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TARGET 2019

ECONOMY II

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TARGET 2019
ECONOMY - II

1. GROWTH AND DEVELOPMENT

1.1 Quarterly Growth Estimates - CSO

The Central Statistics Office (CSO) recently released the growth estimates for the July-September quarter.

- **Growth -** GDP growth weakened to 7.1%, from the robust 8.2% in April-June.
- It comes as a result of rising oil prices combined with a weakening rupee that hampered demand.
- Gross value added (GVA) data show five of the eight sectors reflecting the slowdown from the first quarter.
- Only utility services, public administration, defence and other services, trade, hotel, transport, communication and broadcasting services showed growth.
- **Agriculture -** Worryingly, GVA growth in agriculture, forestry and fishing eased to 3.8%, from 5.3% three months earlier.
- It's because foodgrain output in the kharif season went up a mere 0.6%.
- Besides, there is distress in the farm sector, below-normal monsoon rains and a shortfall of over 8% in rabi sowing till November.
- **Rural -** Given the above, the outlook for rural demand remains challenging at least for the next couple of quarters.
- This demand weakness in the hinterland is also evident in the consumption spending data.
- Notably, growth in private final consumption expenditure slowed down to 7%, compared to 8.6% in the first quarter.
- **Manufacturing -** The manufacturing sector recorded a 7.4% expansion.
- However, it also poses cause for concern as the momentum almost halved from the June quarter's 13.5%.
- It has slipped back nearer to the year-earlier level of 7.1%.
- Index of Industrial Production data reveal that manufacturing output growth remained stuck at 4.6% through August-September.
- This, along with the weakness in car and two-wheeler sales, suggests that an acceleration may take some time.

1.2 Crisil report on GSDP growth

Crisil recently released a report, comparing economic growth of the states in India.

- Bihar has been ranked the top state among the 17 non-special category States in terms of GSDP (Gross State Domestic Product) growth in financial year 2017-18.
- The state has topped the list by clocking 11.3% GSDP growth in fiscal 2018, which was followed by Andhra Pradesh and Gujarat.
- States like Jharkhand, Kerala and Punjab were at the bottom in terms of GSDP growth.
- It further highlighted that 12 out of 17 states saw faster growth in fiscal 2018 compared with the previous 5 years.
- However, the growth did not translate into job creation, as GSDP expansion has come in from sectors which are less job-intensive.
- It noted that growth was not equitable, as the per capital income between low-income states and high income states widened over the last five years.
- Since there is pressure on fiscal deficit for the Centre, the states have become the engines of government spending, accounting for a bulk 65% of the total money spent.

- However, most states were found to have breached their targets under the fiscal responsibility and budget management act.

1.3 Revised estimates of GDP

The Union Ministry of Statistics and Programme Implementation has recently released its revised estimates of national income for 2017-18.

- The CSO in its advance estimate had pegged the GDP growth rate for **2018-19** at 7.2%.
- Growth in real GDP for **2017-18**was revised upwards to 7.2% from the earlier estimate of 6.7%.
- It also revised the actual growth rate in **2016-17** to 8.2% from the 7.1% estimated earlier.
- This relatively slow growth in 2017-18, when compared to 2016-17, is explained as due to a slowdown in manufacturing, communications, agriculture and mining.
- Thus, it appears that growth immediately following the demonetisation exercise of November 2016 was not too badly affected on the one hand.
- On the other hand, it appears there might have been something of a deceleration in 2017-18 following that high growth in 2016-17.
- Also, the gross fixed capital formation (GFCF) as a proportion of gross domestic product went up marginally from 28.2% to 28.6% in the two years under consideration.
- The government says that estimates of GDP have undergone revision on account of the use of the latest data available on agricultural production, industrial production, and government expenditure.
- It is also due to more comprehensive data available from various source agencies like the MCA and the NABARD and State/Union Territory Directorates of Economics and Statistics.

2. PUBLIC FINANCE

2.1 Status paper on Government Debt

- The Central Government has been bringing-out an Annual Status Paper on Government Debt since 2010-11.
- 8th Edition of the Status Paper was recently released.
- It enhances transparency by providing a detailed account of debt operations of the government during the year.
- The paper also covers details of fiscal deficit financing operations of the Central Government during the year 2017-18.
- It states that the overall liabilities of the Central Government are on a medium-term declining trajectory.
- Government is primarily resorting to market linked borrowings for financing its fiscal deficit.
- It also found that the government is comfortably placed in terms of debt sustainability parameters and is consistently improving.

2.2 Interim Budget 2019

Interim Finance Minister Piyush Goyal presented the Interim Budget on 1st February 2019.

State of the Economy

- India is the fastest growing major economy in the world.
- India is now the 6th largest economy in the world (11th in 2013-14)
- Inflation - 4.6%
- Fiscal deficit - 3.4% of GDP
- Current Account Deficit (CAD) - 2.5% of GDP

- FDI $239 billion during the last 5 years.
- Tax collections increased from Rs.6.38 Lakh Cr in 2013-14 to almost Rs.12 lakh Cr this year.
- The number of returns filed has also almost doubled showing 80%.
- The State revenues are improving with guaranteed 14% annual revenue increase for the first five years from GST.

Vision for the next Decade

- Becoming a $5 Trillion Economy in the next 5 years
- $10 Trillion Dollar Economy in the next 8 years thereafter
- 10 Dimensions to concentrate are-
    1. Physical as well as social infrastructure for a $10 Trillion Dollar Economy and to provide ease of living
    2. Creating a Digital India reaching every sector of the economy,
    3. Making India pollution free
    4. Expanding rural industrialisation
    5. Clean Rivers, with safe drinking water
    6. Development powered by coastline and ocean waters
    7. Outer skies
    8. Self-sufficiency in food
    9. A healthy India
    10. Minimum Government Maximum Governance nation

Poor and backward classes

Rs.60,000 crores are being allocated for MGNREGA in BE 2019-20.

Farmers

- **Pradhan Mantri KIsanSAmman Nidhi (PM-KISAN)** is announced to provide an direct income support at the rate of `6,000 per year' to vulnerable landholding farmer families, having cultivable land upto 2 hectares.
- **Rashtriya Kamdhenu Aayog** will be setup to upscale sustainable genetic up-gradation of cow resources and to enhance production and productivity of cows.
- India is the second largest fish producing nation in the world accounting for 6.3% of global production and an annual growth > 7%.
- **Department of Fisheries** will be created to provide focused attention.
- 2% interest subvention to the farmers pursuing the activities of animal husbandry and fisheries, who avail loan through **Kisan Credit Card**.
- In case of timely repayment of loan, they will also get an additional 3% interest subvention.
- **Natural calamities -** Generally the crop loans are rescheduled for farmers affected by severe natural calamities.
- Now, these farmers affected by natural calamities, where assistance is provided from NDRF, will be provided with 2% interest subvention and prompt repayment incentive of 3% for the entire period of reschedulement of their loans. (at present it is 2% only for the first year)

Labour and Workers Dignity

- 42 crore workers in the unorganised sector
- **Pradhan MantriShram-Yogi Maandhan**to providea monthly pension of Rs.3,000 from the age of 60 years on a contribution of a small affordable amount by the worker during their working age for the unorganised sector workers with monthlyincome upto ` 15,000.
    1. Rs.100/month for a worker joining at the age of 29 years

2. Rs. 55/month for a worker joining at the age of 18 years
3. The Government will deposit equal matching share

- A **Committee under NITI Aayog** will be set up to complete the task of identifying De-notified, Nomadic and Semi-Nomadic communities not yet formally classified.
- A **Welfare Development Board** will also set up under the Ministry of Social Justice and Empowerment specifically for the purpose of implementing welfare and development programmes for these communities.

Empowering Youth

- **National Programme on 'Artificial Intelligence'** will be implemented by establishing a National Centre on Artificial Intelligence as a hub along with Centres of Excellence
- A National Artificial Intelligence portal will also be developed.

Empowering MSMEs and Traders

- **Government e-Marketplace (GeM)** is now being extended to all CPSEs.
- Department of Industrial Policy and Promotion, which will now be renamed as the **Department for Promotion of Industries and Internal Trade** as it was recently assigned the subject of "promotion of internal trade including retail trading and welfare of traders, and their employees".

National Security

- Defence Budget will be crossing Rs.3,00,000 crore for the first time in 2019-20.

Infrastructure

- **Vande Bharat Express** will the first indigenously developed and manufactured semi high-speed train that will give the Indian passengers world class experience with speed, service and safety.
- Total Railway Budget is of Rs.1,58,658 crore.
- Specific recommendations of a high level **Inter-Ministerial Committee** to transform the system of bidding for exploration and to change from revenue sharing to exploration programme for Category II and III basins will be implemented.

Digital India

- **Digital Villages initiative** will connect as many as 1 lakh villages with the digital services offered by the Government, within the next 5 years with the assistance of Common Service Centres (CSCs).

Entertainment

- Single window clearance for ease of shooting films will be available to Indian filmmakers. (Earlier it was available only to foreigners).
- Anti-camcording provisions in the Cinematograph Act will be introduced.

Customs and Trading Across Border Reforms

- **Abolition of Customs duties on 36 capital goods** along with introduction of single point of approval are introduced under section 65 of the Customs Act.
- Full digitalization of export/import transactions and leveraging RFID technology to improve export logistics are being introduced.

Tax

- **Rebate -** Individual taxpayers having taxable annual income up to Rs.5 lakhs will get full tax rebate and therefore will not be required to pay any income tax.
- Besides, under section 80C, a deduction of Rs 1,50,000 can be claimed from total income, for investments made in LIC, PPF, Mediclaim, incurred towards tuition fees, etc.
- So effectively persons having gross income up to Rs.6.50 lakhs may not be required to pay any income tax if they make such investments.
- **Deductions -** Additional deductions such as interest on home loan up to Rs.2 lakh, interest on education loans, NPS contributions, medical insurance, medical expenditure on senior citizens etc, are announced.

- **Standard Deduction -** For salaried persons, a Standard Deduction is raised to Rs.50,000 from Rs.40,000 i.e Rs.50,000 can be exempted from Taxatioon.
- **TDS threshold** - TDS threshold on interest earned on bank/post office deposits is being raised from Rs.10,000 to Rs.40,000.
- **Housing & Real Estate –**
  1. Income tax on notional rent on a **second self-occupied house** is also now exempted.
  2. TDS threshold for deduction of tax on rent is to be increased from Rs.1,80,000 to Rs.2,40,000.
  3. **Rollover of capital gains** under section 54 of the Income Tax Act will be increased from investment in one residential house to two residential houses for a tax payer having capital gains up to Rs.2 crore. This benefit can be availed once in a life time.
  4. **Section 80-IBA -** Tax on notional rent, on unsold inventories, has been exempted from one year to two years, from the end of the year in which the project is completed (applicable to project approved till 31st March, 2020).

2.3 Relaxation in LTCG

A proposal was made in 2019 Budget to relax the condition required for saving on long term capital gains (LTCG) made on the sale of a residential property.

- Gain from sale of a residential property (land, house or apartment) within 2 years of its purchase is considered short-term capital gain (STCG).
- After two years, the gain is considered long-term capital gains (LTCG).
- While STCG is taxed at the slab rate, LTCG is taxed at the rate of 20.6% (including cess) with indexation done for property (by applying CII (cost inflation index)).
- So currently, Section 54 of the Income-tax Act, 1961 offers a benefit of rollover of capital gains on sale of property.
- This means that the otherwise taxable proceeds (from sale of property) is allowed to be reinvested (rolled over) within a specified time and with certain preconditions, for exemption from capital gains tax.
- Under this, LTCG arising from the sale of an immovable property is exempt from tax if the profit is reinvested in a single property or other specified instruments, within the stipulated timeline.
- The assessee needs to buy the new property within 1 year before the date of transfer of the property or 2 years after the transfer.
- In case of under-construction properties, the construction needs to be completed within 3 years from the date of transfer.
- However, if the person is unable to stick to these conditions, the amount may be deposited in a public sector bank (or other banks as per the Capital Gains Account Scheme, 1988).
- Also, currently, the above exemption cannot be claimed for properties bought or constructed outside India.
- The benefit of rollover of capital gains under section 54 of the IT Act will be now increased from investment in one residential house to two residential houses.
- This will be applicable for a taxpayer having capital gains up to Rs 2 crore.
- Also, this benefit can be availed only once in a life time.
- So, if one spreads out the capital gains in 2 different properties, the next time s/he has LTCG from sale of a house, s/he has to restrict only to one property to avail the benefit.

2.4 Easing of Conditions for Angel tax

Following the concerns raised earlier, the Centre has decided to ease the conditions for angel tax/taxing investments in start-ups.

- An angel investor is one who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

- In simple terms, angel tax is the tax levied on such investments made by external investors in startups or companies.
- At times, capital is raised by unlisted companies via issue of shares where the share price is seen in excess of the 'fair market value' of the shares sold.
- So the entire investment is not taxed but only the amount that is considered above "fair value" valuations of the startup.
- Currently, funds from angels are subjected to over 30% tax if it is more than the fair market value (FMV).
- It was introduced in the 2012 Union Budget to arrest laundering of illegal wealth by means of investments in the shares of unlisted private companies at extraordinary valuations.
- However, under certain conditions, exemption to startups is offered under Section 56 of the Income Tax Act.
- The share issued to an investor has to be valued to decide whether the price is in excess of fair value.
- The valuation of a startup is usually based on a commercial negotiation between the company and the investor.
- It is based on the company's 'projected earnings' at that point in time.
- However, as startups operate in a highly uncertain environment, many are not always able to perform as per their financial projection.
- Equally, some companies exceed the projection if they are doing well.
- Resultantly, startups are often valued subjectively and it causes differing interpretations of "fair value".
- Startups are thus vulnerable to unduly high taxes because the taxman feels the investment is too high over their valuation.
- The proposals aim to simplify the process of exemptions for Startups under section 56 of the Income Tax act.
- An entity shall be considered a startup up to 10 years from its date of incorporation / registration instead of the existing period of 7 years.
- The turnover for any of the financial years since its incorporation/registration should not have exceeded Rs 100 crore (instead of the existing Rs 25 crore).
- All investments into eligible startups by Non-Residents, Alternate Investment Funds-Category I registered with SEBI shall also be exempt under Section 56 of IT Act.
- Stringent rules on angel tax have had an adverse effect on investor confidence in startups.
- So the relaxations will help the start-ups which are in desperate need for capital to fund their growth and other business requirements.
- Further, the new rules are set to be applied retrospectively.
- So many young companies that have received notices from the IT Department in the last few years will be relieved by the change in rules.

2.5 Accrual Accounting

- Accrual accounting is an accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur.
- In other words: in accrual-based accounting, the revenue and expenditure of an entity is recorded in the books when it is earned or incurred irrespective of when cash is actually paid or received.
- But in the case of cash-based accounting, books are prepared wholly on the basis of cash flows.
- The accrual based accounting method can be used by the government instead of cash based accounting to get a clear picture of the fiscal deficit.
- The Twelfth Finance Commission had noted that the cash-based system of accounting creates room for 'fiscal opportunism'.
- Fiscal opportunism is possible as tax revenues can be collected in excess during a period and payments easily be deferred to future periods.

3. INFLATION

3.1 Interest Rates Unchanged - Monetary Policy Review

The Reserve Bank of India decided to leave interest rates unchanged in the recent monetary policy review.

- The RBI now expects retail inflation to stay below the legally mandated 4% mark for the coming 12 months.
- Resultantly, RBI has sharply cut its inflation forecast for the second half of the current fiscal year - from 3.9-4.5% to 2.7-3.2%.
- For the first half of the next financial year, it has been revised from around 4.8% to 3.8-4.2%.
- The RBI's own household survey of inflation has shown a 40 basis point downward movement over the last round.
- Retail inflation is expected to fall further. E.g. the November data is estimated at 3%
- The dip in retail inflation is largely a result of the unexpected deflation in food items such as pulses, vegetables and sugar.
- Over the policy reviews, RBI has maintained its single-minded focus on targeting only retail inflation and inflation expectations.
- But despite a favourable inflation trajectory, the monetary policy committee did not cut the repo rates.
- An analysis of the components of retail inflation explains this.
- Evidently, the headline retail inflation, mapped by year-on-year changes in the consumer price index, has decelerated sharply.
- This is primarily driven by the sharp decline in food and fuel prices.
- However, the non-food, non-fuel retail inflation has actually risen to over 6%.
- Moreover, the RBI is worried about
    i. the residual impact of minimum support prices
    ii. possible fiscal slippages
    iii. a sudden increase in oil prices if the OPEC countries decides on production cuts
- So the RBI wants to pause and decide only after ensuring the decline in inflation is of a more robust nature.
- The Q2FY19 gross domestic product (GDP) data undershot the RBI's projection.
- However, the RBI maintains its annual forecast of 7.4% GDP growth in the current financial year.
- Economic growth has suffered in most of the advanced world.
- Both the US and the euro area have slowed even as Japan has contracted in the past quarter.
- Moreover, several emerging economies such as China and Russia, too, have decelerated.
- Yet, the RBI sounded relatively confident about the domestic economy.
- It highlighted the increased capacity utilisation in manufacturing sector, improving credit offtake and lower crude oil prices that may boost consumption.
- Notably, capacity utilisation in manufacturing sector rose to 76.1% in Q2, higher than the long-term average of 74.9%.
- Also, industrial firms reported an improvement in the demand outlook for Q4.
- But besides these, RBI has once again raised a cautionary signal to governments, both at the Centre and in the States.
- Fiscal slippages risk impacting the inflation outlook, heightening market volatility and crowding out private investment.
- Instead, this may be an opportune time to bolster macroeconomic fundamentals through fiscal prudence.

4. BANKING

4.1 RBI's Stance on Bank Capital Norms

RBI has opposed government calls to relax the rules for risk weights and capital requirement for Indian banks.

- At present, the capital adequacy norms for Indian banks are higher than those recommended under Basel.
- Government now calls for aligning the capital adequacy norms of Indian banks with those of Basel III to allow Indian banks to lend more.
- But RBI says that applying Basel-specified risk weights would understate the "true riskiness" of loans on the books of these banks.
- Relaxing the current risk-adjusted capital norms (Basel-III-plus norms) could hit the economy at a time when defaults are high and provisions low.
- Indian banking system has a high proportion of nonperforming assets (NPAs) that are not provided for in relation to capital levels.
- Introducing regulatory relaxations before bringing in structural reforms and with inadequate understanding of defaults could be detrimental to economy's interests.
- So the case for a recalibration of risk-weights or minimum capital requirements would need to be carefully assessed.
- **Capital norms** - RBI proposes to take a fresh look and intends to issue revised prudential regulations, including guidelines on -
    i. exposure and investment norms
    ii. risk management framework
    iii. select elements of Basel III capital framework
- **Board** - RBI called for legislative changes to do away with the need to nominate the central bank's officials as nominee directors on the boards of public sector banks.
- Former RBI governor Urjit Patel had suggested withdrawal of these nominee directors from the boards to avoid any conflict of interest.
- **PCA** - RBI also upheld the prompt corrective action (PCA) framework for weak banks, another point of contention with the government.
- RBI said that weak banks under the PCA framework have shown improvement in deposits.
- They have also shown lower growth in gross NPAs, relative to non-PCA public sector banks.
- **Besides**, the RBI is also looking at reviewing the guidelines for compensation for private sector banks.
- This follows a demand by banks for an objective assessment of remunerations for whole-time directors.

4.2 RBI's Proposal on Loan Pricing

RBI has proposed linking the interest rates charged by banks on loans to the external benchmarks.

- Currently, interest rates on loans are linked to internal benchmarks.
- All loans such as for car and home disbursed from April 1, 2016 are linked to marginal cost of funds-based lending rate (MCLR).
- The MCLR-based regime had replaced the earlier base rate regime.
- The shift was to provide transparency in the transmission of monetary policy decisions.
- MCLR is an internal benchmark rate that depends on various factors such as fixed deposit rates, source of funds and savings rate.
- The price of loan comprises the MCLR and the *spread* or the bank's profit margin.
- The biggest problem with the current system is the lack of required transmission of policy rates. Click here to know more.

- The internal benchmark is not influenced solely by the policy rate cut but depends on a variety of factors.
- So, policy rate cuts often do not reach the borrowers i.e. when the RBI cuts repo rate there is no guarantee a borrower will get the benefit of it.
- Also, the MCLR system is opaque since it is an internal benchmark that depends on the way a bank does its business.
- The new system will come into effect from April 1, 2019.
- Banks will then have to link their lending rates charged on different categories of loans with an external benchmark instead of MCLR.
- The RBI has given the following options to banks:
    i. RBI repo rate
    ii. the 91-day *T-bill* yield
    iii. the 182-day T-bill yield
    iv. any other benchmark market interest rate produced by the Financial Benchmarks India Pvt. Ltd
- One of these benchmarks will be used to decide the lending rate in addition to the spread.
- Banks will be free to decide their spread value but it will have to be fixed for the tenure of the loan.
- However, it can change if the credit score of the borrower changes.
- The interest rates under the new system will change every month.

4.3 Section 74 of IBC

Section 74 of the Insolvency and Bankruptcy Code (IBC) was recently invoked against a company for its failure to comply with the approved resolution plan.

- Under IBC, either the creditor (banks) or the loaner (defaulter) can initiate insolvency proceedings on a defaulted company.
- It is done by submitting a plea to the adjudicating authority (AA) at the National Companies Law Tribunal (NCLT).
- Insolvency proceedings can be initiated on admission of the application by the NCLT.
- After the admission, the lenders have to form a committee of creditors (CoC) and appoint an insolvency professional (IP).
- The IP act as a resolution professional (RP) and run the borrower's business in the interim period.
- Meanwhile, any resolution applicant may submit a resolution planto the RPthat is placed before the committee of creditors.
- A resolution plan can be said to be a bid for the corporate debtor, through which he/she proposes to repay the bad debt or part of the bad debt of the corporate debtor.
- The responsibility of approving a resolution plan rests with the CoC, which will approve it with not less than 75% voting in favour of it.
- Where a plan approved by the CoC is subsequently approved by the AA, the final plan will be binding on the corporate debtors, involved in the resolution plan.
- Section 74 lays down the provisions to penalise officials of corporate debtors, creditors and biddersif and when they violate a resolution plan as approved by the adjudicating authority.
- Officials of the corporate debtor who violate the norms can be imprisoned for a maximum term of five years and a penalty of up to Rs 300,000.
- Officials of creditors who violate the norms can be jailed for a maximum of five years and a penalty of up to Rs 1 crore.
- Officials of bidders, who violate the norms can similarly be imprisoned for a maximum tenure of five years and a penalty of up to Rs 1 crore.

- This provision is required to protect the Code from being taken lightly, and ensure that a resolution happens as planned.
- The Liberty House, an international metals and industrial group, had made a successful resolution plan for a defaulted company, Amtek Auto, earlier this year.
- The terms of the resolution plan were also approved by the adjudicating authority (NCLT).
- However, Liberty House failed to pay the banks according to the terms of the resolution plan.
- Liberty House alleges that there were serious issues in the information and valuation reports shared with it prior to the bidding process.
- Hence, the lenders to Amtek Auto have moved the Chandigarh bench of the NCLT to invoke Section 74 against the Liberty House Group.
- Once the Section is invoked by the Committee of Creditors, it is up to the NCLT to decide on the course of action with respect to the corporate debtor.
- The NCLT can then either decide to allow the resolution professional of the corporate debtor to invite fresh bids, or penalise the erring bidder with jail and fine as per Section 74.
- In case there are no fresh bidders, the NCLT can also allow liquidation of such corporate debtors.

4.4 Upholding validity of IBC

The Supreme Court recently upheld the constitutional validity of the Insolvency and Bankruptcy Code 2016 (IBC).

- Insolvency and bankruptcy code 2016, was introduced to resolve the bankruptcy crisis in corporate sector.
- Under IBC, either the creditor (banks) or the loaner (defaulter) can initiate insolvency proceedings.
- It is done by submitting a plea to the adjudicating authority, the National Companies Law Tribunal (NCLT).
- The Insolvency and Bankruptcy Code stipulates cases should be heard within 14 days.
- According to IBC, a financial creditor (generally banks) holds an important role in the corporate insolvency process.
- The Committee of Creditors (CoC) includes all financial creditors of a corporate debtor.
- The CoC will appoint and supervise the Insolvency Professional, and has the power to either approve or reject the resolution plan to revive the debtor, or can proceed to liquidate the debtor.
- The entire process is time-bound and must be completed within a period of 180 days (a one-time extension of 90 days is possible after the completion of 180 days).
- However, several provisions of the IBC were challenged as arbitrary and discriminatory in the Supreme court.
- The Supreme Court upheld the IBC saying that the insolvency law was working, while it termed the recovery of bad debt marking as the end of defaulters' paradise.
- In the working of the code, the flow of resources to the commercial sector in India has increased exponentially as a result of financial debts being repaid.
- **On Promoters** - The SC verdict upheld **Section 29A** of the IBC.
- The section bars promoters of bankrupt companies as well as people related to them from bidding to regain control of their assets at a discount.
- Specifically, the section dictates that promoters of companies, which have been classified as NPAs for over a year can't participate in the resolution process of any company unless the dues are repaid.
- However, a mere relationship with an ineligible person/promoter cannot disqualify someone from becoming a bidder for a troubled asset.
- It has to be proved that such a person is "connected" with the business activity of the promoter.
- **On Operational creditors** – Operational creditors are the suppliers of products and services to bankrupt companies and contractors.

- Under Section 53 of the IBC, in the event of liquidation of the company or its sale to another entity, the dues of operational creditors rank below those of financial creditors, workmen and employees.
- This was challenged by the operational creditors, who wanted equal treatment with financial creditors in this regard.
- Currently, the Committee of Creditors (CoC) constituted for bankrupt firms only comprise all financial creditors, like banks.
- And since operational creditors don't have a place in the CoC, they have no voting rights when the committee decides on what to do with an asset.
- Thus, several operational creditors had moved the court arguing that the bankruptcy code violates Article 14.
- But the Court justified the existing differentiation by making a salient distinction between financial debts, which are secured, and operational debts, which are unsecured.
- Also, the original IBC contains no provision for the operational creditors to attend the Committee of Creditors of the lender banks.
- The court noted further that there can be cases where the goods and services that are supplied by operational creditor may be substandard or they may not have been supplied at all.
- Thus, the court rejected the plea by operational creditors' seeking parity with secured financial creditors at the time of inviting bids for the corporate resolution plan under the IBC.
- **On Infrastructure** - The court directed the setting up of the circuit branches of the National Company Law Appellate Tribunal within a period of six months.
- This is to ensure that people from other metropolis need not travel to Delhi for the adjudication of issues by the NCLAT.
- **On case resolution** - Approximately 3,300 cases have been disposed of in out-of-court settlements with claims amounting to over Rs 1.20 trillion.
- Also, the amount realised from the resolution process under the IBC was around Rs 60,000 crore, roughly 200% of the liquidation value.
- The Court has thus provided an emphatic nod in favour of the IBC resolution process.

4.5 RBI notification on MSME loans

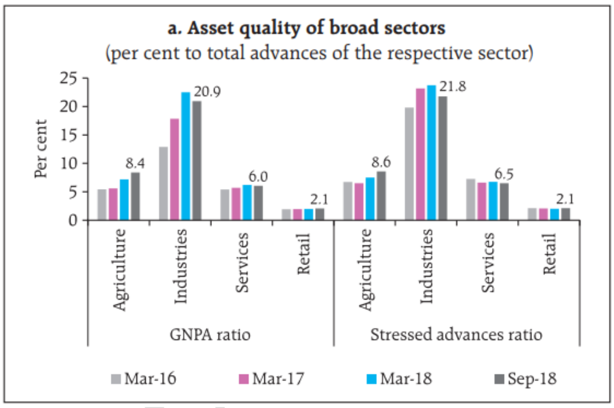
RBI has recently issued norms on restructuring loans of MSMEs.

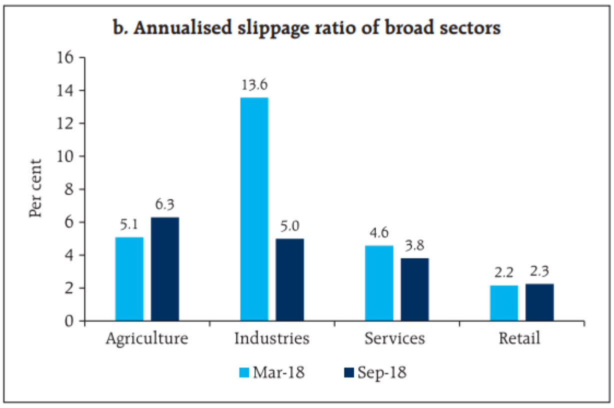
- RBI has recently decided to permit one-time restructuring of existing loans to MSME enterprises that are in default but 'standard' as on January 1, 2019, without an asset classification downgrade.
- To be eligible for the restructuring, the aggregate exposure to a GST-registered MSME borrower should not exceed ₹25 crores as on January 1, 2019.
- Only a provision of 5% of the total outstanding loan, in addition to the money already set aside to cover potential losses, will have to be made for such borrowers by the lenders.
- Under-provisioning, banks have to set aside funds to a prescribed percentage of their bad assets.
- The banks have to make a larger provision if the asset quality of MSME borrowers gets deteriorated.
- Thus, restructuring without an asset classification downgrade will save the lenders from higher provisioning burden.
- This will encourage banks and non-banking finance companies (NBFCs) to take up restructuring in the case of MSMEs.
- Accordingly, each bank/NBFC should formulate a policy for this scheme with the board approval.
- The plan should include the framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts.
- This restructuring process has to be implemented by March 31, 2020.

4.6 Financial Stability Report

RBI has recently released the Financial Stability Report.

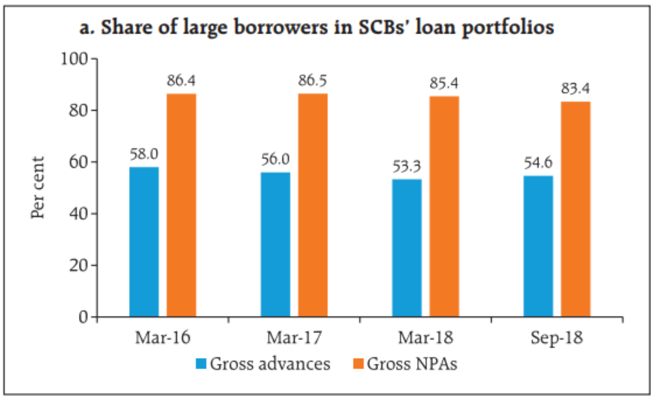
- The quality of banks showed an improvement with **the gross non-performing assets (GNPA) ratio** of Scheduled commercial banks declining from 11.5% in March 2018 to 10.8% in September 2018.
- The GNPA ratio of both public and private sector banks showed a half-yearly decline, for the first time since March 2015.
- GNPAs of state-run lenders falling to 14.8% in September 2018 from 15.2% in March 2018.
- GNPAs of Private sector banks falling to 3.8% in September 2018 from 4% in March 2018.
- The ratio of restructured standard advances (RSAs) steadily declined to 0.5%in September 2018 following the withdrawal of various restructuring schemes in February 2018.
- This suggested increasing shift of the restructured advances back to NPA category.
- As of September 2018, provision coverage ratio (PCR) of all banks was higher as compared to March 2018, with improvements noticed for both state-run banks and private sector banks.
- Under provisioning, banks have to set aside funds to a prescribed percentage of their bad assets.
- The provisioning coverage ratio is the percentage of bad assets that the bank has to provide for (keep money) from their own funds(profit).
- A rise in PCR reveals that banks has increased its cushion to absorb losses and has also made adequate provisions for NPAs.
- Also, the capital to risk-weighted assets ratio (CRAR) of banks declined marginally from 13.8% in March 2018 to 13.7% in September 2018.
- The CRAR is the capital needed for a bank measured in terms of the riskiness of the assets (mostly loans) disbursed by the banks.
- Higher the assets, higher should be the capital of the bank.
- The banks were finally witnessing reverse trend in stressed asset exposures in sectors like industry and services.

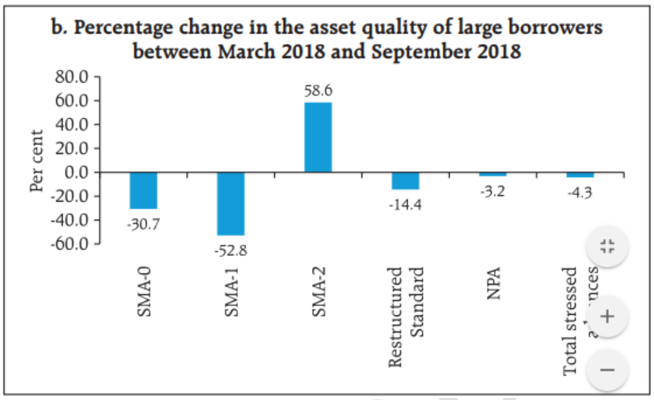




- The gross NPA ratio of banks in industry sector has come down to 20.9% in September 2018 quarter.
- Also, the annualised slippage ratio decelerated massively to 5% as against 13.6% in March 2018.
- Slippage ratio is defined as the ratio of increase in NPAs during the year with respect to standard advances at the beginning of the year.
- The declining trend was also witnessed in service sector, where gross NPA ratio came down to 2.1% along with stressed asset ratio at 6.5% in September 2018.
- On the other hand, this was not the case for agriculture and retail sector.
- Among the sub-sectors within industry, stressed advances ratios of 'mining', 'food processing' and 'construction' sectors have increased in September 2018 as compared to March 2018.

- Also, share of large borrowers in SCBs' total loan portfolios and their share in GNPAs was at 54.6%and 83.4%respectively at the end of September 2018.
- Top 100 large borrowers accounted for 16.0%of gross advances and 21.2%of GNPAs of SCBs.





- However, in terms of percentage change in the asset quality of large borrowers, proportion of stressed amount has come down from 30.4%in March 2018 to 25.4%in September 2018.

4.7 Stressed Assets

- A loan whose interest and/or installment of principal have remained 'overdue '(not paid) for a period of 90 days is considered as NPA.
- Restructured asset or loan are that assets which got an extended repayment period, reduced interest rate, converting a part of the loan into equity, providing additional financing, or some combination of these measures.
- Hence, under restructuring, a bad loan is modified as a new loan.
- A restructured loan also indicates bad asset quality of banks.
- This is because a restructured loan was a past NPA or it has been modified into a new loan.
- Written off assets are those amount when the bank or lender doesn't count the money borrower owes to it.
- Thus, Stressed assets = NPAs + Restructured loans + Written off assets.

4.8 Bimal Jalan Panel

- RBI in consultation with the Government has set up Bimal Jalan Panel to review the economic capital framework of the central bank.
- The economic capital issue was a bone of contention, among other issues, between the central bank and the Finance Ministry.
- To solve this, RBI board has decided to setup this panel.
- It is a 6-member committee with Economic Secretary, RBI Deputy Governor, members of RBI board as members.
- Terms of reference of the committee –
  1. To review status, need and justification of various provisions, reserves and buffers presently provided for by the RBI,
  2. Review best practices followed by the central banks globally in making assessment and provisions for risks, to which central bank balance sheets are subjected.
  3. Suggest an adequate level of risk provisioning that the RBI needs to maintain, and to determine whether it is holding provisions, reserves and buffers in surplus or deficit of the required level.
  4. Propose a suitable profit distribution policy taking into account all the likely situations of the RBI.
- The committee would submit its report within 90 days from the date of its first meeting.

4.9 Public Credit Registry

- RBI has proposed to set up a wide-based digital Public Credit Registry (PCR) to capture details of all borrowers and willful defaulters.
- The PCR will be an extensive database of credit information for India that is accessible to all stakeholders.
- The idea is to capture all relevant information in one large database on the borrower and, in particular, the borrower's entire set of borrowing contracts and outcomes.
- The proposed PCR will also include data from entities like market regulator SEBI, Ministry of corporate affairs, Goods and Service Tax Network (GSTN) and the Insolvency and Bankruptcy Board of India (IBBI).

4.10 RBI's Interim Dividend to the Government

The RBI recently approved an interim dividend (surplus transfer) payout of Rs 28,000 crore to the government.

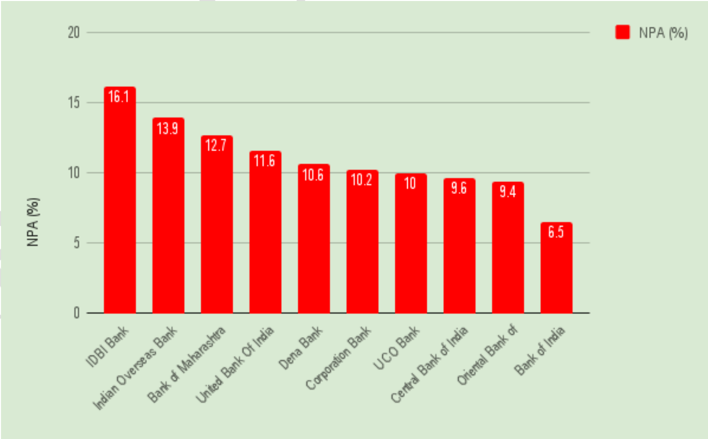
- **Income -** A central bank's income comes largely from the returns it earns on its foreign currency assets.
- This could be in the form of bonds and treasury bills of other central banks or top-rated securities, deposits with other central banks.
- Other sources include the -
  - i. interest it earns on its holdings of local rupee-denominated government bonds or securities
  - ii. management commission on handling the borrowings of state governments and the central government
- The RBI buys these financial assets against its -
  - i. fixed liabilities such as currency held by the public
  - ii. deposits issued to commercial banks
- **Expenditure -** A central bank's expenditure is mainly on the printing of currency notes.
- Other components include the expenditures -
  - i. on staff
  - ii. on commissions to banks for undertaking transactions on behalf of the government across the country
  - iii. on commissions to primary dealers, including banks, for underwriting some of the borrowings
- **Surplus -** Generally, the central bank's total expenditure is only about a seventh of its total net interest income.
- This implies that it certainly generates a large surplus out of the excess of income over expenditure.
- The surplus transfer is generally done in early August, after the completion of the bank's July-June accounting year.
- The RBI had thus already transferred Rs 40,000 crore to the government in August 2018.
- So the current one is an interim transfer, in addition to the usual one.
- With this, the government will get a total of Rs 68,000 crore from the central bank in the current fiscal.
- The central bank transfers its surplus to the government under the provisions of Section 47 of the Reserve Bank of India Act, 1934.
- The Government of India is the sole owner of India's central bank, the RBI.
- So the government can make a legitimate claim to this surplus.
- Also, by virtue of its role as the manager of the country's currency, the RBI generates more surplus than the entire public sector put together.
- So, this surplus, in effect, belongs entirely to the country's citizens.
- Given this, the RBI pays the remaining surplus after setting aside what is needed to be retained as equity capital to maintain its creditworthiness.

- Much of the surplus that the RBI generates comes from the interest on government assets, or from the capital gains through other market participants.
- When this is paid to the government as dividend, the RBI is actually putting back into the system the money it has made from it.
- Logically, there is no additional money-printing or reserve-creation involved.
- But when the RBI pays an additional dividend to the government, it has to create additional permanent reserves i.e. it has to print money.
- Instead, to compensate for the special dividend, the RBI would have to withdraw an equivalent amount of money from the public.
- The RBI does this by selling government bonds in its portfolio.
- Besides, all central banks worry that large payouts could limit their ability to create buffers to make up for the impact of a crisis.

4.11 Removal of Banks from PCA framework

RBI recently removed three state-owned banks from the prompt corrective action (PCA) framework.

- Under the PCA norms, the performance of banks was determined on the basis of three criteria — capital, asset quality and profitability.
- It is a quick corrective measure taken in case a bank is found to be having low Capital Adequacy Ratio (CAR) or high NPAs.



- The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.
- RBI initiates PCA when <u>CAR goes below 9%</u> or <u>NPA rises above 10%.</u>
- When RBI initiates PCA against a bank, it puts <u>restrictions on fresh loans and dividend distribution</u>.
- The actions could include stricter norms for lending, branch expansion, management change and asset reduction depending on the financial health of the bank.
- The RBI tightened the PCA norms when bad loans situation in the country got worse, with many PSU banks showing high NPA ratio.
- The RBI had put 11 PSBs under PCA with different degree of restrictions.
- Rating agencies like Fitch have hailed the RBI's decision to put stricter norms, saying that it would address the problems of struggling banks.
- However, the government was of the opinion that the RBI should relax the PCA norms to enable more sanction of credit by PSU Banks.
- The three banks which are removed from the PCA framework are Bank of India, Bank of Maharashtra and Oriental Bank of Commerce.
- The three banks were among 11 public sector lenders that were brought under the PCA framework by the apex bank.
- Subsequently, the government infused capital in PSU banks and some of the lenders reported better numbers for the third quarter ended December 31, 2018.
- Thus, there was an expectation that at least two banks will come out of the PCA framework.
- For instance, at least two banks — Bank of India and Bank of Maharashtra — had non-performing assets as a percentage of total assets that were lower than the threshold of 6% set by the RBI.

- Bank of India had a net NPA of 5.87%, while Bank of Maharashtra's NPA was 5.91%.
- In case of Oriental Bank of Commerce, the net NPA is 7.15% in the third quarter.
- The government had since infused sufficient capital and the bank had brought down the net NPA to less than 6%.
- Thus, the RBI decided to remove these banks, along with Oriental Bank of Commerce, after a review of the performance of these three banks.
- These banks have met the regulatory norms including Capital Conservation Buffer (CCB) norms.
- It pointed out that these lenders were not in breach of the PCA parameters on the basis of their results in the third quarter, except Return on Assets (RoA).
- According to rules, bank having negative RoA for at least two consecutive years will come under the PCA framework.
- However, the RBI said the lenders with weak ROA have given it in writing that they would comply with the norms of minimum regulatory capital, net NPA and leverage ratio on an ongoing basis.
- Further, they have told the RBI that they are making various structural and systemic improvements.
- Also, the government has also said the capital requirements of these banks will be duly factored in while making bank-wise capital allocations during the current financial year.
- Taking all the above into consideration, these banks are taken out of the PCA framework subject to certain conditions and continuous monitoring.

Capital Conservation Buffer

- CCB is a relatively new concept, introduced under the international Basel III norms.
- The concept says that during good times, banks must build up a capital buffer that can be drawn from when there is stress.
- In India, the minimum capital requirement is 9%.
- The CCB would be 2.5 percentage points over and above the minimum capital requirement.

4.12 Supreme Court Order on RBI's 'February 12 circular'

The Supreme Court, in its recent order, has struck down the RBI's 'February 12 circular'.

- The RBI circular issued on February 12, 2018 is essentially a revised framework for the resolution of stressed assets.
- The circular went into effect on the same day that it was issued.
- All existing schemes for stressed asset resolution were withdrawn with immediate effect, which included the -
    i. Framework for Revitalising Distressed Assets
    ii. Corporate Debt Restructuring Scheme
    iii. Flexible Structuring of Existing Long Term Project Loans
    iv. Strategic Debt Restructuring Scheme (SDR)
    v. Change in Ownership outside SDR
    vi. Scheme for Sustainable Structuring of Stressed Assets (S4A)
- All these schemes allowed more lenient terms of resolution than the February 12 circular.
- As per the circular, banks were required to immediately start working on a resolution plan for accounts over Rs 2,000 crore.
- It prescribes insolvency proceedings under the Insolvency and Bankruptcy Code (IBC), for a debt servicing default beyond 180 days.
- Also, banks have to recognise loans as non-performing even if the repayment was delayed by just one day.
- Not adhering to the timelines in the circular would attract stringent supervisory and enforcement actions.

- The RBI argued that the circular had been issued in the public interest, with a view to ensure the timely resolution of stressed assets.
- It was intended to stop the "evergreening" of bad loans.
- Several companies from the power and shipping sectors had challenged the circular.
- They had argued that the time given by the RBI was not enough to tackle bad debt.
- Power producers contended that the RBI's 'one-size-fits-all' approach was impractical as the sector had to confront many external factors.
- These included the unavailability of coal and gas, and problems arising out of state governments' failure to honour power purchase agreements. Click here to know more.
- These factors were beyond its control, and so made an early revival difficult for them.
- The total debt impacted by the circular stands at Rs 3.8 lakh crore across 70 large borrowers.
- These include Rs 2 lakh crore across 34 borrowers in the power sector alone.
- As of March 31, 2018, 92% of this debt had been classified as non-performing, and banks have made provisions of over 25-40% on these accounts.
- The government too had asked the RBI to make sector-specific relaxations in the timeline for the implementation of the circular.

5. FINANCIAL MARKET

5.1 Share Swap

Hindustan Unilever (HUL) announced the merger of Glaxo SmithKline Consumer (GSK Consumer) with it, in a deal that has been structured as a share swap.

- When a company pays for an acquisition by issuing its own shares to the shareholders of the target company, this is known as a share swap.
- The number of shares to be issued in lieu of their existing holdings to the target company is called the swap ratio.
- Swap ratio is determined by valuing the target company after looking into metrics such as its revenues and profits, as well as its market price.
- If the target company is listed, the market value of its shares is often a key consideration to arrive at the right price to be paid.
- Paying a premium linked to a market value usually indicates healthy prospects and high potential, while a discount could indicate a distress sale.

5.2 Fed Rate Hike

The Federal Open Market Committee (FOMC) of the U.S. recently voted unanimously to increase the short-term interest rate.

- The Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System in the U.S.
- It voted unanimously to increase the short-term interest rate by a quarter of a percentage point, taking it from 2.25% to 2.5%.
- This was the fourth increase in 12 months, a sequence that had been projected a year ago.
- The FOMC members also indicated that there would be two more quarter-point increases in 2019.
- THE announcement soon met with widespread disapproval.

5.3 Swap Ratio

- When a company pays for an acquisition by issuing its own shares to the shareholders of the target company, this is known as a share swap.
- The number of shares to be issued in lieu of their existing holdings in the target company is called the swap ratio.
- The swap ratios are based on stock prices.
- It is determined by valuing the target company after looking into metrics such as its revenues and profits, as well as its market price.
- **Advantages -** As shareholders of the target company will also be shareholders of the merged entity, the risks and benefits of the expected synergy from the merger will be shared by both the parties. In a cash deal, if the synergies don't materialise, shareholders of the acquiring company alone bear the fallout.
- In a share swap, there is no cash outgo involved for the acquirer, saving the acquirer borrowing costs. Cash rich companies can put their cash to use for investments in the business or for other buyouts.
- **Disadvantages -** Issuing fresh shares could lead to reduction in promoter holding and dilution in earnings for shareholders of the acquiring company.

6. EXTERNAL SECTOR

6.1 Currency Swap Arrangement

- Cabinet approved the Framework on Currency Swap Arrangement for SAARC Member Countries in 2012.
- A currency swap agreement between two countries is signed between the central banks.
- The local currency of the country that needs the loan will be exchanged for Dollar/Currency of the country that provides the loan.
- The intention is to provide a line of funding for short term foreign exchange requirements or to meet balance of payments crises.
- Under the agreement, RBI offers swaps of varying sizes in USD, Euro or INR to each SAARC member country depending on their 2 months import requirement.
- This will not exceed US$ 2 billion in total.
- Each Drawl will be for 3 months tenure and up to maximum of 2 rollovers.
- Recently union cabinet approved an amendment to the arrangement to incorporate 'Standby Swap' amounting to USD 400 million operated within the overall size of the facility USD 2 billion.
- BSA between India & Japan works on the same principle.

6.2 Bilateral Swap Arrangement

- The Union Cabinet has approved the proposal for entering into an Bilateral Swap Arrangement (BSA) between between the RBI and the Bank of Japan for a maximum amount of USD 75 billion.
- This facility will enable the agreed amount of Capital being available to India on tap for use.
- Availability of such swap line to tide over difficulties arising out of Balance of Payment (BOP) would deter speculative attacks on the domestic currency and greatly enhance the RBI's ability to manage exchange rate volatility.

6.3 FDI in e-commerce

Ministry of Commerce & Industry recently reviewed the policy on Foreign Direct Investment (FDI) in e-commerce.

- E-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.

- **FDI Limit** - E-commerce means buying and selling of goods and services including digital products over digital & electronic network.
- 100% FDI under automatic route is permitted in marketplace model of e-commerce.
- Marketplace based model of e-commerce means providing an IT platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.
- However, FDI is not permitted in inventory based model of e-commerce.
- Inventory based model of e-commerce means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
- **Control** - E-commerce entity providing a marketplace should not exercise ownership or control over the inventory i.e. goods purported to be sold.
- If more than 25% of the inventories of an E-commerce entity are linked to a single seller, it ceases to be an intermediary between buyers and sellers.
- Such an E-commerce entity will be treated as an inventory based model rather than a market-place platform.
- **Equity holding** - An entity having equity participation by e-commerce marketplace entity will not be permitted to sell its products on the platform run by such marketplace entity.
- Hence, a product in which, say, Amazon or Flipkart have a stake cannot be sold on their respective platforms.
- **Responsibility** - In a marketplace model, goods/services made available for sale electronically on website should clearly provide name, address and other contact details of the seller.
- Post sales, delivery of goods to the customers and customer satisfaction will be responsibility of the seller.
- Any warrantee/ guarantee of goods and services sold will be the responsibility of the seller.
- Also, e-commerce marketplace entity will not mandate any seller to sell any product exclusively on its platform only.
- **Price** - E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and should maintain a level playing field.
- Also, cash back provided by group companies of marketplace entity to buyers should be fair and non-discriminatory.
- The above decision will take effect from 01 February, 2019.

6.4 World Bank Report on Remittances

The report on remittances for 2018 was released in the latest edition of the World Bank's Migration and Development Brief.

- **India** - India will retain its position as the world's top recipient of remittances this year with its diaspora sending a USD 80 billion back home.
- India is followed by China (USD 67 billion), Mexico and the Philippines (USD 34 billion each) and Egypt (USD 26 billion).
- Over the last three years, India has registered a significant flow of remittances, from USD 62.7 billion in 2016 to USD 65.3 billion 2017.
- In 2017, remittances constituted 2.7% of India's GDP.
- **Global** - Officially-recorded remittances to developing countries will increase by 10.8% to reach USD 528 billion in 2018.
- This new record level follows a robust growth of 7.8% in 2017.
- Global remittances, which include flows to high-income countries, are projected to grow by 10.3% to USD 689 billion.
- **South Asia** - Remittances to South Asia are projected to increase by 13.5% to USD 132 billion in 2018.
- This is a stronger pace of growth than the 5.7% growth seen in 2017.

- The upsurge is driven by stronger economic conditions in advanced economies, particularly the US.
- Also, the increase in oil prices has a positive impact on outflows from some Gulf Cooperation Council (GCC) countries.
- This, notably, include the UAE which reported a 13% growth in outflows for the first half of 2018.
- Bangladesh and Pakistan both experienced strong upticks of 17.9% and 6.2% in 2018, respectively.
- But for 2019, it is projected that remittances growth for the South Asian region will slow to 4.3% due to -
    i. moderation of growth in advanced economies
    ii. lower migration to the GCC
    iii. the benefits from the oil price spurt dissipating
- **Future -** The future growth of remittances is vulnerable to lower oil prices, and restrictive migration policies.
- Also, the global economic growth is projected to moderate in the coming year.
- So future remittances to low- and middle-income countries are expected to grow only moderately by 4% to reach USD 549 billion in 2019.
- Global remittances are expected to grow 3.7% to USD 715 billion in 2019.
- **Remittance cost** - The report highlights that even with technological advances, remittances fees remain too high.
- The global average cost of sending USD 200 remains high at 6.9% in the third quarter of 2018.
- The average cost of remitting in South Asia was the lowest at 5.4%, while Sub-Saharan Africa continued to have the highest at 9%.
- Notably, reducing remittance flows to 3% by 2030 is a global target under Sustainable Development Goal (SDG) 10.7.
- Increasing the volume of remittances is also a global goal under the proposals for raising financing for the SDGs.

6.5 Significance of a Competitive Exchange Rate

Major economies like China are using the instrument of competitive exchange rates for a stabilized economy, which India can also follow.

- Exchange rate is the price of foreign currency (USD, Yen, Euro, Pound etc) in terms of domestic currency (rupee) i.e. amount of domestic currency needed to buy one unit of foreign currency.
- Exchange rate tells us the value of domestic currency in relation to one unit of foreign currency.
- Rupee prices keep fluctuating all the time. Sometimes we need more rupees to buy one unit of foreign currency and sometimes we need fewer rupees to buy one unit of foreign currency.
- This change in rupee price is known as rupee appreciation or depreciation.
- Rupee appreciation is when value of rupee increases (becomes expensive) and fewer, when Rupees can buy one unit of foreign currency.
- This is also known as strengthening of rupee as now INR is worth more than foreign currency.

6.6 Nominal Exchange Rate

- Nominal exchange rate means a rate by which you can exchange your domestic currency with the foreign currency at any financial institutions like banks, NBFCs etc.
- It is the value of money which is received in an exchange with another currency.
- So in short, the nominal exchange rate is the rate which is presented by the financial institutions.
- If the Nominal exchange rate is high it will benefit an economy a lot in the trading activities.
- If it is high, the goods and services get more foreign units

- If there is a change in the Exchange rate, Nominal Exchange rate is less affected as compared to the Real exchange rate.

6.7 Real Exchange Rate

- The real exchange rate is a rate which measures how many times an item of goods purchased locally can be purchased abroad.
- So, it indicates the ratio of items purchased in the domestic market to the items purchased in the foreign market.
- Real exchange rate actually determines the ratio of price in the local market to the price in the foreign market.
- So, it indicates the goods and services consumed as compared to another country.
- It is complex and also a difficult method to calculate the real exchange rate, thus it measures the purchasing power of domestic currency to the foreign currency at a prevailing time.
- Real exchange rate is highly affected by the change in the exchange rate in the global market.

6.8 U K Sinha Committee

- RBI has set up an expert committee under former Sebi chairman U K Sinha to suggest long-term solutions for the economic and financial sustainability of the MSME sector.
- They will identify the 'structural problems' affecting the growth of the small scale sector.
- The eight-member committee will also examine the factors impacting credit flow to MSMEs and propose measures for leveraging technology in accelerating growth of the sector.
- Such a high level committee has been assigned to examine MSMEs because these enterprises contribute about 40% to India's export and 45% in the manufacturing sector.
- The report will be submitted by the end of June 2019.

7. GENERAL ECONOMY

7.1 Global Worries on VUCA Factors

Many government and business organizations across the globe are seriously de-stabilized due to VUCA factors.

- VUCA stands for Volatility, Uncertainty, Complexity and Ambiguity.
- It is used to describe the state of business, political, societal and ecological world.
- **Volatility -** Brexit is a good example of the VUCA world, Britain's exit from the European Union took the world by surprise.
- A consequence of this political factor has affected economics, commerce, regulatory system and emotional perception of the people at large.
- Syria's war shows no sign of stopping, Syria can be described as several interconnected wars, and it's not government-versus-rebels narrative it started out as part of Arab spring in 2011.
- The US pressure on Turkey to deal with the ISIS will actually make Turkey more vulnerable to attacks from terrorist groups.
- Brazil is unable to address its growing fiscal deficit.
- The war between North Korea and South Korea, and the political instability in many parts of world has increased volatility.
- **Uncertainty -** In present world, Mergers, acquisitions and takeovers have reached a peak globally because firms are seeking to position and reposition themselves.
- Making systematically-sound strategic decisions under uncertainty requires mature strategies in a framework for determining the level of uncertainty surrounding strategic decisions and for tailoring strategy to that uncertainty.

- Management techniques were always based on assumptions about the future, and the use of planning is a major tool of management control.
- **Complexities -** Globalization has pushed the boundaries of doing business, which has only created a wide gap between developed and underdeveloped markets, increasing the competition from new entrants.
- The biggest fact today is that the start-ups are giving competition to established businesses in many sectors; bigger and established players are dumbfounded due to creativity and innovation from smaller firms.
- Organizations today need 24×7 innovative pool of employees, those who can just keep innovation pumping at all levels of business.
- **Ambiguity -** Too much of information keeps pouring in from everywhere, creating more and more ambiguity.
- Customers have a lot of information and they are confused about what to buy, how to buy, from where to buy, at what price to buy.
- Globalization has paved way for a growing number of multichannel at all levels, from governments to citizens, and each is stumbling with their own set of priorities and responsibilities.

7.2 e-Nam Inter State Trade

Recently, the first inter-State trade on e-NAM was carried out between UP and Uttarakhand followed by that between AP and Telengana.

- The e-NAM, introduced in 2016, is a pan-India e-trading portal to network the existing physical regulated wholesale market (APMC market) through a virtual platform.
- It aims to create a unified national market for agricultural commodities.
- Under the eNAM agri-trading was initially allowed within a mandi and later inter-mandi within a state was permitted.
- So far, 10 states are offering inter-mandi trade within their states.
- Now, inter-state trading via e-NAM mandis has started, and 8 states are now offering this via 21 e-NAM platforms so far.
- Rajasthan is the first state to start inter-state trade with more than one state, establishing trade link with Gujarat, Maharashtra and Madhya Pradesh through e-NAM.
- Over 14 commodities like vegetables, pulses, cereals, oilseeds, spices among others have been traded in a short span of time, and volume is also picking up.
- Inter-state trade on e-NAM aims to remove barriers of movement of agriculture produce and to increase income through appropriate monetisation of farmers' produce.
- The details on logistic providers are also being provided on the e-NAM portal to traders from outside the state, to facilitate transportation after trading.

7.3 Periodic Labour Force Survey - NSSO

The NSSO recently released a draft report on unemployment based on the periodic labour force survey (PLFS).

- The report found that the **unemployment rate was 6.1%** in 2017-18, which was at 2.2% in 2011-12.
- The only year of comparable data when the unemployment rate was higher was in 1972-73.
- The joblessness rate among the youth (15-29 years) was at a significantly high level compared to the previous years and much higher compared to that in the overall population.
- It also showed that joblessness was higher in urban India (7.8%) than in rural India (5.3%).
- Within this, it stood at 17.4% for rural males and 13.6% for rural females.
- In urban India, joblessness was at 18.7% among males and a huge 27.2% among females.
- Labour force participation rate (LFPR) is defined as the section of working population in the age group of 16-64 in the economy currently employed or seeking employment.
- **LFPR declined** from 39.5% in 2011-12 to 36.9% in 2017-18.

- Thus, while the phenomenon of unemployment is rising on one hand, the LFPR dipped on the other.
- This shows that people are simply giving up on finding jobs and have stopped seeking work.
- Thus, this sharp drop in the employment rate completely negates India's demographic dividend, since people are not in the labour force.

7.4 Improvising the 59-minute Loan Scheme

The concerns on poor loan disbursements persists even after the introduction of the 59-minute loan scheme.

- The government announced the '59 minute' loan schemefor MSME sector in 2018.
- The scheme promises loans of up to Rs. 1 crore from public sector banks (PSBs) through an online lending marketplace called 'psbloanin59minutes'.
- This portal approves a loan in 59 minutes and connects the borrower to the bank branch for sanction and disbursal.

7.5 United States Reciprocal Trade Act

The United States Reciprocal Trade Act was recently introduced in the U.S. Congress.

- Under reciprocity in trade negotiations, WTO signatories need to offer adequate trade concessions in order to receive similar concessions from their trading partners.
- Eg: Lowering of import duties and other trade barriers in return for similar concessions from another country.
- Reciprocity is a traditional principle of GATT/WTO, but is practicable only between developed nations due to their roughly matching economies.
- For trade between developed and developing nations, the concept of relative reciprocity is applied whereby the developed nations accept less than full reciprocity from their developing trading partners.
- Under this developed contracting parties do not expect reciprocity for commitments to reduce or remove tariffs when they trade with less developed contracting parties.
- However, this revised meaning of reciprocity permitted a differential treatment of developing and least-developed countries at the discretion of the developed world.
- This discretion is revealed in the provisions of the US Reciprocal Trade Act.
- The aim of the legislation is to give "the President the tools necessary to pressure other nations to lower their tariffs and stop taking advantage of America".
- The US President can unilaterally increase the existing US tariffs for those products where the US's trading partners have imposed higher tariffs or higher non-tariff barriers.
- In practical terms, it provides U.S. an opportunity to cherry-pick products of certain trading partners for differential or retaliatory tariff treatment.
- A spreadsheet which is annexed to the Bill shows certain products where the US has lower tariffs than certain other countries.
- According to the bill, foreign tariffs higher than US tariffs on any of the items in the US tariff schedule amounts to robbery.
- Eg: Three products from India — cut granite, motorcycles and whiskey — have found a place on this spreadsheet.
- The Bill reflects the changing attitude or a growing lack of respect amongst legislators and policymakers in key economies towards international trade rules.
- **Interpreting reciprocity** - Reciprocity did not require parity of treatment on a product-to-product basis.
- Generally, if a higher duty is levied on certain goods by a trading partner, it will subsequently be matched by providing trade concessions on other goods/services that they trade.
- But this bill seems to look at only specific items within the tariff schedule, while negating similar concessions offered by its trading partner on other products.

- **Violating MFN principle -** The Bill is an obvious violation of the Most-Favoured-Nation (MFN) concept.
- Under the WTO agreements, countries cannot normally discriminate between their trading partners.
- If they grant someone a special favour (such as a lower customs duty rate for one of their products) they have to do the same for all other WTO members. (MFN principle)
- Thus, if the President raises tariffs on a product of a particular country as is provided in the Bill, the US would be discriminating against that country with respect to others.
- Such a treatment will strike at the roots of the non-discriminatory MFN-based WTO system.
- **Uneven treatment** - The Bill fails to distinguish between WTO consistent and WTO inconsistent non-tariff barriers.
- If enacted, this Bill could even consider WTO consistent non-tariff measures such as anti-dumping by nations as high tariffs and will take it as an input to levy retaliatory tariffs on them.
- Thus, the bill completely undermines the rights granted under the WTO agreement and provides a grossly distorted idea of reciprocity.
- **Breaching commitments** - The US President can breach the sovereign commitments given by the US in bilaterally negotiated trade deals.
- Thus, the overall concern with the Bill is that its intent and object are admittedly a complete disregard of the WTO rulebook.

7.6 Withdrawal of U.S.'s Trade Concessions

The U.S. could possibly remove India from the Generalised System of Preferences (GSP) list.

- The GSP is a U.S. trade program designed to promote economic growth in the developing world.
- GSP was instituted in 1976 by the Trade Act of 1974.
- It provides preferential duty-free entry for up to 4,800 products from more than 120 designated beneficiary countries and territories.
- It was extended to India in 1976, under which India is able to export about 2,000 product lines to the U.S. under zero tariff.
- The revocation of the GSP will have a significant impact on Indian exporters.
- The proposal comes in a series of measures taken by the Trump administration against India to reduce U.S.'s trade deficit with India.
- President Donald Trump is concerned with the “unequal tariffs” from India, as the trade relationship is in favour of India.
- Notably, Indian exports to the U.S. in 2017-18 stood at $47.9 billion, while imports were $26.7 billion.
- The U.S. has been imposing tariffs on several Indian products since March 2018.
- The USTR (U.S. Trade Representative) also parallelly began a review of India’s GSP status.
- This was after receiving complaints of trade barriers from India, from the dairy industry and manufacturers of medical devices.
- India's decisions on data localisation for all companies operating in India and tightening norms for FDI in e-commerce have aggravated the situation.
- Recently, the U.S. withdrew GSP status on at least 50 Indian products.

7.7 Promoting Farmers’ Producer Organisations

There is a need to promote Farmers’ producer organisations (FPOs) to raise farmers' income and alleviate economic distress in rural areas.

- FPO also known as farmers’ producer company (FPC), is an entity formed by primary producers.
- These include farmers, milk producers, fishermen, weavers, rural artisans, and craftsmen.

- An FPO can be a Producer Company, a Cooperative Society or any other legal form.
- FPOs are basically the hybrids of cooperatives and private companies.
- The participation, organisation and membership pattern of these companies are more or less similar to the cooperatives.
- But their day-to-day functioning and business models resemble those of the professionally-run private companies.
- The Companies Act was amended by incorporating Section-IX A in it to allow creation and registration of FPOs under it.

7.8 National Pension Scheme

- It is a pension cum investment scheme launched to provide old age security.
- The scheme was introduced for central government employees who joined service on or after January 1, 2004 and later extended to all citizens (18-65 years) in 2009.
- The minimum employee contribution in NPS is 10 per cent of basic pay. An equal contribution is made by the government.
- It offers two kinds of accounts – Tier 1 and Tier 2.
- Tier 1 account is non-withdrawable till the person reaches the age of 60.
- The Tier II NPS account works like a savings account from where the subscriber is free to withdraw money as and when required.
- The subscribers could withdraw 60% of the corpus, with 40% of mandatory being deposited in annuity schemes.
- Of the 60%, one-third was taxable and two-third was tax exempt. 40% of the fund deposited in annuities is totally tax exempted.
- **Recent developments** – The government has recently announced few changes in the scheme.
- The government increased its share of contribution from the current 10% to 14%.
- The tax exemption limit when withdrawing funds from corpus has also been increased.
- Following the changes, the entire 60% of the fund withdrawn from the corpus is tax-exempted.
- Taken in combination with 40% deposited in annuities, the change means that the entire withdrawal from NPS will now be tax free.
- Contribution by the Government employees under Tier-II of NPS will now be covered for tax exemption up to Rs. 1.5 lakh.

7.9 Department for Promotion of Industry and Internal Trade

- The government has notified c+hanging the name of the Department of Industrial Policy & Promotion (DIPP) to the Department for Promotion of Industry and Internal Trade (DPIIT).
- The notification has also included four new categories of responsibilities to it.
- It includes
    1. The promotion of internal trade (including retail trade)
    2. The welfare of traders and their employees
    3. Matters relating to facilitating Ease of Doing Business
    4. Matters relating to start-ups.
- The erstwhile responsibilities include general industrial policy, administration of the Industries Act, 1951, industrial management, productivity in industry, and matters related to e-commerce.
- Internal Trade has so far remained under the domain of the Department of Consumer Affairs.

7.10 Small Farmers' Agri-Business Consortium

- It was established as a Society in 1994 and it is celebrating silver jublee this year.
- It is an Autonomous Society promoted by Ministry of Agriculture.
- It was established to facilitate agri-business ventures by catalyzing **private investment through Venture Capital Assistance Scheme**.
- It is the pioneer in organizing small and marginal farmers as Farmers Interest Groups, Farmers Producers Organization and Farmers Producers Company for increasing their bargaining power and economies of scale.
- It provides a platform for increased accessibility and cheaper availability of agricultural and in establishing forward and backward linkages in supply chain management.
- It is also the lead agency for implementing eNAM.

7.11 Technical Textile

- Ministry of Textiles will hold National Conclave on Technical Textiles in Mumbai.
- Technical textiles are textile material and products manufactured primarily for technical performance and functional properties rather than aesthetic and decorative characteristics.
- They are used for automotive applications, medical usages, crop protection, protective clothing etc.
- They are also used in areas like agriculture, infrastructure, automotive, aerospace, sports, defense and packaging.
- They constitute 12-15% of the total textile value chain in India, whereas in some of the European countries they constitute 50% of the value chain.
- The industry is also import-intensive.

7.12 National Agricultural Higher Education Project

- ICAR has recently launched Rs.1100 crore worth NAHEP.
- It is to attract talent and strengthen higher agricultural education in the country.
- This project will be funded by the World Bank and the Indian Government on 50:50 basis.
- Student Rural Entrepreneurship Awareness Development Yojana (READY) scheme is being run in order to promote the participation of students in agricultural business.
- Under the scheme practical experience of agriculture and entrepreneurship is provided to undergraduate students.

7.13 Phased Manufacturing Program

- It is to promote indigenous manufacturing of Cellular Mobile Handsets and sub-assemblies/ components/ accessories.
- Ministry of Electronics and Information Technology had notified PMP in 2017 to encourage the manufacturing of mobile components in the country.
- It also aims to promote the indigenous manufacturing of populated printed circuit boards, camera modules and connectors in 2018-19, and display assembly, touch panels, vibrator motor and ringer in 2019-20.
- It is expected that India's handset manufacturing industry growing to $500 billion (Rs 32, 50,000 crore) in five to seven years.
- The policy sets a time-bound framework for establishing the country as a hub for mobile and component manufacturing.
- It would also help to meet the bulk of global handset needs over time, besides creating 5.6 million jobs.

7.14 Price Monitoring and Research Unit

- Kerala has become the first State to set up a price monitoring and research unit (PMRU).
- It is to track violation of prices of essential drugs and medical devices under the Drugs Price Control Order (DPCO).
- The National Pharmaceutical Pricing Authority (NPPA) had proposed such a system for the States and the Union Territories five years ago.
- The State Health Secretary would be the Chairman of the society and the Drugs Controller would be its member secretary.
- Its members include a State government representative, representatives of private pharmaceutical companies, and those from consumer rights protection forum.
- The society would also have an executive committee headed by the Drugs Controller.
- The new watchdog will
    1. offer technical help to the State Drug Controllers and the NPPA to monitor notified prices of medicines
    2. detect violation of the provisions of the DPCO
    3. look at price compliance
    4. collect test samples of medicines
    5. collect and compile market-based data of scheduled as well as non-scheduled formulations.

7.15 Promoting IPR culture in Defense Sector

- Boosting Intellectual Property culture in Defense would enhance the Intellectual Capital that is vital for the future endeavors
- The following are the steps taken to encourage in-house Research & Development in Ordnance Factories and Defense PSUs
- An Intellectual Property Rights Facilitation (IPF) Cell has been established under the Department of Defense Production.
- It is to promote self-reliance in Intellectual Property Rights in Defense Sector.
- Department of Defense Production has also launched the "Mission Raksha Gyan Shakti" .
- The mission aims to encourage Defense Public Sector Undertakings (PSUs) and Ordnance Factory Board to boost "IPR culture" in their respective organization to promote self-reliance in defense sector.
- The challenges faced by the Defense Public Sector Undertakings and Ordnance Factory Board in pursuing Intellectual Property Rights in defense sector are
    1. lack of awareness
    2. availability of trained manpower
    3. The need to collectively appraise the challenges ahead with private sector, Micro, Small &Medium Enterprises (MSMEs) and end users.

7.16 Agri-Market infrastructure Fund

- The Cabinet Committee of Economic Affairs gave its approval for the creation of a corpus of Rs. 2000 crore for Agri-Market Infrastructure Fund (AMIF).
- The fund is to be created with National Bank for Agricultural and Rural Development(NABARD).
- The fund is for development and up-gradation of agricultural marketing infrastructure in Gramin Agricultural Markets and Regulated Wholesale Markets.
- States may also access AMIF for innovative, integrated marketing infrastructure projects, including Hub and Spoke mode and in the Public Private Partnership mode.

7.17 National Centre of Sports Sciences and Research

- The scheme of National Centre of Sports Sciences and Research (NCSSR) aims to support high level research, education and innovation with respect to high performance of elite athletes.
- It was previously named as Indian Institute of Sports Sciences and Research (IISSR).
- The scheme has two components:
    1. Setting up of NCSSR and
    2. Other is focused on creation of support to Sports Sciences Departments in 6 Universities and Sports Medicine Departments in 6 Medical Institutions.
- Some of the aims and objectives of NCSSR Scheme are as follows
    1. Application of scientific principles to the promotion, maintenance and enhancement of sporting performance.
    2. Developing athletes to their maximum potential and to prolong their competitive sporting career.
    3. Management and rehabilitation of sports injuries

7.18 National Sports Development Fund

- National Sports Development Fund (NSDF) was established in 1998, under Charitable Endowments Act 1890, vide Government of India Notification dated 12th November 1998.
- The NSDF supports sportspersons to excel in the field by providing opportunities to train under coaches of international repute.
- It also provides technical, scientific and psychological support and also in getting exposure to international competitions.
- Financial assistance is also provided to specific projects for promotion of sports and games sponsored by reputed Organizations/Institutes, provided the facilities so created are made available to a sizeable population of the area/region.
- The office of NSDF is located in Shastri Bhavan in the Ministry of Youth Affairs and Sports.

7.19 e-Cocoon App

- Ministry of Textiles has launched a mobile application for quality certification in silkworm seed sector.
- The app will be used by the Seed Analysts and Seed Officers nominated under Central Seed Act for system and product certification through real time reporting.

7.20 e-AUSHADHI

- The e-AUSHADHI portal was launched for online licensing of Ayurveda, Siddha, Unani and Homoeopathy drugs and related matters.
- This new e-portal is an acronym for Ayurveda, Unani, Siddha and Homeopathy Automated Drug Help Initiative.
- It is intended for increased transparency, improved information management facility, improved data usability and increased accountability.
- It will provide real time information of the licensed manufactures and their products, cancelled and spurious drugs, contact details of the concerned authority for specific grievances.

7.21 Gross Domestic Knowledge Product

- The Ministry of Statistics and Program Implementation in collaboration with Indian Statistical Institute (ISI) held a one-day workshop on the emerging concept Gross Domestic Knowledge Product (GDKP).
- GDKP provides a fundamental measure of growth by including a wide range of factors that involve the creation and accumulation of knowledge.
- GDKP creates a comparable measure of the production of individual wealth based on knowledge.

- GDKP creates a optimal capital investment measure for private companies in knowledge rather then in other forms of capital investments.
- GDKP is based on four basic pillars
    1. Knowledge items (Ki)
    2. Country's Knowledge Producing Matrix (CKPM)
    3. Country's Knowledge User Matrix (CKUM)
    4. Cost of Individual Learning, compared to the Cost of Living

7.22 LADIS Portal

- Inland Waterways Authority of India (IWAI) launched a new portal called Least Available Depth Information System (LADIS).
- It was designed to facilitate the day to day operations of inland vessels plying on National Waterways and to avoid any hindrance in service and operation.
- It will enhance credibility and efficiency of information sharing to achieve seamless operations on National Waterways, besides pre-empting problems that may occur during movement of vessels.
- Vessel operators/ cargo owners will prepare their sailing plans strictly as per applicable waterways related information (Hydrographic survey reports, River Notices etc.) .

7.23 Samadhan

- The Union government has launched Samadhan portal to help workers and employers raise industrial disputes online.
- Samadhan stands for Software Application for Monitoring and Disposal, Handling of Industrial Disputes.
- It is a dedicated web portal to bring all stakeholders - government, industry, and labor - involved in industrial disputes on a single integrated platform.
- The bodies which help in resolving the disputes will be able to get the requests and send updates to workers and employers on this portal.
- It has been launched on a pilot basis for workers belonging to five states – Chhattisgarh, Delhi, Karnataka, Rajasthan, and Odisha.
- Under the Industrial Disputes Act, 1947, an industrial dispute is defined as any dispute or difference between the stakeholder related to employment, termination, and condition of work, among others.
- The web portal will make the process of settling industrial disputes is simplified, standardized and streamlined.

7.24 SWAYATT

- SWAYATT is an initiative to promote Start-ups, Women and Youth Advantage Through e-transactions on Government e Marketplace (GeM).
- This will bring together the key stakeholders within the Indian entrepreneurial ecosystem to GeM the national procurement portal.
- GeM Start-up Runway was also launched which is an initiative of GeM in association with Start -up India.
- It is to facilitate Start-ups registered with Start -up India.
- It is to access the public procurement market and sell innovative products and services to government buyers.
- Both these initiatives will reach out and empower the diverse groups in our country.

7.25 HOPE portal

- National Accreditation Board for Hospitals and Healthcare Organizations (NABH) has introduced an online portal called HOPE.

- HOPE - Healthcare Organizations' Platform for Entry-Level-Certification aims to promote quality at nascent stages by enrolling a wide range of hospitals across the country including Healthcare Organizations (HCOs) and Small Healthcare Organizations (SHCOs).
- It tries to create a momentum for HCOs and SHCOs that want to avail benefits associated with Insurance Regulatory and Development Authority of India (IRDAI) and Ayushman Bharat by getting themselves NABH certified.
- The IRDAI has mandated hospitals to ensure a quality healthcare ecosystem through NABH Entry-Level Certification Process.

7.26 Operation Digital Board

- Union Ministry of Human Resource Development launched the Operation Digital Board (ODB).
- It has been launched on the lines of Operation Blackboard to provide better digital education in schools.
- It aims to set up one digital and interactive board per classroom in government and government-aided schools
- Under the initiative, 7 lakh classrooms of 9th, 10th and 11th standards and 2 lakh classrooms of colleges and Universities will be covered in the next 3 years.
- University Grants Commission will be the implementing agency for ODB in Higher Education Institutions.

7.27 States' ranking on Startup initiatives

- Department for Promotion of Industry and Internal Trade (DPIIT) has released the 2nd edition of Startup Ranking framework for 2019.
- The framework aims to rank the States/UTs for establishing a robust ecosystem for supporting Startups.
- It also encourages States and UTs to identify, learn and replicate good practices from each other.
- It comprises of 7 pillars and 30 action points.
- The pillars will assess States'/UTs efforts across
    1. institutional support
    2. simplifying regulations
    3. easing public procurement
    4. incubation support
    5. seed funding support
    6. venture funding support
    7. awareness and outreach related activities.
- The States and Union Territories will be evaluated based on the reforms submitted based on these accounts and ranking will be released soon.

7.28 National Mineral Policy, 2019

- The Union Cabinet has approved National Mineral Policy 2019.
- It replaces the extant National Mineral Policy 2008 ("NMP 2008").
- It will lead to sustainable mining sector development in future.
- It will address the issues of project affected persons especially those residing in tribal areas.
- The new changes include the focus on make in India initiative and Gender sensitivity in terms of the vision.
- It also focuses on use coastal waterways and inland shipping for evacuation and transportation of minerals.
- It encourages dedicated mineral corridors to facilitate the transportation of minerals.
- It introduces the concept of **Inter-Generational Equity** that deals with the well-being not only of the present generation but also of the generations to come.

- It also proposes to constitute an inter-ministerial body to institutionalize the mechanism for ensuring sustainable development in mining.

7.29 Sovereign Patent Fund

- The National Electronics Policy (NEP) 2019 aims to create a Sovereign Patent Fund (SPF).
- It is a State-led investment fund that will acquire Intellectual Property (IP) assets important to national economic objectives.
- It can develop a domestic innovation ecosystem, acquire critical IP and reduce the knowledge gap.
- It will help in generating new businesses based on the IP assets owned by Indian corporate.
- It will support the MSME players largely by making cutting edge technologies available at a low cost.
- In the global scenario, SPFs were first launched in South Korea, followed by France and Japan.
- Click here to know about National Electronics Policy 2019.

7.30 New Delhi International Arbitration Centre

- New Delhi International Arbitration Centre Ordinance 2019 was promulgated recently.
- It proposes to establish an international arbitration centre at New Delhi.
- It will replace the International Centre for Alternative Dispute Resolution set-up in the year 1995, which is a society registered under the Societies Registration Act.
- One of the objectives of the Centre is to bring targeted reforms to develop itself as a flagship institution for conducting international and domestic arbitration;
- The proposed Centre will be a statutory body.
- It will consist
    1. a Chairperson
    2. 2 eminent persons having substantial knowledge in international and domestic arbitration
    3. 1 representative of a recognized body of commerce
    4. Secretary to the Ministry of Law & Justice
    5. Finance Advisor
    6. a Chief Executive Officer.
- The Chairperson should have been a judge of the Supreme Court or High Court, or an eminent person having special knowledge and experience in the conduct or administration of arbitration.
- The chairman will be appointed by the Central Government in consultation with the Chief Justice of India.

7.31 National Common Mobility Card

- It was launched by the Prime Minister in Ahmadabad, Gujarat.
- The first **Indigenously Developed Payment Eco-system** for transport consists of
  1. NCMC Card
  2. SWEEKAR (SwachalitKiraya: Automatic Fare Collection System (AFC))
  3. SWAGAT (Swachalit Gate).
- Ministry of Housing & Urban Affairs brought to the fore the National Common Mobility Card (NCMC) to enable seamless travel by different metros and other transport systems.
- NCMC enables people to pay multiple kinds of transport charges, including metro services and toll tax, across the country.
- It is also known as 'One Nation One Card'.

- The inter-operable transport card would allow the holders to pay for their bus travel, toll taxes, parking charges, retail shopping and even withdraw money.
- It is a bank-issued card on debit or credit or pre-paid card product platform.
- AFC System (gates, readers/validators, backend infrastructure etc.) is the core of any transit operator to automate the fare collection process.

7.32 National Rural Economic Transformation Project (NRETP)

- An agreement was signed between World Bank and Government of India to provide a $250-million loan for the National Rural Economic Transformation Project (NRETP).
- The key focus of the project is to promote women-owned and women-led farm and non-farm enterprises across value chains.
- It will also enable them to build businesses, access finance, markets and networks and generate employment.
- It would support enterprise development programs for rural poor women and youth.
- It creates a platform to access finance including start-up financing options to build their individual and/or collectively owned and managed enterprises.
- It is an additional financing to the $500-million National Rural Livelihoods Project (NRLP) approved by the World Bank.

7.33 Transport and Marketing Assistance (TMA) Scheme

- It was notified by Department of Commerce of the Ministry of Commerce & Industry.
- The scheme is for Specified Agriculture Products.
- It aims to provide assistance for the international component of freight and marketing of agricultural produce.
- It is likely to mitigate disadvantage of higher cost of transportation of export of specified agriculture products due to trans-shipment.
- It would be suitably included in the Foreign Trade Policy (2015-20).

7.34 Global Trade Mark System Agreements

- Union government approves proposal for accession to Nice, Vienna and Locarno Agreements.
    1. **Nice Agreement -** Based on international classification of goods and services for the purposes of registration of marks.
    2. **Vienna Agreement -** Leads to setting up an International classification of the figurative elements of marks.
    3. **Locarno Agreement -** It for establishing an International classification for industrial designs.
- Accession to the above agreements would give an opportunity to include Indian designs, figurative elements and goods in the international classification systems.
- The accession is expected to instill confidence in foreign investors in relation to protection of Intellectual Property in India.

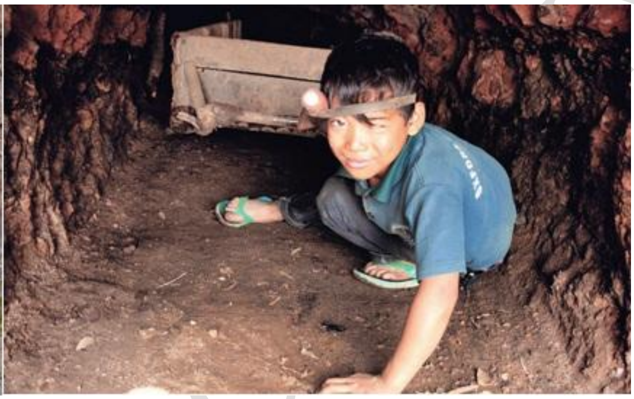
8. INFRASTRUCTURE

8.1 Rat-Hole Mining in Meghalaya

A coal mine in Meghalaya's East Jaintia Hills collapsed recently, trapping at least 15 workers who are feared dead.

- It has thrown light on a dangerous procedure known as "rat-hole mining".
- **Rat-hole mining** involves digging of very small tunnels, usually only 3-4 feet high, which workers (often children) enter and extract coal.

- The rat-hole mining is broadly of two types - side-cutting and box-cutting.
- In side-cutting procedure, narrow tunnels are dug on the hill slopes and workers go inside until they find the coal seam.
- The coal seam in hills of Meghalaya is very thin, less than 2 m in most cases.
- In the box-cutting type, a rectangular opening is made, varying from 10 to 100 sq m.
- Through this, a vertical pit, 100 to 400 feet deep, is dug.
- Once the coal seam is found, rat-hole-sized tunnels are dug horizontally through which workers can extract the coal.

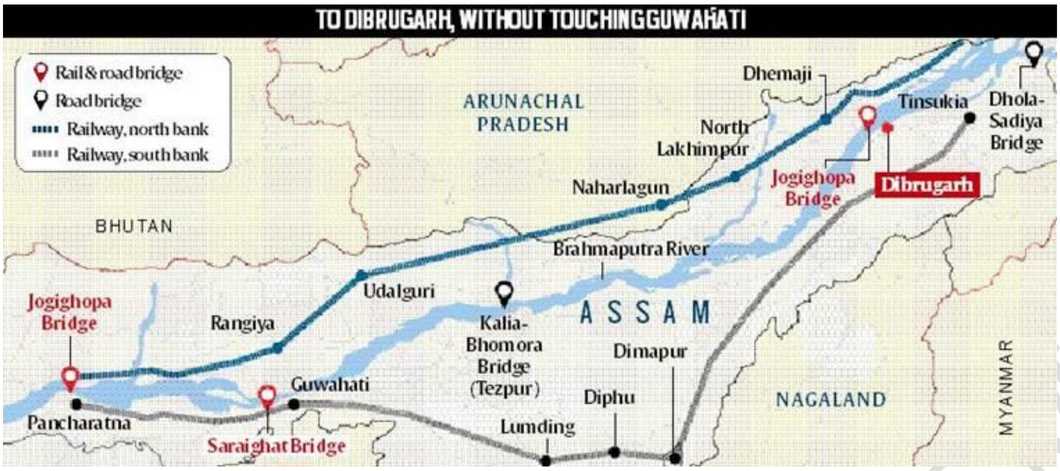



- In Jharkhand, the coal layer is extremely thick, where open-cast mining can be done.
- But no other method would be economically viable in Meghalaya, where the coal seam is extremely thin.
- Removal of rocks from the hilly terrain and putting up pillars inside the mine to prevent collapse would be costlier.
- So despite a ban, rat-hole mining remains the prevalent procedure for coal mining in Meghalaya.
- Rat-hole mining is the locally developed technique and the most commonly used one.
- It is not regulated by any law, and coal extraction has been made by unscrupulous elements in a most illegal and unscientific manner.
- Meghalaya's annual coal production of nearly 6 million tonnes is mostly said to have come through rat-hole mining.
- **Ecology** - Rat-hole mining in Meghalaya had caused the water in the Kopili river (flows through Meghalaya and Assam) to turn acidic.
- The entire roadsides in and around mining areas are used for piling of coal.
- This is getting to be a major source of air, water and soil pollution.
- Off road movement of trucks and other vehicles in the area causes further damage to the ecology of the area.
- **Risk to lives** - Due to rat-hole mining, during the rainy season, water flood into the mining areas resulting in death of many.
- If water has seeped into the cave, the worker can enter only after the water is pumped out.

8.2 Significance of Bogibeel Bridge in Assam

Bogibeel, the longest rail-road bridge of India, was recently inaugurated by the Prime Minister.

- The Bogibeel Bridge, inside Assam, is 20 km from the border with Arunachal Pradesh.
- Itspans nearly five-km across the Brahmaputra river.
- It connects Dibrugarh on the Brahmaputra's south bank to Dhemaji on the north bank.
- It will link Dibrugarh with North Lakhimpur district of Assam and parts of eastern Arunachal Pradesh.
- It is the country's longest road-cum-rail bridge, and its fourth longest of any kind above water.



8.3 Concerns with Jaitapur Nuclear Power Plant

Indian government has to be transparent on the project details of the Jaitapur nuclear power plant.

- The EPR (European Pressurised Reactors) is a third generation pressurised water reactor, capable of achieving around 1,650 MW of power output with a higher yield than previous models.
- It can supply electricity to up to 1.5 million people, yet requires 17% less fuel and produces less long-term radioactive waste.
- India has initiated the idea of importing 6 nuclear EPRs more than a decade ago, but made little progress due to economics and safety concerns.
- In March 2018, the French company Électricité de France (EDF) and the Nuclear Power Corporation of India (NPCIL) signed an "industrial way forward" agreement.
- Recently, EDF submitted a proposal to the Indian government for the Jaitapur nuclear power project in Maharashtra using EPR design, along with a proposal to start the project ASAP.
- It will become the largest nuclear power plant in the world on completion.

8.4 Vande Bharat Express

- Train 18 was recently renamed as Vande Bharat Express.
- It is India's first semi-high speed train equipped with world class passenger amenities.
- It is scheduled to commute between New Delhi and Varanasi.
- It is 40-50% faster than the fastest train currently connecting these two cities.
- Integral Coach Factory (ICF), Chennai, built the train with its completely in-house design and manufacture, computer modelling in just 18 months.

8.5 Tamil Nadu Defense Industrial Corridor

- Defense Minister launched the Tamil Nadu Defense Industrial corridor.
- The Corridor, also called the Tamil Nadu Defense Production Quad, will connect Chennai, Hosur, Salem, Coimbatore and Tiruchi around which investments are expected to grow.
- Ordnance Factory Board (OFB), Defense public sector units and private sector companies like TVS group announced investments along the corridor.
- Development of these corridors will help in accelerated growth and regional industry agglomeration, which will lead to increased defense production in the country and the region.
- Besides a defence innovation hub was also launched in Coimbatore.

8.6 Kaiga Nuclear Power Plant

- Kaiga plant in Karnataka has recently created a world record for the longest uninterrupted operation for 941 days.
- It breaks the earlier record of 940 days by the Heysham – 2 reactor of United Kingdom.
- Kaiga is an indigenously built Pressurised Heavy Water Reactor (PHWR) run by domestic fuel (Uranium).
- It began commercial operation in 2016.
- While KaigaisaPHWR and Heysham-2 Unit-8 is an Advanced Gas Cooled Reactor (AGR).

8.7 Noney Bridge

- The bridge is going to be constructed by the Northeast Frontier Railway (NFR) across the river Ijai in the state of Manipur.
- It is set to get the World's tallest railway bridge and it is expected to be over 142 meters tall.
- It will connect Manipur with the rest of the Country.
- It will be twice the height of Qutub Minar which is the tallest minaret made up of brick in the world.
- Mala-Rijeka viaduct bridge (139 meters) in Europe currently holds the tallest railway bridge record.

8.8 Dhubri-Phulbari Bridge

- It is the new bridge going to be constructed across Brahmaputra between Dhubri on North bank and Phulbari on South bank.
- It will connect Assam and Meghalaya with the rest of the country.
- The implementing agency is the National Highways and Infrastructure Development Corporation (NHIDCL), a fully owned company of Ministry of Road Transport & Highways.
- This project is being funded by Japan International Cooperation Agency (JICA).
- At present, the 9.15-km-long Dhola-Sadiya bridge (Bhupen Hazarika Setu) over the Brahmaputra (Lohit river) is the longest one in the country.
- Once completed, Dhubri-Phulbari will be the longest bridge in the country beating the length of Dhola-Sadiya Bridge.

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