, state-owned banks have resorted to issuing **Basel III compliant additional tier 1** (AT1) bonds.
- Under BASEL –III norms, a bank's capital comprises two tiers.
- **Tier 1 capital** is a bank's core capital and **tier 2 capital** is a bank's supplementary capital.
- AT-1 bonds are Additional Tier 1 bonds.
- Additional Tier 1 Capital (AT1) is a **hybrid issue** that combines **debt** (yielding interests for the investor) and **capital** (have the capacity to absorb losses) properties.
- These come with a **'loss absorbency' clause** which means that in case of stress, banks can write off such investments or convert them into equity.
- AT1 instruments are **riskier** because default could be triggered by any of the following events like a drop in capital conservation buffer, a drop in CET 1 (common equity tier 1), point of non-viability (PONV) and in the event of loss.

5.9 Global Foreign Exchange Committee (GFXC)

The committee has been set up under the guidance of the Bank for International Settlements (BIS)

- **BIS** is an international financial organisation owned by 60 member central banks, representing countries from around the world.
- **GFXC** is a newly-constituted **forum of central bankers and experts** working towards promotion of a robust and transparent **forex market.**
- GFXC will comprise public and private sector representatives from the foreign exchange committees of 16 international forex trading centres.
- India will soon get a seat on the Global Foreign Exchange Committee.
- The **Financial Stability Board** (FSB) is an international body for global financial system.
- FSB informed the G20 Summit that actions to enhance conduct standards and adherence in markets include a 'Global Code of Conduct for the Foreign Exchange Markets'.
- This is to reduce misconduct risks in the financial sector. This Code will be maintained and updated by the GFXC.

5.10 Comex Union

The National Multi-Commodity Exchange (NMCE) has decided to merge with the Reliance Group promoted Indian Commodity Exchange (ICEX).

- The merged entity will create the third-largest commodity exchange in the country.
- The merger will offer world's first diamond futures contract, which has already received in-principle approval from SEBI.
- It will also offer a wide range of contracts, including bullion, oil and rubber.
- The country's largest exchange by volume is the Multi Commodity Exchange, or MCX.
- This is followed by the National Commodity and Derivatives Exchange (NCDEX).

5.11 ICEX

- The Indian Commodity Exchange (ICEX) launched the world's first diamond futures contracts to provide exporters with a hedging tool.
- Diamond was notified as a commodity for derivatives trading on online exchanges.
- Indian Commodity Exchange Limited is a screen based on-line derivatives exchange for commodities and has established a reliable, time tested, and a transparent trading platform.
- It has set up process by putting in place grading and vaulting facilities in order to facilitate deliveries.
- Major shareholders are Reliance Exchangenext Ltd, Indiabulls Financial Services Ltd., Indian Potash and IDFC Bank.

5.12 Multi Commodity Exchange (MCX)

- MCX is a platform for commodity traders that facilitate online trading, settlement and clearing of commodity futures transactions.
- It was initially under the regulation of Forward Market Commission (FMC).
- After the merger of FMC with SEBI, MCX comes under the purview of SEBI.
- The government has recently launched gold as an option under futures trading in MCX for the first time.
- Thus it allows investors to enter into contracts to either buy or sell gold in the future at a pre-determined price.
- MCX offers more than 40 commodities across various segments such as bullion, metals and other agricultural commodities.

5.13 De-Registering Shell Companies

The Ministry of Corporate Affairs (MCA) is preparing to send show-cause notices to over 3 lakh more shell companies for striking off their names from the 'register of companies'.

- The scrutiny against shell companies was stepped up in the wake of **demonetisation** and as part of the action against **black money**.
- Since demonetisation, the Centre has deregistered well over 1,60,000 dormant companies, identified over 37,000 shell firms and over 3,00,000 firms engaged in suspicious dealings.

Shell Company

- A shell company is a company that exists but does not actually do any business or have any assets.
- They serve as a medium for business transactions without itself having any significant assets or operations.

Dormant Company

- A dormant company is the one, which has had no significant accounting transactions during the specified accounting period or is an 'inactive company'.
- Section 455 of the Companies Act, 2013 specifies the provisions to enable companies to attain the status of a dormant company.
- The company shall make a decision to either revert to active status within 5 years or the Registrar of Companies (RoC) is empowered to strike off the name of the company from its records.

- They often indulge in and enable tax evasion, by either rigging the share prices upwards or downwards.
- A dormant company gets its title either by chosing to get a 'dormant' status from the RoC by not filing financial statements for two financial years consecutively.
- But a shell company is one which is typically suspected of illegal activities.
- Share prices can indeed be manipulated to absorb black money and launder it via circular trades with the involvement of the promoter-broker nexus.
- **Conditions** - The action is focused against companies that reflect any of the following conditions:
  1. failing to start business within one year of incorporation
  2. not carrying on any business for two immediately preceding financial years
  3. not applying for dormant status
- **Procedure** - Actions are initiated under the Companies Act.
- The firms are given 30 days to submit their response.
- If the reply is found unsatisfactory, the corporate entity's name will be removed.

SEBI's Order

- *SEBI recently decided to suspend trading of 331 listed companies that it suspected were "shell companies".*
- SEBI is mandated with the task of preventing such money laundering and insider trading activities, and protecting the interests of minority share holders.

5.14 Committee to Review MIIs

SEBI recently formed a committee to review regulations and relevant circulars pertaining to Market Infrastructure Institutions (MIIs).

- The institutions like stock exchanges, depositories and clearing corporations are systemically important for the country's financial development and serve as the infrastructure necessary for the securities market.
- These institutions are collectively referred to as Market Infrastructure Institutions (MIIs).
- The committee will be headed by R Gandhi, former deputy governor of the RB and will have four other members.
- The committee will do an overall assessment of the existing MIIs' framework and identify areas for review.
- It is also mandated to review regulations pertaining to MIIs and identify areas for improvement of systems, procedures and practices and make recommendations.

5.15 Clearing Houses for Securities Market

SEBI has recently given the approval to Multi Commodity Exchange Clearing Corporation, a wholly-owned subsidiary of MCX, to act as a clearing corporation for a period of one year.

- A **clearing house** is an **intermediary** between buyers and sellers of financial instruments in the securities exchange market.

- The clearing houses are regulated by the **SEBI Act** and the **Securities Contract (Regulation) Act.**
- All members of an exchange are required to clear their trades through the clearing house at the end of each trading session.
- They are also required to deposit with the clearing house a sum of money based on clearinghouse margin requirements.
- Each futures exchange has its own clearing house.
- **Futures exchanges** are where financial products are bought and sold at some agreed-upon date in the future with a price fixed at the time of the deal.
- SEBI has qualified National Securities Clearing Corporation Ltd (NSCCL), Indian Clearing Corporation Ltd (ICCL) and MCX-SX Clearing Corporation Ltd (MCX-SXCCL) in the Indian securities market.

5.16 Panel on Fair Market Conduct

*SEBI has constituted a committee headed by **T K Viswanathan** on '**fair market conduct**'.*

- The committee has been tasked with suggesting improvements to the existing SEBI norms, fraudulent and unfair trade practices (FUTP).
- It has been specifically asked to look at the handling of price-sensitive information during takeovers and aligning of insider-trading rules with provisions of the Companies Act.

5.17 Alternative Investment Fund

SEBI has recently allowed Category III Alternative Investment Funds to participate in the commodity derivatives market.

- Anything alternate to traditional form of investments gets categorized as alternative investments.
- AIF is a privately pooled investment fund, in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP) which are not presently covered under the jurisdictions of any regulatory agency in India.
- Harmony Hedge Fund became the first category III Alternative Investment Fund and first institutional investor to register on Multi Commodity Exchange.

5.18 International Financial Service Centre (IFSC)

- The RBI had recommended to the finance ministry to consider one common regulator to issue approvals required for doing business in the IFSC.
- The country's first International Financial Services Centre (IFSC) is located at the Gujarat International Finance Tec-City (GIFT), Gandhinagar.
- The proposed name for the regulator is the GIFT Financial Sector Regulatory Authority, which will have all the powers to regulate Banking, Insurance and Capital Markets in IFSC.
- RBI also highlighted the model of successful Asian IFSCs such as Hong Kong, Dubai, and Singapore having unified regulator.
- Special Economic Zones Act, 2005 provides for the setting up of an International Financial Services Centre (IFSC) in a Special Economic Zone (SEZ).
- Businesses setup in IFSC comes under guidelines and regulations of Ministry of Corporate Affairs, RBI, SEBI and IRDAI.

5.19 Public Financial Management System (PFMS)

- PFMS, earlier known as Central Plan Schemes Monitoring System (CPSMS), is a web-based online software application.
- It is developed and implemented by the Office of Controller General of Accounts.
- It is launched with the objective of tracking funds released under all Plan and non-plan schemes of GoI, and real time reporting of expenditure at all levels of programme implementation.
- The biggest strength of PFMS is its integration with the Core banking system.
- Union Finance Ministry has recently ascertained the mandatory use of PFMS will help in monitoring the flow of funds to beneficiaries of different government welfare schemes.

6. EXTERNAL SECTOR

6.1 Base Erosion and Profit Shifting

- India recently signed a multilateral convention to prevent Base Erosion and Profit Shifting (BEPS).
- BEPS refers to tax avoidance strategies to artificially shift profits to low or no-tax locations by exploiting gaps and mismatches in tax rules.
- The Convention is an outcome of the **OECD / G20 BEPS Project** to tackle BEPS.
- It was developed through negotiations involving more than 100 countries and jurisdictions, under a mandate delivered by G20 Finance Ministers.
- This convention will modify India's treaties in order to curb revenue loss through treaty abuse and BEPS strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out.
- More than 65 countries, including India, signed the convention.

6.2 Rupee Appreciation

Indian Rupee has appreciated around 6% against the dollar in 2017.

Causes

- Positive **growth prospects** created expectations that the rupee would appreciate.
- **Increased capital inflows**, particularly into the equity market - as rupee appreciation would have a proportionate **increase in return on investment** and make investments attractive.
- Relaxation in the capital account and lack of intervention by the RBI in regulating foreign capital inflows.

Effects

- Appreciated rupee makes **imports cheaper and exports unattractive.**
- Hurts exporters' competitiveness and earnings. Risks for export-dependent sectors, creating volatility in the external sector of the economy.
- **Unfavourable employment opportunities**, as supply chain of export industries involves labour intensive firms.
- **Fall in domestic production** due to cheapening imports.
- **Increased FPI inflow** as against a lesser outflow.
- India would be suitable place for **carry trade**. A carry trade is a strategy in which an investor borrows money at a low interest rate in order to invest in an asset that is likely to provide a higher return.

Concerns

- More the inflows, greater will be the **appreciation**.
- Increased carry trade makes India's **exchange rate more volatile**.
- Possible **drain of forex reserves**.

Challenges to Rupee devaluation

- **High fiscal deficit** and **high debt to GDP ratio** give the RBI little space to allow the rupee to depreciate by intervening in the forex market.
- Doing so also has the risk of leading to a **higher inflation**. RBI has been favouring a stronger rupee to achieve its inflation targeting mandate.
- This is because, as a general rule, there is an inverse relationship between **inflation and exchange rate** of a country.
- **Lower inflation** lead to increasing purchasing power relative to other currencies and thus in turn lead to an **increase in currency value**.

6.3 Export Subsidy Issue

- India's rising per capita income has created a problem for export subsidies.

- Income per capita is a measure of the amount of money earned per person in a certain area.
- It can be calculated for a country by dividing the country's national income by its population.
- India's per capita income is above $1000 formally qualifying it as a middle income country.
- According to WTO rules, now India is ineligible to provide direct export subsidies.
- Under WTO, production-based subsidies such as technological up gradation, capacity building and infrastructure development are permissible.
- Even for countries below the $1,000 per capita threshold, product-specific subsidies may be questioned if the export of the product concerned accounts for over 3.25% of the global exports for over two consecutive years.
- In that case, the country concerned will have to phase out subsidies over eight years.
- It can be reasonably expected that India will be dragged to the WTO for its subsidies regime.

6.4 Bilateral Transfer Pricing Agreements

- Mutual agreement procedures (MAPs) and advance pricing agreements (APAs) are the bilateral transfer pricing agreements to solve the income tax dispute between IT department and foreign corporate.
- APAs are meant to settle potential disputes in advance, while MAPs to settle a dispute once it has happened.
- Both these agreements are applicable to a country only when the DTAA with a particular country contains a 'corresponding adjustment' clause.
- The clause would allow the tax disputes through bilateral arbitration instead of domestic litigation.
- Now, IT department has issued a notification which allows MAP and APA with all countries irrespective of 'corresponding adjustment' clause in the treaty.
- It helps important trade partners such as France, Germany, Italy, Singapore and South Korea which did not get the benefit of MAP and APA in the previously held stance.

6.5 Bilateral Investment Treaty

The process of reviewing and revising the existing BITs was started in 2015 and the negotiations on revised Model BITs are being carried out with USA, Russia and EU.

- A bilateral investment treaty (BIT) is an agreement establishing the terms and conditions for private investment by nationals and companies of one State in another State.
- Government of India has signed BITs with around 80 countries.
- These are based on a model BIT formulated by India in 2016. The model BIT provides the framework for new negotiations with trading partners.
- BIT includes fair and equitable treatment, protection from expropriation, free transfer of means, and full protection and security.
- BITs are established through trade pacts.
- They allow for an alternative dispute resolution through an Investor-State Dispute Settlement (ISDS) mechanism.
- BITs help project India as an attractive Foreign Direct Investment (FDI) destination, as well as protect outbound Indian FDI.
- It boosts the confidence of investors by assuring a minimum standard of treatment and non-discrimination.

6.6 Canada-India BIT Negotiations

India is planning to consider some of the demands of Canada regarding the model Bilateral Investment Treaty (BIT), especially regarding the ISDS mechanism.

Investor-State Dispute Settlement (ISDS)

- The Model Bilateral Investment Treaty (BIT) was recently promulgated in response to various investment claims initiated against India.
- The revised Model BIT mandates that all domestic options need to be exhausted (i.e. settlement via domestic courts), before a company can go for international arbitration under ISDS.

- ISDS is a system through which investors can sue countries for alleged discriminatory practices.
- Since there are no time-lines for settling the cases, Canada wants more options in case domestic courts take long time in settling disputes.
- Thus it has been insisting on concessions in the inter-state dispute settlement (ISDS) mechanism.

Other demands

- **MFN -** Canada has demanded an upgrade to a 'Most Favoured Nation '(MFN) status which will provide for more economic relaxations.
- Along with this it also asked for a MFN-forward clause.
- This means that whatever concessions that India may extend in future to other trading partners will automatically extended to Canada.
- **Ratcheting -** It is also demanding a ratcheting provision.
- This is to make sure that the benefits arising from future liberalisation of India's domestic policies are automatically extended to Canada, and vice-versa.
- **CEPA -** Canada also wants to speed up the negotiations of 'Comprehensive Economic Partnership Agreement' (CEPA).
- CEPA is a comprehensive free trade agreement under which two trade partners significantly reduce or eliminate Customs duties, besides liberalising trade in services and investment norms.

6.7 Srikrishna Committee - BIT Disputes Resolution

The Srikrishna committee was constituted to prepare a road map to make India a hub of international arbitration. The committee recently released its report, with a focus on recalibration of the Indian BIT regime.

- The commission's mandate was to focus on all the three parts of BIT arbitration namely –
  1. Jurisdictional (such as definition of investment)
  2. Substantive (such as provision on expropriation)
  3. Procedural (ISDS mechanism).

Key Recommendations

- Creation of the post of an '**international law adviser'** (ILA) to advise the government on international legal disputes, particularly BIT disputes.
- Presently, the Legal and Treaties (L&T) division of the External Affairs Ministry is mandated to offer legal advice to the government on all international law.
- Creation of an **inter-ministerial committee** (IMC), with officials from the **Ministries of Finance, External Affairs and Law** for better management of BIT disputes.
- Establishing a **BIT appellate mechanism** and a **multilateral investment court**.
- Hiring of external lawyers and appointing counsels having expertise in BITs to boost the government's legal expertise**.**
- Creating designated fund to fight BIT disputes.
- The report named the investor-state dispute settlement (ISDS) mechanism as robust for BIT arbitration.

6.8 Fed Rate Hike

The US Federal Reserve recently hiked the interest rates by a quarter points.

- While the Fed has been extremely cautious on the planned reduction, the liquidity drain is bound to have an impact on asset prices going forward.
- The dollar was pushed up against a number of currencies and led the much-tracked **U.S. Dollar index** (a basket of key exchange rates against the dollar) to climb up.

Taper Tantrum

- Taper tantrum is the term used to refer to the 2013 **surge in U.S. Treasury yields.**
- It resulted from the Federal Reserve's use of tapering to gradually reduce the amount of money it was feeding into the economy.
- The taper tantrum ensued when investors panicked in reaction to news of this tapering and drew their money rapidly out of the bond market, which drastically increased bond yields.

- It also gained against a number of G-7 currencies like the Euro as well as a basket of emerging market currencies.
- Currency markets responded to the Fed move, although nowhere as vehemently as during the taper tantrum of 2013.

6.9 U.S Plans to Roll Back QE

- U.S. Federal Reserve recently announced that it would begin to gradually roll back quantitative easing (QE).
- Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.
- It increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.
- Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes.
- Central banks like the European Central Bank, U.S. Federal Reserve have adopted this policy to boost their respective economies.

6.10 OPEC Meeting

OPEC meeting for November was held in Austria.

- OPEC initially tried to out-price US shale oil producers and wrest market share by maintaining output, this exacerbated the price rout.
- But US shale producers held on with lower prices and it eventually teamed with major non-OPEC producers such as Russia late last year to cut production by 1.8 million barrels of oil a day.
- The cuts helped halt oil's rout and aided its 40 per cent rally since June to about $64 a barrel now.
- OPEC meeting is expected to approve extension the production cuts by another 9 months until December 2018 with Russia also on board.
- The meeting is crucial as OPEC will decide whether to continue with output cuts in force since January this year beyond March next year.

Organisation of Petroleum Exporting Countries (OPEC)

- OPEC, cartel of oil exporting nations had four major West Asian producers Saudi Arabia, Iran, Iraq and Kuwait, Venezuela as its founding members.
- As of now OPEC has 14 members besides the founding members, the group comprises UAE, Qatar, Nigeria, Libya, Gabon, Ecuador, Angola, Algeria and the latest entrant Guinea.
- They account for more than 40% of the world's oil supply, of which Saudi Arabia accounts for more than 30%.
- OPEC aims to coordinate and unify the petroleum policies of its member countries to stabilise oil markets.
- Member countries together increase or decrease oil production to try to achieve desired supply levels and prices, based on a unanimous vote.

6.11 Mini-Ministerial Meeting of WTO

Mini-ministerial meeting of trade ministers from select WTO member countries was held.

- Ministerial Conference is the topmost decision-making body of the WTO, which usually meets every two years.
- It takes decisions on all matters under any of the multilateral trade agreements.
- The Mini-ministerial meeting is to finalise the agenda for the upcoming WTO ministerial conference.

6.12 BRICS Interbank Cooperation Mechanism

- Union Cabinet has given its approval to EXIM Bank for signing Interbank Local Currency Credit Line Agreement.
- With this agreement, the bank can now enter into bilateral agreement for co-financing with large developmental institutions to ensure **lending in single currency**.
- Bank also signed MoU related to credit ratings, which would enable sharing of credit ratings amongst BRICS member banks.
- The agreement and the MoU have been highlighted in the BRICS leaders **Xiamen Declaration** adopted in BRICS summit, 2017.

6.13 Morgan Stanley Capital International (MSCI)

Recently MSCI said that China's local currency shares referred to as China 'A' shares would be added to its index.

- **MSCI** is the world's biggest index compiler, with more than $10 trillion in assets benchmarked to its products.
- MSCI is a closely tracked index by global investors.
- The inclusion of China's shares will open up investment interest from foreign investors and adds financial credibility.
- If China continues to gain more weightage on the index, more money could flow out of India.

7. GENERAL ECONOMY

7.1 Taj Mahal Palace

India's Trade Mark Registry has assigned an image trademark to Mumbai's Taj Mahal Palace hotel.

- This makes it the first structure in India to get such a trademark registration.
- It takes it into an elite group of trademarked structures across the globe, enhancing its stature in the international hospitality industry.
- By applying for the trademark, the hotel demonstrates that it believes that the very look of the building is so recognisable that anyone attempting to replicate is trying to cash in on its brand, and it therefore needs to be protected.
- Among the other well-known structures around the world with trademarks are the Empire State Building in New York City, the Eiffel Tower in Paris, and Sydney's Opera House.

Trademarks

- Trademark is a branch of Intellectual Property Right.
- A trademark includes any word, name, symbol, or device used in commerce to identify and distinguish the goods of one manufacturer or seller from others.
- It thus provides exclusive protection to the owner. This is to protect the commercial entities from other commercial entities that may seek to use their goodwill and brand recognition.
- The Trade Marks Registry was established in India in 1940 and presently it administers the Trade Marks Act, 1999
- As per Trade mark Act, 1999, any person claiming the trademark may apply in writing for registration. The trademark office reviews the application and issues the registration certificate after due process.

7.2 Most Competitive State

*According to recent study conducted by National Council for Applied Economic Research (NCAER), **Gujarat** has topped in business investment potential and has become the **most competitive state**.*

- Gujarat is followed by Delhi, Andhra Pradesh, Haryana, Telangana and Tamil Nadu.
- West Bengal ranks last on the index, followed by Uttar Pradesh and Bihar.
- The Study ranks the states' competitiveness on six pillars:
    1. land
    2. labour
    3. infrastructure
    4. economic climate
    5. political stability and governance
    6. and business perception
- While corruption continues to be a sore area for businesses, the report notes that perceptions of corruption seem to be improving, indicating change.

7.3 National Company Law Tribunal (NCLT)

Recently, Supreme Court used its extraordinary power under Article 142 of the constitution, to allow two companies to withdraw from insolvency proceedings despite being admitted to the NCLT.

- The National Company Law Tribunal (NCLT) is a quasi-judicial body in India that adjudicates issues relating to companies in India.
- According to Insolvency and Bankruptcy Code, 2016 if NCLT admits a case for initiating corporate insolvency resolution process, it cannot be withdrawn even if the parties decide to settle the dispute.
- It was established under the Companies Act, 2013 and was constituted in June 2016.
- The appeal against NCLT order goes to National Company Law Appellate Tribunal (NCLAT).

7.4 Tussle between the Regulators

TRAI came up with a consultation paper on "Regulatory principles of tariff assessment" which has questions on delineating relevant markets, assessing dominance, and predatory pricing.

Following this, the chairman of CCI has argued that the CCI is better placed to look into matters related to predatory pricing.

TRAI & CCI

- Telecom Regulatory authority of India, established in 1997, by an Act of Parliament is to regulate telecom services and tariffs in India.
- Competition Commission of India is a statutory body of the Government of India.
- It is responsible for enforcing The Competition Act, 2002, to prevent activities that have an adverse effect on competition among companies in India.

Predatory Pricing

- Predatory pricing is a strategy where the dominant market player fixes the prices for its products or services below the costs to undercut its rival.
- Predatory pricing is a highly specialized field of competition assessment.
- Recent offers by Reliance Jio have led to allegations of predatory pricing.
- Usually, the **ex-ante competition matters** i.e. anticipated issues based on forecasts fall in the domain of **TRAI**.
- The **ex-post matters** i.e. issues based on actual results such as predatory pricing fall in the domain of **CCI**.
- **Concerns** - In the present mandate, only a dominant position holder can be punished for engaging in predation.
- The dominant position is determined based on market share.
- Reliance Jio is not in a dominant position.
- Hence the recent complaints before CCI bore no results, in spite of Reliance Jio using unfair competition measures in its "promotional offer" which went on for several months.
- These kinds of enforcement gaps can be filled by TRAI, which can fix ex-ante to ensure fair competition through means other than acting against mandated predatory pricing.
- TRAI could also limit the duration of promotional offers, which include below cost pricing, so that a level playing field is ensured for all market players.
- It could increase the interconnect usage charges (IUC) to a point where below cost pricing becomes unsustainable.
- TRAI could be given the mandate to specify the duration and features of promotional offers.

7.5 Signs of a Commodities Supercycle

- Globally, the prices of commodities are rising or expected to rise.
- This is seen as a sign of a likely commodities supercycle.
- In economic terms, a Supercycle is the longest period or wave in the growth of a financial market.
- e.g. In 1700s, due to the Industrial Revolution in Britain, prices for coal, cotton, sugar, tea etc went up and greater quantities are produced.

- But over time, the innovation worn out, demand lowered when supply was growing, and the prices of commodities dropped, causing the end of the super-cycle.
- The last commodities super cycle was roughly from 2000 to 2014.
- This **boom in commodity prices** was largely due to the rising demand from emerging markets as well as the result of concerns over long-term supply availability.

7.6 Sunrise Industry

- Sunrise Industry is a colloquial term for a sector or business that is in its early stage, but is growing at a rapid pace and expected to become important in the future.
- It is often characterized by a high degree of innovation, and its rapid emergence may threaten the competing industry to decline state.
- Usually dynamic sectors such as technology related industries are considered as sunrise industries. E.g. Telecom industry in the mid 1990's
- The Confederation of Indian Industry (CII) wants sunrise sector status accorded to energy efficiency industries.

7.7 Initial Coin Offering

- China has recently banned individuals and organisations from raising funds through initial coin offerings (ICO) saying the practice constituted illegal fund-raising.
- ICO is an unregulated means of crowd funding for a project via use of Cryptocurrency.
- The right of ownership or royalties of a project is offered to investors in the form of digital coins in exchange for legal tender or other cryptocurrencies (usually bitcoin).
- The value of the coin will appreciate if the business is successful.
- Presently, there is no regulator for this kind of crowd sourcing.

7.8 Paradise Papers - Offshore Companies

Centre reconstitutes the Multi-Agency Group formed in 2016 to investigate disclosures on Paradise Papers.

- The latest report comes a few months after a similar 'Panama Papers' disclosure that came in 2016.
- The Panama Papers named several prominent Indian politicians, actors, and businessmen as having offshore undisclosed bank accounts.
- Following this, a Multi-Agency Group (MAG) was constituted.
- The government has now reconstituted this MAG led by the Central Board of Direct Taxes (CBDT), to investigate cases relating to the 'Paradise Papers' data disclosure.
- This will have representatives from CBDT, Enforcement Directorate, Reserve Bank of India and the Financial Intelligence Unit.

Paradise Papers

- These are around 13 million leaked files from offshore service providers and company registries obtained by a German newspaper.
- It was made public by the International Consortium of Investigative Journalists (ICIJ) and its media partners.
- They essentially reveal the offshore interests and activities of politicians, world leaders and celebrities, and the tax engineering of more than 100 MNCs, from around 180 countries.
- It also includes details of corporate registries maintained by governments in 19 secrecy jurisdictions often referred to as "tax paradises".
- India ranks 19th in terms of the number of names that feature in the papers.

7.9 Credit Rating Upgrade for India

International ratings agency, Moody's Investors Service, has upgraded India's sovereign bond rating for the first time in more than a decade.

- Bond credit rating represents the credit worthiness of corporate or government bonds.

Credit Rating

- A credit rating is an assessment of the creditworthiness of a borrower.
- Individuals are given 'credit scores', while corporations and governments receive 'credit ratings'.
- National governments, not countries, are assigned credit ratings by agencies like Standard & Poor's, Moody's and Fitch.

- In investment, the ratings are used by investment professionals to assess the likelihood of repayment of the debt.
- Moody's has upgraded Indian government's rating as a local and foreign currency issuer from Baa3 with a positive outlook to Baa2 with a stable outlook.
- Obligations rated Baa2 are subject to moderate credit risk and are considered medium grade.
- The earlier Baa3, by contrast, was the lowest investment grade rating.
- In simple terms, Baa2 means the cost of capital will reduce and more FDI is expected to flow in, as certain investors don't invest in countries rated below Baa3.

Moody's & its moods - what the ratings mean

Rating symbol	Meaning
Aaa	Highest quality, lowest credit risk
Aa	High quality, low credit risk
A	Upper medium grade, low credit risk
Baa	Medium grade, moderate credit risk, speculative characteristics
Ba	Speculative, substantial credit risk
B	Speculative, high credit risk
Caa	Poor standing, very high credit risk
Ca	Very near default, with some prospect of recovery of principal & interest
C	Typically, in default, with little prospect of recovery of principal & interest

7.10 Ease of Doing Business in India

India recently ranked at 100 out of 190 countries in World Bank Group's Doing Business 2018 report.

- It is an improvement of 30 positions over last year's ranking.
- This made India to enter in the set of 10 **"most improved" economies** and a step ahead to breach the top 50 economies worldwide in terms of this index.
- The factors most responsible for the jump in India's ranking is
  1. Greater ease in the payment of taxes online.
  2. The possibility of submitting building plans in advance of applying for a construction permit.
  3. Business incorporation that combines the permanent account number (PAN) with the tax account number (TAN).
  4. Reduction in the time required to complete provident fund and state insurance applications.
  5. Passage and implementation of the new insolvency and bankruptcy code.
- The World Bank rankings have not taken the GST into account since it was not implemented in the period being evaluated.

7.11 World Nuclear Industry Status Report 2017

- The World Nuclear Industry Status Report 2017 was released.
- The report states number of nuclear reactor units under construction is declining globally for the fourth year in a row.
- India is at third position in the world in the number of nuclear reactors being installed, with 6 being installed.
- China is leading with 20.
- The report further reveals that most nuclear reactor constructions are behind schedule, with delays resulting in increase in project costs and delay in power generation.
- Russia and the U.S. shut down reactors in 2016, while Sweden and South Korea both closed their oldest units in the first half of 2017.
- The global nuclear power generation increased by 1.4% in, though the share of nuclear energy in electricity generation stagnated at 10.5%.
- The wind power output grew by 16% and solar power by 30%.
- The report also documents the financial crisis plaguing the industry.

7.12 Global Financial Development Report

World Bank's has released its annual "Global Financial Development Report 2017/18: Bankers without Borders".

- GFDR 2017/2018 is the fourth in a World Bank series.
- It provides a unique contribution to financial sector policy debates, building on novel data, research, and wide-ranging country experience, with emphasis on emerging markets and developing economies.

- The report's findings and policy recommendations are relevant for policy makers, staff of central banks, ministries of finance, and financial regulation agencies.
- The report tracks financial systems in more than 200 economies before and during the global financial crisis.
- GFDR 2018 states that the restrictions imposed on foreign banks in developing countries are hampering prospects of growth by limiting the flow of much needed finance to firms and households.
- International banking does create risks of exporting instability especially for countries with poor regulations and institutions, and those risks need to be mitigated.
- But without a competitive banking sector, the poor will not be able to access basic financial services.
- Indian banking has become more competitive over the last couple of decades have largely to do with the opening up of this sector to local private banks in 1993-94.
- The larger policy goal that the government and the central bank had in mind could not perhaps be achieved immediately because of the public ownership and governance structure of state-owned banks.

7.13 UN Report on Trade Misinvoicing

A study was conducted by the Geneva-based United Nations Conference on Trade and Development (UNCTAD).

- Its report lists China, Germany, India, Italy, Japan, the Netherlands, Spain, Switzerland, Britain and the US among countries that are benefiting from 'trade misinvoicing'.
- Trade misinvoicing involves deliberately misreporting the value of a commercial transaction on an invoice submitted to customs
- It says that nearly 90 developing countries are losing commodity export earnings worth billions of dollars in valuable foreign exchange earnings, taxes and income that might otherwise be spent on development.

7.14 World Inequality Report

- The World Inequality Report was recently published by French Economist.
- It states that the richest 0.1% of the world's population have increased their combined wealth by as much as the poorest 50% (3.8 billion people) since 1980.
- It has found that the richest 1% of the global population "captured" 27% of the world's wealth growth between 1980 and 2016.
- Income growth has been sluggish or even nil for the population between the global bottom 50%.
- The wealth inequality had become "extreme" in Russia and the US.
- The report warns that unless there is globally coordinated political action, the wealth gap will continue to grow.
- However, the economists said increasing inequality was "not inevitable" if countries acted to bring in progressive income tax.
- The report also added that tenth of the world's wealth was held in tax havens.

7.15 Internet Neutrality at Stake

Federal Communications Commission (FCC) of the US announced the "Restoring Internet Freedom Order".

- FCC rules issued in 2015 aimed at upholding neutrality neutrality.
- The current ruling undoes this and favours giving sweeping powers to ISPs over the content consumers can access.
- This ruling is almost certain be cleared in FCCs next open meeting.
- FCC claims that the ruling is to remove what it calls —heavy-handed Internet regulations‖.
- These regulations, it believes is holding back investment, innovation, and job creation in the sector.
- FCC also noted that it didn't want to micromanage the Internet

Net Neutrality

- It is the concept in which all online content providers (all websites or apps) are treated equally by telecom operators.
- Notably, consumers get access to all websites equally and speed of access is not differentiated for any content.
- ISPs are mandated to not interfere with or block the content that a consumer accesses, views or posts online.
- This also specifically outlaws content specific offers/charges on consumers in order to ensure equality.