

AKS IAS[®]

Foundation For Competitive Exams




REVISE
PT

Prelims
2022

Indian Economy



 www.aksias.com

 8448449709



AKSIAS

UPSC CSE



Prelims cum Mains Comprehensive Guidance

INNOVATIVE & INTERACTIVE COURSES

CONQUER
PRELIMS

MAINS
MAXIMIZER

INTERVIEW
MENTORSHIP



Quick Revision



Test Series



Value Addition

www.aksias.com

Our Achievements



2013
20+

2014
25+

2015
35+

2016
40+

2017
45+

2018
50+

2019
55+

2020
60+

**Concept-based Notes on
 Indian Economy**

Contents

Agriculture and Food Management	3
Minimum Support Price	3
Fair and Remunerative Price (FRP).....	3
Industry & Trade	4
Participatory Notes (P-notes).....	4
Import Cover	4
Index of Eight Core Industries	4
Balance of Payment (BOP) & Balance of Trade	5
Balance of Payment	5
Causes of Disequilibrium in the BoP	6
Measures to Correct Disequilibrium in the BoP.....	6
Non-Monetary Measures.....	7
Balance of Trade	7
Convertibility of Rupee	8
Current Account Convertibility (in India)	8
Capital Account Convertibility (in India)	8
India's Merchandise Exports and Merchandise Imports	8
Trade-Related Investment Measures (TRIMS)	9
Monetary Policy.....	10
Monetary Policy Stances.....	11
Reserve Bank of India (RBI): Mandate & Appointment.....	11
Mandate/Functions of RBI	11
Composition and Appointment of RBI	12
Monetary Policy Committee (MPC) of RBI	13
Money Multiplier	13
Public Debt (Government Securities (G-Sec))	14
National Income	15
Taxation & Budgeting	16
GST-Coverage (Tax Base)	16
Key Exceptions & Tax Base.....	17
GST-Advantages of Implementation	17
Base Erosion and Profit Shifting (BEPS).....	19
Tax to GDP Ratio	20

Capital Budget.....	21
Budget Deficit & Measures to Reduce Them	22
Key Economic Challenges: Role of Government & RBI.....	23
Inflation	24
Consumer Price Index (CPI) and Wholesale Price Index (WPI).....	26
Wholesale Price Index.....	26
Stressed Assets/NPAS	28
Economic Recession.....	29
Key Concepts & Terminologies	31

About This Special Section

An analysis of the past three years UPSC/State Civil Services Preliminary Examinations question papers reveals that most of the questions are concept-based, analytical, interdisciplinary and statement-based.

- In the past few years the questions have specifically focussed on the context' of current affairs. Accordingly, in this special section, we have picked up the themes underlying current affairs.
- In this issue, we have come up with curated content on a select list of topics that are hand-picked by our experts. The list of topics is not exhaustive.
- Catering to the current trend of the examination, the content is intended to help you solve questions that are conceptual and understanding based.

In the upcoming June issue of the magazine, we will be coming up with exhaustive content on current affairs.

UPSC / IAS

Prelims cum Mains

ENGLISH MEDIUM

Integrated Foundation Course

Online | Live | Offline


 Foundation For Competitive Exams



सत्यमेव जयते

www.aksias.com
 8448449709

Agriculture and Food Management

Minimum Support Price

The Minimum Support Price (MSP) is a type of market intervention used by the Indian government to protect agricultural producers against a significant drop in farm prices.

The Government of India announces minimum support prices based on the recommendations of the Commission on Agricultural Costs and Prices (CACP).

Determination of MSP

- i. Three kinds of Cost Production: The CACP projects three kinds of production cost for every crop, both at state and all-India average levels.
 - A2': Covers all paid-out costs directly incurred by the farmer in cash and kind on seeds, fertilisers, pesticides, hired labour, leased-in land, fuel, irrigation, etc.
 - A2+FL': Includes A2 plus an imputed value of unpaid family labour.
 - 'C2': It is a more comprehensive cost that factors in rentals and interest forgone on owned land and fixed capital assets, on top of A2+FL.
- ii. CACP considers both A2+FL and C2 costs while recommending MSP.
 - CACP reckons only A2+FL cost for return.
 - However, C2 costs are used by CACP primarily as benchmark reference costs (opportunity costs) to see if the MSPs recommended by them at least cover these costs in some of the major producing States.

Coverage

- Government announces minimum support prices (MSPs) for 22 mandated crops and fair and remunerative price (FRP) for sugarcane.
- The mandated crops are 14 crops of the kharif season, 6 rabi crops and two other commercial crops.
- In addition, the MSPs of toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/mustard and copra, respectively.
- The list of crops are as follows:
 - Cereals (7)-paddy, wheat, barley, jowar, bajra, maize and ragi
 - Pulses (5)- gram, arhar/tur, moong, urad and lentil Oilseeds (8)-groundnut, rapeseed/mustard, toria, soyabean, sunflower seed, sesamum, safflower seed and nigerseed
 - Raw cotton
 - Raw jute
 - Copra
 - De-husked coconut
 - Sugarcane (Fair and remunerative price) Virginia flu cured (VFC) tobacco

Fair and Remunerative Price (FRP)

- The pricing of sugarcane is governed by the statutory provisions of the Sugarcane (Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955.

- Prior to 2009-10 sugar season, the Central Government was fixing the Statutory Minimum Price (SMP), however, in October 2009, SMP was replaced by the Fair and Remunerative Price (FRP) of sugarcane.

Industry & Trade

Participatory Notes (P-notes)

A Participatory Note (PN or P-Note) is a derivative instrument issued in foreign jurisdictions, by a SEBI registered. FII, against Indian securities the Indian security instrument may be equity, debt, derivatives or may even be an index. PNs are also known as Overseas Derivative Instruments, Equity Linked Notes, Capped Return Notes, and Participating Return Notes, etc.

Features of P-notes (PN)

- The investor in PN does not own the underlying Indian security, which is held by the FII who issues the PN.
- They benefit from fluctuations in the price of the underlying security since the value of the PN is linked with the value of the underlying Indian security.
- The PN holder also does not enjoy any voting rights in relation to security/shares referenced by the PN.

Regulation of PN

- PNs are market instruments that are created and traded overseas. Hence, Indian regulators cannot ban the issue of PNs.
- However, they can regulated, as SEBI does when a PN is traded on an overseas exchange, the regulator in that jurisdiction would be the authority to regulate that trade.

Import Cover

- Import Cover measures the number of months of imports that can be covered with foreign exchange reserves available with the central bank of the country. Eight to ten months of import cover is essential for the stability of a currency.
- India's Import Cover: As of July 2021 end, India's for eign exchange reserves position is comfortable in terms of import cover of more than 18 months and provides cushion against unforeseen external shocks.

Index of Eight Core Industries

Index of Eight **Core** Industries (ICI) refers to a production volume index that measures the collective and individual production performances of eight selected core industries. These industries are Natural Gas, Coal, Refinery Products, Crude Oil, Cement, Electricity, Steel, and Fertilizers.

The compilation and releasing of the index are done by the Office of the Economic Adviser (OEA), Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry.

The Eight Core Industries

These industries comprise a total of 40.27% of the tota weight of the overall items that are included in the Index of Industrial Production (IIP).

Industry	Weightage Percentage
Refinery Products Industry	28.04%
Electricity Industry	19.85%
Steel Industry Coal Industry	17.92%
Coal Industry	10.33%
Crude Oil Industry	8.98%
Natural Gas Industry	6.88%
Cement Industry	5.37%
Fertilizer Industry	2.63%

Calculation of the Index

- The inter-se weights of all these industries are mostly in alignment with their respective weights in the Index of Industrial Production.
- The new IIP series has revised the base year for the IC to 2011-12 from the initial base of 2004-05. The calculation of the Index is done by using the Laspeyres formula...
- The Laspeyres formula is calculated by working out the cost of a group of commodities at current prices, dividing this by the cost of the same group of commodities at base period prices, and then multiplying by 100. This means that the base period index number is always 100
- On the last working day of each month, the Index is released

Balance of Payment (BOP) & Balance of Trade

Balance of Payment

The balance of payments of a country is a systematic record of all economic transactions between the residents of a country and the rest of the world.

It helps to assess economic and financial status of a country in the short-term.

Components of BoP

- (i) Visible items which include all types of physical goods exported and imported.
- (ii) Invisible items which include all those services whose export and import are not visible. For example, transport services, medical services, etc.
- (iii) Capital transfers which are concerned with capital receipts and capital payment.

(iv) Current Account Balance

- BOP on current account is a statement of actual receipts and payments in short period.
- It includes the value of export and imports of both visible and invisible goods. There can be either surplus or deficit in current account.
- The current account includes export & import of services, interests, profits, dividends and unilateral receipts/payments from/to abroad.
- BOP on current account refers to the inclusion of three balances of namely - Merchandise balance, Services balance and Unilateral Transfer balance.

(v) Capital Account Balance

- The capital account records all international transactions that involve a resident of the country concerned changing either his assets with or his liabilities to a resident of another country.
- It is difference between the receipts and payments on account of capital account. It refers to all financial transactions.
- The capital account involves inflows and outflows relating to investments, short term borrowings/lending, and medium term to long term borrowing/lending.
- It includes - private foreign loan flow, movement in banking capital, official capital transactions, reserves, gold movement etc.

(vi) Reserve Account

- Three accounts: IMF, SDR, & Reserve and Monetary Gold are collectively called as The Reserve Account.
- The IMF account contains purchases (credits) and repurchase (debits) from International Monetary Fund.
- Special Drawing Rights (SDRs) are a reserve asset created by IMF and allocated from time to time to member countries. It can be used to settle international payments between monetary authorities of two different countries.

(vii) Errors & Omission

- The entries under this head relate mainly to leads and lags in reporting of transactions
- It is of a balancing entry and is needed to offset the over stated or understated components.

Balance of Payment (BOP) - Causes of Disequilibrium and Measures to Rectify

Causes of Disequilibrium in the BoP

- Cyclical fluctuations
- Short fall in the exports
- Economic Development
- Rapid increase in population
- Structural Changes
- Natural Calamities
- International Capital Movements

Measures to Correct Disequilibrium in the BoP

Monetary Measures

- **Monetary Policy:** The monetary policy is concerned with money supply and credit in the economy. The Central Bank may expand or contract the money supply in the economy through appropriate measures which will affect the prices.

- **Fiscal Policy:** Fiscal policy is government's policy on income and expenditure. Government incurs development and non-development expenditure,. It gets income through taxation and non-tax sources. Depending upon the situation governments expenditure may be increased or decreased.
- **Exchange Rate Depreciation:** By reducing the value of the domestic currency, government can correct the disequilibrium in the BoP in the economy. Exchange rate depreciation reduces the value of home currency in relation to foreign currency. As a result, import becomes costlier and export become cheaper. It also leads to inflationary trends in the country
- **Devaluation:** It is lowering the exchange value of the official currency. When a country devalues its currency, exports becomes cheaper and imports become expensive which causes a reduction in the BOP deficit.
- **Deflation:** It is the reduction in the quantity of money to reduce prices and incomes. In the domestic market, when the currency is deflated, there is a decrease in the income of the people. This puts curb on consumption and government can increase exports and earn more foreign exchange.
- **Exchange Control:** All exporters are directed by the monetary authority to surrender their foreign exchange earnings, and the total available foreign exchange is rationed among the licensed importers. The license-holder can import any good but amount if fixed by monetary authority.

Non-Monetary Measures

- **Export Promotion:** To control export promotions the country may adopt measures to stimulate exports like export duties may be reduced to boost exports
 - cash assistance, subsidies can be given to exporters to increase exports
 - goods meant for exports can be exempted from all types of taxes.
- **Import Substitutes:** Steps may be taken to encourage the production of import substitutes. This will save foreign exchange in the short run by replacing the use of imports by these import substitutes.
- **Import Control:** Import may be kept in check through the adoption of a wide variety of measures like quotas and tariffs. Under the quota system, the government fixes the maximum quantity of goods and services that can be imported during a particular time period.
- **Quotas:** Under the quota system, the government may fix and permit the maximum quantity or value of a commodity to be imported during a given period. By restricting imports through the quota system, the deficit is reduced and the balance of payments position improved.
- **Tariffs:** Tariffs are duties (taxes) imposed on imports. When tariffs are imposed, the prices of imports would increase to the extent of tariff. The increased prices will reduce the demand for imported goods and at the same time induce domestic producers to produce more of import substitutes.

Balance of Trade

- The difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments.
- Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy.
- When exports are greater than imports than the BOT is favourable and if imports are greater than exports then it is unfavourable.

Convertibility of Rupee

An economy might allow its currency full or partial convertibility in the current and the capital accounts. If domestic currency is allowed to convert into foreign currency for all current account purposes, it is a case of full current account convertibility.

Similarly, in cases of capital outflow, if the domestic currency is allowed to convert into foreign currency, it is a case of full capital account convertibility.

If the situation is of partial convertibility, then the portion allowed by the government can be converted into foreign currency for current and capital purposes. It should always be kept in mind that the issue of currency convertibility is concerned with foreign currency outflow only.

Current Account Convertibility (in India)

- Current account is today fully convertible (operationalised on 19 August 1994).
- It means that the full amount of the foreign exchange required by someone for current purposes will be made available to him at official exchange rate and there could be an unprohibited outflow of foreign exchange (earlier it was partially convertible).
- India was obliged to do so as per Article VIII of the IMF which prohibits any exchange restrictions on current international transactions (keep in mind that India was under pre-conditions of the IMF since 1991).

Capital Account Convertibility (in India)

- After the recommendations of the S.S. Tarapore Committee (1997) on Capital Account Convertibility, India has been moving in the direction of allowing full convertibility in this account, but with required precautions.
- India is still a country of partial convertibility (40:60) in the capital account, but inside this overall policy. enough reforms have been made and to certain of foreign exchange requirements, it is an economy allowing full capital account convertibility
- Indian corporates are allowed full convertibility in the automatic route up to \$ 500 million overseas ventures (investment by Ltd. companies in foreign countries allowed) per annum.
- Indian corporate are allowed to prepay their external commercial borrowings (ECBS) via automatic route if the loan is above \$ 500 million per annum.
- Individuals are allowed to invest in foreign assets, shares, etc., up to the level of \$ 2,50,000 per annum.
- Unlimited amount of gold is allowed to be imported (this is equal to allowing full convertibility in capital account via current account route, but not feasible for everybody) which is not allowed now.

India's Merchandise Exports and Merchandise Imports

As per the Preliminary Data for December 2021, India's merchandise export in December 2021 was USD 37.29 billion, the highest ever monthly achievement, which shows an increase of 37.0% over USD 27.22 billion in December 2020 and an increase of 37.55% over USD 27.11 billion in December 2019.0

Important Data

- India's merchandise export in April-December 2021 was USD 299.74 billion, an increase of 48.85% over USD 201.37 billion in April-December 2020 and an increase of 25.80% over USD 238.27 billion in April December 2019.
- India's merchandise import in December 2021 was USD 59.27 billion, an increase of 38.06% over USD 42.93 billion in December 2020 and an increase of 49.7% over USD 39.59 billion in December 2019.
- India's merchandise import in April-December 2021 was USD 443.71 billion, an increase of 69.27% over USD 262.13 billion in April-December 2020 and an increase of 21.84% over USD 364.18 billion in April December 2019.
- The trade deficit in December 2021 was USD 21.99 billion, while it was 143.97 billion USD during April December 2021.

Trade-Related Investment Measures (TRIMS)

Investment measures can restrict and manipulate trade, according to the agreement on Trade-Related Investment Measures or "TRIMs." This regulation stipulates that members of the World Trade Organization may not use any measure that discriminates or leads to quantitative restrictions, both of which are in violation of core WTO standards.

Objectives of TRIMS

- The TRIMS think that trade and investment are inextricably linked. The purpose of trade-related investment policies is to ensure that all investing members around the world are treated equally.
- Members must notify the World Trade Organization (WTO) council to acquire and sell certain services and items of their present TRIMs that are incompatible with the agreement, according to the TRIMs agreement.

Main Features of TRIMS

- It only applies to investment measures related to goods trade.
- It doesn't regulate the entry of foreign industry or investment. It is about the discriminatory treatment of imported/ exported products.
- Concern measures were applied to both foreign and domestic firms.
- A transition period of 2 years in the case of developed countries, 5 years in the case of developing countries and 7 years in the case of LDCs, from the date this agreement came into effect, which is 1st January 1995.

INDIA & TRIMS

As per the provisions of Article. 5.1 of the TRIMs Agreement India had notified three trade related investment measures as inconsistent with the provisions of the Agreement:

- Local content (mixing) requirements in the production of News Print,
- Local content requirement in the production of Rifampicin (a medicine) and Penicillin-G, and
- Dividend balancing requirement in the case of investment in 22 categories of consumer goods.

Such notified TRIMS were due to be eliminated by 31st December 1999. None of these measures is in force at present. Therefore, India does not have any outstanding obligations under the TRIMs agreement as far as notified TRIMs are concerned.

Monetary Policy

Components of Monetary Policy

Considered as the most dynamic and sensitive function of the RBI, monetary policy chiefly aims at regulating the size and cost of fund/money in the economic system.

In simple terms, monetary policy refers to the policy of the RBI with regard to the use of monetary instruments under its control to achieve its goals.

Instruments of Monetary Policy

- **Repo Rate:** The (fixed) interest rate at which the Reserve Bank provides overnight liquidity (loans) to banks against the collateral of government and other approved securities
- **Liquidity Adjustment Facility (LAF):** The LAF is the key element in the monetary policy operating framework of the RBI (introduced in June 2000). On daily basis, the RBI stands ready to lend to or borrow money from the banking system, as per the need of the time, at fixed interest rates (repo and reverse repo rates). Together with moderating the fund-mismatches of the banks, LAF operations help the RBI to effectively transmit interest rate signals to the market.
- **Marginal Standing Facility (MSF):** A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) A transition period of 2 years in the case of developed countries, 5 years in the case of developing countries and 7 years in the case of LDCs, from the date this agreement came into effect, which is 1st January 1995. portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
- **Corridor:** The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
- **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
- **Statutory Liquidity Ratio (SLR):** The share of NDTL that eligible government securities under the LAF. a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.
- **Open Market Operations (OMOs):** These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
- **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed

through sale of short dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.

Monetary Policy Stances

- **Neutral stance** means interest rates may move either way-upward or downward.
- **Calibrated tightening** means interest rates can only move upward.
- **Accommodative stance (also known as expansionary stance)** means injection of more funds into the financial system. Falling "headline inflation inspires RBI for it and such a stance is aimed at expansion in lending, investment and growth.
- **Contractionary stance** means syphoning out of fund from the financial system. Such a stance is generally India Act. followed once more than optimum fund is believed to be available in the financial system. At times, it is also aimed at taming inflation in long-term.
- **Hawkish stance** means the contractionary stance aimed at checking inflation from rising (linked to the statutory goals of inflation targeting the 'headline inflation').

Reserve Bank of India (RBI): Mandate & Appointment

Reserve Bank of India (RBI) is India's central bank. It controls the monetary policy concerning the national currency, the Indian rupee. It was formed as per the provisions of RBI Act and Southern Area. act, 1934.

Mandate/Functions of RBI

- **Monetary Authority:** It implements and monitors the monetary policy and ensures price stability while keeping in mind the objective of growth. An amendment to RBI Act, 1934, was made in May 2016, providing the statutory basis for the implementation of the flexible inflation targeting framework.
- **Monetary Policy Committee:** It was created in 2016 to bring transparency and accountability in deciding monetary policy. MPC determines the policy interest rate required to achieve the inflation target.
- **Regulator and Supervisor of the Financial System:** Prescribes broad parameters of banking operations within which the country's banking and financial system functions such as issuing licenses, branch expansion, liquidity ions, 1994. of assets, amalgamation of banks etc.
- **Manager of Foreign Exchange:** Manages the Foreign Exchange reserves of India. It facilitates external trade and payment and promotes orderly development and maintenance of foreign exchange market in India. Issuer of Currency: Issues and exchanges or destroys currency and coins not fit for circulation.
- **Developmental Role:** Performs a wide range of promotional functions to support national objectives such as making institutional arrangements for rural or agricultural finance.
- **Banker to the Government:** Performs merchant banking function for the central and the state governments. It is entrusted with central govt.'s money, remittances, exchange and manages its public debt as well.
- **Banker to Banks:** It maintains banking accounts of all scheduled banks. It also acts as lender of last resorts by providing fund to banks.

Composition and Appointment of RBI

i. Central Board

- The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of
- Tenure: Appointed/nominated for a period of four years.
- Constitution/Composition.
 - (a) Official Directors: Governor and not more than four Deputy Governors (Fulltime)
 - (b) Non-Official Directors: Nominated by Government: Ten Directors from various fields and two government Official; and four Directors - One each from four local boards
- Function: General Supervision of the bank

ii. Local Boards

- Constituted for Western Area, Eastern Area, Northern Consist of five members each.
- Members appointed by the Central Government.
- Member shall hold office for a term of four years.
- **Functions:** To advise the Central Board on local matters and to represent territorial and economic interests of local cooperative and indigenous banks; to perform such other functions as delegated by Central Board from time to time.

iii. Board for Financial Supervision

- The Reserve Bank of India performs the supervisory function under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India under the Reserve Bank of India (Board for Financial Supervision) Regula
- Objective: The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising Scheduled Commercial and Co-operative Banks, All India Financial Institutions, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies and Primary Dealers.
- Constitution: The Board is constituted by co-opting four Directors from the Central Board as Members and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, traditionally, the Deputy Governor in charge of supervision, is nominated as the Vice-Chairman of the Board.
- **Functions:**
 - a. Fine-tuning the supervisory processes adopted by the Bank for regulated entities;
 - b. Introduction of off-site surveillance system to complement the on-site supervision of regulated entities;
 - c. Strengthening the statutory audit processes of banks and enlarging the role of auditors in the supervisory process;
 - d. Strengthening the internal defences within supervised institutions such as corporate governance, internal control and audit functions, management information and risk control systems, review of housekeeping in banks;
 - e. Introduction of supervisory rating system for banks and financial institutions etc.

Monetary Policy Committee (MPC) of RBI

Under Section 45ZB of the amended (in 2016) RBI Act, 1934, the central government is empowered to constitute a six-member Monetary Policy Committee (MPC).

Objective: Further, Section 45ZB lays down that "the Monetary Policy Committee shall determine the Policy Rate required to achieve the inflation target". The decision of the Monetary Policy Committee shall be binding on the Bank

Composition: Section 45ZB says the MPC shall consist of 6 members:

- RBI Governor as its ex officio chairperson
- Deputy Governor in charge of monetary policy
- An officer of the Bank to be nominated by the Central Board
- Three persons to be appointed by the central government. This category of appointments must be from "persons of ability, integrity and standing, having knowledge and experience in the field of economics or banking or finance or monetary policy".

Money Multiplier

The money-multiplier process explains how an increase in the monetary base causes the money supply to increase by a multiplied amount. It is the maximum limit to which money supply can be affected by bringing about changes in the amount of money deposits.

Components and Causes of Money Multipliers

- In a monetary framework, the three factors that are related to nominal income are reserve money, money multiplier and the velocity of circulation of money. The link from reserve money to money supply is through the money multiplier.
- An increase in liquidity injected by the central bank does not necessarily lead to an increase in money supply. The factor linking the additional reserves to additional money supply is the money multiplier.
- The value of the money multiplier depends on two behavioural variables: the currency-deposit ratio and the reserves-deposit ratio.

Formula for Money Multiplier

- Money multiplier = $1/r$; where r = Required reserve ratio or cash reserve ratio
- It means that if the reserve ratio is higher, then the money multiplier will be lower and the banks need to keep more reserves. As a result, they will not be able to lend more money to individuals and businesses.
- Similarly, a lower reserve ratio results in a higher money multiplier that allows a lesser amount of money to be kept as a reserve and more lending opportunities to the public.

Related Concepts

- High Power Money: The currency issued by the central bank is called 'high power money' because it is generally backed by supporting 'reserves' and its value is guaranteed by the government and it is the source of all other forms of money.
- Reserve Money: The gross amount of the following six segments of money at any point of time is known as Reserve Money (RM) for the economy or the government:
 - RBI's net credit to the Government;
 - RBI's net credit to the Banks;

- RBI's net credit to the commercial banks;
- Net forex reserve with the RBI;
- Government's currency liabilities to the public; and
- Net non-monetary liabilities of the RBI

Public Debt (Government Securities (G-Sec))

Public debt is the total loans of the government of a country. Since this government is national, at times, this is also called 'national debt'. But in broader sense the concept of national debt includes the non-government debt also.

Constitution on Public Debt

- While the Union Government of India is mandated to borrow inside and outside the country the amount specified by the Parliament (Article 292), States are mandated (Article 293) to borrow only inside the country.
- However, on the recommendations of the 12th Finance Commission, States were given access to external loans also for which sovereign guarantee is given by the Centre.

Types of Public Debt in India

i. Internal Liabilities

Dated Securities: Popularly known as G-Secs (Government Securities), they are primarily issued by Centre as fixed coupon bonds of different maturities (short-, medium- and long-term). They are today the single-most important source of deficit financing (more than 90 per cent) for the Centre.

- **Treasury Bills:** T-Bills are zero coupon securities issued by the Centre at a discount and are redeemed at their face value at maturity. Issued for short-term (less than 365 days) today they have three tenures-91, 182 and 364 days.
- **14-Day T-Bills:** These 'non-transferable' T-Bills (introduced by the RBI in 2013 to finance Centre's ways and means advances as issuance of 'on-tap' treasury bills was phased out) are issued by the Centre to only States, foreign central banks and other specified bodies at an interest rate fixed at 3 per cent below the average yield of 91-days T-Bills in the preceding quarter.
- **Securities issued to International Financial Institutions:** Securities issued by Centre as India's contributions to the international financial institutions such as the IMF, World Bank, Asian Development Bank, etc.
- **Securities issued against 'Small Savings':** The deposits under small savings scheme (SSSs) are credited to the NSSF (National Small Savings Fund) from which withdrawals also keep taking place. Rest of the fund (net withdrawals) of the NSSF is invested in special G-Secs issued by the Centre.

- ii. **External Segment** of the public debt includes the external liabilities created through external borrowings by the Centre for its own uses (excluding those taken by the States). This constitutes a variety of 'multilateral' and "bilateral' loans from IMF, World Bank, ADB, Sovereign Funds, foreign governments, etc.

Rise of Indian Government Bond Yield

A bond is a debt investment. Corporates or governments issue bonds directly to investors, instead of obtaining loans from a bank. A rise in bond yields means interest rates in the monetary system have fallen. In other words, the returns for investors (those who invested in bonds and government securities) have declined.

Rise of Government Bond Yield (Causes)

- The monetary policy of the RBI, especially the course of interest rates
- The fiscal position of the government
- Government's borrowing programme
- Global markets, economy, and inflation
- Rise in Fiscal deficit
- A fall in interest rates makes bond prices rise and bond yields fall and vice versa.

Relation between Bond Prices, Bond Yield, and Interest Rates

Bond Price

- Face value is the money amount the bond will be worth at its maturity. It is also the reference amount the bond issuer uses when calculating interest payments.
- The actual market price of a bond depends on various factors including: the credit quality of the issuer; the length of time until expiration; and the coupon rate compared to the general interest rate environment at the time.

Interest Rates

The price of a bond primarily changes in response to changes in interest rates in the economy.

Bond Yield

- In simple terms, yield is the amount of return that an investor will realize on a bond. If the investor holds the bond to maturity, s/he will be guaranteed to get the principal amount back plus the interest.
- However, a bond does not necessarily have to be held to maturity by the investors. Instead, investors may sell them for a higher or lower price to other investors.
- The bond prices and yields generally move in opposite directions. This is because, as a bond's price increases, its yield to maturity falls.

National Income

Determinants of National Income

GDP

- Gross Domestic Product (GDP) is the value of all the final goods and services produced within the boundary of a nation during one-year period. For India, this calendar year is from 1st April to 31st March. . It is also calculated by adding national private consumption, gross investment, government spending and trade balance (exports-minus-imports).
- It is a quantitative concept and its volume/size GNP indicates the internal strength of the economy. But it does not say anything about the qualitative' aspects of the goods and services produced.

NDP

- Net Domestic Product (NDP) is the GDP calculated after adjusting the weight of the value of 'depreciation'. This is, basically, net form of the GDP, i.e., GDP minus the total value of the 'wear and tear' (depreciation) that happened in the assets while the goods and services were being produced.
- Thus, $NDP = GDP - Depreciation$.

GNP

- Gross National Product (GNP) is the GDP of a country added with its 'income from abroad'.
- Here, the trans-boundary economic activities of an economy is also taken into account. The items which are counted in the segment 'Income from Abroad' are - Private Remittances, Interest on External Loans, External Grants etc.

NNP

- Net National Product (NNP) of an economy is the GNP after deducting the loss due to 'depreciation'.
- The formula to derive it may be written like: $NNP = GNP - Depreciation$ This is the National Income' (NI) of an economy. When we divide NNP by the total population of a nation we get the 'per capita income' (PCI) of that nation, i.e., 'income per head per year'.

Cost, Price & National Income

Cost

- Income of an economy, i.e., value of its total produced goods and services may be calculated at either the factor cost' or the market cost'. 'Factor cost' is the 'input cost' the producer has to incur in the process of producing some thing (such as cost of capital, i.e., interest on loans, raw materials, labour, rent, power, etc.). This is also termed as 'factory price' or 'production cost/price'. This is nothing but 'price' of the commodity from the producer's side.
- While the 'market cost' is derived after adding the indirect taxes to the factor cost of the product, it means the cost at which the goods reach the market.

Price

- Income can be derived at two prices, constant and current. The difference in the constant and current prices is only that of the impact of inflation.

Taxation & Budgeting

GST-Coverage (Tax Base)

GST is known as the Goods and Services Tax. It is an indirect tax which has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017.

Components of GST

- CGST: It is the tax collected by the Central Government on an intra-state sale (e.g., a transaction happening within Maharashtra)
- SGST: It is the tax collected by the state government on an intra-state sale (e.g., a transaction happening within Maharashtra)

- **IGST:** It is a tax collected by the Central Government for an inter-state sale (e.g., Maharashtra to Tamil Nadu)
- **E-Way Bill:** For transportation of goods above a certain threshold of value electronic generation of bill (e-Way bill) is put in place. Through this physical verification is possible which works as deterrence against misreporting by the taxpayers.
- Under GST a four-rate structure that exempts or imposes a low rate of tax 5 percent on essential items and top rate of 28 percent on cars is levied. The other slabs of tax are 12 and 18 percent.

Key Exceptions & Tax Base

Exceptions

- It applies to all goods other than 'alcoholic liquor for human consumption' and 'five petroleum products', viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel.

Tax Base

- The tax base is the total amount of income, property, assets, consumption, transactions, or other economic activity subject to taxation by a tax authority. A narrow tax base is non-neutral and inefficient. A broad tax base reduces tax administration costs and allows more revenue to be raised at lower rates.
- As of July 2021, the GST tax base has doubled from Rs 66.25 lakh to 1.28 crore.
- The primary reason for increase in tax base is due to exemption to pay GST for manufacturing and for small businesses and services the exemption limit was raised.

Tax Rate

- 5%: Food items like Sugar, Packed Paneer, Tea, Coal, Edible Oils, Raisin
- 12%: Items like Butter, Computers, Ghee, Processed food, Almonds, Mobiles etc.
- 18%: Items like Hair Oil, Capital goods, Toothpaste, Industrial Intermediaries, Soap, Ice-cream etc.
- 28%: Items like Small cars (+1% or 3% cess), High-end motorcycles (+15% cess), Consumer durables such as AC and fridge, Luxury & sin items like BMWs, cigarettes and aerated drinks (+15% cess) etc.

GST-Advantages of Implementation

GST offers benefits to the government, the industry, as well as the citizens of India. The price of goods and services is expected to reduce under the new reform, while the economy will receive a healthy boost. It is also expected to make Indian products and services internationally competitive.

Advantages of Implementation

- **Uniformity in Taxation:** The objective of GST is to drive India towards becoming an integrated economy by charging uniform tax rates and eliminating economic barriers, thereby making the country a common national market.
- **Helping Government Revenue Find Buoyancy:** GST is forecast to help the Government Revenue find buoyancy by expanding the tax base whilst enhancing the taxpayer compliance.

- **Cascading of Taxes:** The cascading of taxes has been prevented by GST as the whole supply chain got an all inclusive input tax credit mechanism.
- **Simpler and Lesser Number of Compliances:** Compliance is simpler through the harmonisation of tax rates, procedures, and laws.
- **Common Procedures:** The procedures for refund of taxes and registration of taxpayers will be common, while the formats of tax return will be uniform. The tax base is also common, so is the system of assortment of products or services in addition to the timelines for each activity, thereby ensuring that taxation systems have greater certainty.
- **Lowered Tax Burden on Industry and Trade:** The average tax burden on industry and trade is expected to lower because of GST, resulting in a reduction of prices and increased consumption, which will eventually increase production and ultimately enhance the development of various industries.
- **Regulation of Unorganised Industries:** Certain sectors in the country, such as textile and construction, are highly unorganised and unregulated. GST aims to ensure that payments and compliances are done online, and input credit can only be availed when the supplier accepts the amount, thus ensuring that these industries have regulation and accountability.
- **Composition Scheme:** Small businesses found respite from tax burdens through the composition scheme. Small businesses that earn turnovers ranging from Rs.20 lakh to Rs.50 lakh will be subject to lower taxes.

Government Initiatives to Induce Voluntary Compliance

- **E-Way bill:** For transportation of goods above a certain threshold of value electronic generation of bill (e-Way bill) is put in place. Through this physical verification is possible which works as a deterrence against misreporting by the taxpayers.
- **'PIN Code to PIN Code' Distance Mapping:** Mentioning origin and destination PIN Codes in e-Way bill is compulsory. This deters misuse of the bill for multiple trips and evading tax.
- **Returns made Public:** The return filing status of the taxpayer has been made visible in public domain (on the GST Portal). This enables the buyers to choose the compliant taxpayers for doing business.
- **Caution against mismatch in Tax Filing:** Making taxpayers informed about mismatch in their tax filing and 'induce' (i.e. encourage) them to correct it to avoid future litigation. This is done by cross-checking the tax filing forms (GSTR-2A & GSTR-3B; and GSTR-1 & GSTR-3B).
- **Repeat Reminders:** Taxpayers are sent repeat reminders through SMSS of due date of monthly filing and non-filing of return. This is aimed at inducing taxpayers to inculcate the behaviour of timely return filing.
- **Free Software:** In order to ease the compliance in the technology driven GST regime, free software has been offered to taxpayers which takes care of services such as-preparing invoices, GST returns, Income Tax returns, Balance sheet and Profit & Loss statement.
- **Questionnaire based Return Filing:** To reduce complexity and simplify return filing process a questionnaire based return filing system has been put in place. Based on reply given by the taxpayer in it, only relevant tables are visible to taxpayer on return dashboard. This is meant to case compliance for taxpayers.

- Compliance Rating put in Public Domain: GST Act provides for public display of compliance rating score of taxpayers based on record of compliance. This will work as a deterrence and induce punctual behaviour from taxpayers. Besides, public display of this information enhances transparency and improves trust of businesses in the tax administration leading to evolution of a social norm of good compliance in the long run.
- Acknowledging Contribution of Compliant Taxpayers: A certificate is being issued to compliant taxpayers acknowledging their contribution in nation building. This appreciation serves to motivate taxpayers to continue their compliant behaviour in future as well.

Base Erosion and Profit Shifting (BEPS)

Base Erosion and Profit Shifting (BEPS) refers to the strategies used by multinational companies to avoid paying tax, by exploiting the mismatches and gaps in the tax rules.

Base Erosion and Profit Shifting (BEPS) is mostly prevalent in Intellectual Property (IP) intensive Technology domain (companies like Google, Apple, etc.) and the companies in Life Sciences domain like Pfizer, Merck, etc.

How BEPS Works?

- Tax is levied on the multinational company by the Government as a percentage of the profit or income of the multinational company.
- Using the loopholes, the multinational company shifts its income or profit to another country which could be a tax haven.
- As a result, the country which helps the multinational company generate its revenues does not get any tax or there is tax erosion due to the shifting of income or profits by the company.

Issues with BEPS

- BEPS practice is a major problem since nations have lost tax revenues to the tune of \$ 100 billion to \$ 240 billion annually, as per statistics put out by the Organisation for Economic Cooperation and Development (OECD). The above revenue which is lost is equivalent to 4% to 10% of the total income tax revenue at a global level.
- This undermines the fairness and integrity of tax systems because businesses that operate across borders can use BEPS to gain a competitive advantage over enterprises that operate at a domestic level.
- When taxpayers see multinational corporations legally avoiding income tax, it undermines voluntary compliance by all taxpayers.

Measures taken by India to solve BEPS

- i. Country-by-Country Reporting (CbCR) .
 - It is part of the Organization of Economic Cooperation and Development's Base Erosion and Profit Shifting Action Plan 13. As per Indian Income Tax Act, Section 286(2), the CbCR is required to be submitted by an Indian affiliate of a foreign-parented group or Indian parent company.
 - India and the U.S. signed an inter-government agreement for the automatic exchange of country-by-country (CbC) reports. This will reduce the compliance burden for Indian subsidiary companies of U.S. parent companies.

- This is a key step in making India compliant with the Base Erosion and Profit Shifting (BEPS) project, of which it is an active participant.
- ii. Thin Capitalization: Thin Capitalisation refers to a condition where a company is financed with a high level of debt compared to the equity (highly leveraged)
- iii. Secondary Adjustments: On 30 September 2019, Rule 10CB of Income Tax rules amendments were notified by the Central Board of Direct Taxes (CBDT).
- iv. Patent Box Tax Regime: It was introduced in India by enacting new Section 115BBF as per Finance Act, 2016.
- v. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) was signed by India.

Tax to GDP Ratio

India's tax to GDP ratio is very low, and the proportion of direct tax to indirect tax is not optimal from the view point of social justice.

Overview

- India consists of one direct taxpayer for every 16 voters present. Income tax is paid by only 1% of India's population.
- India's Gross tax to GDP which was 11% in FY 19, fell to 9.9% in FY20 and marginally improved to 10.2% in FY21 (partly due to decline in GDP) and is envisaged to be 10.8% in FY22, this is much lower than the emerging market economy average of 21 percent and OECD average of 34 percent.

Reasons for Low Tax to GDP Ratio

- There is the presence of a large informal/unorganized sector in India which makes it vulnerable, causing greater tax evasion.
- There is greater dominance of the agriculture sector, for instance out of 25 crore households in India, 15 crores belong to the agricultural sector which is exempted from paying taxes.
- There is high number of disputes between tax authorities and taxpayers, with one of the lowest proportions of recovery of tax arrears.
- The direct to indirect tax ratio in India is around 35:65, which is lower than most of the OECD economies where the ratio is 67:33 in favour of direct taxes.
- There have been a number of generous government policies which benefited the richer private sector by providing various tax exemptions.
- Another factor that contributes to the low tax to GDP ratio is low per capita income and high poverty.

Impact of Low Tax to GDP Ratio

- Due to a decrease in tax revenues, the Indian State becomes incapable of spending on national security, welfare system, public goods, etc.
- There is heavy borrowing due to the low tax revenue of the government; this causes a persistent deficit bias in fiscal policy.
- Such a system creates political incentives for the government to borrow money to buy votes rather than work on building an effective tax system that will lead to economic growth and development.
- Widespread tax evasion goes unchecked which hampers growth and most of the tax burden falls on the high productivity sectors that need growth.

- Lower tax collections decrease the capacity of the government to incur expenditure for welfare schemes.
- There is increased dependence on indirect taxes which are regressive in nature.
- There is an increase in social inequality due to the asymmetric distribution of economic resources in society.

Measures to Increase Tax to GDP Ratio

- The individual taxpayer base should be widened to increase revenue collection.
- Merging of CBDT and CBEC based on the recommendations of the Tax Administration Reform Commission (TARC).
- Exemptions provided under various provisions such as transfer pricing, base erosion and profit shifting (BEPS), etc. should be re-assessed.
- Providing effective dispute settlement mechanisms. Citizens' attitudes must be changed by instilling a feeling of national responsibility.

Capital Budget

Capital Budget deals with the receipts and expenditures of the capital by the government. This shows the means by which the capital is managed and the areas where capital is spent.

Capital Receipts

All non-revenue receipts of a government are known as capital receipts. Such receipts are for investment purposes and supposed to be spent on plan-development by a government. The capital receipts in India include the following capital kind of accruals to the government:

- **Loan Recovery:** This is one source of the capital receipts. The money the government had lent out in the past in India (states, UTS, PSUs, etc.) and abroad their capital comes back to the government when the borrowers repay them as capital receipts. The interests which come to the government on such loans are part of the revenue receipts.
- **Borrowings by the Government:** This includes all long term loans raised by the government inside the country (i.e., internal borrowings) and outside the country (i.e., external borrowings). Internal borrowings might include the borrowings from the RBI, Indian banks, financial institutions, etc. Similarly, external borrowings might include the loans from the World Bank, the IMF, foreign banks, foreign governments, foreign financial institutions, etc.
- **Other Receipts by the Government:** This includes many long-term capital accruals to the government through the Provident fund (PF), Postal Deposits, various small saving schemes (SSSS) and the government bonds sold to the public (as Indira Vikas Patra, Kisan Vikas Patra, Market Stabilisation Bond, etc.). Such receipts are nothing but a kind of loan on which the government needs to pay interests on their maturities. But they play a role in capital raising process by the government.

Capital Expenditure

- **Loan Disbursals by the Government:** The loans for awarded by the government might be internal (i.e., to the states, UTS, PSUs, FIs, etc.) or external (i.e., to foreign countries, foreign banks, purchase of foreign bonds, loans to IMF and WB, etc.).

- **Loan Repayments by the Government:** Again loan payments might be internal as well as external. This consists of only the capital part of the loan repayment as the elements of interest on loans are shown as a part of the expenditure.
- **Plan Expenditure of the Government:** This consists of all the expenditures incurred by the government to finance the planned development of India as well as the central government financial supports to the states for their plan requirements.
- **Capital Expenditures on Defence by the Government:** This consists of all kinds of capital expenses to maintain the defence forces, the equipment purchased for them as well as the modernisation expenditures. It should be kept in mind that defence is a non-plan expenditure which has capital as well as revenue expenditures in its maintenance. The revenue part of expenditure in the defence is counted in the revenue expenditures by the government.
- **General Services:** These also need huge capital expenditure by the government-the railways, postal department, water supply, education, rural extension, etc.
- **Other Liabilities of the Government:** Basically, this includes all the repayment liabilities of the government on the items of the Other Receipts.

Budget Deficit & Measures to Reduce Them

Revenue Deficit

- The shortfall between the total revenue received to the total revenue expenditure is revenue deficit.
Revenue deficit = Total revenue expenditure - Total revenue receipts
- **Indication/Impact:** This deficit only includes current income and current expenses. A high value of deficit indicates that the government should cut down on its expenditures.
- **Measures to Reduce:** The government may increase its revenue receipts by increasing tax income. Disinvestment which means selling off assets is another remedial measure to reduce revenue deficit.

Fiscal Deficit

- A fiscal deficit is a gap by which government's total expenditures exceed the government's total generated revenue. This, however, does not include the government borrowings. Fiscal deficit = Total expenditure – Total receipts excluding borrowings.
- **Indication/Impact:** Fiscal deficit indicates the amount of money that the government will need to borrow during the financial year. A greater deficit implies more borrowing by the government and the extent of the deficit indicates the amount of expense for which the money is borrowed. A huge disadvantage or implication of fiscal deficit is it may lead to a debt trap. Also, it may lead to unnecessary and wasteful expenditure by the government. Increased fiscal deficit leads to uncontrolled inflation.
- **Measures to Reduce:** Borrowing is one way to reduce fiscal deficit. Another way is deficit financing.

Primary Deficit

- A primary deficit is the amount of money that the government needs to borrow apart from the interest payments on the previously borrowed loans. Primary deficit = Fiscal deficit - Interest payments on previous loans.

Means of Deficit Financing

- External Aids are the best money as a means to fulfil a government's deficit requirements even if it is coming with interest. When India went to borrow from the IMF in the wake of the financial crisis of 1990-91, the body advised India to keep its fiscal deficit to the tune of 4.5 per cent of its GDP and noted it to be sustainable for the economy.
- External Grants are even better elements in this case (which comes free-neither interest nor any repayments) it either did not come to India (since 1975, the year of the first Pokhran testing's) or India did not accept it (as happened post-Tsunami, arguing grants/aids coming with a tag/condition).
- External Borrowings are the next best way to manage fiscal deficit with the condition that the external loans are comparatively cheaper and long-term.
- Internal Borrowings come as another preferred route of fiscal deficit management. But going for it in a huge way hampers the investment prospects of the public and the corporate sector. It has the same impact on the expenditure pattern in the economy.
- Printing Currency is the last resort for the government in managing its deficit. But it has the biggest handicap that with it the government cannot go for the expenditures which are to be made in the foreign currency. Even if the government is satisfied on this front, printing fresh currencies does have other damaging effects on the economy –
 - It increases inflation proportionally.
 - It brings in regular pressure and obligation on the government for upward revision in wages and salaries of government employees-ultimately increasing the government expenditures necessitating further printing of currency and further inflation-a vicious cycle into which economies entangle themselves.

Key Economic Challenges: Role of Government & RBI

Devaluation of a Currency: Effects

In the foreign exchange market when exchange rate of a domestic currency is cut down by its government against any foreign currency, it is called devaluation. It means official depreciation is devaluation.

Effects

- Exports Cheaper: A devaluation of the exchange rate will make exports more competitive and appear cheaper to foreigners. This will increase demand for exports.
- Imports More Expensive: A devaluation means imports, such as petrol, food and raw materials will become more expensive. This will reduce the demand for imports.
- Increased Aggregate Demand (AD): Devaluation could cause higher economic growth. Therefore higher exports and lower imports should increase trade account (assuming demand is relatively elastic). In normal circumstances, higher trade account is likely to cause higher real GDP and inflation.
- Inflation: Because Imports are more expensive - causing cost push inflation; demand is increasing causing demand pull inflation; and with exports becoming cheaper, manufacturers may have less incentive to cut costs and become more efficient. Therefore over time, costs may increase.
- Improvement in the Current Account: With exports more competitive and imports more expensive, we should see higher exports and lower imports, which will reduce the current account deficit.

- **Less Lucrative for Workers:** Devaluation in the Rupee the India less attractive for foreign workers. For example, with fall in the value of the Rupee, migrant workers from other parts of the world may prefer to work in better performing economies.
- **Falling Real Wages:** In a period of stagnant wage growth, devaluation can cause a fall in real wages. This is because devaluation causes inflation, but if the inflation rate is higher than wage increases, then real wages will fall.

Associated Concepts

- **Depreciation of Rupee:** In foreign exchange market, depreciation is a situation when domestic currency loses its value in front of a foreign currency if it is market-driven. It means depreciation in a currency can only take place if the economy follows the floating exchange rate system. Reasons for Recent Depreciation
- **Record-High Trade Deficit:** India's trade deficit widened to an all-time high of about \$23 billion in November 2021 amid higher imports. This growing trade deficit is driven by a rebound in oil prices.

Devaluation/depreciation	
Winners	Losers
<ul style="list-style-type: none"> • Domestic tourist industry • Workers gaining jobs in export industry • Economic growth might Increase • Current account deficit should improve 	<ul style="list-style-type: none"> • Consumers who buy imports • Residents who holiday abroad • Firms who buy imported raw materials • Those on fixed incomes/wages who see Inflation rise faster • Foreign exporters/tourist Industry

- **Policy divergence Between RBI and Federal Reserve:** The strengthening of USD in line with expectations of better growth in the US economy and favourable interest offered by the Federal Reserve (US' Central bank). The RBI has been continuously buying dollars to build its reserves and prepare itself for any volatility.
- **Outflow of Capital:** Foreign capital exodus from stocks have led to the benchmark S&P BSE Sensex Index falling by about 10% below an all-time high touched in October 2021.
- **Omicron Concerns:** When concerns about the omicron virus variant are roiling the global markets.

Inflation

A rise in the general level of prices or an increase in the general level of prices in an economy that is sustained over time is known as Inflation.

Causes of Inflation

- **Demand-Pull Inflation:** A mismatch between demand and supply pulls up prices. Either the demand increases over the same level of supply, or the supply decreases with the same level of demand and thus the situation of demand-pull inflation arise.
- **Cost-Push Inflation:** An increase in input costs (i.e., wages and raw materials) pushes up prices. The price rise which is the result of increase in the production cost is cost-push inflation.

Types of Inflation

- **Low Inflation:** Such inflation is slow and on predictable lines, which might be called small or gradual. Low inflation takes place in a longer period and the range of increase is usually in 'single digit'. Such inflation has also been called as 'creeping inflation'.
- **Galloping Inflation:** This is a very high inflation running in the range of double-digit or triple digit (i.e., 20 per cent, 100 per cent or 200 per cent in a year). Other names to this inflation-hopping inflation, jumping inflation and running or runaway inflation
- **Hyperinflation:** This form of inflation is 'large and accelerating' which might have the annual rates in million or even trillion. In such inflation not only the range of increase is very large, but the increase takes place in a very short span of time, prices shoot up overnight. Such an inflation quickly leads to a complete loss of confidence in the domestic currency and people start opting for other forms of money, as for example physical assets, gold and foreign currency (also known as 'inflation proof assets') and people might switch to barter exchange.
- **Bottleneck Inflation:** This inflation takes place when the supply falls drastically and the demand remains at the same level. Such situations arise due to supply-side hurdles, hazards or mismanagement which is also known as 'structural inflation'. This could be put in the demand pull inflation' category.
- **Core Inflation:** This nomenclature is based on the inclusion or exclusion of the goods and services while calculating inflation. First used in India in 2000-01, it does not suit our inflation analysis in the right sense because prices here depend more on food articles and energy. Since 2015-16, a new method of core-core inflation is also measured by India which excludes food, fuel & light, transport and communication.

INFLATION - ASSOCIATED TERMS

- **Inflationary Gap:** The excess of total government spending above the national income (i.e., fiscal deficit) is known as inflationary gap. This is intended to increase the production level, which ultimately pushes the prices up due to extra creation of money during the process.
- **Deflationary Gap:** The shortfall in total spending of the government (i.e., fiscal surplus) over the national income creates deflationary gaps in the economy. This is a situation of producing more than the demand and the economy usually heads for a general slowdown in the level of demand. This is also known as the output gap.
- **Inflation Tax:** Inflation erodes the value of money and the people who hold currency suffer in this process. As the governments have authority of printing currency and circulating it into the economy (as they do in the case of deficit financing), this act functions as an income to the governments. This is a situation of sustaining government expenditure at the cost of people's income. This looks as if inflation is working as a tax.
- **Inflation Spiral:** An inflationary situation in an economy which results out of a process of wage and price interaction when wages press prices up and prices pull wages up is known as the inflationary spiral. It is also known as the wage-price spiral.
- **Inflation Accounting:** A term popular in the area of corporate profit accounting. Basically, due to inflation the profit of firms/ companies gets overstated. When a firm calculates its profits after adjusting the effects of current level of inflation, this process is known as inflation accounting. Such profits are the real profit of the firm which could be compared to a historic rate of inflation (inflation of the base year), too.
- **Inflation Premium:** The bonus brought by inflation to the borrowers is known as the inflation premium. The interest banks charge on their lending is known as the nominal interest rate, which might not be the real cost of borrowing paid by the borrower to the banks.

- **Philips Curve:** It is a graphic curve which advocates a relationship between inflation and unemployment in an economy. As per the curve there is a trade off between inflation and unemployment, i.e., an inverse relationship between them. The curve suggests that lower the inflation, higher the unemployment and higher the inflation, lower the unemployment.
- **Reflation:** Reflation is a situation often deliberately brought by the government to reduce unemployment and increase demand by going for higher levels of economic growth. Governments go for higher public expenditures, tax cuts, interest rate cuts, etc. Fiscal deficit rises, extra money is generally printed at higher level of growth, wages increase and there is almost no improvement in unemployment.
- **Stagflation:** Stagflation is a situation in an economy when inflation and unemployment both are at higher levels, contrary to conventional belief. Conventional thinking that a trade-off existed between inflation and unemployment (i.e., Phillips Curve) was falsified and several economies switched over to alternative ways of economic policies, such as monetaristic and supply-side economics. Stagflation is basically a combination of high inflation and high growth.

Consumer Price Index (CPI) and Wholesale Price Index (WPI)

Consumer Price Index

- Consumers frequently purchase straight from retailers. As a result, the inflation experienced in retail stores is a true reflection of the country's price growth. It also depicts the cost of living more accurately.
- The Consumer Price Index (CPI) is a measure of inflation at the retail level in India (CPI). The CPI is based on 260 commodities, but it also includes some services.

Types of CPI

- i. **Consumer Price Index for Industrial Workers (CPI-IW)**
 - It attempts to measure changes in the pricing of a given basket of products and services used by Industrial Workers throughout time.
 - The target audience would be a typical working-class family from any of the following seven economic sectors: factories, mines, plantations, motor transportation, port, railways, and power generation and distribution.
 - It is compiled by the Labour Bureau.
- ii. **Consumer Price Index for Agricultural Labourers (CPI-AL):** The Labour Bureau compiles this data to revise minimum wages for agricultural labour in different States.
- iii. **Consumer Price Index for Rural Labourers (CPI-RL):** It is also compiled by Labour Bureau.
- iv. **Consumer Price Index for Urban Non-Manual Employees** The Central Statistics Office (CSO) which is now the National Statistical Office (NSO) compiles this data. NSO is under the Ministry of Statistics and Program Implementation.

Wholesale Price Index

- The Wholesale Price Index (WPI) is a measure of the cost of a basket of wholesale items. WPI is concerned with the cost of goods sold between businesses. It does not focus on consumer-purchased commodities.
- WPI's major goal is to track pricing changes in manufacturing, construction, and industry, which represent demand and supply.

Importance

- Prices do not remain stable in a changing world. The inflation rate, which is derived using the movement of the Wholesale Price Index (WPI), is an important metric for tracking price changes.

- WPI is widely utilised by the government, banks, industry, and business circles since it captures price variations. in a comprehensive way.
- WPI movements are frequently linked to significant monetary and fiscal policy shifts.
- Similarly, the movement of the WPI is a determining factor in the formation of trade, fiscal, and other economic policies by the Indian government.
- The WPI indices are also utilised in the supply of raw materials, machinery, and construction work for escalation clauses.
- WPI is used as a deflator of various nominal macroeconomic variables, including Gross Domestic Product (GDP).

Difference between CPI & WPI

CPI	WPI
It indicates the average change in the prices of commodities at the retail level.	It amounts to the average change in prices of commodities at the wholesale level.
It is published by Central Statistics Office (Ministry of Statistics and Programme Implementation) & Labour Bureau	It is published by Office of Economic Advisor (Ministry of Commerce & Industry)
It includes both Goods and Services	It includes only goods.
It is measured at the final stage of the transaction.	It is measured at the final stage of transaction.
Prices are paid by the Consumer	Prices are paid by the Manufacturers and Wholesalers
Types of commodities - Education, communication, transportation, recreation, apparel, foods and beverages, housing and medical care	Types of commodities - Manufacturing inputs and intermediate goods like minerals, machinery basic metals, etc.
Base Year is 2012	Base Year is 2011-12

Role of RBI/Govt. in controlling Inflation

Measures to Check Inflation

- i. Demand Side Measure
 - In this category mainly, two types of steps are taken. Firstly, the consumers are appealed to cut back the consumption of the items which show higher inflation (called austerity). This step has generally failed across the world because it does not work in case of essential items (such as wheat, rice, milk, tea, etc.) and as people who have money, they don't wish to cut down consumption.
 - . Secondly, the government may tighten flow of money in the system (known as monetary measure)- central bank making money costlier (by increasing repo rate, increasing CRR, etc. in case of India).
 - Second step also has its own limitations it is not effective if the items showing inflation are essential ones (such as wheat, rice, onion, potato, etc. because consumers don't borrow money from banks to buy them). But it can be quite effective if the items are building materials (interest on home loan can be increased to cut back the demand of these items).
- ii. Supply Side Measure
 - Aimed at increasing the supply of the items showing inflation, the government may go in for upscaling the production or import of the items.

- This measure also has its own limitations production may not be upscaled in short-run and import may not reach the country in time. Rather in medium and long-run, production of these items can be upscaled. Two variety of steps may be taken under it-in short-run cutting taxes can bring in comfort but in the long-run, production of these items can be upscaled.
- iii. Cost Side Measure
- Two variety of step may be taken under it – in short-run cutting taxes can be bring but in the long-run cutting cost of production is the only way out (by scaling up technology).

Stressed Assets/NPAS

Non-Performing Assets (NPAs) are the bad loans of the banks. The criteria to identify such assets have been changing over the time. As of now, a loan is considered NPA if it has not been serviced for one term (i.e., 90 days) - this is known as '90 day' overdue norm.

Classification of NPAs

- Sub-standard: remaining NPAs for less than or equal to 12 months.
- Doubtful: remaining NPAs for more than 12 months
- Loss Assets: where the loss has been identified by the bank or internal/external auditors or the RBI inspection, but the amount has not been written off.

Reasons for Rising NPAS

- Global and domestic macro-economic instabilities due to which a slowdown was seen in the economy diluting the capability of the borrowers to service the loans.
- Delays in project approvals resulting into high cost over-runs. This dented the loan servicing capability of the borrowers in a big way.
- Aggressive lending by the banks to high corporate leverage.
- High incidences of 'wilful defaults'.
- Cases of loan frauds.
- Instances of corruption in the banking institutions.

NPAS: Some Initiatives

- **5/25 Refinancing**
- This scheme offered a larger window for revival of stressed assets in the infrastructure sectors and 8 core industries.
- Under this scheme lenders were allowed to extend the tenure of loans to 25 years with interest rates adjusted every 5 years, so tenure of the loans matches the long gestation period in the sectors.
- The scheme thus aimed to improve the credit profile and liquidity position of borrowers, while allowing banks to treat these loans as standard in their balance sheets, reducing provisioning costs against NPAS.

ARCS (Asset Reconstruction Companies)

- ARCs were introduced to India under the SARFAESI Act (2002), as specialists to resolve the burden of NPAs. They buy the bad loans and resolve it.
- But the ARCs (most are privately-owned) finding it difficult to resolve the NPAs they purchased, are today only willing to purchase such loans at low prices.

SDR (Strategic Debt Restructuring)

- In June 2015, RBI came up with the SDR scheme provide an opportunity to banks to convert debt of companies (whose stressed assets were restructured but which could not finally fulfil the conditions

attached to such restructuring) to 51 per cent equity and sell them to the highest bidders-ownership change takes place in it.

- It had limited success because many firms remained financially unviable, since only a small portion of their debt had been converted to equity.

AQR (Assets Quality Review)

- Resolution of the problem of bad assets requires sound recognition of such assets. Therefore, the RBI emphasized AQR, to verify that banks were assessing loans in line with RBI loan classification rules.

S4A (Scheme for Sustainable Structuring of Stressed Assets)

- Introduced in June 2016, in it, an independent agency is hired by the banks which decide as how much of the stressed debt of a company is 'sustainable'. The rest ('unsustainable') is converted into equity and preference shares. Unlike the SDR arrangement, this involves no change in the ownership of the company.

PARA (Public Sector Asset Rehabilitation Agency)

- To resolve the twin problems of balance sheet syndrome' (of the banks as well as the sector), the Economic Survey 2016-17 has suggested the Government to set up a public sector asset rehabilitation agency (PARA).

Economic Recession

It a mild form of depression with features like - there is a general fall in demand as economic activities takes a downturn; inflation remains lower or/and shows further signs of falling down; employment rate falls/unemployment rate grows; and Industries resort to 'price cuts' to sustain their business. India has been in a recession due to the pandemic. The government has taken a number of initiatives to combat the recession and downturn.

Measures by State to Combat Recession

- Tax Cuts: Consumers will spend more money if they have more money. This will create demand in the economy. As a result, more goods and services are sought, resulting in employment creation and economic growth.
- Increase in Government Expenditures: A rise in government spending can give the economy a big boost. Public works programs and infrastructure investments assist put money in the hands of people, who can subsequently spend it and help the economy grow.
- Quantitative Easing: Quantitative easing is a strategy used by central banks to flood the market with new money in the hopes of liquidating credit markets and making it simpler for financial firms to lend money. If the money from quantitative easing reaches consumers, businesses, and maybe the government, it has the potential to boost economic development.
- Reduction in Interest Rates: By cutting interest rates, the central bank effectively puts more money in the pockets of individuals and companies, encouraging savers to spend. Lower interest rates also indicate that enterprises will have to pay back less money, which will help the company's cash flow. These lower rates also make borrowing less expensive, allowing businesses to invest in better equipment.

Platforms & Initiatives that Promote Financial Inclusion

Digital Payment System

The Payment and Settlement Act, 2007 has defined Digital Payments.

As per this any "electronic funds transfer" means any transfer of funds which is initiated by a person by way of instruction, authorization or order to a bank to debit or credit an account maintained with that bank through electronic means and includes point of sale transfers; automated teller machine transactions, direct deposits or withdrawal of funds, transfers initiated by telephone, internet and card payment.

Categories of Digital Payment Systems

- **Real Time Gross Settlement (RTGS) System:** RTGS system enables transfer of money from one bank account to another on a "real time" and on "gross" basis. The RTGS service window for customer's transactions is available to banks from 8 am to 4:30 pm on weekdays (Monday through Friday) and on working Saturdays for settlement at the RBI's end. RTGS is operated by RBI.
- **National Electronic Funds Transfer (NEFT):** NEFT facilitates funds transfer across all computerised branches of banks (member/ sub-member of NEFT) across the country. Presently, NEFT operates in half hourly batches - there are twenty-three settlements from 8 am to 7 pm on weekdays through Friday) and on working Saturdays. NEFT is operated by RBI. Settlement happens in batches, and the system is not available around the clock.
- **Card based Payment Systems:** Cards have played an important role in the spread of digital payments. Cards are also used to withdraw money from ATMs, and hence have been issued to most account holders. In the last decade, an Indian player - NPCI-has also introduced card payments through the 'RuPay' scheme.
- **Prepaid Payment Instruments (PPIs):** PPIs are payment instruments that facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments
- **Bharat QR (BQR) Code:** BQR is an interoperable QR code which obviates the need to have different QR codes at a merchant location for each of the card payment net work. The QR code-based payment is initiated by the card holder using his/her mobile phone. Bharat QR includes common specifications for not just card transactions but also for BHIM UPI.

National Payment Corporation of India (NPCI)

NPCI was set up by RBI and the Indian Banks' Association (IBA) as an umbrella organisation for retail payments system in India.

It was incorporated in December 2008 under Companies Act, 2013 with the aim to operate for the benefit of all member banks and their customers, create infrastructure for operating pan-India systems with high availability and scalability to process increasing volumes of retail electronic payments, etc.

Products by NPCI

- **IMPS:** IMPS provides robust & real time fund transfer which offers an instant, 24X7, interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS.
- **RuPay Card Scheme:** RuPay is the first-of-its-kind domestic Card payment network of India, with wide acceptance at ATMs, POS devices and e-commerce websites across India. It is a highly secure network that protects against anti-phishing.
- **UPI:** Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.
- **NACH:** NACH System can be used for making bulk transactions towards distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium etc.
- **Aadhaar-enabled Payments System (AePS):** AePS is a bank led model which allows online interoperable financial inclusion transaction at PoS (MicroATM) through the Business correspondent of any bank using the Aadhaar authentication. AePS allows user to do six types of transactions.

- **BHIM Aadhaar:** BHIM Aadhaar Pay enables Merchant to receive digital payments from customers over the counter through Aadhaar Authentication. It allows for any Merchant associated with any acquiring bank to live. BHIM Aadhaar Pay, to accept payment from customers of any bank by authenticating customer's biometrics.
- **NETC:** National Electronic Toll Collection (NETC) offers an interoperable nationwide toll payment solutions including clearing house services for settlement and dispute management.
- ***99# (USSD based):** Banking customers can avail this service by dialling *99# on their mobile phone and transact through an interactive menu displayed on the Mobile screen (available only for live TSPs). Key services of freed under *99# service include, Sending and Receiving interbank account to account funds, balance enquiry setting/changing UPI PIN besides host of other services
- **Bharat Bill Payment System (BBPS):** BBPS is an integrated bill payment system which offers "anytime anywhere" interoperable bill payment service to customers using online payments as well as through a network of physical agent locations. BBPS was introduced to increase ease of bill payments in the country.

Key Concepts & Terminologies

Social Capital

Social capital is a set of shared values that allows individuals to work together in a group to effectively achieve a common purpose. The idea is generally used to describe how members are able to band together in society to live harmoniously.

Components of Social Capital

- **Bonds:** Links to people based on a sense of common identity ("people like us") such as family, close friends and people who share our culture or ethnicity.
- **Bridges:** Links that stretch beyond a shared sense of identity, for example to distant friends, colleagues and associates.
- **Linkages:** Links to people or groups further up or lower down the social ladder.

Significance

- **Service role:** It encourages people to cope with a public problem at the primary level. People tend to let non-profit organisations lead the way in responding to critical public needs.
- **Value guardian role:** The role of the non-profit sector is to function as a "value guardian" in society. The non-profit bodies foster pluralism, diversity and freedom. These values go much beyond purposes such as improving health or enhancing school enrolment.
- **Advocacy role:** Non-profit organisations also play a vital role in mobilizing public attention to societal problems and needs. They are the principal vehicle through which communities can give voice to their concerns.
- **Community building role:** Finally, non-profit organisations play a vital role in creating and sustaining social cohesiveness through bonds of trust and reciprocity that seem to be pivotal for a democratic society and a market economy to function effectively.

Public Service and Social Capital

- **Ensuring Accountability:** The accountability of the government is the most important means by which social capital influences performance. Trust and civic minded attitudes can improve governmental performance by ensuring political participation, reducing "rent seeking" and enhancing public-interested behaviour.

- **Convergence:** Social capital can bring convergence among different players on important issues. Political leaders in the developed regions are more willing to compromise with the views of opponents.
- **Policymaking:** In response to the problems and challenges of the community and the State, these institutions lead to greater innovation and flexibility in policymaking and provide solutions.
- **Public Service Delivery:** The services can be efficiently administered, if social network groups are in operation and they mobilise people around common issues.
- **Implementations of Programmes:** The collective participation of social capital institutions leads to better implementation of development programmes. Eg Cooperatives and Self Help groups.

Purchasing Power Parity (PPP)

Purchasing power parity is a measurement of prices in different countries that uses the prices of specific goods to compare the absolute purchasing power of the countries' currencies. e.g. Let's say that a t-shirt costs Rs 4900 in India. Then it should cost \$70 in America when the exchange rate is 70 between the dollar and the rupee.

Significance

- PPP allows economists to compare economic productivity and standards of living between countries.
- The PPP exchange rate and inflation may differ from the market exchange rate because of poverty, tariffs, and other transaction costs.
- PPP exchange rates are used to convert the national poverty lines from some of the poorest countries to determine the global poverty line.

Legal Tender Money

Legal tender money is the officially issued money by the authority or central banks which is used for medium of exchange. The currency notes or coins issued by the RBI and the government are legal tender money.

Difference between Fiat Money and Legal Tender Money

- Fiat money has no intrinsic value, while legal tender is any currency declared legal by a government.
- Governments can issue fiat currency and make it legal tender by setting it as the standard for debt repayment.
- The benefit of fiat money is that it gives central banks greater control over the economy, but governments can print too much money and create hyperinflation.
- The Indian Rupee is both fiat money and legal tender.

Role of Government and RBI in Currency Management

Role of RBI

- The Reserve Bank derives its role in currency management from the Reserve Bank of India Act, 1934. The Reserve Bank manages currency in India.
- The Government, on the advice of the Reserve Bank, decides on various denominations of banknotes to be issued.
- The Reserve Bank also co-ordinates with the Government in the designing of banknotes, including the security features.
- The Reserve Bank estimates the quantity of banknotes that are likely to be needed denomination-wise and accordingly, places orders with the various printing presses.
- Towards this aim, the banknotes received back from circulation are examined and those fit for circulation are reissued and the others (soiled and mutilated) are destroyed so as to maintain the quality of banknotes in circulation.

Role of Government

- In terms of Section 25 of RBI Act, 1934 the design of banknotes is required to be approved by the Central Government on the recommendations of the Central Board of the Reserve Bank of India.

- The responsibility for coinage vests with the Government of India on the basis of the Coinage Act, 2011 as amended from time to time.
- The Government of India is also responsible for the designing and minting of coins in various denominations.

Opportunity Cost

In economics, opportunity cost refers to the benefits or value that business owners, small enterprises, organisations, investors, or individuals miss out on when they choose to do something different.

The comparison of one economic option to the next best one is known as opportunity cost. When deciding between investment possibilities, these comparisons are common in finance and economics.

Calculating Opportunity Cost

- An investor calculates the opportunity cost by comparing the returns of two options. This can be done during the decision-making process by estimating future returns.
- Alternatively, the opportunity cost can be calculated with hindsight by comparing returns since the decision was made.

Human Capital Formation (HCF)

Human capital formation refers to the process of adding to the stock of human capital over time. It is the process of acquiring and increasing the number of skilled and experienced people. It is essential for the development of an economy.

How to raise of HCF in India?

- Keep an eye on the fast rate of population expansion.
- To tackle the problem of human resource wastage, efficient manpower planning is essential.
- Both the quantitative and qualitative dimensions of human capital must be included in the planning process.
- It is necessary to establish an effective educational plan that encourages the building of human capital.
- It should provide appropriate health services and nutritious food to the current population.

IFC Masala Bonds

Masala Bonds are bonds that are denominated in rupees. It is a debt instrument issued in overseas markets by an Indian entity to raise funds in Indian rupees rather than dollars or local currency.

In November 2014, the International Finance Corporation (IFC), the World Bank's investment arm, issued a 10-year, \$10 billion Indian rupee bond to encourage foreign investment and mobilise international capital markets to support the country's infrastructure development.

Features of Masala Bonds

Investors

- These bonds can only be offered to residents of countries that are members of the Financial Action Task Force (FATF).
- Additionally, the country's security market regulator must be a member of the International Organization of Securities Commissions (IOSC).
- Regional and multilateral financial institutions where India is a member can also subscribe to these bonds.

Maturity Period

- Bonds raised up to 50 million US dollars equivalent in INR per financial year should have a minimum original average maturity length of three years.
- Bonds raised in excess of 50 million US dollars equivalent and other inputs lent in INR per financial year shall have a minimum original maturity length of 5 years.

Eligibility

- Masala bonds are available to investors that are based outside of India and want to invest in Indian assets.
- HDFC, NTPC, and India bulls Housing Finance are some more global markets of the Indian companies that have used Masala Bonds to raise cash.

Core Banking Solution

Core Banking Solutions (CBS) is a facility or arrangement that helps banks to offer large number of customer-centric services on a 24x7 basis from a single location. The core banking solution can support retail as well as corporate banking activities.

e-Kuber

- e-Kuber gives high degree of access to commercial banks and other institutions to their current account with the RBI. currency.
- e-Kuber enables banks access with their current account at any time any where across the country.
- Utility of e-Kuber is that it is used to conduct exercises. like auctioning of government securities.
- RBI's e-Kuber system can be accessed either through INFINET or internet. INFINET (Indian Financial Network) is a Closed User Group Network for the exclusive use of member banks and financial institutions and is the communication backbone for the National Payments System.
- Several financial engagements like the auction of Government securities are done through e-Kuber system. Similarly, sovereign gold bonds are available for subscription at the branches of scheduled commercial banks and designated post offices through RBI's e-Kuber system.

Seed Village Concept

Seed village concept is to promote the quality seed production of foundation and certified seed classes. The area which is suitable for raising a particular crop will be selected, and raised with single variety of a kind.

Selection of Area

- Irrigation facilities
- Suitability of climatic conditions to raise the crop for more than one season
- Labour availability and Knowledge of local farmers on that particular crop
- Occurrence or outbreak of pest and diseases
- Past history of the area for suitability to raise seed crop
- Average rainfall and distribution
- Closeness to an urban area for easy movement of seed and other inputs

Global Depository Receipts

A global depository receipt (GDR) is a certificate issued by a bank that represents shares in a foreign stock on two or more global markets.

Features of GDR

- It's a freely tradeable instrument that can be exchanged like any other security.
- Through the use of a GDR, Indian enterprises with a three-year financial track record can easily gain access to global financial markets. Clearances from the Foreign Investment Promotion Board (FIPB) and the Ministry of Finance are required, however.
- GDRs are issued to investors all around the country since they can be denominated in a variety of freely convertible currencies.
- e-Kuber is the core banking solution of the RBI that. The GDR can be denominated in any foreign currency, but the underlying shares will be in the issuer's native
- On the value of the shares underlying the GDR, the holder is entitled to dividends and bonuses.
- The investor can convert GDR into equity shares, and sell the shares mentioned in the GDR through a local custodian.
- Under GDR, the issuing company transacts with only one entity for all its transactions.

Premier Institution for IAS / IPS**Inter | Degree + IAS****Integrated Coaching**

Classes by Subject Experts

Updated Study Material

Regular Test Series

Mentorship Program

PRELIMS CUM MAINS
COMPREHENSIVE
COURSE**Admissions Open**

Hyderabad (Main Branch)

Vizag (Regional Branch)

 www.aksias.com  8448449709Follow us :     AKS IAS**Offline****Online**



**Want to be
become
IAS / IPS ??**



**Premier Institution
for UPSC**

Online | Offline



Limited Seats
**Admissions
Open**

Follow Us:    **AKS IAS**

 www.aksias.com

 **8448449709**






 **AKS IAS**[®]

Foundation For Competitive Exams

**UPSC Prelims cum Mains
Integrated Coaching**



Our Features

-  Holistic coverage of core concepts & Current affairs as per syllabus.
-  Deconstruction Exercises with theme based approach.
-  Subject wise classes by experts.
-  Regular assesment through class tests.
-  Delhi & Hyderabad Top Faculties.



**MAIN
BRANCH**

**REGIONAL
BRANCH**

HYDERABAD & VIZAG