

## CHAPTER 1

### TRANSFER PAYMENT

- 'One way' payment of money for which no money or service is received in exchange
- NOT subsidies (as subsidies linked to economic transactions)
- DBT is NOT TP as it is part of GDP

### GDP and GNP

- $GDP = GVA + \text{indirect tax} - \text{subsidy}$
- $GNP = GDP + NFIA$

GVA @ Basic Price	GVA @ Factor cost	GDP @ Market price
Include production tax and exclude production subsidy	Excludes taxes and includes subsidies	Includes both prodn and product taxes and excludes both subsidies

### GDP and GVA

- GDP- Involves Product tax and subsidies
- GVA- Involves Production tax and subsidies

### INDIA'S NATIONAL INCOME STATISTICS

- CSO and MOSP&I = responsible for NAS
- At state level, State Directorate of Economics and Statistics (DES) = SDP and other
- CSO >>> GDP, **Advanced Estimates** (AE-prior 2 months before closing of current FY)

### NEW GDP SERIES 2015 BY CSO

1. adoption of recomm of **Systems of National Accounts, 2008** (of UN)- to bring figures in line with international std- GVA @ Basic prize and GDP @market prize

2. Two glaring changes: A. Base year 2011-12 (to include NSSO E-UE survey for unorganized sector)

B. GDP calculation- FC >>> MP

PARAMETER	OLD SERIES	NEW SERIES
Headline GDP	GDP @Factor cost	GDP @Market price
Preference	Producer-end (prices of product received by producer)	Consumer-end (market prices paid by consumers)
DATA	Production cost	PC + SELLING and MARKETING
Govt earning (tax subsidies)	NOT included	Earning by indirect taxes (after deducting subsidies) is INCLUDED
Method to cover informal sector	Labor Input method- all labours equal	Effective LI method- weights to diff categories of workers
Value addition in Agriculture	Farm Produce	FP + livestock + etc
Income from Fin sector	For other than banking and insurance- Limited to few Mutual funds, NBFCs	+ Stock brokers, stock exchchanges, AMC, regulatory bodies(PFRDA, SEBI)

## BACK SERIES GDP ESTIMATES

- Slicing method
- National Statistical Commission advises MoSPI
- estimates in report are **NOT OFFICIAL**
- Released by: CSO and **NITI aayog**

## GLOBAL HUNGER INDEX

- By **Welthungerhilfe + Concern Worldwide**
- 4 indicators
  1. Undernourishment
  2. Wasting in Under 5 child
  3. Stunting in U5
  4. U5 mortality

## SOCIAL PROGRESS INDEX

- By non profit org **SOCIAL PROGRESS IMPERATIVE**
- 3 main parameters:
  1. Basic Human Needs
  2. Foundations of well-being
  3. Opportunity

## NATIONAL RESOURCE ACCOUNTING

- Aka national capital accounting
- Process of calculating total stocks and flows of **natural resources** and services in ecosystem
- INDIA- declared in **Nagoya** meet 2010 to adopt NRA
- Adopted by **UN's SEEA in 2012**

## ENVIRONMENTAL PERFORMANCE INDEX

- By YCELP + Columbia university + WEF + JRCEC
- Ranks countries performance in two areas:
  1. protection of environmental health
  2. protection of ecosystem
- Report titled 'Global metrics for Environment'

## LEAST DEVELOPED COUNTRIES

- Criteria:
  1. Poverty- per capita <\$1,035
  2. Human resource weakness (health, edu, lit)
  3. economic vulnerability
- Criteria reviewed every 3 yr by Committee on Dev policy of **UN ECOSOC**

## BRETTON WOODS SYSTEM

- UN Monetary and Financial Conference aka **Bretton woods conference**, 1944

### IMF

- UN **specialized** agency, but retains its independence
- INDIA-founding member
- HQ- **Washington**
- GOVERNANCE STRUCTURE
  1. **Board of Governors**- 1 governor + 1 alternate gov of each country  
Right to approve quota increase, SDR allocation, amend AoA, new member, appoints executive directors
  2. **2 ministerial committees**- 1. IMFC(discuss matters of common concern affecting global economy, meet twice a yr)  
2. Development Committee -advice BoG of IMF and WB
- Roles:
  1. surveillance- crisis prevention
  2. lending- BoP difficulties
  3. **money laundering and terrorism**

### SDR

- Imf's own artificial currency unit
- International reserve asset created in **1969**
- **USD>>>Euro>>>Renminbi>>>Japanese yen>>>British pound**
- Not traded in forex market, no use by private parties
- Can be exchanged for national currencies. **Neither** a currency, **nor** a claim on imf
- Review after evry 5 yrs

### IMF QUOTA

- Payable partially in SDRs, partially in member's own currency
- **Reserve Trench**- Emergency money that country can access from IMF w/o obliging terms and Conditions: w/o specific return period as in **credit trench (3 yrs)**
  - **RT is facility at first resort**- meaning it is used on short notice before seeking formal loan
- It guides: 1. Subscription(obliged amt) 2.voting rights 3.Loan
- **India- 8<sup>th</sup> largest shareholder** (2.7% quota, 2.6% voting right)
- Big 10: BRIC+US+japan+4 big EU members(G,U,F,I)

### NAB and GAB

- General Arrangement to Borrow(GAB) and New Arrangement to Borrow(NAB)
- Credit arrangement between IMF and group of members or insti to provide supplementary resources to imf to deal with int problems.
- India-2012 mexico summit-NAB for eurozone crisis

## IMF LENDING AND FACILITIES

- Does **not lend for specific project**
- Poverty Reduction and Growth Facility (PRGF)- for Low income countries>concessional loan
- Exogenous Shocks Facility (ESF)- for LIC suffering global shocks
- **Stand By Agreement (SBA)**- non concessional loan in **BoP crisis**
- **Extended Fund Facility (EFF)**- requires **structural changes in economy**- SBA member may opt for this for long term loan

## REPORTS

1. **World Economic Outlook**
2. **Global Financial Stability report**- twice a yr

## CONDITIONALITIES

- Set of policies that IMF requires in exchange of funds
- Aka **Washington Consensus**

## INDIA AND IMF

- Joined 1945
- Accepted article VII in 1994
- Subscribes to Special Data Dissemination Standard (SDDS) (observe the std and provide info about data and data dissemination practices)

## CHIANG MAI INITIATIVE

- Multilateral currency pooling arrangement between ASEAN + China + S.Korea + **Japan**
- Launched in 2010
- Never been used as no crisis like 1997 asian crisis

## BRICS CONTINGENT RESERVE ARRANGEMENT(CRA)

- estd in 2015, Operational in 2016
- By: Treaty of estd of BRICS CRA @brazil,2014

## WORLD BANK GROUP AND WORLD BANK

- President- conventionally **American**
- Membership- **only if country is member of IMF**

5 agencies

1. IBRD
  2. Int. Dev Association (IDA)
  3. Int. Finance Corporation
  4. Multilateral Investment Guarantee Agency (MIGA)
  5. Int Centre for Settlement of Investment Disputes (ICSID)
- ‘World Bank’ =IBRD +IDA>>> activities focused on developing countries (HD, agri and rural dev, poverty, envi protection, infra, governance)
  - WB- lends for **specific projects**, often linked with wider policy changes

### IBRD

- Offers loan to middle-income developing countries
- Provides funds and concessional loans for projects of infra, edu, envi, energy, healthcare, water, sanitation

### IDA

- Focus on poorest countries- thus ‘**soft window of WB**’
- 1960 for **long term**, interest free loans to world’s 80 poorest countries
- Initiatives- **HIPC** (Heavy Indebted Poor Countries) initiative, Multilateral Debt Relief Initiative (**MDRI**)
- Donors- rich countries- meet every 3 yrs
- Eligibility for support- country’s relative poverty (defined by per capita income) + small islands + ‘blend countries’ (e.g- Pak, Nigeria)

### IFC

- To promote **private sector investment**
- **Largest** multilateral source of loan and equity financing for pvt sector projects in developing countries
- India-founding member

### MIGA

- To promote **FDI** in developing countries by **insuring investor** against political risk, advising govt,etc

- Can cover **only new investments**- **greenfield**, new **invest** in expansion, modern or financial restructuring of existing projects
- INDIA- member

## ICSID

- Facility for conciliation and arbitration of investment disputes betn country and indi investor
- India **NOT** member

## G-20

- Group of 20 FM and central bank Gov estd in **1999**- to discuss key global economy issues
- Members – 19+EU  
3 N.america, 2 S.america (Argentina, Brazil), 4 europe (G,F,I,U), 1 Austre, 1 S.Africa, 8 Asia (C, I, R, J, Turkey, Indo, Korea, Saudi)
- EU +MD of IMF +WB prez +Chair of IMFC and DC of IMF
- Chairmanship- rotates, different regional grouping member (**No permanent secretariat**)
- Permanent invitees: 1.Spain 2.Chair of ASEAN 3.Chair of African Union + representative of New partnership for African Union 4.Country invited by presidency (usually from its own region)

## Asian Development Bank

- 1966>>> HQ- **Manila**
- Note-members NOT only Asian (**members of UNESCAP** + **non regional developed countries**) + President>>Traditionally **Japanese**
- Voting powers (similar distri as WB): Japan>>>USA>>>China>>>India>>Austre
- Largest beneficiaries: **China**>>>India>>>Indo>>>Philippines>>>Pakistan
- Loan: 1. Ordinary Capital Resource (**OCR**) 2.**ADF** 3.Technical assi 4.Innovation and Efficiency Fund (**IFF**)

## European Central Bank (ECB)

- **Monetary authority of Eurozone**
- Administers monetary policy of 19 EU Eurozone members
- Estd by **treaty of Maasticht,1998**
- HQ- **Frankfurt, Germany**

## OECD

- Int org of 34 developed nations to stimulate economic progress and world trade, **1961**
- Official UN observer

- HQ- **Paris**
- India- on governing board of OECD's dev centre, **observer** in some oecd committees

## New Development Bank (NDB)

- BRICS bank-idea proposed by **India** in 4<sup>th</sup> summit **2012 Delhi**
- **Fortaleza declaration, 2014**
- HQ- **shanghai**
- **Equal shareholding** and Voting rights
- Provide support to Public + Private projects, **Prioritiy-Renewable energy** projects  
More Focus on BRICS than AIIB
- Allows new member to join, But **BRICS shares should Not <55%**
  - but currently **only 5 members** of BRICS

## Asian Infrastructure Investment Bank (AIIB)

- Aim- provide financial support for infra dev and regional connectivity projects in **Asia-Pacific** region
- Estd- **2015**, idea by **China** in 2013,
- china's vote share-28%, India- 8% for special purposes (membership approval, president selection )-75% vote required
- Asia's response to WB and west dominated ADB
- HQ- **Beijing** does **NOT** have permanent board of directors
- USA, JAPAN not a member
- **India- largest beneficiary**

## GATT AND WTO

- Result of Uruguay round of GATT
- Dunkel draft>>>**Marrakesh Treaty 1994**, thus WTO in 1995  
India-founding, China-2001
- WTO member- need not to be full sovereign country, but must be custom territory with full autonomy in conducting commercial relations
- **NOT** a part of UN

## STRUCTURE

- I 1. Ministrial Conference- highest level decision making (commerce ministers), meets every 2 years
2. General council- acts on behalf of MC
- II 3. Dispute resolution body- **Governing Council**

4. Trade Policy Review Board (TPRB)- **General Council** meets as TPRB

III 5. Council for trade- under GC, 3 councils>>>1. For Goods 2.for TRIPS  
3. for services

IV 6. subsidiary bodies

## DISPUTE SETTLEMENT

- Require 60 days of ‘consultation’>>>if fail>>>dispute panel set up>>>GC work as DSB
- Appeal in **Appeallate Body (7 member body)**>> its report is adopted by **DSB**
- **DSB** works on principle of **Reverse Consensus** or “**Consensus Against**”- Proposal from Appeallate body is assumed to be accepted de facto if not opposed by any member country
- After ruling>>>erring nation to bring change>>>if not, complainant country allowed to **retaliate**
- Thus **no punishment** to erring country

## PRINCIPLES IN WTO

### NATIONAL TREATMENT

- Prohibit discrimination between imported and domestically produced goods
- Only applies when product/service/item **enters market**, thus charging custom duty is **NOT** violation of NT

### MFN

- Treating one’s trading partners equally on principle of non discrimination
- WTO members **statutory obliged** to grant one another MFN principle
- Was **1<sup>st</sup> article of GATT**, is priority in TRIPS and GATS
- Small and developing countries-**automatic** granted developing status
- Allows following exception:
  1. Generalised system of Preference (**GSP**)
  2. preferential and FTA
  3. regional trade blocs to allow regional economic integration
  4. Article 24- India-Pakistan allowed to depart from particular provisions,thus pending estd of trade ties betn them

### S&D PROVISIONS

- Special provisions which allow developed country to treat developing country more favourably than other WTO members

## DIFFERENT WTO AGREEMENTS

3 main agreements- 1. GATT 2. GATS 3. TRIPS



## 1. AGREEMENT ON AGRICULTURE (AoA)

- 1994- Ceiling on amount of farm subsidies (BOTH direct and indirect)
- 3 pillars- 1. Domestic support    2. Export subsidy    3. Market Access
- Domestic Support – subsidies that members give to farmers
  1. Green box- **Not** trade distorting, From Publicly funded govt program + NOT directed @particular product e.g.- **decoupled income support** (not MSP), R&D, extension services
  2. Amber Box- ‘**Aggregate Measurement of Support**’ (AMS)-trade distorting support
  3. Blue box- **production limiting programme**, no limits on them
- Export Subsidy
  1. Are to be limited by developed countries either in value or volume
  2. **Nairobi MC 2015**- decided to phase them out
- Market Access
  1. tariffication- convert non-tariff barrier into tariff    2. bind the tariff at ‘bounded rate’

## SPECIAL PRODUCT

- Component of S&D provision
- Agreed in **2005 Hong Kong MC**- **Agri products** of particular importance for reason of food security, livelihood security and rural dev
- **Doha** dev round- decided that SP would attract lower levels of tariff reduction commitments

## SPECIAL SAFEGUARD MECHANISM

- Temporarily impose higher tariff on particular **AGRI product** if **sudden surge in imports**
- Only for developing and LDC
- Nairobi 2015- allowed

## 2. SPS AND TBT

- WTO administers AoTBT- prohibit technical requirements created in order to limit trade, create unnecessary obstacle.
- SPS agreement- Uruguay round, in force from **1995**- set out basic rules for food safety and **animal and plant health** std, allows **country to set own std** (but based on science)

## 3. GATS

- In force from **1995**, result of Uruguay round, **all** WTO members- **Legally binding**
- **W/120 list**- sectors that can be **negotiated under GATS**
- **Positive list approach**- subjects listed on commitment list of members are only where they bind to undertake opening and implement National Treatment

- GATS extends multilateral trading system to services for first time
- Members offer **MFN status** as in goods
- GATS negotiations are conducted **bilaterally** on request and offers
- Covers 4 modes of supply:

	CRITERIA	SUPPLIER PRESENCE
MODE 1: cross border supply	Service delivered within territory of member from territory of another member	No
MODE 2: Consumption abroad	Outside territory of member, in territory of another member, to a service consumer of member	No
MODE 3: commercial presence	Within territory thr commercial presence of supplier	Yes
MODE 4: presence of natural person	Service delivered within territory with presence of supplier as natural person	Yes

#### 4. **TRIPS**

- Negotiated at end of **Uruguay round 1995**, applies to ALL members, ratification of TRIPS necessary for WTO membership
- **Patent-20 years**      **Copyright-50 years** (granted **automatically**)
- Has **MFN** clause
- **copyright** provisions- copied from **Berne convention**  
**trademark and patent- Paris convention for protection of industrial property**
- Computer programmes- **literary works** under copyright law
- Agreement on TRIPS 1995- lays legal std for member countries to protect IPs by copyright, GIs, industrial designs, patents, monopolies, IC layout designs, trademarks
- Regulates dispute resolution procedure and enforcement procedure
- Doha dev round 2001- allowed **Compulsory Licensing** for health crisis
- **only product patent** for food, pharma, and chemicals
- **Sui Generis System**- either protect inventions on TRIPS pattern or domestic law

#### **TRIPS PLUS**

- higher level of protection norms demanded by **Developed** countries
- NOT formally related to TRIPS, but developed countries propogating it thr FTA
- **Data exclusivity principle**
- **Opposed by India**, stubble block in negotiation of CEPA with EU and JAPAN

**Patents (Amendment) Act,2005-**

1. **product** patent for food, drug, chemicals (PA, 1970 provided process patent)
2. incremental innovation (lacking enhanced therapeutic efficacy)-not qualify for new patent
3. compulsory licensing and parallel imports to meet public health crisis as provided in TRIPS

- **Drug Price Control Order (DPCO)**- allows govt to regulate price of drugs
- Parallel import- importation from other country where same drug are sold at lower prices to meet public health crisis.
- Compulsory licensing- **Temporarily override patent**, issue CL to any other company to allow production of generic drugs, with compensation paid to patented comp, to meet public health crisis
- 2012: Natco pharma given CL to produce Bayer's Nexavar, an anti liver and kidney cancer drug>>>>only case when CL was invoked (**by IPAB**)
- Voluntary Licensing- Patented comp issue license to any other comp to manf product but on royalty rate paid to former

#### **COPYRIGHTS ACT, 1957**

- Rights to creators of **literary, dramatic, musical and artistic works and producers of cinematograph films and sound recordings**
- Unlike patents, copyright **protects the expression and not the ideas**. There is **no copyright** in an **idea**
- Acquisition of copyright is **automatic** and it does **not** require any **formality**- copyright comes into existence as soon as work is created
- Under **DPIIT, MoCommerce**

#### 5. Agreement on Subsidies And Countervailing Measures

- 'Actionable Subsidies'- on which countries can take 'countervailing measures' or approach 'Dispute resolution body' of WTO

##### CVD

- Countervailing Duties- **Anti subsidy duty**
- WTO allows country to conduct **investigation on own**, and then impose
- India- DGAD-investigates and recommends, **FinMin**- Imposes

##### ANTI DUMPING DUTY

- WTO- prohibits only if causes or threatens material injury to domestic industry of importer country, otherwise not prohibited
- India- Customs and Tariffs Act, 1975-
  - MoCommerce recommends (i.e. DGAD) but **MoFinance imposes**

#### 6. TRIMS

- **1994** under GATT, Agreed by **ALL members of WTO**

- The **Agreement on Trade-Related Investment Measures (TRIMS)**- recognizes certain investment measures can distort trade

#### India And Solar Panel Issue

- Domestic content requirement
- US filed complaint>>>WTO rejected India's claim>>upheld national treatment clause of WTO's charter

#### OTHER AGREEMENTS

##### ANTI COUNTERFEITING TRADE AGREEMENT (ACTA)

- Multinational treaty for **estd for IPR enforcement**
- Signed by EU, Canada, Austre, japan, s korea, USA, and few others, but **Not** in Force
- Response to India's CL, PI provisions

#### G-33

- **"friends of Special Products"** in agriculture
- 48 developing countries including **India and china**
- @ **Cancun MC, 2003**
- Common interest in agri-
  1. limit market access of developing countries to developed countries
  2. SSM against import surges
  3. 'special product' exemption against reduction in tariff on certain products for developing countries

#### GEOGRAPHICAL INDICATION

- GI of goods act, 1999- sui geners legislation to protect GI for GOODS in India
- GI granted for **10 years, renewing** 10 yrs everytime
- Act administered by **Controller General of Patents, Designs and Trademarks** (act as Registrar of GI)
- APEDA- only insti to be qualified as applicant under GI acts,1999
- **IPR policy,2016- DIPP** as **nodal dept** to oversee implementation and future dev in IPRs
- **PPVFR act,2001** (Protection of Plants variety and Farmers Right Act,2001)- IPR to plant breeders or farmers producing new plant variety- **rights heritable and assignable**

#### Recent GI

FROM APRIL 2018 – MARCH 2019				
321	378	Jhabua Kadaknath Black Chicken Meat	Food Stuff	Madhya Pradesh
322	558	Boka Chaul	Agricultural	Assam
323	350 & 577	Grana Padano	Manufactured	Italy
324	139	Alphonso	Agricultural	Maharashtra
325	380	RajKot Patola	Handicraft	Gujarat
326	552	Shahi Litchi of Bihar	Agricultural	Bihar
327	496	Sangli Turmeric	Agricultural	Maharashtra
328	585	Pethapur Printing Blocks	Handicraft	Gujarat
329	169	Kolhapuri Chappal	Handicraft	Karnataka & Maharashtra
330	584	Silao Khaja	Food stuff	Bihar

FROM APRIL 2017 - MARCH 2018				
295	241	Banaganapalle Mangoes	Agricultural	Andhra Pradesh
296	562	Pochampally Ikat (Logo)	Manufactured	Telangana
297	531	Gobindobhog Rice	Agricultural	West Bengal
298	481	Durgi Stone Carvings	Handicrafts	Andhra Pradesh
299	482	Etikoppaka Toys	Handicrafts	Andhra Pradesh
300	530	Tulapanji Rice	Agricultural	West Bengal
301	542	Chakshesang Shawl	Handicrafts	Nagaland
302	426	Mahabalipuram Stone Sculpture	Handicrafts	Tamil Nadu
303	533	Banglar Rasogolla	Food Stuff	West Bengal
304	534	Lamphun Brocade Thai Silk	Handicrafts	Thailand
305	543	Nilambur Teak	Agricultural	Kerala
306	453	Bankura Panchmura Terracotta Craft	Handicraft	West Bengal
307	519	Pokaran Pottery	Handicraft	Rajasthan
308	521	Adilabad Dokra	Handicraft	Telangana
309	523	Warangal Durries	Handicraft	Telangana
310	524	Allagadda Stone Carving	Handicraft	Andhra Pradesh
311	551	Bhagalpuri Zardalu	Agricultural	Bihar
312	553	Katarni Rice	Agricultural	Bihar
313	554	Magahi Paan	Agricultural	Bihar
314	555	Ghazipur Wall-hanging	Handicraft	Uttar Pradesh
315	556	Varanasi Soft Stone Jali Work	Handicraft	Uttar Pradesh
316	563	Bengal Dokra	Handicraft	West Bengal
317	564	Bengal Patachitra	Handicraft	West Bengal
318	565	Purulia Chau Mask	Handicraft	West Bengal
319	566	Wooden Mask of Kushmandi	Handicraft	West Bengal
320	567	Madur kathi	Handicraft	West Bengal

Product Name	State
Coorg Arabica Coffee	Karnataka
Wayanaad Robusta Coffee	Kerala
Chikmagalur Arabica Coffee	Karnataka
Araku Valley Arabica Coffee	Andhra Pradesh
Bababudangiris Arabica Coffee	Karnataka
Himachali Kala Zeera	Himachal Pradesh
Himachali Chulli Oil	Himachal Pradesh
Sirsi Supari	Karnataka
Chunar Balua Patthar (Sand Stone)	U.P
Erode Manjal (Erode Turmeric)	Tamil Nadu
Marayoor Jaggery	Kerala
Thirubuvanam Silk Sarees	Tamil Nadu
Jeeraphool	Chhattisgarh
Kandhamal Haladi	Odisha
Odisha Rasagola	Odisha
Kodaikanal Malai Poondur	Tamil Nadu
Hmaram	Mizoram
Pawndum	Mizoram
Ngotekherh	Mizoram
Palani Panchamirtham	Tamil Nadu
Tawlhlohpuan	Mizoram
Mizo Puanchei	Mizoram
Gulbarga Tur Dal	Karnataka
Tirur Betel Leaf (Tirur Vettala)	Kerala
Irish Whiskey	Ireland
Khola Chilli	GOA
Idu Mishmi Textiles	Arunachal Pradesh
Dindigul Locks	Tamil Nadu
Kandangi Sarees	Tamil Nadu
Srivilliputtur Palkova	Tamil Nadu
Kaji Nemu	Agriculture

#### SAFEGUARD DUTY IN WTO

- if threat or likely threat to domestic industry- But **temporary for 200 days** only
- Usually against- Dumping, Subsidy that attract CVD

#### VARIOUS ROUNDS

##### 1. **Singapore MC, 1996**

- 1<sup>st</sup> WTO MC 1996 Singapore
- **Singapore Issues:**

1. transparency in govt procurement
  2. trade facilitation (custom issues) -treaty in 2017
  3. trade and investment
  4. trade and competition
- Pushed by Developed countries, opposed by developing nations
  - Though in 2003>>cancun,maxico>>> **trade facilitation accepted by all**

## 2. Doha MC and 'Doha Development Round', 2001

Main Issues-

### A. Agriculture-

- called for final agreement on market access,
- reduction in all forms of subsidies and reduction in trade distorting support.
- Developing countries were concerned with "Special Product"

### B. Access to patented medicine-

- members reached agreement on TRIPS and medicine issue.
- Approved interim waiver in TRIPS allowing export of medicines made under Compulsory Licenses to LDC and some other members.
- Also agreed NOT to allow evergreening of patents

### C. S&D treatment- 2005 hongKong- agreed 5 S&D for LDC

## 3. Cancun MC- **Abandonment of Singapore issues-2003**

- **Creation of G-33**

## 4. Geneva talks 2004- Singapore issues dropped from Doha Agenda

## 5. **Bali MC and 'Bali Package', 2013**

Provisions for lowering import tariff and agri subsidies

- **PEACE CLAUSE**- agreed by all nations for adjustment to limits under AoA(de minimus)- gave 4 year limit to adjust to limit and avoid sanctions  
IMP- India>>refused to ratify unless 'Permanent soln' is reached>>> then I-USA reached agreement>>>time limit of 4 years was REMOVED, in turn India agreed **TRADE FACILIATION**
- **Trade facilitation**- requires member countries to invest in infra that facilitates import-export, simplify customs procedure, remove other non tariff barrier
  - Various components- Fiscal (customs, excise), safety and security (immigration, visa), Envi and health (SPS), consumer protection (testing, labelling, conformity checks)
  - **Treaty entered into force in 2017**



## 6. Nairobi MC, 2015

- Developing VS developed- developed countries tried to put aside Doha agenda and focus on Trade Facilitation Agreement. Trying to introduce new issues like ecommerce, procurement, competition policy
- Agreement on export subsidy- ALL countries committed to **completely eliminate subsidies for farm exports**. 1. Developed-immediately 2. developing-by 2018 (but will keep marketing and transport cost for exports until 2023)
- Agreement on **temporary SSM**
- **Information Technology Agreement-II (2015)**
  - 53 members agreed to **7 year** timeframe to scrap **all** tariffs on **201** IT products
  - ITA-I signed in **1996**- India= **member**
  - ITA-II: India= **Not Member**

## WTO AND E-COMMERCE

- India **opposing** its inclusion in formal mandate of Doha development rounds
- WTO allows corporations to transfer data around world w/o restriction- hampers interest of developing nations

## INDIA AND BITs

- BIT- T&C for **Private** investment by nationals and comp of one country in other country + **ADR** mechanism in International arbitration (often under ICSID)
- India- new model BIT- international arbitration only after exhausting local judicial remedy.
- B.N.srikrishna committee on speedy resolution of commercial disputes, making India international hub for arbitration

## H1B VISA FEE HIKE AND WTO COMPATIBILITY

- India filed complaint- against GATS (which is **legally binding**), MFN status

## GSP AND INDIA

- Developed in **UNCTAD in 1971**

## RULES OF ORIGIN

- rules to attribute a country of origin to a **product** in order to determine its "**economic nationality**"
- Used to:
  - Implement **Anti-Dumping Duty** and **safeguard measures**
  - To determine whether imported product should receive **MFN treatment** or **preferential treatment**
- **World Customs Organisation (WCO)** – administers RoO under WTO

## RTA AND WTO

- Regional Trade Agreements are allowed under WTO
- '**open regionalism**'- external liberalization of tariffs by trade blocs for non members after they reduce barrier on imports among themselves

## BEGGER THY NEIGHBOR POLICY

- One country growing on expense of other

## ASIAN CLEARING UNION

- By **UNESCAP**
- HQ- **Tehran**, Iran
- Purpose- secure regional cooperation as regards the settlement of eligible monetary transaction among members to provide system for clearing payments among members on multilateral basis
- Members- Iran + SAARC countries
- Asian Monetary Union- common unit of a/c of ACU

## NAMA

- **Non Agri Market Access** (NAMA)- trade negotiations on non-agri or industrial products
- Demands for elimination of T and NT barriers on trade in industrial products as per doha declaration
- NAMA 11- coalition of strong developing countries- **India, Pakistan**, Indone, Venezuela, Brazil, Argentina, Egypt, Namibia, Philipines, S.Africa, Tunisia

## GLOBAL SYSTEM OF TRADE PREFERENCES (GSTP)

- established in **1988** as a framework for the exchange of trade preferences among **developing** countries in order to promote **intra-developing-country trade**
- **UNCTAD** provided technical and administrative support
- **Members- 44** countries including **India**
- GSTP is reserved for the exclusive participation of members of the Group of 77 and China

## CHAPTER 6

### INFLATION

- Persistent rise in price of G&S

Types-

1. creeping inflation- rate of general price increase of upto 4% a year, thus welcome inflation
  2. Trotting or walking inflation- when CI increases few more hundreds of basis points
  3. Galloping inflation- 8-10% a year
  4. runaway inflation-
  5. Hyperinflation- monthly 20-30%, no tendency toward equilibrium
- **Deflation**- fall in prices, - self reinforcing, if not checked>>>Deflationary spiral, thus requires Keynesian stimulus
  - **Disinflation**- reduced rate of inflation
  - **Stagflation**- inflation + unemploy
  - **Reflation** – **deliberate action of govt to stimulate economy**, when inflation returns after spell of deflation and recession
  - **Skewflation**- **Price rise of small group of commodities over sustained period of time**
  - **Headline inflation**- now **CPI**
    1. inflation experienced by consumers, measure of total (i.e.-primary +fuel +mfg) inflation.
  - **Core or Underlying inflation**- removes transitory effects to analyse DEMAND side. Thus excludes food, fuel and food processing mfg

## RECESSION

- Fall in macroeconomic indicators, while rise in unemployment rate
- Technically, -ve growth rate in 2 successive quarters
- **Double-dip recession= Recession>>short recovery>>>another recession**

## DEPRESSION

- Extreme form of recession
- Characterized by- length, high unempl, fall in credit avail, shrinking output, bankruptcies, reduced amt of trade, high volatile currency

## Types based on causes-

1. Demand pull inflation- mismatch between supply and demand (one remains Constant or inverse reln with other)
2. Cost push inflation- “supply shock” due to increased Factor input cost
3. structural inflation- deficiency in conditions in economy (backward agri, ineffi distri)
4. cartelization-coming together of producers to push prices up
5. Hoarding -accumulation of huge qty
6. imported inflation-high import price and overdependency on import

## Impact of High Inflation

1. Investment boost in short run becoz: A. High inflation=high demand= entrepreneurs expand prodn level B. **Higher the inflation>>LOWER the cost of loan**
2. Saving: Short run- increase Long run- decrease
3. Bracket creep- nominal value of gross tax revenue increase
4. Exchange rates- Depreciation
5. Trade balance- Developed economy= makes favourable trade balance, Developing economy= unfavourable TB (becoz composition of foreign trade)
6. Employment- Short run: increases Long run: Decreases or neutral
7. Wages- Nominal Wages increases, **Real wages falls** (thus -ve impact on Purchasing power and living stds)
8. Banking system- **Feel pressure of higher lending** (They don't revise nominal int rate as 'real cost of borrowing (=Nominal-inflation)' Falls
  - NOTE- **Nominal** interest rate are actual price paid by borrower to lender. It does **NOT** take **inflation** into account
  - **Real Interest Rate** takes **inflation** into account (**Nominal – Inflation**)

GAINER	LOSER
1. Debtor	1. creditor
2. Producers	2. Consumers
3. flexible income group	3. Fixed income group
4. Bond issuer	4. Bond holder
5. debenture or bond holders or savers having fixed interest rate gain only if rate of interest is higher than inflation rate	

- Monetary policy framework agree 2015-
  1. RBI agreed to target CPI(Combined) inflation within 4% with +/-2% band.
  2. Inflation targeting- **GoI sets a target** in consultation with RBI, but RBI responsible to achieve this target

Urjit Patel Committee 2014

1. target of inflation : 4+/-2%
2. nominal anchor should be defined in terms of **Headline CPI**
3. **govt to ensure FD 3%** by 2016-17
4. monetary policy decision making with MPC
5. **RBI should fix inflation target**

Monetary Policy Committee (MPC)

- MP framework agreement 2015
- **Finance act, 2016**- amended RBI act, 1934>>>**statutory backing to MPC**
- Members

Gov + depty gov in charge of monitory policy +official of rbi + 3 centre nominated

- **NO Reappointment**
- **Binding** on RBI
- Publish **Monetary Policy Report** every **6 months**
- Meets **4 times** a year

## INDICES FOR CALCULATION OF INFLATION

### 1. Wholesale Price Index (WPI)

- Estimates of inflation at wholesale transcation level for economy as whole
- By- **Economic Advisor, DIPP, Mocommerce** on monthly basis with month lag
- Commodities categorized into primary article, fuel and power, mfg goods

S.No	Commodity Groups	Weight	No. of Articles
1	Primary Products	20.118	102
2	Fuel, Power, Light & Lubricants	14.91	19
3	Manufactured Products	64.97	555
<b>Total</b>		100.00	676

- Limitation- Not included **Services, Unorganised Sector**
- **NEW ALL INDIA WPI**- 1.Base yr:2011-12 2.**NOT include INDIRECT TAXES** to remove impact of fiscal policy (thus **very close to PPI**), thus showing production side infl. 3.seprate 'WPI Food Index'- combining Food articles under primary article and Food products under mfg products

## PRODUCER PRICE INDEX (PPI)

- Calculated based on price producer receivers for his goods
- Govt set up **Goldar Comm (2014)** to develop PPI
- 2019- Govt set up commission to transfer from WPI to PPI as deflator in GVA/GDP

### 2. Consumer Price Index (CPI)

- Changes in price of basket of Goods & Services purchased by household

SNo	Groups	Rural	Urban	Combined
1.	Food, beverages and tobacco	59.31	37.15	49.17
2.	Fuel & Light	10.42	8.40	9.49
3.	Clothing, Bedding & Foot wear	5.36	3.91	4.73
4.	Housing	-	22.53	9.77
5.	Miscellaneous	24.91	28.00	26.31
6.	Total	100	100	100

Fig. weights for CPI Urban, Rural, Combine

- By: 1. MoLabour – for CPI for IW and RL      2. **CSO** - CPI (Urban, Rural, combined)

### 3. Services and Price Index

- DIPP>>committee on advice for Service Price Index (SPI)>>**C.P.Chandrashekar**

### 4. Consumer Food Price Index (CFPI)

- Measure of change in retail price of food products
- Started by CSO on all India level from 2014

### 5. Housing Price Index (HPI) of RBI

- Quarterly**, for 10 major cities

### 6. Index of Industrial Production (IIP)

- Classifies industries as - 1. **Mfg** (77%)    2. **Mining** (14%)    3. **Electricity** (7%)
- Calculates industrial growth, useful in estimating GDP growth
- By **CSO** on **monthly** basis

### 7. Purchasing Manager's Index (PMI)

- Predicts level of industrial production in advance (both **Manf** and **Service**)
- Released by **HSBC + Markit (Nikkei)**
- Above **50**= expansion of industrial production      below 50= contraction

## CHAPTER 4

### RESERVE BANK OF INDIA

- Act,1934>>on basis of **Hilton Young** comm
- Nationalized in 1949
- General superintendence by- Central Board of Directors- 20 members  
Gov + 4 Deputy gov + 1 official from FinMin + 10 nominated directors by govt +4 nominated directors by govt from 4 local boards

RBI	1. Issues currency notes of all denomination EXCEPT Rs 1 note and coins. 2. <b>exchanges and destroys</b> old currency notes
GoI (Specifically MoFinance)	Issues coins and Rs 1 note (bear signature of Finance Secretary) (Coinage Act, 1906)

- Act as Banker of centre govt and States (**Except J&K and Sikkim**)
- Manages public debt of both centre and state
- **Minimum Reserve System (MRS)**- amount of gold and foreign securities kept as a back up by RBI before issuing currency

#### METHODS BY RBI TO CONTROL MONEY SUPPLY

QUALITATIVE METHOD	QUANTITATIVE METHOD
1. Margin requirement	1. Bank Rate
2. Regulation of consumer credit	2. Open Market Operation
3. Rationing of credit	3. Reserve requirement- CRR and SLR
4. direct action	4. Liquidity Adjustment Facility- Repo and Reverse repo
5. moral suasion	5. Marginal Standing Facility
6. publicity	6. Market Stabilization Scheme

#### I. QUALITATIVE- correcting discrepancies in credit market, controls channelization of credit

1. Margin requirement- setting aside certain % of money for loan as safety
2. Rationing of credit- **Ceilings** on credit to particular sector
  - a. variable portfolio ceiling- fixed ceiling for sector
  - b. Capital Adequacy Ratio(CAR) or Capital to Risk weighted Asset Ratio (CRAR) -  
-Set high if credit is to be blocked for particular sector
3. moral suasion- close door meet, persuasion

#### II. QUANTITATIVE- aim to control Cost and Quantity of credit

1. Bank Rate or Discount policy rate
  - Rate at which RBI rediscounts first class Bill of Exchange (BoE) or G-sec held by Commercial bank
  - **Long Term, NO collateral**
  - Has been replaced by REPO RATE as policy rate
  - Thus penal rate for shortfalls in meeting reserve requirement by banks (breaching SLR and CRR)
  - Aligned with MSF

## 2. Open Market Operations (OMO)

- Outright purchase or sell of securities, bills and bonds of government as well as private institutions by RBI to banks and public
- Do not change total stock of G-sec, but changes proportion held by RBI, commercial banks and cooperative banks

## 3. Reserve Requirement

### A. Statutory Liquidity Ratio (SLR)

- **Section 24 Banking Regulation act, 1949**
  - Portion of time and demand liabilities bank need to keep in form of **designated liquid asset** (cash, G-sec, gold, Current a/c balance in other banks, PSU bonds)
  - 2007 amend>>**no lower cap**, upper=40%

### B. Cash Reserve Ratio (CRR)

- **Section 42, RBI act, 1934**
  - To manage liquidity and inflation
  - **Only** in **cash** form, keep with RBI

## 4. Liquidity Adjustment Facility

- **short term** credit control measure, absorbs excess liquidity- For day to day mismatch
- introduced on recomm of **Narasimham Committee (1998)**
- **All Clients** of RBI (**Except RRB**)
- Two types-
  1. Repo rate
  2. Reverse Repo rate (usually **1% less** than Repo)
  - Ready Forward Contracts (REPO)
    - **SCB + Primary dealers** along with MF and Insurance comp
    - Transaction in which 2 parties agree to sell and repurchase the same security
    - Only done in securities approved by RBI (T bills, dated G-Sec(C +S))

## 5. Marginal Standing Facility

- **All SCB** having current and SGL account with RBI (**Except RRB**)
- Aim- **overnight** (for 1 day) borrowing in crunch of liquidity
- Repo- as an **anchor**>> MSF **100 points above repo**
- **PENAL** rate because breaching of SLR limit
- Collateral- dated G-Sec, T bills and State Dev Loans (SDL)
- Max- **1% of NDTL**

## 6. Market Stabilization Scheme (MSS)

- **Fiscal** cum **monetary** instrument
- To absorb excess liquidity due to FDI surge
- interest rate paid by **MoFinance**



## MCLR AND BASE RATE

Govt & RBI interference>>>1991-Narsimhan-deregulate>>>**Benchmark Prime lending rate**>>>2010 **Base Rate**>>>2016 MCLR>>2018- Repo

### 1. Base rate-

- Minimum rate below which bank cannot lend
- **decided by banks>>banks discretion to update**>>Does **not consider** repo (thus no effective monetary transmission as **Average Cost of Lending**)
- exception- Differential Interest Scheme (DIS), Loan to own **Employees**, Loan to Depositors against their own deposits

### 2. MCLR-

- based on – CRR Cost, operating cost, **Marginal Cost of Funds** (repo rate, deposit interest on NEW deposits)>>>enables quicker monetary policy transmission.

## FSLRC

- **Indian Finance Code** (IFC)- By FSLRC to replace bulk of laws

## DEBT MANAGEMENT

- RBI manages market borrowing of **BOTH**- centre and states
- External borrowing- managed by **GOI** (limit fixed by **Parliament**)
- Mana of union's public debt- **obligation to RBI**
- Mana of state's public debt- by **agreement**
- Public Debt Mana Cell(PDMC),2016 in RBI

## SUPERVISORY FUNCTION OF RBI

- **Granting licenses**
- Implement Deposit insurance schemes
- Periodical review of commercial banks, giving directives
- Control NBFC
- Banking Regulation (amend),2017- issue **direction to banks to initiate insolvency resolution**

## RBI DIVIDEND

- Section 47 of RBI act,1934: surplus of RBI transfer to GoI
- 5 components of **Capital Reserves** of RBI: Contingency, Asset Revaluation, Gold and Currency revaluation, Investment revaluation, Forex Value account

## NARROW AND BROAD MONEY

- Narrow- **Currency** held by public + **DD**

- Broad- Narrow+ time deposit with banks + total deposits with post office saving org (**excluding** national saving certificate)

### LIQUIDITY TRAP

- In **Recession** times>>lowering int rates and reserve requirement to stimulate the demand but **doesn't impact** on reviving demand and growth
- **Short term int rate** nearly reaches **zero**

### QUANTITATIVE EASING (QE)

- Central bank **buying** financial instrument **which otherwise are not accepted** in OMO
- Flooding economy with new money

### TAPER TANTRUM

- Taper=**closing QE** in phases to avoid asset bubbles
- Taper tantrum=aftershocks of QE taper.>>market react adversely

### FSDC

- RRR comm 2008
- Members:  
FinMin (chair) + **Gov of RBI** +Finance sec +**CEA** + chairman-SEBI, IRDA, PFRDA  
+sec of dept of financial services  
- recently added: 1. **MoS for DEA**  
2. **Sec of MeitY**  
3. **Chairperson of IBB**  
4. **Revenue secretary**
- Chairman of **standing committee: RBI Governor**
- Responsibility- financial stability, literacy, inclusion, Inter-Regulatory Coord, Macro prudential supervision of economy, Coord with int body like FATF, FSB

### FINANCIAL STABILITY BOARD

- In **London Summit, 2009 of G-20**>> as successor of Financial Stability Forum
- HQ- **Basel, Switzerland**
- Hosted and Funded by **Bank for International Settlements (BIS)**
- India-member. Represented by Sec(EA), depty Gov, Chair-SEBI
- Members- **24 countries** + 6 International Org

### NEGATIVE INT RATE

- Rate which lender pays to borrower

## CHAPTER 3

### COMPONENTS OF GOVT BUDGET

#### 1. Revenue Receipts- recurrent, non redeemable

- A. Tax    B. Non-tax (**interest received** on given loans, **dividends and profits**, **grant in aid by foreign partners**)

#### 2. Revenue Expenditure- does **Not** create physical or financial asset

e.g.-**interest payments** on loans, defense, subsidies, pub ad, **Grants to State**, **GST Compensation**

#### 3. Capital Receipts- **create liability** or **reduce financial asset**, debt as well as nondebt

e.g.- market borrowing, sale of T bills to RBI and financial insti, recovery of loan granted by central govt, loans from foreign, disinvestment, small savings (post), PF

NOTE- any of amt received from public sector (**profits, disinvestment**) asset will be counted in **NIF** (which is subhead in **Public account**)>>allocation decided under Annual Budget

#### 4. Capital Expenditure- create physical or financial asset or reduce financial liability

e.g.- acquisition of land, building m/c, investment in shares, **Loans to State** and PSU, repayment of loans

Revenue Deficit	=Revenue Expenditure- Revenue Receipt	If zero>>consumption of govt filled by own resources
Budget Deficit	=Total Expenditure – Total Receipts = Revenue deficit + capital deficit	<b>Always Zero</b> (as Capital account compensate for revenue deficit)
<b>Effective Revenue Deficit (ERD)</b>	= RD- <b>Grants for creation of capital</b> asset	1. introduced by <b>Finance act, 2012</b> 2. FC Recomm: Scrap this
Fiscal Deficit	= Total Expenditure – Total receipt ( <b>except borrowing and other liability</b> ) = Total Expenditure – ( <b>revenue receipt +non debt creating capital receipt</b> )	
<b>Net Fiscal Deficit</b>	= GFD- <b>net domestic lending</b> by GoI	
Primary Deficit	= GFD - <b>Net interest liabilities</b> (interest payment- interest receipt)	to show Fiscal imbalances

- Gender Budget- Allocation of FUNDS and RESPONSIBILITIES on basis of gender
- Fiscal Consolidation= reduction(not elimination) of fiscal deficit: e.g-increase tax, reduce subsid

### BEST WAYS TO FULFILL DEFICIT REQUIREMENTS

External Aids>>External Borrowing(long term +low int)>>>Internal borrowing(But crowding out effect) >>Printing currency(last resort)

Internal Debt- Market Borrowing, Treasury bills, G-Sec

FRBM 2003

- Annual targets for reduction in deficit, govt borrowing and debt
- MoFinance use **GDP @market price** to peg fiscal targets
- Cap on level of guarantee and liabilities of govt
- Prohibits **Primary Borrowing** after 2006 + RBI flexibility for inflation targeting
- **Quarterly** basis>>>govt>>>both houses>>>**assessment of trends** in receipt and exp
- Annually- 1. Fiscal policy strategy statement, 2. Medium term fiscal policy statement, 3. Macroeconomic framework statement
- Under exceptional circumstances>>govt to breach targets of RD and FD reduction

FRBM 2013

- Amend the finance act, 2012
- Along with 3 statements- **Medium Term Expenditure Framework** (3 yr rolling target)
- Govt will target **Effective RD**, not RD (thus placed capital expenditure out of purview of RD) + **eliminate ERD by 2015**

N K SINGH PANEL TO REVIEW FRBM

- Suggestions:
  1. **Fiscal Council**- 3 member- prepare multi year fiscal forecast for **General Govt.**  
provide assessment of centre's performance and compliance to targets + advice on **Escape Clause**
  2. **Public debt-to-gdp ratio**=medium term **anchor** for fiscal policy in India -60% by 2022-23 (40% for centre, 20% for state)
  3. **Fiscal Deficit**- operating target to bring down public debt
  4. **Revenue Deficit** decline steadily by **0.25%**
  5. Borrowing from RBI- A. Temporary shortfall B. RBI subscribes G-Sec to finance any deviation from specified targets C. RBI purchases G-Sec in **Secondary market**
  6. **ESCAPE CLAUSE**- Can breach by 0.5% if **war, calamities of national proportion, far reaching structural reforms, sharp decline in real output growth** by 3% below avg of previous 4 Quarters
  7. **Bouyancy clause**- if sharp increase in real o/p growth by 3%, then FD **MUST** fall by 0.5%
  8. **Congruence of Fiscal and Monetary policy**- inflation targeting & fiscal rule>>interact

RANGARAJAN COMMITTEE 2012

- To suggest measures for efficient management of public expenditure + plan and non-plan assessment
- Suggestion:

1. **scrap** P-NP distinction- dysfunctional
2. strengthening **CPMS** (Central Plan Monitoring System) and enable citizen to seek info on flow of fund
3. output>>>outcome

## DEBTS OF GOVERNMENT

- Classified as:
  - **Public Debt**= debt contracted against **Consolidated Fund of India**  
**Public debt** further classified as:
    - **Internal Debt**- currently **93%** of Internal Debt
    - **External Debt**- Mostly from **International Institutes**
  - **Other Liabilities**= liabilities in **Public Account**
    - Includes NSSF, **FCI's borrowing**, PF, etc

## EXTERNAL DEBT

- Share in external debt: GGD/Total debt= **67.7%** (2003-83.3%)  
**Commercial borrowing**>>>**NRI deposits**>>>**short term**>>>multilateral>>>bilateral
- Currency:  
**USD**>>>**Rupee**>>>**SDR**>>>Japanese yen>>>Euro

## MASALA BOND

- Indian entities>>>raise money from overseas market **in rupee**
- Benefit for borrower- diversify funding, lower int rate in global market, shield against fluctuation in currency
- Benefits for foreign investors: higher returns than global market, optimistic about growing Indian economy

## ZERO BASE BUDGETING aka Development Based Budgeting

- Close and critical examination to ensure that funds are available to high priority items by eliminating outdated programs & reducing expenditure on low priority items
- Analyze program and project as new every year, see cost-benefit ratio

## FISCAL DRAG-

- inflation pushes income into higher tax bracket-bracket creep>> thus **Fall** in demand
- Increases tax buoyancy for govt, but reduced growth.>>>net effect of tax NOT +ve
- Act as '**automatic stabiliser**' in overheated economy

## PUMP PRIMING

- **Deficit financing and spending by govt** on public works to **revive economy in recession**

## GOODS

- Public goods- **non-rivalrous**, consumption by some does not diminish them for others

- Merit goods- edu,health>positive externalities
- Demerit goods- negative externalities
- Giffen goods- goods whose demand goes up when prices increases
  - Eg- Rice, Bajra, etc
  - Giffen goods are **products** whose substitute are **not available**
  - Giffen good is **inferior good** in mind of customers and are more demanded by consumers of **lower income group**

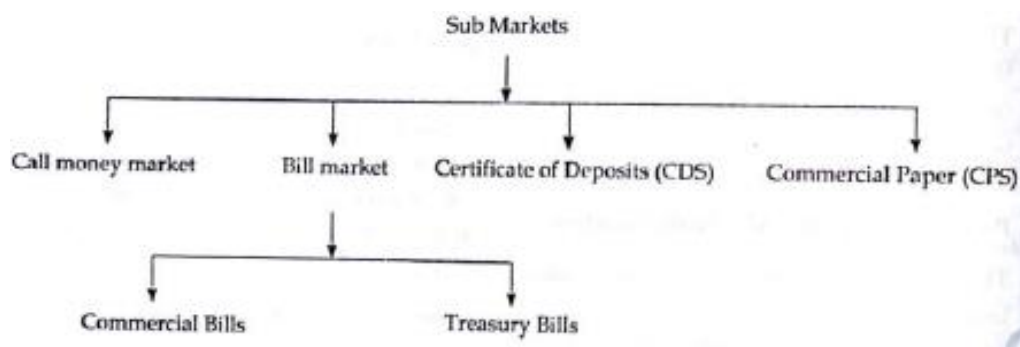
## TWIN DEFICIT

- **Budget deficit + CAD**

## CHAPTER 8

### MONEY MARKET

- **short term fund- overnight to 1 year**
- Transactions can be secured or unsecured.
- Trading is always **Over The Counter** (i.e. without supervision of an exchange)
- Features of MM instrument: 1.High liquidity 2.Minimal transaction cost 3.Fiscal mobility
- Who is included: **Commercial banks, RRBs, Bill markets**



#### 1. Call Money aka Notice money

- 1-14 days: notice money, otherwise call money
- **No collateral>>> Promissory notes**
- Participants- 1. **SCB except RRBs**, 2. **Cooperative Banks**(other than Land Dev banks)  
3.**Primary dealers** (Both as borrower and lender)
- Participants **Free to decide** interest rate
- **NBFI**- can **NOT** participate

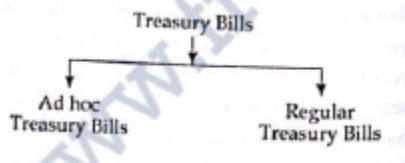
#### 2. Bill Market or Discount market- short term funds

##### I. Commercial Bills aka Trade Bills

- Trade bills- negotiable instruments drawn by seller of G&S on buyer for value of goods delivered, issued by companies and traders
- Trade bills>>>>commercial bills when commercial banks accept them for discounting

## II. Treasury Bills

- Short term investment opportunities for banks and FI, useful in managing short term liquidity
- 3 types- 91 days, 182 days, 364 days
- **Only by Centre**, NOT by states, issued by **RBI**
- Issued at discount, redeemed at par, thus no int rate
- Auction held on Negotiated Dealing System(NDS)



## Ways and Means Advances (WMAs)

- Replaced ad-hoc treasury bill in 1997, for **91 days**
- **RBI-CENTRE**: **NO collateral**, @ **Repo** rate, amt limited(arrived at beginning of FY by consultation between two), overdraft-charged 2% more
- **RBI-STATE**- 1. **Normal WMA**- unsecured, @ **Bank** rate 2. **Special WMA**- on G-sec (latter is exhausted first then former)
- Benefit- dropped 'automaticity' (rbi printing money to finance govt cash imbalances)

## Cash Management Bills (CMB)

- Same as T-bill, only at maturity LESS than 91 days
- Temporary mismatches in cash flow of gov

## Government Securities :

- Tradable instrument issued by BOTH centre and States thr RBI
- Acknowledges govt's debt obligation
- Short term>>>>>>T bills, CMB long term>>>>>>Bonds, Dated securities
- Zero risk of default, thus 'risk-free gilt edged instruments'
- Centre- both T-bills and Bonds(dated securities)
- **State- only bonds** (dated securities)>>known as State Dev Loans(SDL)
- **DATED SECURITIES**
  1. long term(upto 30 yrs)
  2. carry fixed or floating int rate which is paid on face value
  3. qualify for SLR, LAF
- **FLOATING RATE BONDS**
  1. variable interest rate with cap and floor

- CAPITAL INDEXED BONDS  
1. int rate is fixed percentage over inflation rate
- Who can invest?  
Any person, firm, company, insti, state govt, PF, trusts, **NRI**, NRI corporates, **FII** registered at SEBI and approved by rbi
- Rbi- set limit in FPI invest in g-sec

### 3. Certificates of Deposits (CD)

- **only** by **scheduled commercial** banks (excluding RRB and Local area banks) and **All India Financial insti. (AIFI)**
- negotiable P note, **secure**, short term(upto year)
- issued at discount to face value, discount negotiated between issuer and investor
- maturity period  
bank- 7 days to year                      FI- 1 year to 3 year (also by IFCI, IDBI, IRBI, EXIM)

### 4. Commercial Papers (CP)

- **unsecured** P-note issued by top rated companies (including **NBFC**), primary dealer, satellite dealer, **All India Financial Insti.**
- 7 days to 1 year
- Features  
1. **corporates with tangible worth >4cr**    2. All CPs requires **credit rating**    3. issued at discount to face value

NOTE- **AIFI** can issue **both** **CoD** and **CPs**

### DISCOUNT AND FINANCE HOUSE OF INDIA(DFHI)

- **1988** by RBI to facilitate smoothening of **short-term** liquidity imbalances by dev active money market
- Task assigned- devlope secondary market in existing money market instrument
- Activities restricted to- t bills, gsec, CP and CD, call money, notice money, term deposit

### COLLECTIVE INVESTMENT SCHEMES (CIS)

- Any scheme or arrangement which pools funds from investors and involves corpus amt more than **100 crore** **Except** MF, insurer, PFs, Registered Chit funds, Cooperatives, **Nidhis**
- Regaled by **SEBI**

### ALTERNATIVE INVEST FUND

- Pooling in capital from Indian and foreign investors for investing as per prediced policy
- Include commodities, **venture capital**, **Infra equity**, SME fund, **real estate**, pvt equity and **hedge fund**



- **Excludes** mutual fund, collective investment schemes (CIS), family trust, employee stock option,
- Regulated by **SEBI**
- Budget 2016: **No categorization as FDI and FII** for foreign investment (to boost foreign invest)
- Categories under AIF by SEBI:
  1. Category 1- venture capital funds, SME funds, social venture funds
  2. Category 2- real estate funds, private equity funds, funds for distressed assets, NIIF
  3. Category 3- hedge funds, PIPE Funds

#### REAL ESTATE INVESTMENT TRUST (**REIT**)

- Pool money from investors and invest in commercial **properties** which are **completed and generating income**

#### MUTUAL FUNDS

- Fund created when large no. of investors put in their money>> managed by group of qualified people known as Asset Management Comp (AMC)
- Compulsorily Registered with SEBI

#### HEDGE FUND

- **HNI individuals**>>very diverse and complex strategies for generating returns
- Varies strategies- long-short, derivatives, leverage
- Aim- to get **Maximum return** with **min risk**

#### VULTURE FUNDS

- **Distressed debt fund** that invest in debt considered to be very weak or in default
- Buys **High yield bonds** that are near bankruptcy (e.g-NPA or Sovereign debt)>>>then sues them for recovery
- Deploy legal actions to obtain contracted pay-outs

#### VENTURE CAPITAL FUND

- **Long Term** Investment fund that manages money of investors who seek **equity stakes** in startups and SME (High risk-High return investment)
- Registered with SEBI
- 'Angel investors'- subcategory of VCF

#### ANGEL INVESTORS

- Affluent individual who provides capital for business startup, usually in exchange for convertible debt or ownership equity
- Invests own money, not pooled money
- Definition of startup:

1. pvt lmt comp or LLP or Partnership fund
  2. Turnover: **not exceeded than 100 cr** in any of previous financial year
  3. **upto 10 years** of its incorporation
- NOTE- startup must be **registered with DIPP**

➤ Difference between VCF and Angel:

1. VCF- **Do not use own money**, but pooled money
2. VCF- invest **in already estd business**, while Angel in new businesses
3. VCF- may ask for seat in Board of directors. But Angel: normally acts as mentor
4. Both seeks equity

### CHIT FUND

- Grp of people arrive at to contribute money in defined manner at periodic intervals into pool.
- Governed by **Chit funds act, 1982**
- Registered and regulated by **STATE govt**
- Securities laws, 2014: power to **SEBI** to deal with **Ponzi schemes**

### QUALIFIED INSTITUTIONAL PLACEMENT (QIP)

- Sell of any security which are convertible into or exchangeable with equity shares at later date

### ECB

- Access to foreign money by Indian corporate and PSUs
- **Cannot** be **used** for investment in **stock market** or speculation in **real estate**
- Two routes-
  1. **automatic** route- for **corporates under CA, 1956** **except** financial intermediaries such as **bank, FI, NBFC**.
  2. Approval route
- Foreign Currency Convertible bonds (FCCB)- part of external debt, By companies for **Long-Term** loans, Converts **into shares on predetermined rate**

### CREDIT DEFAULT SWAP

- Form of insurance against debt default, Redistributes the **RISK** of credit

### TAKE OUT FINANCING

- Method of financing long term projects by banks by sanctioning medium term loans
- Under this, institution engaged in long term financing agrees to take out loan from book of banks financing projects after fixed time period when project reaches certain previously defined **milestone**(progress)

- bank agree to give initial **medium term loan**, at end period-bank **sell loan to insti** and get it off its books

## CHAPTER 5

### I. DEVALUATION – CENTRAL BANK

### II. DEPRECIATION- MARKET FORCES

#### Depreciation of Rupee

POSITIVES	NEGATIVES
Exports increases	Inflation increases
FII and NRI deposits increases	Import costlier
FDI increases	
Domestic firms- either import substitution or increase productivity>>>thus innovation and invention	Govt have to provide subsidy for making goods affordable>>>FD increases

### BALANCE OF PAYMENT

- **CURRENT ACCOUNT**- all single time and one-way transactions
  - **Current account= merchandise + services + transfer payment**
  - Trade balance= balance between import and export of GOODS
  - Trade in services = **Factor Income** (NFIA + net income from compensation of employees and net investment income) + **Non-Factor income** (shipping ,etc)
  - Transfer payment = remittances + gifts + grants
  - Net invisibles= trade in services + transfer payments

**NOTE- Foreign invest in security market>>considered as matter of current a/c**

- **CAPITAL ACCOUNT**- multiple and two-way transactions
  - All loan and investment (i.e. international purchase and sale of assets)
  - 1. **External Assistance** – bilateral or multilateral
  - 2. External Commercial Borrowing
  - 3. Short term debt
  - 4. **Banking capital**- foreign assets and liabilities of commercial banks(explained ahead)
  - 5. **foreign investment**- (explained ahead)
- A. **Foreign assets** of CB- 1. Foreign **currency holding** 2. **Rupee overdrafts** to non-resi banks
- B. Foreign **Liabilities**- Non resident deposits
  - 1. Foreign Currency Non Resident (Banks) (**FCNR(B)**)- deposits held in foreign currencies, only term deposits (1-3 years), interest rate pegged to LIBOR or SWAP

2. Non-Resident External Rupee Account (**NRE**)- deposits held in rupee, only term deposits (1-3 years), interest rate pegged to LIBOR or SWAP

3. Non-Resident Ordinary rupee Account- (**NRO**)-a/c of Indians ordinary living abroad. Held in rupee. Can be fixed deposit, current, recurring or savings a/c.

## FOREIGN INVESTMENT

### A. Foreign Direct Investment (FDI)-

- Arvind Mayaram committee- FDI=investment in comp above **10%**
- Shares acquired thr IPO, preferential allotment, pvt arrangement
- **NOTE- FDI prohibited in :**
  - Chit funds and NIDHI companies
  - Real estate business **except** ReIT, construction of township, roads, residential premises, bridges
  - Atomic energy **except** in nuclear industries for manufacturing equipments to support nuclear and oter power plants
  - Cigarette, lottery, gambling

### B. Foreign Portfolio Investment (**FPI**)- investment thr Stock exchange (secondary market)

3 major types-

1. **Foreign Institutional Investment (FII)**- by foreign insti (FII-also issues P-notes abroad>>report to SEBI w/o names of final beneficiaries)
2. **Depository Receipts** (DR) – GDR and ADR- **for foreigner to invest** in Indian companies (any Public or pvt or listed or unlisted Indian comp can issue GDR and ADR)
3. **Offshore funds**- money raised from offshore destinations by mutual funds or other investment funds

## RUPEE CONVERTABILITY

- 1993 – full convertability on trade account
  - 1994 – full convertability on current account (Article VIII of IMF)
1. **Capital Account Convertability**
    - INDIA- more liberal in inflow convertability, restriction on outflow convertability
    - **NOTE- Foreign invest in security market>>considered as matter of current a/c for convertability purpose**
    - Prerequisite for fuller convertability-
      1. FD
      2. Adequate forex reserve
      3. NPAs minimal
      4. Moderate inflation interest rate
    - Tarapore committee on CAC, 1997- recommended phase-wise implementation

- Tarapore II on fuller rupee convertibility, 2006-
  1. ban on P notes
  2. Bring FII at par with NRI investors
  3. Ease overseas borrowings
  4. Ease outflows
  5. Ease outflow remittance limits
  6. Banking system reforms.
- Arvind Mayaram Committee- FDI limits in 12 sectors- FDI liberalization

## FOREX RESERVE

- Made up of :  
Foreign Currency asset>>>Gold >>>Reserve Trench in IMF>>>SDRs

## SOVEREIGN WEALTH FUND

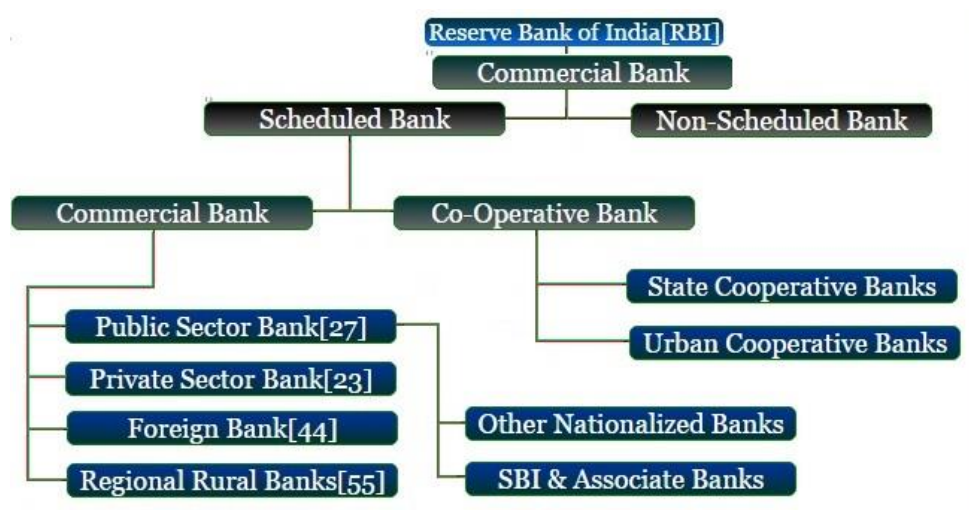
- Fund of foreign currency that is meant to be invested in global assets
- In countries having substantial forex reserves>> countries relaying on oil revenue resources
- Invests in sectors of potential growth like energy assets

## CURRENCY BOARD

- Country's monetary authority that **issues notes and coins**>>nothing else (that's its only function)- required to **maintain fixed exchange rate** with foreign currency
- CB= extreme form of pegged exchange rate, in which exchange rate and money supply are **taken away** from central bank

## CHAPTER 7

### BANKING SYSTEM IN INDIA



### UNIVERSAL BANKING IN INDIA

- ‘cafeteria’ approach- **Retail + Wholesale + Investment services**>>‘full service’ bank
- Recomm by- Narasimham comm 1988, Khan working grp 1998
- Disadvantage- regulation **norms not strict**>>derail entire bank

#### 1. Merchant/Investment Banks-

- Assist comp in raising fund in capital market, advice on **merger, acquisition**, etc
- Who manage and **underwrite** new public issues floated by comp
- ONLY deal with corporates, **not general public**

#### 2. Commercial Banks-

- Financial **intermediaries** between **depositors and borrowers**
- Meet SHORT term working capital requirement

#### 3. Scheduled commercial-

- In 2<sup>nd</sup> sche of RBI act, 1934, two conditions:
  1. Paid up capital and reserves > **5 lakh**
  2. Must satisfy rbi that affairs **not detrimental to depositors**
- Privileges- 1. Bank rate loans from RBI 2. **clearing** house membership 3. Exchange bill **rediscounting** from RBI
- Obligations- maintain reserves

#### 4. Non-scheduled-

- No privilege or obligation. (exemption from 2<sup>nd</sup> sche)
- Have CRR limits>>keep with themselves
- **All LAB** + foreign banks not having branch in India + **some UCB**
- heavy restriction on branch expansion
- **No loan from RBI via Bank rate & MSF + No refinance from NABARD+SIDBI**

#### DIFFERENTIATED BANKING- Nachiket Mor Comm, 2013

PARAMETER	UNIVERSAL BANK	RRB	LAB
CRR	Yes	Yes	Yes-RRB
SLR	Yes	Yes	Yes-RRB
PSL	40%	<b>75%</b>	40%
Branch	Everywhere	Few districts	3 districts
NRI account	Yes	<b>YES</b>	
Registered under		RRB Act, 1976	<b>Companies Act, 1956</b>

- Offer limited services and work in Niche segments

#### A. Regional Rural Banks (RRB)

- Set up under RRB act, 1976, confined to specific region

- Regulated by **NABARD**
- 1997- able to lend outside target groups also
- Owned by- Centre 50%, state 15%, sponsor bank 35%  
BUT amendment in 2015: 49% private invest allowed, But **51% = C + S + Sponsor bank**
- 75% PSL, **NO MSF and LAF** (as their int rates are regulated by RBI)

#### B. Local Area Bank (LAB)- 1996

- **Only type of Non-Scheduled banks in India** (however eligible to include in 2<sup>nd</sup> sch )
- Private banks, backward and less developed districts(**only rural and semiurb**)
- Branches- Geographically within **3 contiguous districts**(only 1 urban centre/district)
- Registred –**Companies act, 1956**
- Licensing- **BR act 1949**
- **Min Capital- 5 Cr**, PSL-40%(atleast **25% to weaker** section)
- Regulated by **RBI** (not **NABARD**)

PARAMETER	Small Finance Banks	Payment banks
<b>SIMILAR</b>		
CRR and SLR	Yes (PyB- SLR=75% Gsec + 25% SCB)	
FDI	<b>49% Automatic</b> + 74% approval	
Repo market	Yes	
<b>ATM</b> , BCs, Open branch, Debit Card	<b>Yes</b>	
	Can sell MF, Pension, Insurance, <b>Forex</b> (but can't use its own funds)	
Branches	<b>25% in rural areas</b>	
<b>DIFFERENCE</b>		
Client Base	Unserved, underserved, <b>small and marginal farmers</b> , <b>Micro and small industries</b>	Promote small savings, remittances to <b>migrant labour families</b> , low income households, <b>unorg sector</b> , <b>small business</b>
Deposit	No such limits	1. <b>No NRI Deposit</b> 2. accept both time and demand depo 3. max balance RS 1 lakh/yr/custome 4. <b>No credit card</b>
PSL	40% as Commercial banks + 35% as per their 'edge' = <b>75%</b>	1. <b>No PSL</b> (as No Loans) 2. Min 75% DD in Gsecs, T-bills , Max 25% in other SCB
Future scope	Can evolve into Universal banks after 5 years	<b>2019: RBI</b> allowed PyB with 5 yr exp to convert into <b>SFB</b>

NOTE-**Payment banks** now **allowed** to participate in **Call money Market** both as borrower and lender

#### C. Small Finance Banks (SFB)

- RRR committee,2009
- **Cannot- Large loans**, set subsidiary to undertake non banking financial service activities

- Who are eligible- NBFCs, MFIs, LABs, individuals with 10yrs of exp in finance

#### D. Payment Banks

- Accept restricted deposit (1,00,000), **FDI is allowed**, **atleast 26% investment of Indians**
- Can- services like ATM, debit card, net banking
- **Can NOT**- Lend, credit card, **NRI deposits**, **cross border remittance**, cannot form subsidiary to undertake non banking activities

#### INDIA POST PAYMENT BANK (IPPB)

- T.S.R. Subramaniam committee on postal network
- **Companies Act, 2013**
- **100% Equity** of DoPost (under MoCommunication)
- Who can open account- Age: **>10 years**, Zero balance a/c, Also current a/cs with post can be transferred to IPPB
- Initially- 1 post in each district(having license)>>>later ALL
- 3 types of accounts- 1. **SAFAL** 2. **Sugam** 3. **SARAL**
- **NO ATM** , but **QR based biometric cards**

#### E. Wholesale and Long Term Finance (WTLF) banks

- **Only** current account
- Fixed or Term deposits **only above 10 cr**
- Lending to:
  1. Infra projects
  2. Small, medium, corporate business
  3. Help PSL targets for banks (thr **PSL Certificates**)

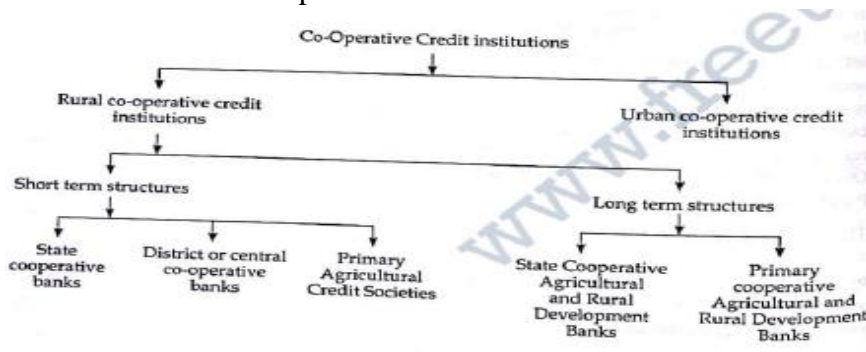
#### 7. COOPERATIVE BANKS

PARAMETER	COMMERCIAL BANKS	COOPERATIVE BANKS
<b>Banking regulation Act</b>	Yes (Regulated by RBI)	<b>Yes</b> (from 1966) (Regulated by RBI)
CRR and SLR	Yes	Yes
MSF, PSL	Yes	UCB- 40% (+ <b>10%</b> -minority + <b>7.5%</b> -micro enterprises)
Who can borrow	Anyone	<b>Only members</b>
Vote power	Shareholding	1 person 1 vote
Profit motive	Yes	No profit, No loss
Presence	All India, Abroad	GJ, MH, AP

- Set up: by **either State**(Coop Acts) or **Central law**(Multicoop)
- Regulation- **Banking Regulation act,1949** and Banking laws coop socities act,1965
- **UCB**- divided as sche and Non-sche (Regulated by **RBI**)
  - Deposits covered by **DICGCI** upto **Rs 1 lakh**



- **RCB**- Regulated jointly by **NABARD** (thus ultimately RBI)
- Financial and other help- RBI +centre + state + NABARD



- Hierachy: State cooperatives>>>District Banks(DCC)>>>Rural Coop
- 2017: Govt gave NABARD money to set up **Core Banking Solution** (CBS) between Rural and District Cooperative

## NON-BANKING FINANCIAL INSTITUTIONS

### 1. AIFI

A. EXIM B. NABARD C.NHB D.SIDBI

### 2. Primary Dealers

### 3. NBFC

## DEVELOPMENT FINANCIAL INSTITUTIONS (DFI)

- Which provided **Long-Term** finance for industries
- 3>>> 1. IDBI 2. ICICI 3. IFCI
- 1991>>>DFI abolished (**Narsimham Comm**) : place of DFI taken by AIFI
- **2020: FM** announced setting **Deveopment banks** that provide **long-term credit** for capital intensive investments spread over a long period

### 1. ALL INDIA FINANCIAL INSTITUTIONS- **All Regulated by RBI**

PARAMETER	EXIM	NABARD	NHB	SIDBI
Year	<b>1982</b>	<b>1982</b>	<b>1988</b>	<b>1990</b>
Role	Loan/credit/finance to exporters and importers	1. Rural Infra Dev Fund ( <b>RIFD</b> )>> banks deposit their PSL shortfalls 2. Indirect Refinancing of farmers	1. Finance to Banks and NBFCs for housing projects 2. <b>RESIDEX</b>	1. Small Enterprises Development Fund ( <b>SEDF</b> ): PSL shortfalls of Foreign Banks with <20 branches are deposited here
Boss	GoI (100%)	Earlier: 99.3% GoI + 0.7 RBI 2019: <b>GoI</b> (100%)	Earlier- RBI 2019: <b>GoI</b> (100%)	SBI +LIC +IDBI + other PSBs + Insu comp

Regulatory authority of		RRB + <b>Coop Banks</b>	Apex insti for Housing Finance	
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## 2. PRIMARY DEALERS

- Deal in “primary” market>>>directly buy G-Sec during RBI’s **E-Kuber platform** and sell it in **secondary market**
- Can **participate in OMO**
- Needs **license from RBI**
- Total PDs= 21>>>14 Banks + 7 Non Bank entites

## 3. NBFCs

- engaged in business of loans and advances, housing finance, acquisition of shares or securities of govt or marketable nature, but **NOT** having principle business as **agri** activities, **industrial** activity or **immovable** properties.
- Difference with banks:**
  - Can accept Time deposit but **not demand deposit**
  - NOT part of payment and settlement system** and cannot issue checks
  - Insurance coverage under DICG scheme is **not** available for NBFC deposits

PARAMETERS	BANKS	NBFC
Registration	Banking Regulation Act	<b>Companies Act, 1956</b>
Entry Capital	500 Cr	5 cr for microfin, 2cr for others; 200cr for reinsurer
Supervision	RBI	Various regulators
Deposits	Time and Demand Deposits	<b>Only Time deposits</b> (NBFC-D)
Chequebook	Yes, Payment Settle act, 2007	<b>NO</b>
Reserve Ratio	Yes- CRR and SLR	<b>No CRR,</b> But NBFC-D>>>SLR
Invest	NOT in Share market becoz lending to public	Can invest in share markets
Loan Rate	MCLR	Variable
Loan Recovery SARFAESI	Yes	Only House-fin

## 3 Broad categories:

- NBFC-ICC** (Investment and Credit Company)- merger of **AFCs**, **Investment Cos**, **Loan COs**
- Mutual Benefit Financial Company (**MBFCs**)
- NBFC- Factor**

## Classification according to Deposit

- NBFC-D (But **cannot accept NRI deposits except** deposit by debit to **NRO a/c**)
- NBFC- ND

a. NBFC-SD-SI (systematically imp: asset size>500cr)

### Systematically Important Non-Deposit Core Investment Company (**CIC-ND-SI**)

- Type of NBFC with Asset size> **100 Cr**
- Holds not less than **90%** of its net assets in the form of investment in **equity shares, preference shares, bonds, debentures, debt or loans in group companies.**
- accepts **public funds**
- Regulated by **RBI**

**NOTE-** Housing Finance Companies, Merchant Banking Companies, Stock Exchanges, Companies Venture Capital Fund Companies, Nidhi Companies, Insurance companies and Chit Fund Companies are all **NBFCs**

### MUDRA BANK

- Registered as **NBFC-ND** + estd as **Subsidiary** of SIDBI
- Earlier proposed to be regulator of MFI, but later>>> **RBI + Dept of Comp Affairs**
- refinance to **ALL banks under PMMY**
- Responsibilities-
  1. create good architecture of last mile credit delivery to microbusiness under PMMY
- priority to enterprise by **SC/ST, 1<sup>st</sup> generation** entrepreneurs, **existing small business**

### PMMY

- Main aim- provide funding to **NCSBS** (Non Corporate **Small** Business Segment)
- For providing **loan upto 10 lakh for non-corporate, non-farm MS enterprises**
- Loans By- 1. Commercial Banks (includes **Foreign Banks**) 2.RRBs 3.SFB 4.Coop 5.**MFI** 6.**NBFCs**
- Loans in 3 category
 

SHISHU	Upto 50,000, no collateral	1%int	5years
KISHOR	Upto 5,00,000		
TARUN	Upto 10 lakh		
- Implemented by- **Dept of Financial Services** (also impl PMJDY, Atal Pension, PM Jeevan Jyoti, Suraksha Beema)

### SHADOW BANKS

- functions like banks but **NO stringent regulations like banks>> lacks transparency**
- Have higher cost of funding>> But takes more risk>> thus **Higher returns**
- **Not depository insti>> thus cannot create money**
- Liabilities of shadow banks **NOT** insured + **NO** access to liquidity from RBI
- E.g.- NBFCs, CIF

### VARIOUS COMMITTEES

1. **Narasimham Committee** (1991 And 1998)

### Recomm 1991

1. No more nationalization
2. reduce SLR and CRR
3. level playing field betn public, pvt and foreign bank
4. select few banks for global operations
5. deregulate int rate
6. Asset Reconstru Comp (ARC) for bad loans
7. prudential norms for risk mana
8. rationalize and better target Priority sector lending

### 2. P. J. Nayak Committee

- Committee for Review of Governance of Boards of Bank
- Recomm (for Both public and pvt banks)-
  1. repeal laws- Bank nationalizn act (1970,1980), sbi act
  2. Bank Investment Comp (BIC)- A. under CA,2013 as 'core investment comp'  
B. transfer shares of PSB to BIC and bank as subsidia.  
of BIC

why?- 1. BIC will have voting powers to appoint BoD 2. Autonomy to banks  
3. Bank appointments in PSBs- PHASE I- BBB PHASE II- BIC to take over process  
PHASE III- power to PSB's boards  
4. fixed tenure of 5 years to chairman/MD of bank and of 3 year to Whole time director

### 3. BASEL NORMS aka basel accords

- Set of recomm for regulation for banks and Systematically Imp FI (SIFI)
- Issued by Basel Committee on Banking Supervision (BCBS)
- Aim- bank have enough capital to meet their obligation, absorb unexpected losses

#### BASEL III

- Introduced in 2013, adopted till 2019
- Covers following risks
  1. CREDIT RISK- bank to measure credit risk and hold suffi capital to cover it
  2. MARKET RISK – SLR of banks>>>>risk of market fluctuation (except G-sec)
  3. OPERATIONAL RISK- fraud, security, privacy risk, physical or envi risk

### 2 components of BASEL III

#### A. Capital- consist of 3 pillar

##### 1. Capital, risk coverage and containing leverage-

- CRAR=8% + additional capital conservation buffer of 2.5% (to use during financial stress)
- Counter Cyclical Capital Buffer- Additional capital requirement during financial boom to prevent unhealthy credit expansion

- **Leverage ratio**= capital measure / exposure measure  
(to accommodate some unusual exposure)

## 2. Risk management and supervision

- Banks- to have internal assessment process
- Central bank- review process

## 3. Market Discipline

- Disclosure of capital adequacy, risk exposure, risk assessment procedure

## **B. Liquidity**- 2 key principles

### 1. **Liquidity coverage ratio**-

- stock of High Quality Liquid Asset (**HQLA**) to **withstand liquidity crisis for 30 days**

### 2. **Net Stable Funding Ratio** (NSFR)-

- ratio between required stable funding and available stable funding
- to **avoid practice of creating long term assets while getting short term fund**

## CAPITAL ADEQUACY NORMS OR CRAR(CAPITAL TO RISK ASSET RATIO)

- Percentage of bank's risk weighted credit exposure
- RBI- mandated 9% CAR (int norm- 8%)
- **G-sec are subtracted** from total assets to calculate CAR (as gsec are risk free)
- India and CAR- Indradhanush scheme:recapitalize banks to help them to comply basel III norms by March 2019 (as banks not able to generate profit and equity raising is difficult)

## VARIOUS ACTS AND STEPS TAKEN

### 1. SARFAESI Act

- Applies on **>10lakh**
- Empowered bank to
  1. take possession of borrower's asset, sell it (amend 2011- if no buyer, bank itself can purchase)
  2. change management of those asset
  3. if already sold by borrower, ask that 3rd party to **surrender** it
  4. bu CANNOT take personal assets or agricultural land
- Appeal by borrower- in Debt Recovery Tribunal (**DRT**) (not in CIVIL COURT). If not satisfied, then-**DRAT**(Appealate) (Condition-pay **50 %** of pending loan money)

## 2. Insolvency and Bankruptcy Code (IBC)

(only special facts are mentioned here. Read IBC from evernote)

- Who can initiate- financial creditor, operational c, corporate debtor, employees, shareholders
- Committee of Creditors- of **Financial creditors**
- For firm with smaller operation- fast track IRP- **90 days** -can be extended with consent of 75% of financial creditor
- Liquidation process- administered by IP
- Workers salaries upto 24 will get priority in case of company (even ahead of secured creditors)
- NCLT- Companies and **LLP**                      DRT- **Individuals and Partnership firms**

## 3. Asset Quality Review (AQR)

- 2015-16 special inspection to check if classification of asset is according to prudential norms or not
- Impact- banks classified AQR-identified a/c(stressed asset) into NPA

## 4. Prompt Corrective Action (PCA)

- Allows regulator (RBI) to place certain restriction on banks
- Invoked when following risk threshold are breached:  
1. Asset Quality (net NPA)      2.Profitability (RoA)      3.Capital (CRAR)  
4<sup>th</sup> parameter added: **Leverage ratio**
- Trigger point: **CRAR- 9%, Net NPA: 10%, RoA: 0.25%**
- **PCA not applicable to Cooperative Banks, NBFCs, FMIs**
  - For **Coop Banks- Supervisory Action Framework (SAF)** on lines of PCA
- Currently- only **6 banks (all PSBs)**
- Corrective actions allowed:  
Halt banking expansion, stop dividend payment, cap lending limit, special audit, restructure operation, recovery plan, bring new management, supersede bank's board
- **PCA for RRBs- by NABARD (2018)(RBI's PCA not applicable to RRB and NBFC)**

## 5. Strategic Debt Restructuring (SDR)

- Change in ownership as part of restructuring of asset

## 6. Stress Test

- Analysis showing ability of bank to deal with eco or financial crisis. Done by RBI

## 7. Asset Reconstruction Company (ARC)

- System for recovery of NPA from books of secured lenders and unlocking value of NPA
- **License: RBI. ARC empowered by SARFAESI act,2002**

- Functions:
  1. Acquisition of financial assets
  2. change or takeover of management
  3. rescheduling of debts
  4. enforcement of security interest
  5. settlement of dues by borrower
  6. amend 2011- **covert debt in equity**

From where ARC arrange money?>>> **Security Receipts**>>> only **QIB** can buy (e.g.- Scheduled banks, FII, Mutual Funds, Venture capital, Insurance comp, PF)
- **100% FDI** allowed in automatic route

#### 8. Sustainable Structuring of Stressed Asset (S4A)

- 3 conditions
  1. Project- operating and generating revenue
  2. Total loan > 500 cr
  3. 50% of loan- sustainable

#### 9. Indradhanush Schemes



- Appointment- bring executives from pvt sector
- Empowerment- autonomy and flexibility
- Framework for a/c- Key Performance indicators
- BBB- professionalize and depolitize appointment process

#### 10. FDI in Banks

- **PSB- 20%**
- Pvt banks – **74%** (upto 49% automatic, beyond that- approval)



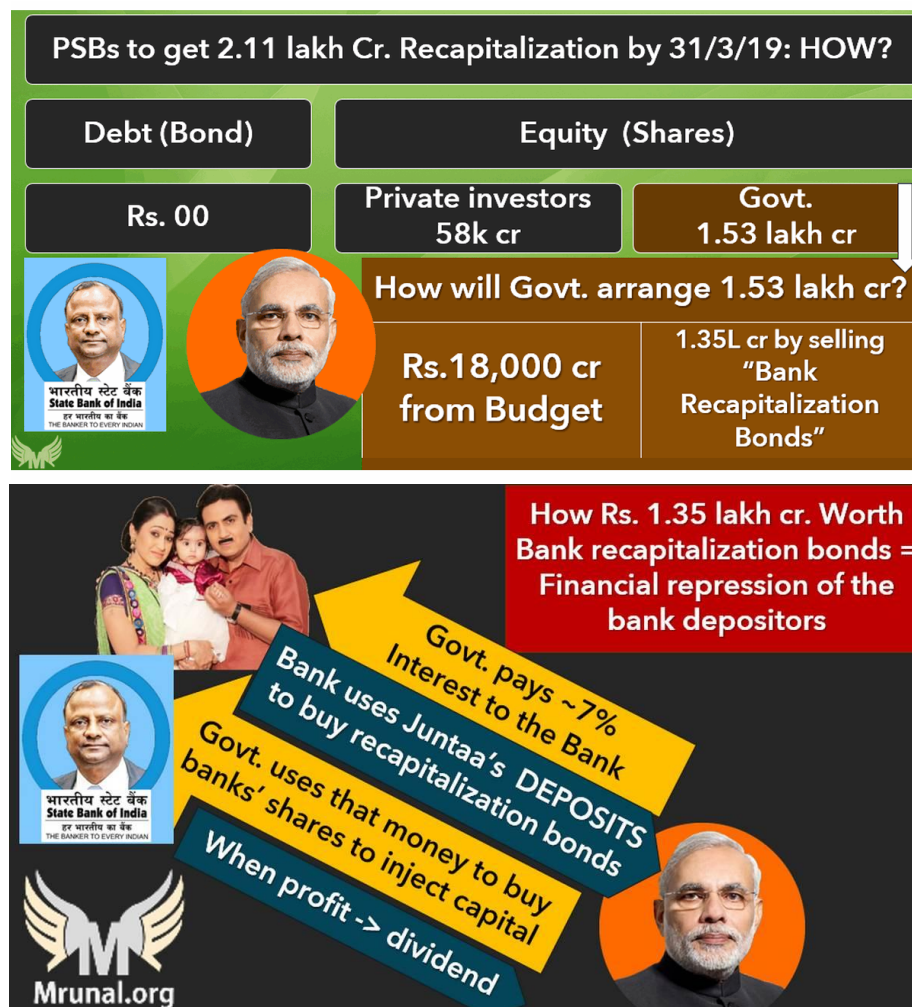
- Voting rights capped at 10% for national interest

## 11. Public Sector Asset Rehabilitation Agency (Bad bank)

- Survey 2017, (successful in east Asian countries)
- **Special Purpose Vehicle (SPV)**
- Funding: 1. Govt Bonds 2. Shares 3. disinvestment money of psu 4. 'windfall gain' of rbi from demonitization
- Govt share- **not more than 49%**
- Debt >>> equity

## 12. Recapitalization

- How recapitalization?



## SOME CONCEPTS

### 1. Bad Loans



- Standard asset – performing Asset
- Substandard asset or NPA – **neither** paid **interest nor principal** for specified period

Special Mention Account>>Substandard >>> DA1>>> DA2>>> DA3

(90 days) (SMA<12 month) (after 1 yr) (1-3 year) (beyond 3 yr)

- **Stressed asset**- asset showing weakness and likely to become NPA (**but** classified as **Standard assets**), RBI allows restructuring
- Types of NPA
  1. overdraft and cash credit a/c left out of order for more than 90 days
  2. Agri advances- overdue for: 2 crop season for short duration crop, 1 for long
  3. Bill overdue >90 days
  4. Expected payment>>overdue for more than 90 days
  5. Non submission of **stock statement** for **3 consecutive quarters** for cash-credit facility

## 2. Foreclosure and Securitization

- Foreclosure- **taking over** by lender of mortgaged **property**
- Securitization- pooling a group of assets (loans or mortgages) and selling securities backed by these assets

## 3. Prudential Norms

- Two primary purpose
  1. show true position of bank's loan portfolio
  2. Prevent deterioration of portfolio
- Relates to
  1. **income recognition**
  2. **Asset classification**
  3. **Provisioning for NPA**
  4. **Capital adequacy norms (CRAR)**

## 4. Write-Off, Write Down, Haircut

- **Write-off**: done automatically once asset crosses DA3 class>> NPA that cannot be recovered w/o recovery process>>> public money defaulted has been replaced by bank with their own capital money
- **Haircut**- capital adequacy measure>>asset value is brought down as it cannot be realized in full
- **Write down**- lender decide to partially write off the loan

## 5. Priority Sector Lending (PSL)

- Categories
  - (i) Agriculture
  - (ii) Micro, Small and Medium Enterprises
  - (iii) Export Credit
  - (iv) Education
  - (v) **Affordable Housing** (not more than 10 lakh)

- (vi) Social Infrastructure
- (vii) **Renewable Energy** (upto 15 crores) (hydro projects <25 GW)
- (viii) Others (road & water transport, retail trade)
- Weaker section: +distressed farmers debted by non insti creditors + **overdraft JanDhan a/c <10,000** , + distressed persons indebted to non-insti credit upto 10 lakh

- Targets

Domestic Scheduled Commercial Banks	40 % of ANBC
Regional Rural Banks	75 %
Foreign banks	<b>36%</b>

- Sub-Targets to Scheduled CB

CATEGORY	SUBTARGET
1. Agriculture	18%
2. Micro enterprise	<b>7.5%</b>
3. Advances to weaker section	10% (or 25% of psl whichever is higher)

- Any shortfall in PSL target>>>deposit @ NABARD's Rural Infra Dev Fund  
NABARD>>>give this amt to state govt for rural dev activities

## CHAPTER 12

- Not everyone who pays tax, files a return e.g.- TDS (**aka Withholding Tax**)  
Not everyone who files a return, pays a tax

TAX	Charged on individuals, wealth and sales (mostly on VALUE)
DUTY	Charged on GOODS (mostly on VOLUME)
CESS	Tax additionally levied as % of existing tax amount (for SPECIFIC purpose)- <b>both</b> by centre and states <b>Article 271- By Parliament for Purpose of Union</b>
SURCHARGE	Tax additionally levied as % of existing tax amount (WITHOUT SPECIFIC purpose)

## PERSONAL INCOME TAX

- On personal income, Hindu Undivided family, **partnership firm**

## CORPORATE TAX-

- On company's **Profit Income**

## MINIMUM ALTERNATIVE TAX (MAT)

- In 1996
- 18.5% flat on 'book profits'
- In case when total income of company after all tax deduction is less than 30% of book profits

- If same kind of tax on commercial entities OTHER THAN companies (e.g.-LLP, partnership firms) – known as ALTERNATIVE MINIMUM TAX

#### TOBIN TAX-

- Tax on all foreign exchange transactions
- Levied **twice**- (when acquires forex and when sells it)

#### SECURITIES TRANSACTION TAX IN INDIA

- **Direct tax levied on every purchase and sale of securities** (**excluding** commodities and currency as well as off-market transaction + **G-sec**, bond debentures + MF other than equity oriented + gold ex traded funds + Preference shares)
- **Collected by stock exchange** on behalf of GoI

#### PIGOVIAN TAX

- Tax on transaction that have **negative externality**

#### WITHHOLDING TAX

- Withholding a tax from certain payments including interests, **Salaries paid to employees**, etc at time of making the payment (thus same as TDS)

#### DIVIDEND DISTRIBUTION TAX (DDT)

- Companies giving dividend have to pay tax on amount distributed as dividend
- 10 % from 2016 (though income from dividend is tax free)

#### FRINGE BENEFIT TAX

- Tax that **employer** has to pay in lieu of **benefits given to employees** (e.g.- Transport, etc)

#### CAPITAL GAINS TAX

- Tax on gains from buying and selling of asset
- If >3 years>>>>long term gain tax

#### AD VALOREM

- “according to worth”
- Tax levied on **basis of value of goods** irrespective of their size or units

#### NEGATIVE INCOME TAX

- **Income subsidies** are given to persons that are BPL

#### TAX ELASTICITY

- Percentage change in tax revenue in response to **change in tax rate** and extension of coverage

- Proportionate change in tax revenue **without any discretionary** change relative to GDP

#### TAX BUOYANCY

- Actual/observed Change in tax revenue related to GDP

#### TAX EXPENDITURE

- Revenue forgone as result of exemptions and concessions

#### TAX SHELTER

- Way in which one can **legally reduce tax** (by investing incomes in king if investment)

#### IMPACT AND INCIDENCE OF TAX

- Impact of tax- First point of contact (on whom tax is imposed)
- Incidence of tax – burden on tax

#### INVERTED DUTY STRUCTURE

- Higher import duty on raw material and intermediate good than final product
- Probable reason- FTA>>>lower duty on final goods from FTA partner rather than raw material from non FTA partner

#### GOODS AND SERVICES TAX

- Exports **not** subjected to gst
- **Revenue Neutral Rate**- rate of GST at which amount of taxes collected before and after GST remains the same
- **Rate Fitment Process**- by GSTC by which class of goods is place in particular tax slab
- Article 246A- **parallel powers** of **centre and state to make laws** on taxation of G&S
- Exemptions- petroleum crude, high speed diesel, motor spirit(petrol), natural gas, ATF
- **Cross empowerment**- enables taxpayers to **restrict their interactions with single tax authority** for CGST, SGST, IGST
- Anti profiteering clause in GST- Section 171 of CGST act (and corresponding provision of SGST act)
- Composition scheme-
  - for small business(turn over >**1.5 cr**)- now also applicable to **small service provider** (with turnover upto 50 lakh in preceding year)
  - **Quarterly payment** of taxesNot eligible- ice cream, tobacco, pan masala, inter-state trade, supply thr e-commerce operator
- HSN code (Harmonized System of Nomenclature)- six digit code that classifies products and used for taxing purposes to identify rate of tax applicable to product (developed by **World Customs Organisation**)

## TAX AMNESTY SCHEMES

### INCOME DISCLOSURE SCHEME 2016

- Part of union budget 2016
- Penalty-45%

### PM GARIB KALYAN YOJANA

- Part of Taxation laws (second amendment), 2016- pay 50% tax, additional 25% is invested in scheme which is refunded after 4 year w/o interest
- Declare income only in cash or bank deposit, not in any other form

## BASE EROSION AND PROFIT SHIFTING

- Tax planning strategies that exploits gaps and mismatches in tax rules to artificially shift profits to tax heavens where there is no economic activities of corporation
- Erodes competitiveness of domestic firms (as MNCs get added advantage)
- **OECD BEPS project- 2015-G20 antalya summit-78 countries (includes India)**
  - **Country by country report:** MNCs have to submit to every country about revenue, profit earned in country

## TRANSFER PRICING AND APA

- Setting of price for G&S sold between related legal entities within an enterprise
- **Indian transfer pricing code**- prescribes that such transactions be computed as per **Arm Length Price** (what price the transaction would have in open market)
- Advanced Pricing Agreement (APA)- between taxpayer and tax authority on pricing of an existing or proposed transaction between related parties. (agreement **valid for 5 years**)

## DOUBLE TAXATION AVOIDANCE AGREEMENT (DTAA)

- Tax treaty between two or more countries to avoid taxpayer being taxed twice for same income
- Typically where taxpayer resides in one country and earns income in other
- Though encourage investment, but leads to **Round Tripping** and **Treaty Shopping**

### ROUND TRIPPING

- Indian money goes out and returns thr DTAA countries to avoid taxes
- **'mailbox company'**-comp which is **neither Indian nor DTAA country**, but of 3<sup>rd</sup> countries which diverts its investment in India thr DTAA country to avoid taxes

### TREATY SHOPPING

- Inappropriate use of tax treaties by resident of 3<sup>rd</sup> country

## INDIA-MAURITIUS PROTOCOL 2016

- Amended DTAA I-M 1982 (which will also change DTAA I-singapore )
- India allowed to tax capital gains in India for investments from Mauritius from 2017
- Investment before 2017- grandfathered 2017-2019: 50% of tax (subjected to LoB)  
from 2019- full tax

#### LIMITATION OF BENEFIT (LoB)

- Limits treaty benefit to those who meets certain conditions (to exclude treaty shopping, round tripping, 'tax residents')

#### PLACE OF EFFECTIVE MANAGEMENT (POEM)

- By **finance act, 2015**
- If comp's POEM is India>>>will be treated as Indian citizen and its **Global Income** will be charged by Indian taxation
- This to target shell companies set to retain income outside India though having effective control and mana in India

#### GENERAL ANTI AVOIDANCE RULES (GAAR)

- Allowing tax authority to **deny tax benefits** if the **deal** is found **without any commercial** purpose other than tax avoidance
- **Indian rule**- Based on 'look through' rather than 'look at'
- Applies to investment **after march 2017** and **claiming tax benefit over 3 crore**
- Proposal to apply GAAR- first vetted by **Principal commissioner(IT)** then by approving **panel headed by Judge of HC**

#### TAX INFORMATION EXCHANGE AGREEMENT (TIEA)

- To promote international coop in tax matters thr info sharing

#### CONVENTION ON MUTUAL ADMINISTRATIVE ASSISTANCE IN TAX MATTERS (**MAC**)

- Convention facilitating entering into bilateral tax info exchange agree between state parties
- Devopled by **OECD** and **Council of Europe**, entered in force in **1995**
- **India joined in 2012**

### CHAPTER 13

#### TYPES OF PUBLIC SECTOR

SR NO	TYPE	SET UP	FINANCE	EXAMPLE
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1.	Departmental Undertaking (for specially defined function)	<b>Executive action</b>	Annual budget	Railway Postal dept
2.	Statutory corporation (for eco and mfg activities)	Statutory	Own revenues	ONGC, IOC
3.	Control boards	To manage govt projects e.g.- river valley projects		
4.	Govt Companies	51% govt holding, companies act, 2013		
5.	Cooperative	To support coop movement, 65% capital by centre e.g.- IFFCO		

## INDUSTRIES RESERVED ONLY FOR PSU

1. Atomic Energy
2. Minerals specified in schedule to Atomic Energy (control of production and use) order, 1953
3. Railway passenger transport

## DISINVESTMENT

- Sale of shares of govt to retail public or employees or mutual fund or FII
- **No change in management** because govt will hold >51% (even if less, the shares will be so distributed that none of investor in position to take over management)

## PRIVATIZATION OR STRATEGIC SALE

- Govt sells chunk of equity to single buyer- 26% or 51% or more -to whom management is also handed over

## CORPORATIZATION

- Govt units are reorganized along business lines.
- Pay taxes, raise capital from market (with no govt support), operate on commercial principle

## PRICES OF PSE'S SHARE

- Done by **Discounted Cash Flow (DCF) model**
- DCF- method of valuing a business today on **stream of its future profits** or cash flows.

## STRATEGIC PSE

1. arms and ammunitions, defence equipment, defence aircraft and warships
2. atomic energy
3. railway transport

## BUYBACK OF SHARES

- Corporate action in which a company buys back its shares from EXISTING shareholders usually at price **higher than market price**
- Reduces no. of shares in outstanding market, increase proportion of shares comp owns in % terms
- Reasons
  1. additional exit route for shareholders in undervalued shares
  2. Enhance consolidation of stakes in comp
  3. Support sluggish share price
  4. Return surplus cash to shareholder
  5. Increase earning per shares

## CROSS HOLDING

- State owned companies buy back shares of one another in bulk, so that they can guide each other and work with common purpose

## EXCHANGE TRADED FUND

- Type of fund that owns underlying assets and is divided into different shares. It is marketable security that contains a slice of cumulated shres/bonds /commodities that are sliced into diff shares. These shares >>>listed on stock exchange and traded
- Tool for disinvestment in PSEs as no. of PSEs are disinvested in ETF
- Avoids cumbersome exercise of several IPOs for separate PSEs
- Managed by- **ICICI MF**

## BHARAT-22

- Advanced stage of ETF (which has 10 constituents), contains 22 stocks from 6 sectors
- First ETF in India- **Nifty BeEs** (Nifty Benchmark Exchange Traded Scheme), **2002**
- Thus more diversified, single comp cap- 15%, sectoral cap-22%
- Has holding of 19 CPSE, govt banks, SUUTI, as well as some pvt secto blue chip companies

## METHODS OF DISINVESTMENT OF MINORITY STAKES IN CPSEs

METHOD	PROCESS
Initial Public Offering (IPO)	Offer of shres by unlisted CPSE or govt or combo of both to public for subscription for first time
Further Public Offering (FPO)	----ll----- (listed)-----ll-----for subscription
Offer of sale	Thr stock exchange mechanism
Strategic sale	Sale upto 50% or more with management transfer
Institutional Placement Programme (IPP)	Only institutions can participate in offering
CPSE ETF	Simultaneous sale of stakes in diff CPSE's across diverse sectors
Cross holding	Buyback each others share

## USE OF DISINVESTMENT FUND



- Proceeds credited to National Investment Fund (NIF)
- Use-
  1. subscribe share in CPSE so as govt stakes not fall below 51%
  2. recapitalization of PSBs
  3. Invest in RRB/NABARD/EXIM
  4. equity infusion in metro projects
  5. invest in railways towards capital expenditure

#### MINIRATNA

- TYPE I- profit continuously in last 3 yrs + 30 cr or more in one of 3 year autonomy in capital expenditure- 500 cr or net worth
- TYPE II – profit last 3 yrs + positive net worth autonomy- 300 cr or 50% of net worth

#### NAVRATNA

- 1997
- Parameters
  1. net profit to net worth
  2. total manpower cost
  3. Earning per share (eps)
  4. inter sectoral performance
  5. must be miniratna first
  6. 4 independent directors
- Freedom to-1 joint ventures 2. Set up subsidiary abroad 3. enter in tech or strategic alliance 4. operational and managerial autonomy 5. raise fund from capital market(domestic and int) 6. Invest upto rs 1000cr or 15% net worth w/o permission

#### MAHARATNA

- 2010
- Parameters
  1. have navaratna status
  2. avg annual turnover over last 3yr- 25,000cr
  3. avg annual net worth over last 3yr – 15,000cr
  4. avg annual net profit over last 3 yr- 5,000 cr
  5. significant global presence
- Powers- additional powers in investment in joint ventures, subsidiaris. HRD, invest upto 5,000 cr in one project

#### ARJUN SENGUPTA COMMITTEE 2004

- On empowerment of PSE
- Recommendations:
  1. greater autonomy
  2. Truly ind boards
  3. Ministries not to interfere (make management a/c to board, not ministry)
  4. Govt to be given flexibility to diverse its

stake in pse- no parlia approval if stake remains above 51%      5. CAG audit- should be on exception , not on rule      6. Article 12

## MOU

- Freely negotiated agreement between public enterprise and administrative ministry
- Under agreement>>>enterprise undertake to achieve target set in agree in beginning of year
- Why- there was no clarity of goals, multi-point a/c, absence of functional autonomy
- NITI aayog tasked to identify CPSE for strategic sales

## DIPAM

- Dept of Investment and Public Asset Management (under **MoFinance**)
- Deals with all matters relating to sale to central govt equity thr offer for sale or pvt placement or any other mode in CPSE
- Individual ministries consult dipam on **call option matters**(buying more share of same unit by one who already bought majority stakes)(but decision by ministries)
- **DIPAM** – identify PSEs in consultation with ministries for equity sale
- **2020: New Disinvestment Policy: DIPAM and NITI Aayog** will **jointly** identify PSEs for **strategic sales** – **DIPAM** act as **nodal dept** for strategic sale
  - DIPAM Secreatary to **co-chair** inter minister group on disinvestment along with secretary of concerned mnistry

## PURCHASE PREFERENCE POLICY

- Govt gives PP in supply of G&S to govt dept, auto bodies or PSE if price quoted by CPSE is **within 10% of lowest bid price**

## CHAPTER 2

- Indicative planning- in mixed economy where state and market play significant role to achieve targets for growth that they together set

## BOMBAY PLAN

- 8 elites- Thakurdas, Tata, Birla, Lala Shriram, Kasturbhai Lalbhai, AD Shroff, Ardeshir Dalal, John Mathai
- Double per capita and triple national income in 15 years
- Saw future progress based on expansion of textile and other consumer industries
- Economy couldn't grow w/o govt intervention – provide infra, invest in basic ind, protect domestic ind from competition
- Objectives- doubling agri output and 5fold growth in industrial sector

## ARDESHIR DALAL

- British set up "planning and dev dept" under his chair in 1944 (abolished in 1946)

## M. VISVESVARAYYA

- "planned economy for India" (1934)
- Poverty eradication thr growth

## NATIONAL PLANNING COMMITTEE

- Set up by Bose, chaired by Nehru
- Objective of planning- adequate std of living (eradicate poverty)
- Redistri of land, dev of heavy industry

## PEOPLE'S PLAN

- M. N. Roy – Indian Federation of Labour
- Stressed on nationalization,

## SHRIMAN NARAYAN AGRAWAL

- GANDHIAN PLAN- decentralization, agri dev, emp, cottage ind

## SARVODAYA PLAN

- 1950 by J.P.
- Freedom from foreign tech, land reforms, decentralizn, agri & small scale ind

## ECONOMIC PROGRAM COMMITTEE

- 1947- Nehru
- Recommended formation of PLANNING COMMISSION

## PLANNING GOALS

1. Growth 2. Modernization 3. Self Reliance 4. Equity(SJ)

## FYPs

PLAN	AIM	OTHER
1 <sup>st</sup> FYP (1951-56)	Poverty Allevation	K.N. Raj
2 <sup>nd</sup> FYP (1956-61)	Heavy and basic industry, self reliance	Nehru- Mahalanobis model
3 <sup>rd</sup> FYP (1961-66)	Balance industry and agri., estd self sustaining economy	Rupee devalued for first time in 1966. Borrowing from IMF

Annual plans- 67, 68, 69		Plan holiday
4 <sup>th</sup> FYP (1969-74)	Growth with stability	1. improve condition of under privileged thr employ & edu 2.reduce fluctuation in agri o/p.
5 <sup>th</sup> FYP (1974-79)	Growth with Social Justice	
	Plan gap- 1979-80	
6 <sup>th</sup> FYP (1980-85)	Removal of Poverty	Infrastructure
7 <sup>th</sup> FYP (1985-90)	Rapid growth in food grain prod. Increase in employment opportunity	Beginning of liberalization
	Plan holiday 1990-1992	Eco crisis
8 <sup>th</sup> FYP (1992-97)	Stabilize BoP, improve trade and CAD, human dev	First INDICATIVE PLAN- transition from centrally planned to market economy
9 <sup>th</sup> FYP (1997-2002)	Annual growth @ 6.5%	Push savings, investment
10 <sup>th</sup> FYP (2002-07)	1. attain 8% GDP    2. Reduce poverty by 5% by 2007 3. gainful & high quality emply    4. Gender gap in lit and wage	
11 <sup>th</sup> FYP (2007-12)	Towards faster and more Inclusive Growth	Agri, edu, infra Poverty, employ, lit, health
12 <sup>th</sup> FYP (2012-17)	Growth @8%	

NOTE- growth during FYPs did NOT steadily increased

#### NEHRU MAHALNOBIS MODEL

- Based on predominance of basic industry
- Trickle down- employ, poverty, exports thr basic industries
- IMPORT SUBSTITUTION-reduce reliance on foreign capital and goods
- Public sector
- Small sector- consumer goods production

#### ROLLING PLAN

- Flexible planning, though annual targets- but not rigid

#### RAO-MANMOHAN SINGH MODEL OF GROWTH

- Reorient role of state- focus on social & infra dev
- Open economy and create competition
- External sector liberalization- intergrate Indian economy with global

#### INDICATIVE PLANNING

- Govt will 'indicate', NOT direct policy direction to corporate sector and encourage them to contribute to plan targets
- IP- assist private sector with information that is essential for operations regarding priorities and plan targets
- Thrust of policy- to PLAN, not to PROVIDE
- Gradual withdrawal of public sector

#### FINANCIAL AND PHYSICAL PLANNING

- Financial planning- physical targets are set in line with available financial resources
- Physical planning- output targets are prioritized, then finances are raised

#### ECONOMIC REFORMS

- Two measures:
  1. stabilizing measures- BoP, Inflation
  2. Structural measures- improving efficiency of economy, increase international competitiveness
- Targeted on:
  1. Deregulation of industrial sector- licence raj, dereservation, disinvestment, professionalization of management
  2. Financial sector reforms- deregulated banking sector, stock exchange, forex markets, reduce role of RBI
  3. Trade and investment reforms- dismantling quantitative restriction, reduce tariff, abolition of import licensing, removal of export duties
  4. deregulation of currency- free-floating, convertability, FDI & FII
  5. Tax reforms(fiscal policy) – direct and corporate taxes, indirect taxes
- Goal- REFORM WITH HUMAN FACE

#### SECOND GENERATION REFORMS

- 1<sup>st</sup> generation reforms- Non legislative, broad based, not directly related to daily lives  
e.g.- SLR, CRR, Disinvestment
- 2<sup>nd</sup> generation reforms- Legislative reforms, directly related to daily lives, more complex, more prone to protest  
e.g.- GST, Labour and trade union reforms, Pension reforms, deregulation of petrol and diesel

## INDIA @75

- Mooted by C. K. Pralhad
- 3 dimensions- economic strength, technological vitality, moral leadership
- Adopted by Confederation of Indian Industry (CII) in 2008

## IBIN (India Backbone Implementation Network)

- Planning Commission + India@75
- To remove bottlenecks for improving implementation of policies
- Confusion>>coordination, Contention>>>Collaboration, Intention>>>implementation
- Based on TQM model in Japan

## NITI AAYOG

- Nodal body to bring in action 17 SDG
- Replacement of FYP
  1. 15 years Vision Document- social goals set/proposed for 15 years+ combines with SDGs
  2. 7 years Strategy document- to convert longer term vision into implementable policy and action as a part of “National Developmental Agenda”
  3. 3 years Action Agenda

### A. Reforms in Agriculture-

1. Model Land Leasing Law- recognize right of tenants, safeguard interest of landowner
2. Reforms in APMC act
3. Agricultural Marketing and Farmer Friendly Reform Index (AMFFRI) – ranking states as per reforms taken in 3 categories:
  - a) Agriculture Market Reforms
  - b) Land Leasing Reforms
  - c) Forestry on Private Land

### B. Reform in Medical education-

Draft legislation for NMC to replace MCI

### C. Digital payments Movement

1. committee of CMs on digital payments
2. Lucky gharak yojana and Digi dhan vyapar yajana
3. Digi dhan mela in 100 cities for 100 days

### D. Atal Innovation Mission (AIM)- strengthen innovation and entrepreneur ecosystem

1. Atal Tinkering Labs (ATL)-creativity and scientific temper
2. Atal Incubation Centres (AIC)

E. subgroup of CMs on rationalization of centrally sponsored schemes- rationalization of existing CSSs into 28 umbrella schemes

Subgroup on SBA

Subgroup on Skill Development

F. Task force on elimination of poverty- issue of measurement and strategies to combat poverty

G. Task force on Agri Dev- 5 critical areas: 1. Raising productivity 2. Remunerative prices to farmers 3. Land leasing, titles, records 4. 2<sup>nd</sup> GR-focus on E. STATES 5. Respond to farmers distress/.

## SERVICE SECTOR

1. Traditional services- wholesale and retail trade, hotels and restaurants, transport and storage
2. Modern services- communication, financial services, real estate, software services
3. Social services- pub ad and defence, community, social and personal services

- Traditional and social services- non-tradable      modern services- internationally tradable
- Traditional and modern service- mostly private      social service- public
- Modern and social services- organized sector & high skill  
traditional services- unorganized & low skill

## MONEY MARKET

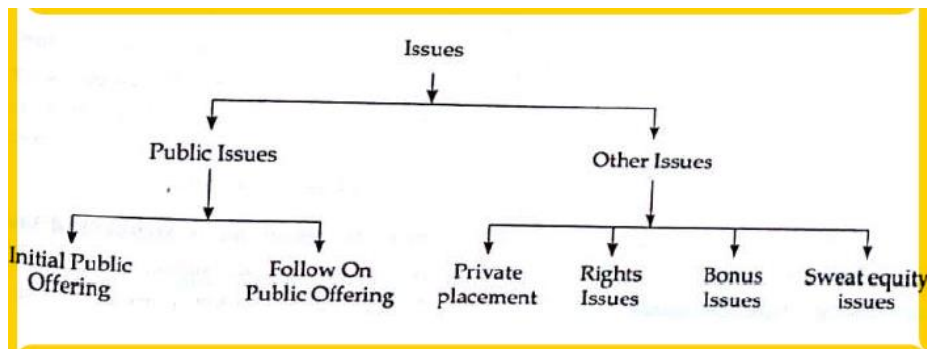
Shares, Debentures and Debt instruments

- Diff betn **Share and Debt instrument:**
  - **Share-** holder have share in capital and profit
  - **Debt instrument-** regardless of profit/loss, this receives interest payment
- Diff betn **bond and debenture**
  - **Bonds-** unsecured, thus No surety
  - **Debentures- Secured**
- Types of shares:
  - **Equity shares-** holder have claim over capital, profit and loss
  - **Preference shares-** holder entitled to **fixed** amount of dividend like that of interest on bonds (regardless of earnings of company) + preferential right to get capital back in case of winding up of company + **No voting rights** + **dividend is**

**payable** after all other payments are made, but **before a dividend is declared to equity shareholders**

### Securities Market

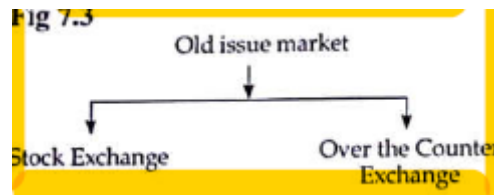
- Types:
  - **New/Primary securities market-** sale/purchase of fresh sec
  - **Old/Secondary securities market-**
- Both market regulated by **SEBI**
- New Issue market: issues of securities in this market are classified as:



- **Issue Process:**
  - **Authorised capital-** maximum amount authorized by Memorandum of Association (MoA) of company that can be raised by company
  - **Issued capital-** Actual amount issued by issuer
  - **Subscribed capital** – Actual amount subscribed by investors
  - **Underwriter** – financial intermediary who agrees to purchase the unsubscribed portion of issued capital
  - **Called up Capital** – amount of money demanded (called) from subscriber by issuer
  - **Paid up capital-** amount of money actually paid by subscribers when money is demanded by issuer
  - **Reserve capital-** uncalled portion of money left undemanded by issuer as a future reserve
- **Private Placement-** offering shares directly to FIs, MFs and Qualified Institutional Buyers (QIB)
  - **QIB=** MF, FIs, Commercial Banks, Insurance Comp, PFs,
- **Rights Issue** – offer of security to **existing** shareholders in FPO
- **Bonus Issue** – offer of shares against distributed profit to existing shareholders
  - Aka **Scrip issue** or **Capitalization issue**
- **Sweat Equity Issue** – offer of shares to employees or directors of company as recognition of hard labour



## Old Issue market



- **Over the Counter Trade-** platform for trading in securities that are **not listed** on recognized stock exchange

## Depositories

- Institutions which keep securities of investors in **demat (dematerialized)** form
- Currently 2 in India: NSDL (National Security Depositories Lmt) and CDSL (Central Depositories Service Lmt)- under **Depositories Act, 1996**