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TARGET 2018

ECONOMY II

December 2017 to March 2018

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ECONOMY II

TARGET 2018

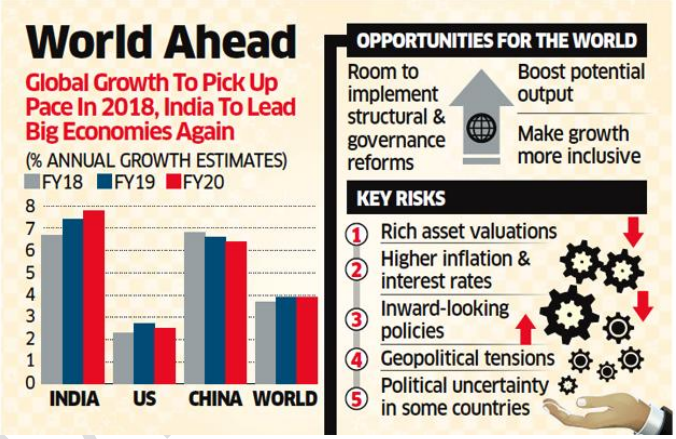
Economy II (November 2017 – February 2018)

1. GROWTH AND DEVELOPMENT

1.1. IMF Growth Forecast

IMF has released the latest update of the World Economic Outlook ahead of the World Economic Forum.

- **India** - India is projected to grow at ***7.4% in FY19*** as against 6.7% this year.
- This is projected to gain pace to grow at 7.8% in FY20.
- India has slipped behind China this year in tax collections owing to disruption caused by demonetisation and GST.
- The forecast will help India **regain the tag of fastest-growing major economy**, backing the government's economic revival theme.
- Notably, stock markets have been surging recently, hitting successive records.
- This is encouraged by the economic revival prospects and corporate earnings optimism, apart from other factors.
- **Other countries** - In the current year, China will grow 6.8%, just ahead of India but will slip to 6.6% next year.



- The US is forecast to grow 2.7% and 2.5% in 2018 and 2019, respectively, slightly higher than earlier estimates.
- **Global** - The IMF noted that 2017 saw the best global growth in seven years.
- The global economy is expected to **grow 3.9% this year**, faster than 3.7% forecast earlier in October.
- The revision in global growth forecasts reflects increased global growth momentum and positive impact of US tax policy changes.
- Shared priorities across all economies include implementing structural reforms to boost potential output and making growth more inclusive.

2. PUBLIC FINANCE

2.1 On path to fiscal consolidation

The government has been breaching the fiscal deficit targets time and again.

FRBM Act

- The Fiscal Responsibility and Budget Management (FRBM) Act was enacted in 2003.
- It led to the framing of FRBM Rules in 2004.
- Rules - It essentially sets targets for the Central government to ensure fiscal discipline.
- The FRBM rules set a target:
  - i. for reduction of fiscal deficit to 3% of the GDP by 2008-09 (with annual reduction target of 0.3% of GDP)
  - ii. for complete elimination of revenue deficit by 2008-09 (with annual reduction target of 0.5% of the GDP)
- Amendments - The target of 3% was achieved only once, in 2007-08.
- It was thus first postponed and later suspended in 2009, following the global financial crisis.
- The FRBM Act was later amended twice, in 2012 and 2015.

- In May 2016, the government set up the **NK Singh committee** to review the FRBM Act.
- In this backdrop, the recent budget has reset the target again.

Present fiscal picture

- **Fiscal deficit** - The current Budget has retained the fiscal deficit at 3.5% of GDP for financial year 2017-18.
- This is a deviation from the budgeted target of 3.2%.
- 3.2% itself is a deviation from the stipulated target of 3% for 2017-18 in the amended FRBM Act.
- **Debt** - The debt-GDP ratio has increased to 49.1% in 2017-18 from 48.7% in 2016-17.
- The increase in debt-GDP ratio is against a declining trend observed until recently.
- **MTFP** - As per the requirement of the FRBM Act, a medium-term fiscal policy (MTFP) statement is presented in each Budget.
- The statement pertains to fiscal, revenue, and effective revenue deficits, and outstanding debt of the Central government.
- A review of the statements highlights missing the targets for all four variables often by big margins.

Recent changes in targets

- **Fiscal deficit** - Budget 2018-19 has proposed amending the FRBM Act again.
- This will shift the target of 3% fiscal deficit-GDP ratio to end-March 2021.
- **Debt** - The general debt-GDP ratio is slated to be reduced to 60% of the GDP by 2024-25.
- The Central government debt-GDP ratio is to be reduced to 40% of the GDP by 2024-25.
- These targets are based on the recommendations of the FRBM Review Committee.
- However, the committee's target of 2022-23 is shifted to 2024-25.

Deviations from the committee's recommendations

- **Fiscal deficit** - The FRBM review committee proposed the fiscal deficit to GDP ratio to be stabilised at 2.5%.
- This target is derived in reference to the annual estimate of available investible resources at 10% of GDP.
- It comprises of surplus savings of the household sector and sustainable net capital inflows.
- Apparently, the government did not accept this and continued with the 3% target.
- **Revenue deficit** - The committee had specified a revenue deficit glide path, reaching 0.8% by 2022-23.
- But, no target has been set by the government for revenue deficit in the present budget.
- **Fiscal council** - The Committee recommended the setting up of a fiscal council.
- This is to independently examine the economic case and justification for deviating from the specified targets.
- This is to keep a check on unconstrained fiscal flexibility and to prevent the possibly avoidable fiscal risks.
- The Central government however did not accept this recommendation as well.

Concerns

- The government has been missing the fiscal responsibility targets year after year and changing the statutory framework repeatedly.
- This questions the credibility of the government's commitment to fiscal discipline.
- Extra-budgetary resources - In the recent budget, government's total outlay for 3 focus areas is 11.6% of GDP.
- Notably, budgetary resources constitute only 16.4% of the total outlay.
- The remaining 83.6% is to be raised as an extra-budgetary resource.
- This will be through the public sector enterprises concerned, special purpose vehicles and other similar institutions.

- However, a substantial part of this may only be based on borrowing. This is because the relevant bodies may have only limited surpluses.
- This will be an added borrowing dependence for extra-budgetary resources along with States' borrowing requirements.
- Given the already falling savings rate, increased borrowing can put considerable pressure on interest rates.

Terminologies

- **Budget Deficit (BD)** – It is the difference between Total expenditure and Total Revenue.
- BD = (Revenue Expenditure + Capital Expenditure) – (Revenue Receipts + Capital Receipts).
- **Revenue Deficit (RD)** – It is the difference between total revenue expenditure and total revenue receipts.
- RD = Revenue Expenditure – Revenue Receipts.
- **Fiscal Deficit (FD)** – It is the difference between total expenditure and revenue receipts & capital receipts but excluding borrowings and other liabilities.
- Fiscal deficit is an indication of the total borrowings needed by the government.
- FD = Total Expenditure – (Revenue receipts + Non Debt Capital Receipts).
- **Revenue Deficit Targeting –** This year union budget has proposed to stop setting targets on revenue deficit reduction from next year through an amendment in the FRBM framework.

2.2 Inclusion of Electricity in GST

Electricity is currently being exempted from the purview of GST. This resulted in the confusing multiplicity of electricity taxes.

- **Current status –** The electricity taxes vary by states and across user categories, low for consumers, high for industrial users, etc.
- Taxes levied by the states vary from 0 to 25% and is an important source of revenue for them.
- On average, electricity taxes account for about 3% of own tax revenues of the states, going up to close to 9% in some states.
- States are, therefore, reluctant to give up the right to levy these taxes.

Commodities outside the purview of GST

i. Alcohol for human consumption,
ii. Petroleum
iii. Products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and
iv. aviation turbine fuel
v. Electricity

Note: Tobacco and tobacco products are subjected to GST. In addition, the Centre has the power to levy Central Excise duty on these products.

Concerns

- **Costs** - The most serious concern is that costs to industrial users of electricity are higher.
- This is because they include the taxes on inputs that have gone into the supply of electricity.
- These include taxes on raw materials (coal, renewables) and other equipment (solar panels and batteries).
- Not being part of GST means that no inputs tax credit can be claimed.
- This certainly results in embedding of the tax in the final price.
- **Embedding of taxes** - This clearly hurts manufacturers selling to the domestic market.
- In particular, this affects the exporters of electricity-intensive products.
- It is because they are not liable to any duty drawback i.e. relief for taxes embedded in exports.
- **Industrial buyers of electricity** bear the impact of this in an indirect way.
- Populist politics has long ensured that consumers (and other users in agriculture) pay either nothing for electricity or very little.
- Ultimately, discoms cross-subsidise and charge higher prices to industrial users to make up for under-charging others.

- But the embedding of taxes adds an extra layer of cross-subsidisation.
- Totalling up all of these effects could lead to increased costs and lower margins for several industries.
- These margins are significant, especially for exporters who face strong international competition.
- **GST** - Currently, there is a large bias in favour of renewables in GST policy.
- Inputs to renewables generation attract a GST rate of 5% while inputs to thermal generation attract higher rates of 18%.
- Supporting renewables might be a conscious policy.
- But subsidisation is proliferating across policy instruments, making it difficult to quantify the overall support and is thus distorting.
- Thus, support for renewables should be direct and transparent.
- GST should not become the instrument for adding non-transparently to that support.

2.3 Sin Cess

- Under the GST regime, a cess is levied on luxury, demerit and sin goods (tobacco, pan masala, aerated drinks) to cover the loss suffered by the states on account of roll out of the new indirect tax regime.
- Sin cess in India is levied on top of the highest tax rate of 28% on these goods.
- It is levied by governments to discourage individuals from partaking in such activities without making the use of the products illegal.
- General public usually accepts sin taxes because they are indirect taxes that only affect those who use the products.

2.4 Customs Duty

The recent budget proposed an increase in customs duty on a range of products, particularly in the labour-intensive sectors.

- **GST** - Addressing GST and the associated hurdles in the manufacturing sector is one of the reasons for the tariff move.
- **Imports** - More importantly, it is to discourage imports, mostly from China and other Asian countries.
- Some items in tariffs increases are certainly due to the threat of flooding of cheap Chinese goods, affecting India's small industries.
- This includes mobile phones (15 to 20%), adapters and phone chargers (nil to 10%), silk fabrics (10 to 20%), etc.
- **Job Loss** - The move is also an effort to address the crisis over jobs lost due to Free Trade Agreement-related imports over time.
- The draft industrial policy 2017 finds mention in this context.
- The policy observes that a "duty structure that favours import of final products can act as disincentives for domestic manufacturers".
- **Impacts** – It is expected to boost local manufacturing and incentivize domestic value addition which will in turn create more jobs in the country.

Possible challenges

- India could be dragged to WTO over the recent tariff increases.
- The imposition of higher duties on electronics goods, including phones, goes against WTO's Information Technology Agreement.
- Under this 1996 agreement, India is required to eliminate tariffs on some electronics goods and IT products, including mobile phones.
- However, India maintains that IT and telecom technologies have evolved with new applications and equipment.
- These were neither existent nor even conceived at the time of signing the ITA-I in December 1996.

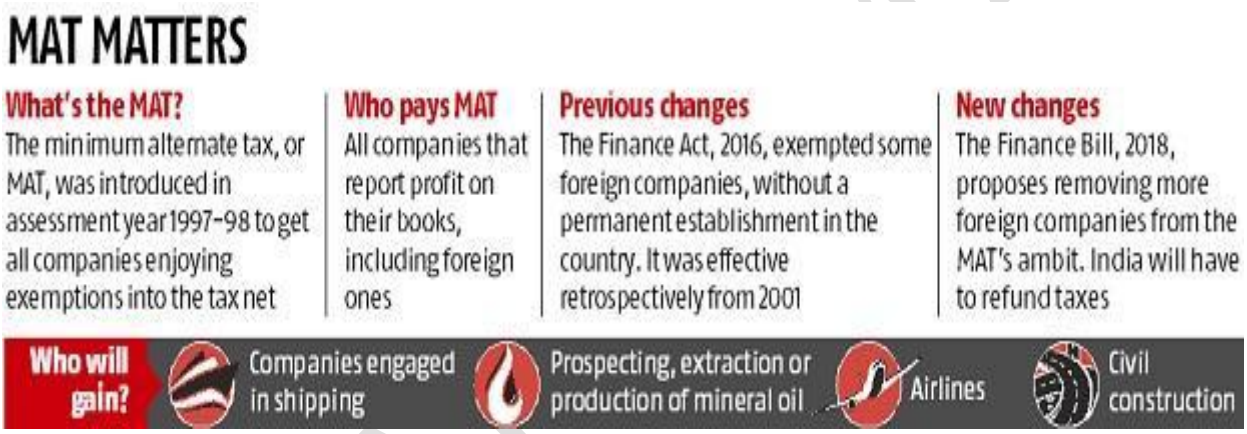
- Also, India is not undertaking any fresh commitments under ITA-2 agreement that came into force more than two years ago.

2.5 Centralised communication scheme

- The Central Board of Direct Taxes (CBDT) has notified a new centralised communication scheme.
- The scheme stipulates that an Internet-based independent centralised communication centre (CCC) through which e-notices to income tax-payers will be served.
- It is seen as part of the government's ambitious plan to usher in a countrywide paperless system of interface between the taxman and the assessee.
- The scheme would ensure that no person shall be required to appear personally or through authorised representative before the designated authority.

2.6 Minimum Alternate Tax (MAT)

- An amendment was proposed by Finance Bill, 2018 which plans to abolish MAT for few foreign companies.
- It seeks to exempt foreign companies that are engaged in shipping, air transport, oil exploration, and turnkey construction projects from the ambit of the MAT.
- According to the Finance Bill 2018, this amendment will apply in relation to the assessment year 2001-02 as well as subsequent assessment years.



3. INFLATION

3.1 Bi-Monthly Monetary Policy Review

The fifth bi-monthly monetary policy review of the ongoing fiscal year was released by the RBI.

- The six-member monetary policy committee (MPC) has kept the policy repo rate unchanged at 6%.
- Repo rate is the interest rate at which banks borrow funds from the central bank to overcome short-term liquidity mismatches.
- Continuing with its neutral stance, the MPC reiterated its commitment to keeping **CPI inflation** at a target of 4% while supporting growth.
- On development and regulatory policies, the RBI announced **rationalisation of the merchant discount rate**.
- This is to give a further fillip to the acceptance of debit card payments across a wider network of merchants.
- RBI also permitted the overseas branches/subsidiaries of Indian banks to refinance external commercial borrowings (ECBs) by raising fresh ECBs.
- This applies to top-rated corporates as well as 'Navaratna' and 'Maharatna' public sector undertakings.

Monetary Policy Committee

- The Reserve Bank of India Act, 1934 (RBI Act) has been amended by the **Finance Act, 2016** to provide for a statutory and institutionalised framework for a Monetary Policy Committee.
- It is responsible for fixing the benchmark interest rate in India while keeping in mind the objective of growth.

- It usually meets once in 2 months and is mandated to meet at least 4 times a year and it publishes its decisions after each such meeting.
- The committee comprises six members – Three officials of the Reserve Bank of India and three external members nominated by the Government of India.
- Members from the RBI are the Governor who is the chairman of the MPC, a Deputy Governor and one officer of the RBI.
- The government members are appointed by the Centre on the recommendations of a search-cum-selection committee which is to be headed by the Cabinet Secretary.
- The Members of the committee appointed by the Central Government shall hold office for a period of four years and are not eligible for reappointment.
- The Governor of RBI is the ex-officio chairperson of the committee.
- The quorum for the meeting of the MPC is four members.
- Decisions will be taken on the basis of majority vote and in case of a tie, RBI governor has a casting vote. He doesn't enjoy veto power.
- The current mandate of the MPC is to maintain inflation within the targeted range of 4%+2%, which is to be adhered till March 2021.
- The Financial Markets Operations Department (FMOD) operationalises the monetary policy, mainly through day-to-day liquidity management operations.
- The Financial Markets Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of the weighted average call money rate (WACR).
- Once in every six months, the RBI is required to publish a document called the Monetary Policy Report to explain the sources of inflation and the forecast of inflation for 6-18 months ahead.

3.2 CPI inflation

- Retail inflation is measured by Consumer Price Index (CPI) with 2012 as the base year.
- CPI is a measure that examines the weighted average of prices of a basket of consumer goods and services that are consumed by the average consumer.
- It is calculated by taking price changes for each item in the basket of goods.
- It is released by Central Statistics Office in 3 categories such as CPI rural, CPI urban and CPI combined.
- The components of CPI includes food, beverages, tobacco; Housing; Fuel and light; Clothing, bedding, footwear.

3.3 Wholesale Price Index (WPI)

- WPI represents the price of basket of goods at a wholesale stage i.e. goods that are sold in bulk and traded between organizations instead of consumers.
- WPI is calculated by the Office of Economic Advisor, DIPP under Ministry of Commerce and Industry.
- The base year for the index is 2011-12.
- Last year, the government has changed the base year for WPI from 2004-05 to 2011-12.
- It was based on the recommendation of committees led by former Planning Commission Member **Saumitra Chaudhuri.**
- The components of WPI include Primary articles, Manufacturing items, fuel and power with different weightages assigned to them.
- The weightages are Primary Articles (Weight 22.62%), Fuel & Power (Weight 13.15%), and Manufactured Products (Weight 64.23%).
- It basically indicates the rise in profitability of industries.
- The annual rate of inflation is calculated based on monthly WPI.
- Previously, the WPI was calculated on the basis of the base price plus excise duty minus any trade discount.

- The new formula removes the excise duty aspect and no longer incorporates indirect taxes in calculating the price calculation of a product.
- The total number of items covered under WPI has increased from 676 to 697.
- WPI index for the month of November, 2017 rose to eight month high (3.93%).

3.4 Comparing PMI and IIP

Purchasing Managers' Index (PMI) and Index of Industrial Production (IIP) are two key parameters that the government and private sector analysts use to gauge the level of activity in the manufacturing sector.

PMI

- PMI is calculated on the basis of information received on a monthly basis from companies on various factors that represent demand conditions.
- A standard questionnaire is administered to 500 private companies (**PSUs are excluded**) and the comprehensive score is arrived at.
- 5 parameters in PMI are - new orders (30% weightage), output (25%), employment (20%), supplier's delivery (15%) and stock of purchases (10%).
- The respondants can either give a "Positive, Neutral or Negative" response and each responses is marked as "1, 0.5 or 0" on the score card respectively.
- Hence, if there is unanimous positivity across all parameters, then the PMI score would be 100 (percentage) and unanimous negative would mean 0.
- While an absolute score of 50 would mean neutrality, anything above it is perceived as an improvement and less than it would mean detoritation.
- Intuitively, it can be seen that the purpose of the PMI is to indicate some degree of confidence level in manufacturing based company perspectives.
- Notably, as PMI is a market sentiment tracker that **compares the current month with the previous**, it is season sensitive.

IIP

- IIP denotes the level of economic activity in different sectors, including manufacturing, mining and power.
- It measures actual production output across the industrial sector.
- It is calculated by Central Statistical Office (CSO) under Ministry of Statistics and Program Implementation.
- Within IIP, there are 8 core industries which includes Coal, fertilizer, electricity, crude oil, natural gas, refinery products, steel, and cement.
- The manufacturing is given the highest weightage followed by mining and electricity.
- The base year for calculating IIP is 2011-12.
- As it is a comparison over the previous year, it is season neutral.

Difference between PMI and IIP

- PMI is a private sector survey while the IIP is gauged by the government.
- For India, the PMI Data is published by Japanese firm Nikkei but compiled and constructed by Markit Economics.
- While the IIP is a measure of output, PMI, as the name suggests, measures activity at the purchasing or input stage.
- PMI is based on data compiled from monthly survey responses.
- The manufacturing PMI report for any given month comes out either on the last day of that month or on the first day of the next month.
- The IIP, however, comes out after considerable delay. The data for a given month comes out almost one and a half months later.

- A sample of 500 companies for PMI is too small to be representative of what is happening at the aggregate level.
- Also, as these companies tend to be the bigger ones, SMEs are under-represented in PMI, whereas IIP is more comprehensive.
- Exclusion of the PSUs in PMI is another significant aspect as there is a very high contribution by this segment, especially in capital goods and infra areas.
- As with the IIP, the PMI suffers from the lacuna of not measuring informal sector activity.

4. BANKING

4.1 Financial Stability Report 2017

Financial stability report (FSR) of the RBI has been released

- Financial Stability Report (FSR) is a biannual publication which reflects the overall assessment on the stability of India's financial system.
- It will discuss India's resilience to risks emanating from global and domestic factors and issues relating to development and regulation of the financial sector.

Findings of the report

- Government has taken steps to recapitalise public sector banks to enable them to lend afresh and institutionalise a system to reduce stressed loans through IBC.
- FSR has raised pertinent questions about such moves having a sustainable solution.
- Credit growth of scheduled commercial banks (SCBs) has improved but the banking stability indicator (BSI) suggests that the asset quality in the Indian banking sector is worsening.
- Report also points out there are a worrisome development in credit quality of large borrowers, who have aggregate exposure of Rs 5 crore or more.
- This essentially means that stressed companies are still not able to generate enough revenue to honour loan payments.
- FSR concludes that the gross non-performing assets GNPA ratio may increase to 10.8 per cent by March 2018 and further to 11.1 per cent by September 2018.

Banking Stability Indicator (BSI)

- It is an asset quality indicator for banks.
- It is the expected number of banks that could become distressed given that at least one bank has become distressed.
- If BSI is higher more banks are expected to become distressed if one bank in the system is distressed.

4.2 The Financial Resolution and Deposit Insurance Bill

The Financial Resolution and Deposit Insurance Bill, 2017 (FRDI Bill) was recently introduced in the Parliament. But it has raised concerns among depositors on how they would be repaid in case of liquidation of banks.

- The FRDI Bill is aimed at insuring the money of a bank's depositors in the case of an eventuality where the bank would have to be liquidated.
- Failure of a bank has repercussions that go well beyond savings and lending, it has an impact on the systemic stability of a country.
- Thus the bill aims to limit the fallout of the failure of institutions like banks, insurance companies, non-banking financial companies, pension funds and stock exchanges.
- It is currently pending before a Standing Committee of Parliament.

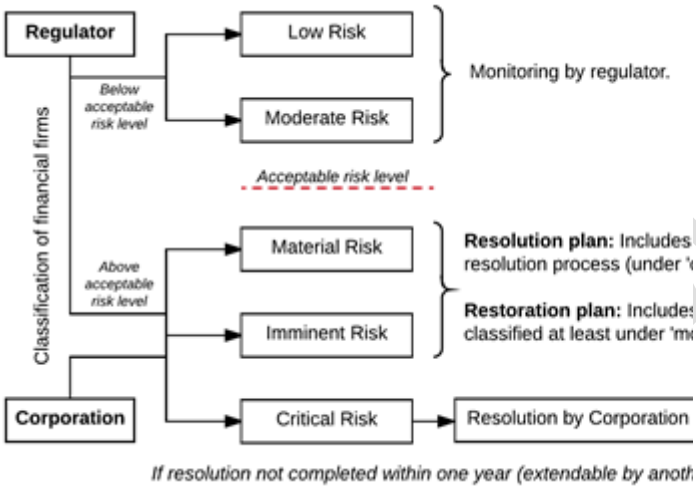
Existing method of Resolution

- The Deposit Insurance and Credit Guarantee Corporation (DICGC) is an RBI subsidiary, established in 1971.
- In case a stressed bank had to be liquidated, the depositors would be paid through DICGC.
- It insures all kinds of bank deposits up to a limit of Rs.1 lakh.

- It is mandatory for banks to pay a sum to the DICGC as insurance premium.

Provisions in the current bill

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



- A service provider categorized under the 'imminent' or 'critical' category will submit a restoration plan to the regulator, and a resolution plan to the Corporation.
- These plans will contain information, including:
  i. details of assets and liabilities
  ii. steps to improve risk based categorization
  iii. information necessary for resolution of the service provider
- **Administration -** The Corporation will take over the management of the service provider from the date it is classified as 'critical'.
- **Resolution -** The resolution of a service provider classified under the 'critical' category can be done using
  1. Transfer of its assets and liabilities to another person
  2. Merger or acquisition
  3. Creating a bridge financial
  4. Bail-in
  5. Liquidation
- **Bail –in** - The bill proposes 'bail-in' as one of the methods to resolution.
- Accordingly, banks **issue securities** in lieu of the money deposited, which may work against the depositors.

- **Time limit -** The service provider will automatically be liquidated if its resolution is not completed within the maximum time period of two years.
- **Liquidation and distribution of assets -** The Corporation will require the approval of the **National Company Law Tribunal** to liquidate the assets of a service provider.
- **Offences -** The Bill specifies penalties for offences such as concealment of property, and destruction or falsification of evidence.

Concerns in the proposed bill

- According to Section 52 of the proposed Bill, depositors will lose their rightful claim to retrieve their savings in case of liquidation of banks and insurance companies.
- It does not specify the fixed insured amount to be paid by the bank to the resolution corporation.
- It does not even specify the amount a depositor would be paid in case of liquidation.
- It is given that corporation may decide on the compensation in case of any bank failure, which could well be less than Rs. 1 lakh.
- It also proposes 'bail-in' as one of the methods to resolution, where the banks issue securities in lieu of the money deposited.
- In the past, the bail-in efforts had largely worked against depositors.
- The ambiguities on how the depositors would be repaid needs to be addressed.
- Thus, there is a need to enhance insurance cover on deposits which should ideally continue to be managed by the RBI.

Positives in the law

- **Resolution Corporation -**The Bill brings in a system of risk-based monitoring of financial institutions.
- At the stage of 'critical' risk to viability, the proposed Resolution Corporation is empowered to takes all the decision not the banks.
- The Resolution Corporation can use "bail-in" clause **only in consultation with the regulator (RBI).**
- **Curtailing the power -** During global financial crisis 2008, governments used tax-payer money was used to recapitalise the banking industry.
- The Bill makes it explicitly clear that only such liabilities may be cancelled where the liability/instrument contains a bail-in provision.
- **Transparent -**It makes it clear that the Resolution Corporation will specify the liabilities to be bailed in and that will be put up in the public domain before finalisation.
- Creditors/depositors will need to consent in advance to have their liabilities bailed-in.
- **Accountable -**Even when liabilities are being bailed in, the Bill makes it incumbent upon the Resolution Corporation to follow the prescribed route.
- Here, uninsured depositors are placed higher over unsecured creditors and amounts due to the Central and State governments.
- **Guaranteed compensation -** FRDI Bill gives aggrieved persons a right to be compensated by the Resolution Corporation if any of the safeguards have not been followed during a bail-in or in the conduct of any other resolution action.

4.3 Insolvency and Bankruptcy Code (Amendment) Bill 2017

The Insolvency and Bankruptcy Code (Amendment) Bill 2017 was introduced in the Lok Sabha to replace an earlier ordinance.

Insolvency and Bankruptcy Code, 2016

- The Insolvency and Bankruptcy Code (IBC) was enacted in 2016 to facilitate a time-bound resolution for ailing and sick firms.
- It could either be through closure or revival, while protecting the interests of creditors.
- Under IBC, either the creditor (banks) or the loaner (defaulter) can initiate insolvency proceedings.

- It is done by submitting a plea to the adjudicating authority, in this case, the National Companies Law Tribunal (NCLT).
- The resolution process was expected to aid in reducing the rising bad loans in the banking system.

Problems in IBC 2016

- There was a concern that the resolution process could leave scope for the defaulters to take advantage of the situation.
- Notably, the provisions allowed them to come back into the management by paying a fraction of the defaulted amount.
- Addressing this, an ordinance was brought in later (2017), which prevented unscrupulous promoters from misusing the provisions of the IBC.
- It thus barred from participating in the resolution process, the following:
    i. wilful defaulters
    ii. defaulters whose dues had been classified as NPAs for more than a year
    iii. all related entities of these firms
- Consequently, many entities that acquired distressed assets were disqualified from the bidding process, as these were classified as NPAs.
- Similarly, banks opting to convert their debt into equity under the RBI's restructuring scheme would have become promoters of these insolvent companies.
- And hence these have also been barred from the resolution process.
- These anomalies called for changes to make the debt resolution process easier and more efficient.

Highlight provisions of the bill, 2017

- The amendment bill will replace the earlier ordinance on the Insolvency and Bankruptcy Code.
- It has addressed concerns about some of the stringent provisions in the ordinance and seeks to streamline the law and plug loopholes.
- Accordingly, now, wilful defaulters and existing promoters can become eligible to **submit a resolution plan** if they repay their dues and make their bad loans operational.
- Also, defaulters who had participated in the insolvency proceedings before the enactment of the ordinance can also **bid for stressed assets** provided they clear their dues in a month.
- Notably, these promoters were earlier barred from taking part in the resolution process of the companies.
- It also allows guarantors of insolvent firms to bid for other firms under the insolvency process.
- Further, asset reconstruction companies, alternative investment funds (AIFs) such as private equity funds and banks can now participate in the bidding process.
- The bill thus seeks to strike a balance in the trade-off between punishing wilful defaulters and ensuring a more effective insolvency process.
- The bill also seeks to bring any individual who was in control of the NPA under the ambit of the insolvency code.
- It lays out that the individual insolvency law will be implemented in phases.
- **Concerns -** The law thus does not recognize promoters facing genuine operational or financial difficulties because of external factors.
- These factors for defaulting should also be recognised and resolutions provided for, to help bring the economy back on track.

4.4 PSBs Recapitalisation Plan

The government recently announced the details of the earlier said Rs. 2.1 lakh crore recapitalisation plan for public sector banks.

- **Package** - The recapitalisation package will be spread across current financial year 2017-18 and the next year 2018-19.
- The government will infuse around Rs 88,000 crore into 20 public sector banks.
- These banks account for more than 80% of the bad loans.
- **Themes** - The plan includes a reforms package across six themes.
- They are:
  1. customer responsiveness
  2. responsible banking
  3. credit offtake
  4. PSBs as Udyami Mitra (friends of entrepreneurs)
  5. deepening financial inclusion and digitalisation
  6. developing personnel for brand PSB
- The whole-time directors of the PSBs would be assigned theme-wise reforms to oversee.
- Their performance on the themes would be evaluated by the boards of the banks.
- **Differential approach** - The recapitalisation package would follow a differentiated approach for banks.
- The capital infusion for the PSBs would be dependent on banks' performance.
- Accordingly, the government will give more money to the weakest ones.
- These are the 11 lenders under the Reserve Bank of India's ***Prompt Corrective Action* (PCA).**
- In financial year 2017-18, PCA banks would get around Rs. 50, 000 crore.
- The comparatively healthier non-PCA banks would get around Rs. 35,000 crore.
- **Recapitalisation bonds** - The capital infusion will be done partly by *recapitalisation bonds* and partly by budgetary support.
- The bonds are to have a maturity period of 10-15 years and would be issued in six different slots.
- They will not have a statutory liquidity ratio (SLR) requirement and would be non-tradeable.

Recapitalisation bonds

- The idea is to borrow from the banks themselves and boost the weaker banks' capital, without immediate demand for direct government budgetary support.
- Banks will subscribe to these bonds as part of their investment portfolio.
- They will use the excess deposits they acquired from the recent demonetisation drive to invest in the bonds.
- The money raised by the government will then be used to infuse fresh equity into weaker banks.

- The government has set strict terms for issuing the recapitalisation bonds to PSBs.
- The terms include :
  i. creating a stressed asset management vertical
  ii. tying up with agencies for specialised monitoring of loans above Rs 2.5 billion
  iii. strict surveillance on big loan defaulters
  iv. appointing a whole-time director for monitoring reforms every quarter.
- **Benefits** - The recapitalisation package will create an incremental **lending capacity** with the banks.
- This is expected to catalyze the revival of the capital investment cycle in the economy.
- Banks will now be sufficiently capitalised to maintain **regulatory capital requirements** and also to lead growth.
- Banks would have to subject themselves to reform, become more professional, and do prudent and clean lending.

- The government would bring out a report card on compliance of these measures.
- **Impact on Fiscal consolidation -** There are apprehensions that the recapitalisation bonds would affect the fiscal consolidation efforts by the government.
- The government however assured that it would not have any substantial impact on the fiscal deficit.
- This is because the recapitalisation bonds would be "**cash neutral**" (does not need net cash for a transaction).
- The fiscal deficit will be impacted only by the interest cost on the bonds that the government pays every year.

Prompt Corrective Action (PCA)

- PCA is primarily to take appropriate corrective action on weak and troubled banks.
- The RBI has put in place some trigger points to assess, monitor and control banks.
- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).
- Based on each trigger point, the banks have to follow a mandatory action plan.
- RBI could take discretionary action plans too apart from these.
- RBI has initiated prompt corrective action (PCA) in as many as 11 PSBs.
- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.

4.5 RBI's New Framework for Resolving NPAs

The RBI has come up with a revised framework for quicker and time-bound resolution of non-performing assets (NPA).

- The new framework has **withdrawn** most of the **existing stressed asset schemes** such as the Strategic Debt Restructuring Scheme (SDR) and the Scheme for Sustainable Structuring of Stressed Assets (S4A), corporate debt restructuring, 5/25 financing, , Flexible Structuring of Existing Long-Term Project Loans.
- It would give **primacy to** the Insolvency and Bankruptcy Code (**IBC**) of 2016.
- It will also **disband** the concept of a **Joint Lenders' Forum** (JLF), which is a dedicated grouping of lender banks that is formed to speed up decisions when an asset (loan) of Rs.100 Crore or more turns out to be a stressed asset.
- With the JLF out of the way, the new RBI guidelines demand that banks identify stressed accounts as soon as they go into default.
- The banks are supposed to categorise them as **special mention accounts**, report to the RBI and start the resolution process straight away.
- A focus on timely identification of bad loans and the speedy resolution of such assets has been roped in.
- Default accounts where the banking sector's aggregate exposure is **Rs2,000 crore above**, lenders must implement a Resolution Plan (RP) within 180 days, starting 1 March 2018.
- If a RP is not implemented as per the timelines specified, lenders shall file insolvency application, singly or jointly, under the Insolvency and Bankruptcy Code 2016 (IBC) within 15 days from the expiry of the said timeline.
- For other accounts with aggregate exposure below Rs2,000 crore but and, at or above Rs100 crore, a two-year period with reference dates for implementing the resolution plan is given.
- The central bank has toughened the **reporting** of default to the **central repository** by making it a **monthly**, instead of a quarterly, requirement.
- All borrower entities in default with an exposure of more than Rs 50 million have to be reported on a weekly basis.
- RBI made it clear that default in the borrower entity's account with any lender all banks, singly or jointly shall initiate steps to address it, which makes the banks to start the resolution process.

- The RBI has laid clear timelines, not exceeding 180 days from March 1, for the resolution process to yield results, failing which insolvency proceeding will have to commence within 15 days.
- **Significances -** The new framework will obviously lead to short-term pain for many banks and may throw up challenges for borrowers.
- For example, the strict timelines to come up with a resolution plan could mean that a larger number of accounts will go into insolvency.
- The condition that a restructuring plan must be agreed upon by all banks involved in large accounts may be difficult to implement as experience shows such a thing rarely happens.
- Over the long term, however, the revised framework should work well as the process still provides over one year to resolve a stressed assets problem initial 180 days to implement the resolution plan and then another 270 days under the IBC.

4.6 PNB Banking Fraud Case

One of the branches of State-owned Punjab National Bank (PNB) has recently detected fraudulent transactions worth over Rs 11,000 crores through Letter of Understanding (LoUs).

- PNB has alleged that two of its employees had "fraudulently" issued LoUs and transmitted **SWIFT instructions** to the overseas branches of Indian Banks.
- This was done to raise buyer's credit for the firm of a diamond merchant Nirav Modi without making entries in the bank system.
- These LoUs were mostly issued to two Hong Kong branches of Indian Banks and was for the aforesaid diamond merchant.
- Hong Kong branches of Allahabad Bank and Axis Bank have given money to the beneficiary entity on behalf of Modi's firms.
- As a result, PNB will have to settle the LoUs with these branches according to the norms of the Hong Kong Monetary Authority.
- The bank may have to set aside higher provisioning in the next few quarters if it unable to recover the money from the accused firms.
- The fraud has been unearthed at a time when Indian banks are reeling under a pile of stressed assets of about Rs 10 lakh crore.
- Also, higher provisioning and a rise in bond yields, has resulted in losses for most public sector banks in the previous quarter.

Letter of Understanding

- LoU is an assurance given by one bank to another to meet a liability on behalf of a customer.
- It is similar to a letter of credit or a guarantee.
- It is used for overseas import remittances and involves four parties — an issuing bank, a receiving bank, an importer and a beneficiary entity overseas.
- According to norms, they are usually valid for 180 days.
- LoUs are conveyed from bank to bank through "Society for Worldwide Interbank Financial Telecommunication" (SWIFT) instructions.
- Notably, till now, there is no record of a breach in SWIFT instructions anywhere in the world.

4.8 Society for Worldwide Interbank Financial Telecommunication (SWIFT)

- It is a messaging network that financial institutions use to securely transmit information and instructions through a standardized system of codes.
- SWIFT is headquartered in Belgium.
- It also brings the financial community together – at global, regional and local levels – to shape market practice, define standards and debate issues of mutual interest or concern.
- For money transfers, SWIFT assigns each participating financial organization a unique code with either eight or eleven characters.
- Recently, India's City Union Bank suffered a cyber attack via the SWIFT financial platform.
- RBI has asked banks to link SWIFT with core banking solutions (CBS) of banks.
- Core banking refers to a centralized system established by a bank which allows its customers to conduct their business irrespective of the bank's branch.

- CORE is an acronym for "Centralized Online Real-time Exchange", thus the bank's branches can access applications from centralized data centers.

4.9 Standing Deposit Facility Scheme

- RBI uses array of instruments such as Cash Reserve Ratio, Open Market Operation, Market Stabilisation Scheme to absorb excess liquidity in the economy.
- These measures are considered as Liquidity Adjustment Facility (LAF) to bring the liquidity gap under control.
- However, these tools were not proven to be useful when the money market liquidity is in excess to deal with. Eg. Post demonetization scenario.
- During post demonetization, RBI ran out of government securities to offer as collateral and had to temporarily hike its CRR.
- Now, there is a proposal to introduce Standing Deposit Facility Scheme (SDFS) which was already recommended by Urjit Patel Committee in 2014.
- It is to empower RBI with an additional instrument for liquidity management.
- SDFS is a toolkit of monetary policy for absorption of surplus liquidity from the system but without the need for providing collateral in exchange.

4.9 Credit Scores

- A credit score determines how creditworthy a person is and helps banks and financial institutions decide on loans.
- In India, the scores are issued by credit reporting agencies such as CIBIL, Equifax, Experian, Etc.
- These agencies are **regulated by the RBI** and collect data from banks on their loans and come up with credit scores through use of algorithms.
- The data is updated frequently. Credit scores in India range from 300-900.
- A credit report may be obtained for free once a year from every credit reporting agency.

4.10 Financial Stability Assessment Programme (FSAP)

- FSAP is a joint program of the International Monetary Fund (IMF) and the World Bank (WB involved in developing countries and region only).
- It undertakes a comprehensive and in-depth analysis of a country's financial sector.
- FSAP contains two main reports such as Financial System Stability Assessment (FSSA) and Financial Sector Assessment (FSA).
- FSAP is being undertaken in 29 jurisdictions with systemically important financial sectors, including India, every five years.
- Last FSAP for India was conducted in 2011-12 and the report published by IMF on Jan 15, 2013.
- FSAP (2017) assessment acknowledges that India has recorded strong growth in recent years in both economic activity and financial assets with size of the financial system remaining broadly stable in terms of GDP at about 136 per cent.
  1. It acknowledges few programmes of Indian government such as,
  2. Tackling Non-Performing Assets (NPAs),
  3. Recent recapitalization measures for banks
  4. Introduction of special resolution regime,
  5. Formalization of National Pension System (NPS) and making the pension sector regulator statutory0
  6. Passing of Insolvency and Bankruptcy Code and setting up of Insolvency and Bankruptcy Board of India (IBBI).
- It appreciates initiatives such as 'no frills' account (under Jan Dhan Yojana), promoting digitization, introduction of unique biometric identification number (AADHAR), currency exchange initiative etc.

- It also recognizes the improved inter-agency co-operation since the establishment of **Financial Stability and Development Council (FSDC)**, supported by its Sub-Committee and progress in setting up of Financial Data Management Centre (FDMC).
- FSAP assessment acknowledges that RBI's efforts in improving banking supervision through measures like Supervisory Program for Assessment of Risk and Capital (SPARC), Asset Quality Review (AQR), establishing a new Enforcement Department and revising the Prompt Corrective Action (PCA) framework.

Financial Stability and Development Council

- FSDC was established in 2010 with Union Finance Minister as its Chairman.
- It was to solve the regulatory tussle between SEBI and IRDA on the regulation of Unit Linked Life Insurance Plan (ULIP).
- Its members include
  - i. the heads of financial sector regulators (RBI, SEBI, PFRDA, and IRDA)
  - ii. Finance Secretary, Department of Economic Affairs
  - iii. Secretary, Department of Financial Services
  - iv. Chief Economic Adviser
- FSDC has two core functions:
  - i. to perform as an apex level forum to strengthen and institutionalize the mechanism for maintaining financial stability
  - ii. to enhance inter-regulatory coordination and promote financial sector development in the country
- It will focus on financial literacy and financial inclusion.
- It will monitor macro-prudential supervision of the economy and also assess the functioning of the large financial conglomerates.
- FSDC sub-committee is chaired by the Governor of RBI.

4.11 Ombudsman Scheme for NBFC

- RBI has recently announced an ombudsman scheme for customers of Non-Banking Finance Companies (NBFC) to redress complaints against deficiency in services in NBFC.
- RBI has notified that the scheme will be initially operationalised for all deposit-accepting NBFCs.
- And based on the experience gained, the scheme would be extended to include the remaining identified categories of NBFCs.
- Certain NBFCs like infrastructure finance companies, core investment companies, infrastructure debt fund and NBFCs under liquidation are excluded from the ambit of the ombudsman scheme.
- Cuurently, four NBFC Ombudsman have been appointed with their offices located at Chennai, Kolkata, New Delhi and Mumbai for handling complaints in their respective zones.
- It provides for **an Appellate mechanism** under which the complainant/ NBFC has the option to appeal against the decision of the Ombudsman before the Appellate Authority within 30 days.
- The NBFC Ombudsman does not charge any fee for filing and resolving customers' complaints.
- The compensation amount, if any, which can be awarded by the NBFC Ombudsman, for any loss suffered by the complainant, is limited to the amount arising directly out of the act or omission of the NBFC or rupees one million, whichever is lower.

4.12 Banning of Unregulated Deposit Schemes Bill

Union cabinet had recently approved Banning of Unregulated Deposit Schemes Bill 2018.

- It aims to provide a comprehensive legislation to deal with the menace of illicit deposit schemes.
- The Bill defines "Deposit Taker" who include all possible entitiesreceiving or soliciting deposits except specific entities such as those incorporated by legislation.
- Being a comprehensive Union law, the Bill adopts best practices from State laws, while entrusting the primary responsibility of implementing the provisions of the legislation to the State Governments.

- The Bill contains a substantive banning clause which bans Deposit Takers from promoting, operating, issuing advertisements or accepting deposits in any Unregulated Deposit Scheme.
- The principle is that the Bill would ban unregulated deposit taking activities altogether, by making them an offence ex-ante.
- The Bill creates three different types of offences namely
    1. Running of Unregulated Deposit Schemes.
    2. Fraudulent default in Regulated Deposit Schemes.
    3. Wrongful inducement in relation to Unregulated Deposit Schemes.
- It provides for severe punishment and heavy pecuniary fines to act as deterrent.
- The bill also provides for attachment of properties/ assets by the Competent Authority, and subsequent realization of assets for repayment to depositors.
- It has planned a designation of special courts and competent authority by the state Government to ensure repayment of deposits in the event of default by a deposit taking establishment.
- The bill also enables creation of an online central database, for collection and sharing of information on deposit taking activities in the country.

5. MONEY MARKET

5.1 Future Trading of Crypto-Currencies

Two futures exchanges in the US gave the green light to list bitcoin futures.

- It is a significant step in allowing mainstream investors to buy and sell the crypto-currency.
- As a result, Crypto-Currency rocketed around $11,000, while it was trading just below $1,000 in January.
- The rupee volume of bitcoin trades runs at around Rs 125 crore per day and 1.5 million Indians are active bitcoin traders.
- Other cryptocurrencies like Ethereum too have shown equally impressive gains. But it is to be understood that, this is clearly a bubble.
- As more money is chasing this limited supply, prices have risen.
- Such bubbles arise when the market finds it hard to accurately value a new concept.
- Currently, only Japan among the G-7 accepts it as a legitimate currency.

Ethereum

- Ethereum is similar to Bitcoin in the sense that they are both open-source platforms based on blockchain technology.
- These decentralised payment network with its own cryptographic currency, allows anonymous payments without the need for a bank or other third party.
- Ether is the digital currency of the ethereum blockchain and it is the second-largest cryptocurrency after bitcoin.
- But while Bitcoin is limited to using blockchain technology for Bitcoin payments, Ethereum can also be used to build decentralised computational platforms.
- Ethereum technology allows for third party applications, not just the currency, to run on the network.
- It allows a number of apps to be built and it is also being used by start-ups to raise money with initial coin offering.

Ripple and Petro

- Ripple is a technology that acts as both a cryptocurrency and a digital payment network for financial transactions.
- It was released in 2012 and its coin is labeled as XRP.

- Ripple operates on an open source and peer-to-peer decentralized platform that allows for a seamless transfer of money in any form, whether USD, Yen, litecoin, or bitcoin.
- It is the fourth-largest cryptocurrency in the world by market capital, which now stands at around $43 billion.
- **Petro** is a cryptocurrency launched by Venezuela backed by oil reserves.
- It is mainly to shore the collapsed oil economy.
- Venezuela's real currency "Bolivar" is in freefall, and the country is sorely lacking in basic needs like food and medicine.

5.2 Initial Coin Offering

Globally, there has been a silent boom in ICO fund-raising, with much of the action focussed on Europe and North America.

- An Initial Coin Offering (ICO) is used by the startups to bypass the rigorous and regulated capital-raising process required by venture capitalists or banks.
- More accurately known as token sales, ICOs are unregulated means of raising money from public investors, to finance a startup.
- When a startup firm wants to raise money through an Initial Coin Offering (ICO), it usually creates a plan on a whitepaper.
- It specifies the following:
    i. what the project is about
    ii. what need(s) the project will fulfil upon completion
    iii. how much money is needed to undertake the venture
    iv. how much of the virtual tokens the pioneers of the project will keep for themselves
    v. what type of money is accepted
    vi. how long the ICO campaign will run for
- During the ICO campaign, interested public investors buy some of the distributed cryptocoins with fiat or virtual currency.
- These coins are referred to as 'tokens'.
- These are much similar to shares of a company sold to investors in an Initial Public Offering (IPO) transaction.
- **Different kinds -** Two kinds of ICOs are active in the market.
- One type raises money to fund a new virtual currency or blockchain project that aims to reflect the success of the Bitcoin or Ether.
- These ICOs are attractive with the fact that the tokens can be exchanged for the new virtual currency, once it takes off.
- The other set of ICOs simply raise money to fund tech startups.
- Simply, a percentage of the cryptocurrency is sold to early supporters of the project.
- This is in exchange for legal tender or other cryptocurrencies, but usually for Bitcoin.
- It represents an informal ownership share in the business they fund.
- The expectation is that the tokens will appreciate in value with the underlying business.
- **Concerns -** One of the reasons for the recent interest in ICOs is certainly the multifold rise in prices of virtual currencies such as bitcoins.
- However, the regulatory status of ICOs is not firmly established in India.
- The RBI has warned investors of the risks of experimenting in virtual currencies and is considering regulating crytocurrencies.
- On the other hand, SEBI is yet to express its official views on ICOs. Notably, even SEBI's global counterparts are still grappling with the issue of whether to treat digital tokens as 'securities'.

- Given the absence of any kind of regulatory framework in place, venturing into ICOs would be risky for the public investors.

Difference between IPO and ICO

- Essentially, while IPOs deal with investors, ICOs deal with supporters that are keen to invest in a new project.
- The word 'informal' is key to understanding the concept of ICOs.
- In an IPO, the rights in the case of shares bought are legally protected by the elaborate securities market regulations.
- On the other hand, the legal status of ICO 'tokens' is uncertain because many countries, including India, haven't yet framed any regulations in this regard.
- Also, companies that raise money through IPOs are required to file and get approval for a detailed prospectus from regulators.
- They are also required to provide ongoing disclosures to investors.
- ICOs, however, evade all these rules and simply issue a white paper sketching out business plans.

5.3 Mutual Funds and Portfolio Managers in Commodity Derivatives Segment

SEBI has put forth proposals to allow mutual funds and portfolio managers to invest in commodity derivatives segment.

- **Derivatives** - Derivative is a contract between two or more parties.
- Its value is determined by the underlying asset.
- The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.
- **Commodity Derivatives** - It's a derivative contract with a commodity as the underlying asset.
- Producers who want to manage the risk of future price uncertainty for their commodities enter into commodity derivatives.
- In India, like a stock market NSE provides a platform to trade in different shares, the Multi Commodity Exchange (MCX) and National commodity derivative Exchange (NCDEX) facilitate for the commodities.
- MCX is known for the trading of Bullions metals (Gold, Silver, etc), Base Metals (Zinc, Aluminium, etc) and Energy (Crude Oil and Natural Gas).
- The NCDEX is known for trading in Derivative contract of agricultural produces.
- **Mutual Fund** (MF) is an investment vehicle made up of a pool of moneys collected from public investors.
- The pooled money is used to buy other securities by professional money managers.
- They give small or individual investors access to professionally managed portfolios of equities, bonds and other securities.
- **Portfolio Manager** (PM) is a professional person or a group of people, usually experienced investors responsible for making investment decisions on behalf of individuals or institutions.
- The main difference between MFs and PMs is that in Mutual Funds, the investors' money is pooled and collectively invested, which is not the case with PMs.

SEBI's recent proposal

- As of now, only gold is a permissible commodity for institutional investors, and is allowed through exchange-traded funds (ETFs).
- SEBI had earlier attempted to increase the institutional participation in the commodity segment.
- E.g. It recently allowed category -III *Alternative Investment Funds* (AIFs) to participate in the commodity derivatives market.
- In line with this, allowing mutual funds and portfolio managers in the commodity derivatives segment aims at broadbasing the commodity derivative segment.

- SEBI's Commodity Derivatives Advisory Committee (CDAC) has also suggested opening up the market to both domestic and foreign institutional investors in a phased manner.
- **Benefits -** The Indian commodity derivatives market was lacking the desired liquidity and depth as it was running without any institutional participation.
- The current move fills this gap and hence brings in efficient price discovery and price risk management.
- There is also a huge surge in Mutual Funds in recent periods, indicative of widening base of investors.
- So allowing MFs and PMs in the commodities segment comes as an additional or alternative asset class for diversification.
- It is also in line with the series of liberalization measures in the past couple of years for investors to increase participation in domestic institutions.

Alternative Investment Funds

- An alternative investment is an asset that is not one of the conventional investment types, such as stocks, bonds and cash.
- Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts.
- Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of the complex natures and limited regulations of the investments.

5.4 Minimum Public Shareholding Rule

SEBI allowed its listed companies to use new methods of share sales through MPS rule.

- The Minimum Public Shareholding (MPS) rule requires all listed companies in India to ensure that at least 25% of their equity shares are held by non-promoters (public).
- This rule was implemented after the amendment of Securities Contracts Regulation Rules by SEBI in 2010.
- Under this rule promoters with a strangle-hold on listed companies were asked to compulsorily sell down their stake by placing shares with institutions or issuing rights or bonus shares.
- **Significance –** India has 5000 listed companies but the market depth is very low (ie.) stocks available for trading by the public is very limited
- With this rule, SEBI is hoping to improve market depth and liquidity by unlocking this free float and improve corporate governance by giving public shareholders.
- MPS rule ensures better liquidity, price discovery and governance in the stock market.
- **Challenges -** Review by SEBI found that over 105 private sector firms hadn't fallen in line and it issued notices to them.
- Instead of addressing the compliance issues SEBI is keen to further expand the mandatory MPS to 30 per cent or even 35 per cent.
- SEBI also imposes penalties to the company which is non-complaint by freezing the promoter shares and barring promoters from any directorships.
- This threatens new players in the market.

5.5 Universal Exchanges

SEBI has finalised norms for universal exchanges.

- Usually security exchanges and commodity trading are regulated by separate entities.
- By creating universal exchange SEBI has allowed the same exchange to offer products in the equity, commodity derivatives, and debt and currency segments.
- By this stock exchanges need not to set up different entities to offer commodity trading.
- Detailed guidelines are yet to be issued, but new products will only be introduced with SEBI approval.
- **Significances - The** NSE and the BSE offer equity and equity derivatives, while the MCX and the NCDEX specialise in commodity derivatives.

- This clearance will enable the BSE and the National Stock Exchange (NSE) to launch commodity derivatives trading.
- It will also enable Multi Commodity Exchange of India (MCX) and the National Commodity and Derivatives Exchange (NCDEX) to move into the equity segments.
- It will **enhance competition** across all categories, thus creating deeper markets with lower spreads and exchange fees.
- It would offer **greater convenience**, in that traders will be able to trade all asset categories from a single account.
- Indian exchanges will find it easier to **compete with their global counterparts** and they can also present in multiple segments.
- **Challenges** - Given the significant differences between commodities and equities, **risk management** across asset classes will be a challenge and it might face implementation challenges.
- Commodity futures can involve physical delivery which requires the holder to either produce the commodity or take delivery from the exchange.
- But most Indian commodity futures are cash-settled, with delivery only in gold and silver.
- Commodity exchanges will remain open for very long hours, since many commodities track global prices but stock markets are time bounded.
- If the NSE and the BSE do start offering commodity derivatives segments, they will have to keep those segments open for longer a hour which needs regulation.

Difference between equity and commodity trading

- **Equity trade -**The market in which shares are issued and traded, mostly through exchanges, this is also known as stock market.
- This gives companies access to capital and investors a slice of ownership in a company with the potential to realize gains based on its future performance.
- The securities traded in the equity market can be either public stocks, which are those listed on the stock exchange, or privately traded stocks.
- **Commodity trade -** This market is mostly related to food, energy or metals, are an important part of everyday life.
- Commodities traditionally move in opposition to stocks, so they are used as a significant way to diversify a portfolio beyond traditional securities.
- Types of commodities in this market includes Metals like gold, silver, etc., Energy like crude oil, gasoline etc.

5.6 New Savings Bonds

- The Centre recently announced the introduction of 7.75% savings bonds.
- It will have a maturity of seven years carrying interest at 7.75% per annum payable half-yearly.
- There will be no maximum limit for investment in the bonds.
- At the same time, these bonds are **not tradeable in the secondary market** and are **not eligible as collateral for loans** from banking institutions/non-banking financial companies.
- **Interest** on the bonds will be **taxable** under the Income-tax Act, 1961.
- The bonds will, however, be **exempt from wealth tax** under the Wealth Tax Act, 1957.
- The bonds are open to investment by individuals, including joint holdings and Hindu Undivided Families (HUFs).
- NRIs are not eligible to invest in these bonds.

5.7 Long Term Capital Gains Tax

Stock markets have reacted adversely to the proposed Long-Term Capital Gains Tax (LTCG) on securities.

LTCG

- Any profit from the sale of a capital asset is deemed as 'capital gains'.
- A capital asset is officially defined as any kind of property held by an assessee, excluding goods held as stock-in-trade, agricultural land and personal effects.
- If an asset is held for less than 36 months, any gain arising from selling it is treated as a short-term capital gain (STCG).
- If an asset is held for 36 months or more, any gain arising from selling it is treated as a 'long-term' capital gain (LTCG).
- Shares and equity mutual funds alone enjoy a special dispensation which is, holding period of 12 months or more qualifies as 'long-term' in this case.

Current scenario

- Prior to the budget, long-term capital gains arising from the transfer of long-term capital assets, which are held as equity shares is exempt from taxation.
- However, transactions in such long-term capital assets are liable to **securities transaction tax (STT).**
- This regime is seen as inherently biased against manufacturing and has encouraged diversion of investment to financial assets.
- It has also led to significant erosion in the tax base, which has been further compounded by abusive use of tax arbitrage due ambiguities in exemptions.

New proposal

- The withdrawal of the exemption to LTCG from April 1, has been proposed in the budget.
- Investors will have to pay 10 per cent tax on profit exceeding Rs 1 lakh made from the sale of shares or equity mutual fund schemes held for over one year.
- Also, this tax is applicable only if LTCG is above Rs 1 lakh in a financial year. So, if an investor made long-term gains of Rs 150,000 in a year, LTCG tax is applicable only for Rs 50,000 (Rs 150,000-100,000).
- Long-term capital gains will be computed by deducting the **cost of acquisition** from the full value of consideration on transfer of the capital asset.
- The short-term capital gains tax at 15% will continue for transfer of shares within 1 year.
- The proposed tax applies to the following types of equity capital:
    1. Equity Shares in a company listed on a recognised stock exchange
    2. Unit of an equity oriented fund
    3. Unit of a business trust
- **'Grandfathering' Clause -** It is the exemption granted to existing investors or gains made by them before the new tax law comes into force.
- The government said that gains from shares or equity mutual funds made till January 31, will be grandfathered/exempted. There will be no LTCG tax on notional profit in shares till then.

Concerns

- **Inflation Indexing -** Inflation indexation is a technique to adjust the cost of acquisition to present level of inflation.
- This will convert the profit earned by transaction of long term capital assets in real terms and safeguards the purchasing power of the public.
- But in the current proposal, Inflation indexation of the cost of acquisition would not be available for computing LTCG tax.
- This has been provided in the proposal and has been subsequently clarified.

- **Continuation of STT -** The STT is made to continue.
- STT is paid at the time of transaction.
- But it is to be noted that the STT was introduced as an alternative to LTCG tax on equities.
- So retaining STT is a bigger shock for investors.
- Logically there should only be on tax.

5.8 Global Stocks Fall - From Wall Street to Dalal Street

US stocks suffered their worst falls in more than 6 years. This was after steep losses on Wall Street that slashed the Dow Jones Industrial Average (DJIA) by 4.6%.

- **Reasons for the fall** - The US Labour Department reported that **employment** had risen more than expected in January.
- This was with the biggest **wage gain** in more than eight-and-a-half years.
- The workers commanding **higher salaries** fuelled apprehensions of a **rise in inflation**.
- In turn, there was anticipation that the Federal Reserve may **raise interest rates** faster.
- The markets were worried that it may push **investors** to move to **US Treasury bonds**.
- This is because returns on Treasuries would look relatively more attractive than stocks at this juncture.
- The US 10-year **Treasury yield** also surged to a level that is the highest since January 2014.
- This was ultimately expected to **suck out liquidity** from the equity markets.
- All these triggered a fall in stocks, leading to a plunge in Dow Jones by 4.7%, its largest single-day point drop in history.

DJIA

- The **Dow Jones Industrial Average** (DJIA) or simply Dow Jones is a *stock market index*.
- It is the price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ (an American stock exchange).
- The Dow Jones Industrial Average fell 4.6% overnight, recently.
- The developments in Wall Street found ramifications in Dalal Street.
- Wall Street in the New York City is generally associated with the financial markets of the US as a whole.
- Dalal Street in Mumbai houses the Bombay Stock Exchange and several related financial firms and institutions.

- **Impacts on India -** The interest rates hikes in the US could lead to **outflow of foreign portfolio investor funds** from emerging markets.
- This is a concern for India, as funds would move out of the country to be parked in US Treasury bonds.
- The continued inflow of retail money into Indian equities through Mutual Funds could act as a counterbalance to FPI outflows.
- However, with the recent introduction of LTCG tax, Sensex started to fall.
- This was also driven by the **undermined market sentiment** due to:
  i. rising bond yields in India and across the world
  ii. the possibility of higher inflation
  iii. fear of interest rate hikes (by RBI in India and by US FED as well)
- The fall in stock market was further **accelerated** by the recent plunge in Wall Street.
- **Retail investors** are concerned on **compliance issues**. These include keeping track of days of investment and calculation of capital gains for payment of tax.
- Resultantly, **new investors** coming into India may not reflect the positive trend as in the last 3 years.
- Besides, fund outflows could have ramifications on the **current account deficit** (CAD).
- This is because India has been balancing CAD through higher inflows.
- The possible outflows and a widening CAD may lead to more complications for **government finances**.

- Also, hundreds of companies that have lined up **Initial Public Offering market** will have to rework their plans.
- The **disinvestment** of public sector companies could also get hit.
- Evidently, in the last year, a number of PSUs had floated IPOs, raising thousands of crores for the government.

5.9 SC's Ruling on Synchronised Trading

The Supreme Court has recently upheld an adjudication order by SEBI and set aside a SAT order on synchronised trading.

- **Synchronised trading -** A 'synchronised' trade is a pre-negotiated trade.
- **How** - Here, the buyers and sellers enter the quantity and price of shares on the screen they wish to transact at nearly the same time.
- The buy and sale transaction at the same day for the same quantity between the same set of broker/clients is called **reversal of trade**.
- Except the parties who have pre-fixed the price, nobody has the position to participate in the trade.
- This is done with the support of the brokers.
- Through circular trading between related entities of the company promoter, the price of the stock would be inflated.
- A year later the investor would sell the shares to promoter entities at the inflated price.
- The profit gained would then be shown as long term capital gains (used to be tax free till the recent Budget made it taxable).
- **Purpose** - The 'profit' would be returned to the promoter in either cash or through another set of fake transactions.
- These transactions may not necessarily happen through the stock exchange platform.
- It thus serves as a means of converting black money to legitimate income.
- Market is also manipulated to book artificial losses for tax purposes.
- **Effect** - Synchronised trading may at times distort price discovery and affect other investors also.
- SEBI had no way of proving these offline cash transactions.
- It found it hard to raise charges of tax evasion and stock manipulation.

Present Case

- SEBI had imposed a penalty of Rs. 1.8 crore on Rakhi Trading.
- This was for indulging in synchronised trading through the 'reversal of trade' route in March 2009.
- It is considered as a violation of the Prohibition of Fraudulent and Unfair Trade Practices Regulations.
- The case went for appeal before the Securities Appellate Tribunal (SAT).
- SEBI's order was struck down by SAT in 2011. SAT admitted that the trades were synchronised.
- SEBI then appealed the SAT ruling in the Supreme Court which now set aside the SAT order.
- The Court observed that the stock market is not a platform for any fraudulent or unfair trade practice.
- SC has not mentioned the tax evasion angle in its judgement. However it had made it clear that the synchronized trades did affect market integrity.
- It stressed the need for SEBI to keep pace with changing times and develop principles for good governance in the stock market.
- The judgement empowers SEBI to impose severe penalty even on the smallest manipulations in the derivative segment.

6. EXTERNAL SECTOR

6.1 Mid-Term Review of Foreign Trade Policy

The mid-term review of the five-year Foreign Trade Policy (FTP), which was rolled out in 2015, was released recently.

Highlights

- **Incentives** - Incentives under the Merchandise Export from India Scheme (MEIS) have been raised.
- An increase from 2% to 4% for leather, textiles, agriculture products and carpets has been announced in this regard.
- Service Exports from India Scheme (SEIS) incentive is raised by 2% with a view to boosting services sector exports.
- Also, supplies of goods and services to SEZs to be treated as zero rated under GST.
- Import of second hand goods for repair/refurbishing/re- conditioning/re-engineering is made free.
- **Scrips**- Exporters are given duty exemption scrips under the FTP, pegged at a certain percentage of the total value of their exports.
- The scrips can be used to pay duties on inputs including customs levies and can also be traded in the market.
- Validity of **Duty Credit Scrips** has been increased from 18 to 24 months to enhance their utility in the GST framework.
- The GST for transfer and sale of these scrips has been abolished and brought to zero from 12%.
- The Centre has also allowed duty free imports for exports against self-certification.
- **Support systems** - A professional team will be set up to assist and support exporters in accessing markets, meeting regulatory norms, etc.
- A team of experts will also be set up to assist exporters on **GST.**
- A New Logistics Division to promote integrated development of the logistics sector will be put in place.
- The round-the-clock customs clearance facility has been extended to more number of sea ports and air cargo complexes.
- State-of-the-art trade analytics division in DGFT (Directorate General of Foreign Trade) will be set up for data-based policy actions.
- New Services Division is planned in DGFT to examine Exim policies and procedures to push services exports.
- **Besides**, new agricultural exports policy to focus on increasing exports of value-added agri products will be rolled out.
- Further, to address the capital blockage and liquidity problems of exporters, the government plans an e-wallet from April 1, 2018.

Terminologies

- The **duty credit scrip** is a pass that allows the holder to import commodities by not paying a specified amount in import duties.
- As per the new FTP (2015), the scrip can be transferred to other persons. This means that an exporter can transfer the scrip he obtained to the importer.
- It can be used for payment of custom duty, excise duty and service tax.
- Five existing schemes to promote goods exports merged into a single **Merchandise Exports from India Scheme** (MEIS).
- Under MEIS, Incentives in form of duty scrips as a per cent of realized FOB value of exports.
- **Service Exports from India Scheme** (SEIS) replaced the Served From India Scheme (SFIS).
- Under SEIS, benefit available to only service providers located in India and incentive will be based on net foreign exchange earned.
- SEZ units will be entitled to the benefits of MEIS and SEIS.

6.2 Concerns with FPI

Singapore stock exchange and Dubai Gold and commodities exchange are planning to expand their portfolios in India.

- A portfolio is a grouping of financial assets such as stocks, bonds and cash equivalents, as well as their funds counterparts, including mutual, exchange-traded and closed funds.
- Portfolios are held directly by investors and/or managed by financial professionals.
- Usually an investors should construct an investment portfolio in accordance with risk tolerance and investing objectives.
- Recently Singapore Exchange (SGX) has decided to offer single-stock futures (SSF) on Indian stocks.
- The Dubai Gold and Commodities Exchange (DGCX) is also considering expanding its portfolio of Indian SSF.
- Volumes in India's derivatives trading segment is expected to be adversely affected by these decisions.

Impact on India

- Unlike the National Stock Exchange (NSE) and the BSE, the SGX and the DGCX are open 24x7 and these are hard-currency environments.
- There are no transaction taxes akin to India's securities transaction tax (STT) and the local regulators also place no restrictions on foreign portfolio investors (FPIs).
- Given that the SGX and the DGCX offer comfortable regulatory environments, a lot of the derivatives trading volume will likely shift to these offshore centres.
- India will lose out on tax revenue and brokerage income and traders will face disadvantage of being responsive.
- In July, SEBI banned trading in derivatives via P-Notes and demanded direct registration of FPIs carrying out derivatives trades.
- The regulator said derivatives trading via P-Notes would be allowed only to hedge underlying cash positions.
- At the time of the ban, P-Note holders had open positions of over Rs 40,000 crore in the futures and options segment of the NSE, all of them where closed out after this move .
- A further barrier for US-based funds was that they cannot take direct exposure to derivatives offered by Indian exchanges, which are not approved by America's Commodity Futures Trading Commission (CFTC).
- Many used P-Notes to bypass that requirement, as both SGX and DGCX are CFTC-approved and Indian exchanges are not.
- High Securities Transaction Tax (STT) in India is being another source of friction for FPIs, which are being significant cost for high-volume traders.

Terminologies

FPI

- Foreign portfolio investment (FPI) consists of securities and other financial assets passively held by foreign investors.
- It does not provide the investor with direct ownership of financial assets and is relatively liquid depending on the volatility of the market.
- Foreign portfolio investment is different from foreign direct investment (FDI).

Participatory Notes (P-Notes)

- These are financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India (SEBI) to invest in Indian securities.
- Any dividends or capital gains collected from the underlying securities go back to the investors.
- Indian regulators are against participatory notes because they fear that hedge funds acting through participatory notes will cause economic volatility in India's exchanges.

SSF

- Single Stock Futures (SSF) are derivatives instruments that give investors exposure to price movements on the underlying share.
- A futures contract is a legally binding agreement that gives the investor the ability to buy or sell an underlying listed share at a fixed price on a future date.

STT

- Securities Transaction Tax is levied on every purchase or sale of securities that are listed on the Indian stock exchanges.
- This would include shares, derivatives or equity-oriented mutual funds units.
- The rate of tax that is deducted will vary with different types of transactions and securities.
- STT is deducted at source at the time of the transaction itself, the net result is that it pushes up the cost of the transaction done.

6.3 Easing of FDI Norms

The Centre has recently eased several foreign direct investment norms.

- **Approval** - In the single-brand retail, the Centre has allowed 100% FDI through the automatic route, from the 49% at present.
- 100% FDI is allowed in construction development relating to building townships, housing and infrastructure and real estate broking services.
- **Local sourcing** requirement mandates that a global company contract the goods or services delivered or manufactured within the domestic country.
- Previously, there is a condition of 30% mandatory local purchase by global companies for their Indian retail operations.
- Now, the mandatory 30% requirement could be relaxed for companies with 'state-of-the-art' or 'cutting edge' products, for which local sourcing was not possible.
- However, the absence of a definition for 'state-of-the-art' or 'cutting edge' technology has stalled the applications of global companies.
- The mandatory local sourcing is now relaxed for the first five years.
- Thereafter, single-brand retailers will be required to meet the 30 per cent local sourcing norm.
- **Power sector -** The government has removed the restrictions on investment in power exchanges through the primary market.
- This applies to foreign institutional investors and portfolio investors.
- Till now they could do so only through the secondary market.
- **Air India** - Importantly, the Centre has allowed foreign airlines to invest up to 49% under the approval route in Air India.
- These are subject to the conditions that -
    i. foreign investment(s) in Air India, including that of foreign airline(s), shall not exceed 49% either directly or indirectly
    ii. substantial ownership and effective control of Air India shall continue to be vested in an Indian national.
- **Competent Authority for examining FDI proposals** - As per the existing procedures, FDI applications involving investments from Countries of Concern, requiring security clearance are to be processed,
    i. By the Ministry of Home Affairs (MHA) for investments falling under automatic route sectors/activities,
    ii. Respective Administrative Ministries/Departements for cases pertaining to government approval route sectors/activities requiring security clearance.
- Under the current policy, FDI applications involving investments from **Countries of Concern** for automatic route sectors are going to be processed by Department of Industrial Policy & Promotion (DIPP).

- And, cases under the government approval route, also requiring security clearance with respect to countries of concern, will continue to be processed by concerned Administrative Department/Ministry.

6.4 Safeguard Duty on Solar Cells

The Directorate General of Safeguards (DGS) has proposed a 70% safeguard duty on solar cells and modules imported from China and Malaysia.

- While solar cells are imported from Malaysia, Singapore and Taiwan as well, a major quantity is being imported from China.
- China's huge production and excess capacities of solar cells faced with hindrances in exports to the EU and USA recently.
- It naturally had to find an alternative outlet and thus shifted its export focus towards India.
- The DGS move thus comes after a plea was filed by Indian Solar Manufacturers Association (ISMA) before the DGS.
- It claimed that the surge in imports in solar cells had led to many domestic production facilities lying idle and incurring heavy loss.

Safeguard duty

- The provision is facilitated in GATT (General Agreement on Tariffs and Trade), 1994.
- It allows a WTO member to **restrict temporarily**, imports of a product if its domestic industry is affected by a surge in imports.
- In contrast to antidumping duties and countervailing duties, safeguard measures are, in principle, applied regardless of the exporting country.
- The Central Government after conducting an enquiry, if satisfied of a potential impact, may by notification impose a safeguard duty.

'Safeguard' and 'Specific Safeguard' duties

- The government has specified some rules to govern the procedural aspects of Customs Tariff Act, 1975 namely:
  i. Customs Tariff (Identification and Assessment of Safeguard Duty) Rules, 1997
  ii. Customs Tariff (Transitional Product Specific Safeguard Duty) Rules, 2002
- Respectively, the Director General (Safeguard) and Director General (Specific Safeguard) are the officers appointed.
- **Director General (Safeguard)** investigates the existence of 'serious injury' or 'threat of serious injury' to the domestic industry as a result of increased imports of an article into India.
- **Director General (Specific Safeguard)** investigates the existence of "market disruption" or "threat of market disruption" to domestic industry due to imports originating from People's Republic of China.
- The Directorate General of Safeguards & Specific safeguard works under the Ministry of Finance, Department of Revenue.

6.5 World's largest free-trade Agreement

- The **European Union and Japan** concluded negotiations on a free-trade deal to create the world's largest open economic area.
- It will remove EU tariffs of 10 per cent tariffs on Japanese cars and the 3 per cent rate typically applied to car parts.

7. GENERAL ECONOMY

7.1 Consumer Protection Bill 2018

The Consumer Protection Bill, 2018 proposed by union government is pending before the parliament.

- It is a pending Bill in the parliament, it will replace the Consumer Protection Act, 1986.
- The Bill covers transactions, both online and offline, and includes tele-shopping and multi-level marketing.

- It involves the right to seek redress against unfair or restrictive trade practices, or unscrupulous exploitation of consumers.
- It makes provisions for establishing an executive agency known as the Central Consumer Protection Authority (CCPA) to promote, protect and enforce the rights of the consumers.
- CCPA is to be headed by a Chief Commissioner and it is empowered to investigate, recall, refund and impose penalties.
- The Bill provides for product liability action in cases of personal injury, death or property damage caused by or resulting from any product, and mediation as an alternate dispute resolution.
- The CCPA is also empowered to deal with unfair trade practices and misleading advertisements.
- The Bill seeks to set up a monitoring cell, to be constituted by the president of the National Consumer Disputes Redressal Commission to oversee the functioning of the State consumer commissions from the administrative point of view.
- The Bill provides for a State government to establish a consumer mediation cell to be attached to each of the district commissions and the State commissions.
- Further, the Bill proposes that the Centre establishes a consumer mediation cell to be attached to the National Commission.

Advantages

- As online transactions become a way of life, the bill provides a step in ordinary consumers some protection of their interests.
- It establishes points for quick and effective administration and settlement of disputes.
- The definition of "consumer rights" in the Bill exhaustively covers the right to be protected against the marketing of goods, products or services that are hazardous to life and property.
- It also focusses on the right to be informed about the quality, quantity, potency, purity, standard and price of goods, products or services, as the case may be, so as to protect a consumer against unfair trade practices.
- It also includes the right to be assured, wherever possible, of access to a variety of goods, products or services at competitive prices.

7.2 WTO Ministerial Conference

The 11th biennial ministerial conference of the 'World Trade Organisation (WTO)' – MC11 was recently held at Buenos Aires.

- The conference saw fierce confrontations between the developed and the developing world and failed to agree to a ministerial declaration at the end of conference.
- US chose to block India's efforts at securing a permanent solution to the issue of public stockholding for food security, for which a temporary clause is already in effect.

Divide between developing & the developed world

- In the late 90s, it was felt that the rules of the emerging global free market economics was tilted in favour of the industrialised and developed countries.
- As WTO was also ushering such a world order, the developing world countries raised their grievance in WTO's Doha Ministerial of 2001.
- These prominent issues raised were –
    1. **Agriculture** - Undoing the trade-distorting subsidies provided in the developed countries for farming
    2. **Medicines -** Relaxing IPR norms for life saving drugs in developing countries
    3. **SDT** - Special & Differential Treatment was sought for goods from the weaker countries (to make them competitive internationally)
- While, negotiations on most of these issues haven't concluded, the developed countries have been keen to move on to newer issues like 'e-commerce'.

- On the contrary, the developing countries want the Doha issues settled first, before taking up newer things as it might distract the focus.

Outcomes of Current Ministerial Meeting

- **Food Security Issue** - Currently, a temporary '**Peace Clause'** is in effect for public stockholding issue.
- This bars countries from lodging complaints with the WTO against the subsidised food security programs of the developing world.
- In this backdrop, India pushed for a 'permanent solution' to replace the 'Peace Clause' and to safeguard its grain stockpiling & public procurement programs.
- While a permanent solution was thwarted by the US, the current 'peace clause' remains in place – thereby retaining status quo.
- **Fishing Subsidies** – They are provided mainly by the developing world to help their fishermen who are predominantly subsistence fishers.
- These subsidies have been alleged to be distorting the markets as it affects the businesses of the high-tech industrial fisher countries like Japan & Canada.
- The developed countries also stressed that, unsustainable fishing was on the rise due to such subsidy policies.
- Thus WTO piloted intense negotiations, for prohibiting subsidies for **illegal, unreported and unregulated (IUU) fishing**.
- However, even basic concepts like the scope of subsidies that are to be prohibited, could not be resolved in the negotiations.
- Due to opposition from the developing world, this issue has been pushed to the next ministerial in 2019, despite widespread concerns of the ecological impacts of subsidy aided irrational fishing practices.
- India now has more time to ensure that there are adequate safeguards in place to protect artisenal fishers.
- **E-commerce** – Despite the strong push to initiate negotiations on this issue, this was resisted by India and many African countries.
- It was argued that discussion so these issues were to be taken in a not as negotiations but as a consensus building exercise for the future.
- While 70-80 countries are backing these issues, India has been steadfast in opposing initiation of multilateral negotiations as it would dilute Doha issues.
- **Developed countries** - They wanted the ministerial to see the **fast-tracking of e-commerce** talks but they didn't make much headway.
- US, EU & Japan issued a joint statement aimed at China, on trade-distorting practices such as over-capacity and mandating technology transfer policies.
- The U.S. even argued that the 'Developing Nation' tag was being misused by some countries that were rich in absolute GDP terms.
- It also objected to any reference to the Doha development mandate.
- **Developing Countries -** Contrarily, India and China also submitted a joint proposal to end the trade-distorting farm subsidies of Western nations.
- For India, although none of its 'offensive' interests were achieved, its 'defensive' interests remain protected.
- Hence, despite the stalemate, it has been regarded a partial success for India.
- **Buenos Aires Declaration on Women and Trade** – WTO members and observers have endorsed a collective initiative to **increase the participation of women in trade**.
- The **non-binding declaration** call for women to reach their full potential in the world economy.
- It was adopted by 119 WTO members and observers.
- It seeks to remove barriers to, and foster, women's economic empowerment.
- **India stayed away** from the declaration with the view that gender is not a trade-related issue.

- India opined that agreeing to the proposition to link gender and trade could lead to advanced countries using their high standards in gender-related policies to curb exports from the developing world.
- And also, Developed countries may indirectly restrict developing countries from incentivising their women citizens as part of measures to address developmental challenges.
- Other issues where **no agreement was reached** include:
  1. The work programme on special safeguard mechanism (SSM)
  2. The work programme on 10 agreement-specific proposals for improvements in special and differential treatment of developing countries
  3. long-standing cotton issue, calling for elimination of export subsidies, since the 2005 Hong Kong Ministerial Conference

Challenges

- **US Withdrawal -** Trump administration's disregard for multilateral forums and agreements was more than visible in the conference.
- Previously, the US had blocked the reappointment of judges to the appellate body of the WTO. Such moves could weaken the WTO structurally.
- **Lack of consensus –** The stubborn positions of the negotiating blocks has led to certain issues pending for decades.
- These could effectively render WTO as an ineffective forum of engagement.
- **India's issue –** While India's GDP may be growing, the country has hundreds of millions living in poverty and without food security.
- It has been facing an increasing rough WTO table as it tries to balance its sovereign responsibility to feed its millions and the pressures against subsidies.

Issue of Public Stockholding

- Public stockholding (PSH) is a policy tool used by governments to procure, stockpile and distribute food when needed. Ex: MSP scheme.
- Governments purchasing at prices higher than market prices are considered to be subsidising their farmers, under WTO rules.
- Agreement on Agriculture under WTO suggests a fixed subsidy of 10% for food procurement from farmers to feed the poor.
- Also, the methodology for subsidy calculation is based on a price index of 1986-88, and that does not account for inflation.
- Currently, public distribution programmes of developing countries are included under trade-distorting Amber Box measures that attract reduction commitments.
- India and other developing countries have been seeking amendments in the formula to calculate the food subsidy cap and the base year, as this limit is insufficient to meet domestic food security challenges.
- At the Bali meet 2013, "**Peace clause**" was negotiated by India.
- According to the peace clause, no action will be taken against India, or other developing countries, in case the subsidies on their food procurement programmes breach the ceiling of 10 per cent of value of food production laid down by the Agreement on Agriculture (AoA).
- The declaration also stated that the peace clause was an interim arrangement, and a permanent solution should be negotiated by 2017.
- But India pushed the WTO in to making the peace clause perpetual till a satisfactory permanent solution was in place.

- India is not totally against the permanent solution. Instead, it is against the clauses that get mentioned in the permanent solution negotiated to replace peace clause.

7.3 Draft National Auto Policy

The Department of Heavy Industry, Ministry of Heavy Industries & Public Enterprises has recently released the draft National Auto Policy.

- **Import duty** - The Policy proposes lowering of import duties.
- This applies to capital goods, equipment and machinery for manufacture of new technology components.
- Companies will have to declare at the beginning of every financial year the volume of prototypes planned to be imported.
- The import duty exemption to companies will be given only on this pre-declared volume.
- **Green Mobility** - The policy emphasizes fast-tracking widespread adoption of green mobility in India.
- It calls for mandating a minimum share of green vehicles among those purchased by the government and municipal agencies.
- Accordingly:
  i. central and state governments - 25% from 2023 and 75% from 2030
  ii. municipal corporations in metros - 50% from 2023 and 100% from 2030
- **Emission** - The policy eyes adoption of a long-term roadmap for emission standards.
- It proposes to define emission standards that will be applicable after BS-VI.
- The standards will be with a target of harmonizing them with the most stringent global standards by 2028.
- Introduction of new norms will be initiated in 2026 with a 2-year phase-in period.
- It also envisions the **Corporate Average Fuel Economy (CAFE) norms** till 2025 and beyond.
- These norms are for improving the average fuel economy of vehicles, and fix incentives or penalties.
- **GeM portal** - The draft policy suggests utilising the Government e-Marketplace (GeM) portal.
- This is to aggregate all green vehicle orders with standard specifications and enable bulk procurement.
- **Infrastructure** - The policy recommends conducting a detailed study on requirement of public infrastructure for green vehicles.
- This is to make the necessary infrastructure investments for green mobility.
- **Skill development** - The policy proposes improving the skill development and training eco-system.
- It advocates increasing the accountability of **Automotive Skills Development Council (ASDC)** to achieve this.
- Performance based funding is suggested as a measure.
- Performance metrics include incremental employment generated, level of employment, curriculum coverage, etc.
- **Employment** - The draft policy suggests ASDC to implement a **Labour Market Information System (LMIS).**
- This is to facilitate aggregated information of certified candidates.
- It also serves as a marketplace to match demand and supply of skilled labour.
- It thereby helps boost employment creation in the sector.
- **Investment** - The policy entails incentivising Public Private Partnership (PPP) based industry investments.
- This is particularly for research and development of commercially viable technologies through a **Hybrid Annuity Model (HAM).**
- The policy also calls for encouraging FDI in the country's Automobile sector.

- This is proposed to be in coordination with Invest India to attract investments in identified areas.
- Initiating trade pacts with countries with attractive markets for Indian automotive exports is also called for.
- **Besides**, the draft auto policy also suggests setting up of a **'technology acquisition fund'**.
- It proposes creation of a nodal body with a two-tier structure having an Apex Body supported by the National Automotive Council (NAC).
- The apex body will have government representatives as well as stakeholders nominated from the industry and academia.

7.4 First NIC-CERT

- National Informatics Centre (NIC) provides nationwide common ICT infrastructure consisting of national and state "Data Centres" to support e-Governance services to the citizen.
- National Knowledge Network (NKN) has been set up to connect institutions/organizations carrying out R&D, Higher Education and Governance with speed of the order of multi Gigabits per second.
- Computer Emergency Response Team (CERT) is under the Ministry of Electronics and Information Technology.
- It has been designated to serve as the national agency to collect, analyse and disseminate information on cyber incidents.
- Country's first NIC-CERT has been recently setup that will monitor, detect and prevent cyber attacks on government networks
- It uses various tools to gather intelligence to identify vulnerabilities and possible exploits thereby predicting cyber incidents.

7.5 BND-4201

- Bharatiya Nirdeshak Dravya (BND-4201) is India's first **home-grown high purity gold reference standard** recently launched.
- It will be the reference material for gold of '9999' fineness i.e gold that is 99.99% pure.
- It will be beneficial to the consumers and public at large to ensure purity of gold.
- Once the BND's of other purity gold are made available in the market, jewellers will move towards more instrumental methods.
- The conventional fire assay methods for testing are not only time consuming but also not environment friendly as poisonous gases are released.
- This will also be useful for Collection and Purity Testing Centres to certify the purity of gold deposits under the gold monetisation scheme.

7.6 Home Ministry's Directive to NGOs

- The Home Ministry has recently directed all NGOs, business entities and individuals who receive funds from abroad to open accounts in any of the 32 designated banks.
- The banks are integrated with Public Financial Management System (PFMS).
- The directive is issued under the powers conferred upon the central government under the Foreign Contribution (Regulation) Act 2010.
- It is expected to provide a higher level of transparency and hassle-free reporting compliance.

7.7 Public Financial Management System (PFMS)

- PFMS, earlier known as Central Plan Schemes Monitoring System (CPSMS), is a web-based online software application.
- It is launched with the objective of tracking funds released under all Plan schemes of GoI, and real time reporting of expenditure at all levels of Programme implementation.
- It is integrated with the Core banking system which helps to monitor the flow of funds.

- It has been envisaged that digitization of accounts shall be achieved through PFMS.
- It is developed and implemented by the Office of Controller General of Accounts.

7.8 Fund Crunch for UDAN

The government's flagship "UDAN aviation scheme" is facing a fund crisis which is largely because the number of participating airlines has increased manifold.

- UDAN -"Ude Desh Ki Aam Nagrik" literally translates to a call for the common man to fly.
- It is an aviation scheme to enhance **air connectivity to smaller towns.**
- It focuses on previously "un-served or sub-served" destinations, and provides operating subsidies for airlines interested in operations.
- The government gives "Viability Gap Funding" (VGF) support for three years.
- This is to attract airlines to fly even to remote areas which may be commercially unviable.
- Besides, other concessions like that on parking charges at airports and exempting these operations from the GST net are provided.
- While the general central and state contributions for VGF are 80:20, it is 90:10 for the north-eastern states and union territories.
- **Concerns -** Two bidding rounds have been completed and the government received bid proposals in substantial numbers.
- But the Ministry of Civil Aviation has not awarded the routes for the 2nd round. This is because of lack of funds to pay the "viability gap funding" (VGF) to the operators.
- The paucity of funds is said to be due to the increase in the number of airlines that had bid for the routes and the criticality of VGF for the operations.

7.9 NABARD

- The Parliament has recently passed the National Bank for Agriculture and Rural Development (Amendment) Bill, 2017.
- The Bill seeks to amend the NABARD Act, 1981 which establishes NABARD by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).
- The amendment bill seeks to increase the authorized capital of the Bank to 30,000 crore rupees from 5,000 crore rupees.
- Currently the Central government is holding 99.60% share of the bank and the rest is with RBI (0.40%).
- The capital can be increased further by the government in consultation with the RBI.
- NABARD is responsible for providing and regulating facilities like credit for agricultural and industrial development in the rural areas.
- It provides both direct finance (lending directly to customers) and refinance (lending to financial institutions to provide loans to customers).
- It was established on the recommendations of B.Sivaraman Committee, to implement the National Bank for Agriculture and Rural Development Act 1981.

Direct Finance	Refinance
i. Loans for Food Parks and Food Processing Units in Designated Food Parks ii. Loans to Warehouses, Cold Storage and Cold Chain Infrastructure iii. Rural Infrastructure Development Fund iv. Long Term Irrigation Fund v. Alternative Investment Fund	i. State Cooperative Banks and Regional Rural Banks for providing short term agricultural loans ii. Cooperative Banks - State, District, Primary Urban; RRB, Commercial Banks, Agriculture Development Finance Companies, NBFC for providing credit for investment activities in agriculture and allied activities.

7.10 The Negotiable Instruments (Amendment) Bill, 2017

- The Bill was introduced in Lok Sabha recently.
- It seeks to amend the Negotiable Instruments Act, 1881.
- A negotiable instrument is a document that promises payment to a specified person. E.g Cheque
- The Act defines promissory notes, bills of exchange, and cheques.
- It also specifies penalties for bouncing of cheques, and other violations with respect to such negotiable instruments.

7.11 Rising Inequality in India

The research advocacy "Oxfam" recently published a comprehensive report on the economic inequality in India which calls for wide corrective actions.

- A recent report titled "**Widening Gaps - India Inequality Report, 2018**" was released by 'Oxfam India' revealed the extent of inequality in the country.
- It has been pointed out that while inequality was stagnant in the 1980s, it started to increase since 1991, and continues to surge at present.
- This has mainly been attributed to the "lopsided" economic and developmental policies of successive governments, particularly after liberalisation.
- Significantly, the wealth of the India's Billionaires (totally 101 in 2017) was 10% of GDP in 2013 and has subsequently rose rapidly to about 15% currently.
- Also, a large share of wealth of the richest lot has been attributed to **"crony capitalism"** rather than to innovation or the fair rules of the market.
- Further, Specific policy choices favouring capital rather than labour, has inherently become part of the growth trajectory in India.
- These designs along with accumulated inheritances has consequently, seen the share of the poorer lot dip continuously in the wealth matrix.

Specific attributes of Inequality

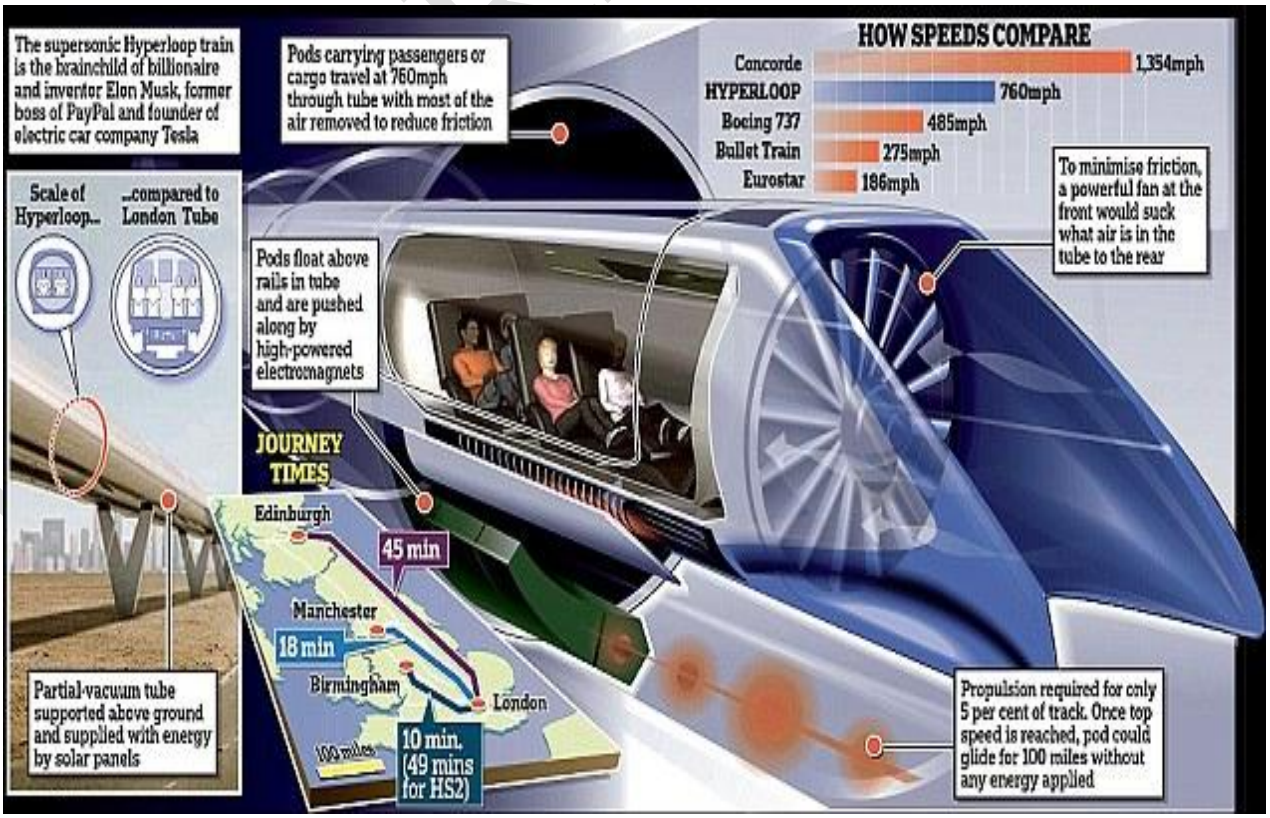
- **Regional divergence –** Differential wealth between states have existed even before independence and the Indian planning process had aimed to undo this.
- But the outcome has not been as expected as income inequality between states has been found to be continuously increasing over time.
- Hence, the rise in inequality in India is due to – growing income divergence between states and increasing inequal income distribution within states.

- **Caste Groups -** Among various social groupings, SCs continue to remain the most disadvantaged, with a significantly lower per-capita income share.
- Also, declining trend in the income shares for the ST group, with a corresponding increase in the share of others has been deciphered.
- **Religion -** Religious identities too has been found to be significant for an individual's access to basic services, and his ability to mobilize resources.
- In some cases, these may cause isolation, exclusion, and stereotyping of communities, which can impact jobs and livelihood opportunities.
- Signficantly, smaller minorities such as Christians, Parsis and Jains have a larger share of income/consumption than their population share.
- But for **Muslim populations**, this is not the case and they even seem to **fare worse than SC and STs** in urban areas.
- The share of Muslims in national income (per-capita), has also indicated a decline over a period of time, both in rural and urban areas.

7.12 Maharashtra's Hyperloop Plan

Maharashtra government has signed an agreement with Virgin group to build a Hyperloop.

- Hyperloop is a proposed system of transport that would see pods or containers travel at high speeds through a tube that has been pumped into a near-vacuum.
- The train pods would either float using magnetic levitation technology.
- The pods would be able to travel at immense speeds with a projected top speeds of 760mph.
- The pod would initially launch using an electric motor before levitation takes place and the pod can glide at cruising speed in the low-pressure environment.
- Hyperloop One is the company which is working on this technology, has proposed routes in UK, Netherlands, Finland and Dubai, where it has backing from the governments to explore the potential of the system.
- The proposed Hyperloop route in India will be connecting Mumbai and Pune in Maharashtra.



Advantages

- The system is fully autonomous and sealed, so no driver-related error is anticipated.
- In a sealed environment with almost no air resistance, the pods are expected to reach very high speeds.
- Motion will not involve contact, so the vehicle will be virtually noiseless.
- The capital and operational costs of Hyperloop will be two-thirds that of high-speed rail.
- Tunnels for the Hyperloop would be built either above or below ground, taking up a smaller ground footprint than traditional rail and road.
- Hyperloop is "energy-agnostic", drawing from whichever source is available,if that's solar or wind, the system will be carbon-free.

7.13 Boost for Digital India Flagship

Union government has proposed to double the expenditure on the Digital India programme. The various schemes under digital India flagship

- The Digital India programme is a flagship programme under Ministry of Electronics and Information Technology.
- The vision of this program is to transform India into a digitally empowered society and knowledge economy.
- There are about more than 23 mission mode projects under the programme few are enlisted below
- **Digi Locker -** The service was launched to store crucial documents like Voter ID Card, Pan Card, BPL Card, Driving License, education certificates, etc. in the cloud.
- **MyGov.in -** The portal works as an online platform to engage citizens in governance through a "Discuss", "Do" and "Disseminate" approach.
- **E-Sign Framework -** This initiative would enable users to digitally sign a document online using Aadhaar authentication.
- **Swach Bharat Mission mobile app -** The app will enable organizations and citizens to access information regarding the cleanliness drive and achieve the goals of the mission.
- **National Scholarship Portal -**From submitting the application, verification, sanction and disbursal to end beneficiary, everything related to government scholarships can be done on this single portal online.
- **E-Hospital -**Online Registration System under this initiative enables people to avail services like online registration, payment of fees and appointment, online diagnostic reports, checking on the availability of blood online, etc.
- **Digitize India Platform -**This initiative will involve digitization of data and records on a large scale in the country to make easy and quick access to them possible.
- **Bharat Net -**Under this initiative, a high-speed digital highway will connect 2, 50,000 gram panchayats of the country.
- This is the world's largest rural broadband project using optical fibre.
- **Wi-Fi Hotspots -**Development of high speed BSNL Wi-Fihotspots throughout the country is yet another initiative to improve digital connectivity in the country.
- **Next Generation Network -**Launched by BSNL, this service will replace 30-year old telephone exchanges to manage all types of services like voice, data, multimedia and other types of communication services.
- **Electronics Development Fund -**The fund will be set up to support the manufacturing of electronics products that would help create new jobs and reduce import.
- **Centre of Excellence on Internet of Things (IoT) -**In partnership with NASSCOM, Centre of Excellence will be established for rapid adoption of IoT technology and encourage a new growth strategy.

Recent announcements

- Expenditure on programme doubled to Rs. 3,073 crore for the next financial year from Rs. 1,425.63 crore in 2017-18.
- Under Digital India the budget is allocated in the following order of priority

1. Promotion of electronics manufacturing.
2. Delivery of e-governance services.
3. Government's digital literacy programme
4. Development on manpower.

- The Government also proposed to set up **5 lakh Wi-Fi hotspots** which will provide broadband access to 5 crore rural citizens.
- The Budget proposed an allocation of around Rs. 14,500 crore to strengthen telecom infrastructure projects, including **BharatNet**, during the upcoming fiscal.
- Of this, Rs. 4,500 has been allocated for building a **dedicated optical fibre-based communications network** for defence forces in lieu of airwaves vacated for civilian use.
- NITI Aayog would initiate a national programme to direct efforts in the area of artificial intelligence, including research and development of its applications.

7.14 Res extra commercium

- A Latin phrase meaning 'outside commerce' is used by the government to restrict the tobacco industry's legal trade rights.
- The meaning of "Res extra commercium" is "things beyond commerce".
- It is the Roman law concept denying an industry's legal standing to trade and it gives authorities more leeway to impose restrictions.
- For example, the Supreme Court's application of the doctrine to alcohol in the 1970s paved the way for at least two Indian states to ban it completely.
- Now, Central government is pushing the Supreme Court to apply this rarely used doctrine for tobacco industry.
- It is an effort by the government aimed at deterring tobacco companies from challenging tough new regulations.
- With an aim to curb tobacco consumption, the government has raised tobacco taxes, started smoking cessation campaigns and introduced laws requiring covering most of the package in health warnings

7.15 Strategic Petroleum Reserves

- Abu Dhabi National Oil Company (ADNOC) will send ships carrying crude oil to fill half of the 1.5 million tonne strategic oil reserves India has built at Mangaluru.
- Indian Strategic Petroleum Reserves Ltd has built 5.33 million tonnes of strategic crude oil storage at three locations — **Padur** and **Mangaluru** on the western coast and **Visakhapatnam** on the eastern coast
- The oil stored in the underground rock caverns at the three locations is to be used in an emergency.

7.16 Resource Efficiency

- In 2017, the NITI Aayog along with EU Delegation to India released the Strategy paper on Resource Efficiency (RE).
- Subsequently, NITI aayog initiated implementation of strategy on Resource efficiency.
- Resource efficiency means using the Earth's limited resources in a sustainable manner while minimizing impacts on the environment.
- The objective of the RE Strategy is
  - To make recommendations for enhancing the resource-use efficiency in the Indian economy and industry
  - To develop indicators for monitoring progress
  - To create an ecosystem for improving the resource security and minimizing environmental impacts.

7.17 Scheme for Capacity Building in Textiles Sector (SCBTS)

- It is a new skill development scheme by the Ministry of Textiles.
- Its objectives are

i. Providing **placement oriented skilling programme** to incentivize the efforts of the industry in creating jobs in the organized textile and related sectors;

ii. Promoting skilling and **skill up-gradation in the traditional sectors** through respective Sectoral Divisions/organizations of Ministry of Textiles;

iii. Providing livelihood to all sections of the society across the country.

- It covers the entire value chain of the textile sector **excluding Spinning & Weaving in organized Sector**.
- It is going to be implemented from 2017-18 to 2019-20 with an outlay of Rs. 1300 crore.
- The scheme will have **National Skill Qualification Framework (NSQF)** compliant training courses with funding norms as per the Common Norms notified by Ministry of Skill Development and Entrepreneurship (MSDE).
- Skill upgradation will be supported further for entrepreneurial development through provision of MUDRA loans.
- Atleast 70% of the certified trainees are to be placed in the wage employment. **Post Placement tracking** will be mandatory under the scheme.
- All partner institutions will be required to comply with the guidelines regarding Internal Complaints Committee to be constituted under the **Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act,** 2013 to become eligible for funding under the scheme.
- The scheme will be implemented for the benefit of all sections of the society across the country including rural, remote, LWE affected, North East, J&K by imparting skills in the identified job roles.

7.18 Price Deficiency Payment

The Niti Aayog, has recently released a three-year action agenda for the Centre suggesting the 'Price Deficiency Payment' (PDP) system among other reforms.

- Under the Price deficiency Payment, farmers will be compensated for the difference between the MSPs for select crops and their actual market prices.
- For crops such as rice and wheat where MSP is effective now, the same will continue.
- For other targeted crops, price deficiency payments system will be introduced.
- However, notably there may be a cap on the extent to which the Centre will bridge the gap between MSP and market price.
- A farmer would have to register with the nearest APMC mandi and report the total area sown, to avail this benefit.
- The subsidy would be paid via Direct Benefit Transfer (DBT) into the farmer's Aadhaar-linked bank account.

Benefits

- **Subsidy Bill** - The government has been accumulating large food grain stocks in its godowns over and above the buffer requirement, leading to storage and wastage costs.
- Under the new system, the government can pay in cash to farmers, the difference between the support and market prices.
- This will actually reduce the need for the government to procure food crops, transport and store them, and then dispose of them under PDS.
- Resultantly, as Niti Aayog proposes, this system can keep India's bill on food subsidies, and storage and wastage costs under check.
- It can also address to an extent the world nations' concern on India's procurement subsidies being trade-distorting.
- **MSP** - The MSP system has many flaws in execution which include:

  i. limited geographical coverage.

  ii. actual procurement being restricted to a few crops such as paddy and wheat despite announcements for 20-plus crops.

iii. skewed cropping pattern in favour of rice and wheat as a result of this.

iv. soil degradation and susceptibility of crops to pest as a result of this monoculture, leading to higher usage of chemical fertilisers and pesticides.

- The PDP system is expected to address these shortfalls and negative results of MSP scheme.
- As, it could be more effective than MSPs in ensuring that cropping patterns in India respond to consumer needs and that farmers actually benefit from price support.

7.19 National Year of Millets

- Centre has recently approved 2018 as Year of Millets.
- It is mainly to boost the sunrise agri industry and production of the cereal.
- This decision has been taken following a request by Karnataka, which is the country's leader in the millet sector.
- In 2017, India had forwarded proposal to United Nations (UN) for declaring year 2018 as 'International Year of Millets'.
- Millets are a group of small-seeded grasses, grow as cereal crops/ grains.
- It includes Jowar, Ragi, Korra, Arke, Sama, Bajra, Chena/Barr and Sanwa.
- Agro-Climatic Condition- grows well on well-drained loamy soils, arid and semi-arid such as in Rajasthan, Karnataka, Madhya Pradesh, etc.
- India is the largest producer of millets followed by the African countries of Nigeria and Niger.

7.20 Floor Space Index

- Ministry of state for housing and urban affairs, has set up a committee to look at a higher floor space index (FSI), to make cities taller.
- FSI, also known as the Floor Area Ratio (FAR), is the extent of the buildable area allowed on any given plot.
- It is calculated based on the total floor area built per square metre of land.
- If a single-storey building occupies 50% of a plot, the FSI would be 1/2.
- If the building is expanded vertically to have four stories, the FSI will go up to two (4 times 1/2), as the effective floor area has quadrupled.
- FSI is regulated by Directorate of Town and Country Planning (DTCP) department.
- According to Demographia World Urban Areas (2017) report, Mumbai, which has the maximum high-rises in the country, is the world's fourth densest city with 26,000 people per sq km and delhi stands 123 on the density scale.
- In comparison, Shanghai is place 423rd while Tokyo (632), New York (944), Chicago (965) have even lower population densities as also more green open spaces.

7.21 Initiatives of FSSAI for Nutritional and Safe Food

- Food Safety and Standards Authority of India (FSSAI) has developed science-based standards for various categories of food products to ensure availability of safe and wholesome food in the country.
- FSSAI has introduced **+F Logo** for fortified foods.
- To promote awareness among consumers on Nutrition, mandatory labelling requirements for pre-packaged foods, is prescribed.
- FSSAI has also undertaken **'Safe and Nutritious Food (SNF)'** initiative to promote awareness towards consumption of safe and nutritious food.
- FSSAI had issued regulations that required **food companies selling organic produce** to get certified from either one authority.
- Certificate issuing authorities will be National Programme for Organic Production (NPOP) or the Participatory Guarantee System for India (PGS-India).

- Companies could also get a voluntary logo from the FSSAI that marked its produce as 'organic.'
- It will be implemented from July 2018, any company that claims to sell organic food and not sticking to standards can be prosecuted.

NPOP

- Organic farming certification had been done through a process of third party certification under the NPOP.
- This is a top- down mechanism run by the Ministry of Commerce used for certifying general exports.
- Nearly 24 agencies were authorised by the NPOP to verify farms, storages and processing units and successful ones got a special 'India Organic' logo.

FSSAI

- The Food Safety and Standards Authority of India (FSSAI) has been established under Food Safety and Standards, 2006.
- FSSAI has been created for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.
- Ministry of Health & Family Welfare is the Administrative Ministry for the implementation of FSSAI.
- **Foscoris** – It is a **web-based system** launched by FSSAI which will help verify compliance of food safety and hygiene standards by food businesses.
- The web based system will bring together all key stakeholders on a nation-wide IT platform.
- It will help in collecting data related to inspection, sampling and test result data which will be shared seamlessly by all the officials.

7.22 Government e-market place (GeM)

- GeM facilitates online procurement of common use Goods & Services required by various Government Departments / Organizations / PSUs.
- It is developed by the Directorate General of Supplies and Disposals (DGS&D) with technical support of NeGD (National e-Governance Divsion of Ministry of Electronics and IT)
- GeM aims to enhance transparency, efficiency and speed in public procurement.
- It provides an end-to-end online Marketplace for Central and State Government Ministries / Departments, Central & State Public Undertakings (CPSUs & SPSUs), Autonomous institutions and Local bodies.
- It provides the tools of e-bidding, reverse e-auction and demand aggregation to facilitate the government users, achieve the best value for their money.
- The third version of GeM was launched recently by the **Ministry of Commerce and Industry**.
- Eventually DGS&D has been closed down as GeM took over its operations.

7.23 Model Concession Agreement for PPP Projects in Major Ports

- Union Cabinet has recently approved amendments in the Model Concession Agreement (MCA) for major port development under Sagarmala Programme.
- The agreement aims to make the Port Projects more investor-friendly and make investment climate in the Port Sector more attractive.
- It envisaged constitution of the Society for Affordable Redressal of Disputes - Ports **(SAROD-PORTS)** as dispute resolution mechanism similar to provision available in Highway Sector.

7.24 National Infrastructure Investment Fund (NIIF)

- NIIF has recently made its first investment in the country.
- NIIF has partnered with DP World to create an investment platform for ports, terminals, transportation and logistics businesses in India.

- The NIIF is a trust that raises debt to invest in the equity of infrastructure finance companies.
- It acts like a bankers' bank in infrastructure financing. Government owns 49% of NIIF.
- It provides equity support to NBFCs/ Financial Institutions (FIs) engaged in infrastructure financing.
- It also provides equity/ debt to commercially viable projects, both Greenfield and Brownfield, including stalled projects.
- It is being considered as an Alternative Investment Fund (AIF) under SEBI regulation.
- A typical sovereign wealth fund (SWF) will be a state-owned investment company owned by governments and invests their own money in foreign countries.
- Though the NIIF acts like an SWF, it does not invest in assets such as stocks, bonds, real estate, commodities etc like an SWF do and therefore cannot be called so.
- The Abu Dhabi Investment Authority (ADIA) became the first institutional investor in the NIIF with an investment of $1 billion.
- An **India-UK Green Growth Equity Fund (GGEF)** is also being set-up under the fund of funds under NIIF.
- GGEF shall receive funds worth 120 million each from Government of India (through NIIF) and Government of UK.
- The fund aims to leverage private sector investment from the City of London to invest in Green Infrastructure Projects in India.

7.25 IRFC

- Indian Railway Finance Corporation (IRFC) green bond was recently listed in BSE's India International Exchange (India INX) in its global securities market.
- With this, IRFC's green bonds have become the first debt security to be listed on an exchange at International Financial Services Centre in Gujarat's GIFT city.
- India INX's Global Securities Market (GSM) segment, India's first debt listing platform, allows raising funds in any currency of choice by both foreign and Indian issuers from investors across the globe.
- IRFC had last year raised USD 500 million from the 10- year green bond from investors in Asia, Europe and offshore US through listing on the London Stock Exchange (LSE).

Green bonds

- A bond is a debt instrument with which an entity raises money from investors. The bond issuer gets capital while the investors receive fixed income in the form of interest. When the bond matures, the money is repaid.
- A green bond is very similar. The only difference is that the issuer of a green bond publicly states that capital is being raised to fund 'green' projects, which typically include those relating to renewable energy, emission reductions and so on.

International Exchange (India INX)

- India INX is the country's first International Exchange at the international financial services centre (IFSC) GIFT city, Gandhinagar.
- India International Exchange IFSC Limited (India INX) and India International Clearing Corporation IFSC Limited (India ICC) are wholly owned subsidiary of the BSE Limited.
- India INX operates for 22 hours a day to allow international investors and Non Residents Indians to trade from anywhere across the globe.
- In the first phase it proposes to commence trading in equity derivatives, currency derivatives, commodity derivatives including Index and Stocks.
- Subsequently, depository receipts and bonds would be offered once the required infrastructure for the same is in place.
- Special Economic Zones Act, 2005 provides for the setting up of an International Financial Services Centre (IFSC) in a Special Economic Zone (SEZ).

- Businesses setup in IFSC comes under guidelines and regulations of Ministry of Corporate Affairs, RBI, SEBI and IRDAI.

7.26 National Productivity Day

- The National Productivity Council is observed 12th February as National Productivity Day, and till 18th February National Productivity Week.
- "Industry 4.0 Leapfrog Opportunity for India" is the theme of the National Productivity Week -2018.
- Industry 4.0 is characterized by the increasing digitization and interconnection of products, value chains and business models.

7.27 National Productivity Council (NPC)

- NPC is a mission oriented apex, autonomous organisation under Ministry of commerce and Industry.
- It is a not for profit organization with equal representation from Government, employers and workers' organisation.
- It is established by the Ministry of Industry, Govt. of India in 1958.
- The council is celebrating its 60th anniversary this year.
- Its objective is to promote the cause of productivity in all sectors of the Indian economy.
- NPC is a constituent of the Tokyo-based Asian Productivity Organization (APO), an Inter Governmental Body, of which the Government of India is a founder member.

7.28 States' Startup Ranking 2018

- Department of Industrial policy and promotion (DIPP) under Ministry of Commerce and Industry has recently framework for States' Startup ranking.
- The framework will evaluate States on parameters such as Startup policy and implementation, incubation support, seed funding support, angel and venture funding support, simplified regulations, easing public procurement, awareness and outreach.
- It aims to encourage States to take proactive steps towards strengthening the enabling Startup ecosystems at the State level.
- The tools for ranking are,
    i. State and Union Territory Start-up Ranking Framework
    ii. Compendium of Good Practices for Promoting Start-ups in India.
    iii. Start-up India Kit – It is a one-stop guide on all the benefits available to startups from the Startup India initiative

7.29 'Port Logistics: Issues & Challenges in India' report

- The report was released by Dun & Bradstreet on behalf of Niti Aayog.
- The study covers key issues and challenges and also proposes 60 policy measures to strengthen the ports sector, which represents the bulk of India's merchandise trade.
- It introduced a 'Port Performance Index' which will benchmark performance of various ports by combining qualitative perception of stakeholders with quantitative outcome based data.
- It covers 13 ports in which
    i. 3 ports (JNPT, Kamarajar, Vizag) have received 'Good' score;
    ii. 7 ports (Cochin, Kandla, Paradip, Chennai, Mormugao, New Mangalore and VOC) have received 'Average' score and
    iii. 3 ports (Haldia, Kolkata and MbPT) have received 'Poor' score.

7.30 CriSidEx

- CRISIL-SIDBI MSE Sentiment Index (CriSidEx) is the India's first sentiment index for micro and small enterprises (MSEs) developed jointly by CRISIL and SIDBI.

- It is a composite index based on a diffusion index of 8 parameters, and measures MSE business sentiment on a scale of 0 (extremely negative) to 200 (extremely positive).
- The first report based on the index was recently launched.
- The report captured qualitative responses of 1,100 MSEs, out of which 550 were manufacturing units and the other 550 services units.
- The report has highlighted that the sentiment was more positive in manufacturing.

7.31 National Urban Housing Fund

- Union cabinet has given approval for creation of National Urban Housing Fund (NUHF) for Rs.60,000 crores to finance its flagship program Pradhan Mantri Awas Yojana-Housing for All (Urban) by 2022
- This fund will be situated in Building Materials and Technology Promotion Council (BMTPC), an autonomous body registered under the Societies Registration Act, 1860 under the **Ministry of Housing and Urban Affairs**.
- It will facilitate raising requisite funds in next four years to ensure the flow of central assistance to several programmes which are implemented to address the gap in urban sector housing.
- Few programmes are Beneficiary Linked Construction (BLC), Affordable Housing in Parternership (AHP), In-Situ Slum Redevelopment (ISSR) and Credit Linked Subsidy Scheme (CLSS).

7.32 Action plan for Champion Sector

- Union Cabinet has recently approved the proposal of the Department of Commerce to give focused attention to **12 identified Champion Services Sectors** for promoting their development, and realizing their potential.
- Champion Service Sectors include,
    i. Information Technology & Information Technology enabled Services (IT & ITeS),
    ii. Tourism and Hospitality Services,
    iii. Medical Value Travel,
    iv. Transport and Logistics Services,
    v. Accounting and Finance Services,
    vi. Audio Visual Services,
    vii. Legal Services,
    viii. Communication Services,
    ix. Construction and Related Engineering Services,
    x. Environmental Services,
    xi. Financial Services and Education Services.
- A dedicated fund of Rs. 5000 crores has been proposed to be established to support initiatives for sectoral Action Plans of the Champion Sectors.

7.33 Dry Port

- The government plans to overhaul 300-odd dry ports in the country to resolve infrastructural constraints faced by exporters and importers.
- **Dry port** is an inland terminal that provides services for handling, temporary storage, inspection and customs clearance for international freight.
- It is usually located where networks of different transportation modes converge and is directly connected by rail or road to a sea port.
- The move is expected to boost foreign trade and it also aims to establish new dry ports based on location and logistics mix.

8. INFRASTRUCTURE

8.1 Infrastructure Status to Logistics Sector

The government has recently granted infrastructure status to the Indian logistics sector.

- The definition of logistics includes industrial parks, warehouses, cold storages and transportation.
- Minimum investment and area requirements to get the infrastructure tag for each category like multi-modal logistics park, cold chain facility and warehousing facility have been clearly defined.
- It includes the logistics sector in the master list of **infrastructure sub-sectors** under a new head 'Transport and Logistics'.
- **Easy Credit -** This makes it easier for companies operating within these segments to raise long-term credit from banks and other financial institutions at lower rates.
- The inclusion also makes it easier for logistics companies to -
    1. Access larger amounts of funds as External Commercial Borrowings (ECB)
    2. Access longer-tenure funds from insurance companies and pension funds
    3. Be eligible to borrow from India Infrastructure Financing Company Limited (IIFCL)
- It also helps attract foreign investments.
- **Lower cost of logistics -** This also means that development firms with larger land parcels can utilise their excess land holdings to develop more infrastructure facilities, thereby boosting the supply of warehousing facilities.
- This coupled with easier access to capital will eventually bring down the cost of logistics.
- **World Bank's Logistic Performance Index (LPI)** measures the state of trade and logistics based on parameters like customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing and timeliness.
- India is ranked 35 out of 160 countries on the index.

8.2 World Bank's Probe on Amaravati

World Bank panel seeks six months to decide whether a probe is required or not in Amaravati plan.

- Amaravati is the proposed capital of Andhra Pradesh; it is envisioned to be a city of world-class standards.
- The planned city is located on the **southern banks of the Krishna River** in Guntur district.
- The word "Amaravati" derives its name from the historical Amaravathi Temple town, the ancient capital of the Telugu Rulers of the Satavahana dynasty
- The Andhra Pradesh Capital Region Development Authority (APCRDA) is the body which runs the project.
- The **Land Pooling scheme** was adopted by CRDA which is considered to be the largest and the most successful of its kind in India.
- The AP government is expecting $300-million loan from the World Bank through an IBRD(International Bank for Reconstruction and Development)investment project financing loan.
- The total financing for the projectis $715 million, of which the World Bank lending is proposed to be $300 million.
- The State government has so far pooled over 33,000 acres from farmers for construction and the Bank's financing is planned to be used within the 217 sq km area designated for the development of Amaravati Capital City.
- Farmers of the region complained to the World Bank in September this year,who alleged that they were forced to part with their land.
- They also claimed harm from a land pooling scheme (LPS) being implemented to assemble the land required for the city, as well as from other project activities.
- Due to this complaints World Bank inspection panel, had recommended a probe into the charges of forcible land pooling against the Andhra Pradesh government.

- It recommended an investigation into the alleged issues of harm and related potential noncompliance with bank policies, especially relating to involuntary resettlement.
- Now it has sought six months' time to decide if a probe is required or not.
- The decision deferred based on the discussion with panel and the proposed actions.

8.3 Concerns of shipbreaking industry

India has made a draft legislation to set Labour Safety and Environment Benchmarks for ship breaking.

- In 2016, India dismantled over 300 ships, against about 220, 140 and 70 in the case of Bangladesh, Pakistan and China.
- Alang in Bhavnagar district, Gujarat, considered the world's largest shipbreaking facility.
- India, which along with Bangladesh dismantles most of the world's discarded ships, has drafted a legislation to set benchmarks for shipbreaking.
- The proposed law is aligned with the **Hong Kong convention adopted by the International Maritime Organisation** in 2009.
- Ships in India and Bangladesh are dismantled on the beach rather than on dry docks, which adds to the toxicity of the soil, water and air.
- 'Beaching' is banned under EU regulations, while the Hong Kong convention pushes for clean beaching practices.
- The convention is so far ratified by Norway, Congo, France, Belgium, Panama and Denmark.
- It is yet to be addressed by 15 countries with accounts for 40% of world's merchant shipping capacity.

Shipbreaking

- Shipbreaking is a process of breaking down a ship, when it completes its life tenure..
- It is one of the most hazardous jobs in the world because most ships are used to carry radioactive materials, toxic wastes, extremely poisonous chemicals and oil.
- It directly affect the health of the workers, hundreds of manual labourers move onto the beach to dismantle each ship.
- Manyship breaking yard has poor working and living conditions, workers face many serious work-related injuries.
- It is also an environmental time bomb as workers strip the ships marooned on the sea shore.
- It leads to severe contamination of the sea bed, eventually seeping into the marine food chain.

- Greece and Germany are top offenders in outsourcing their vessels to be beached.
- Efforts to clean up the industry should include bringing such grey activities under the scanner.

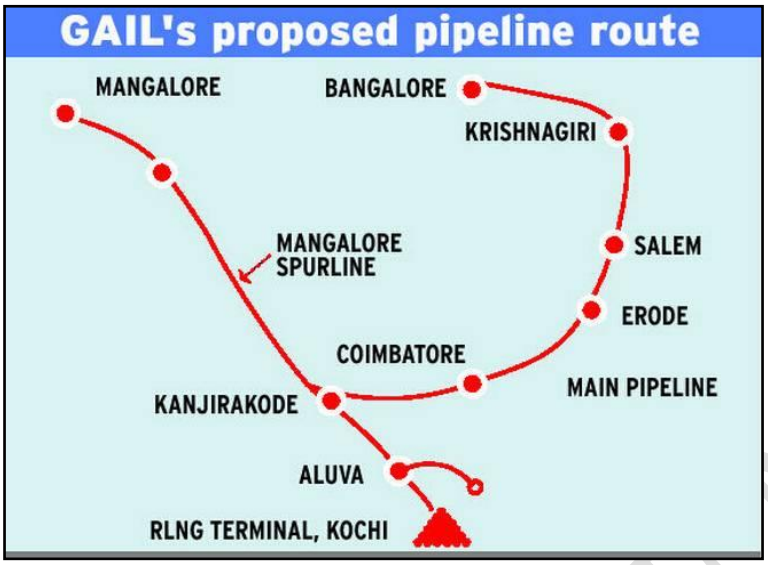
International Maritime Organisation

- It is the United Nations specialized agency with responsibility for the safety and security of shipping and the prevention of marine pollution by ships.
- Its main role is to create a regulatory framework for the shipping industry that is fair and effective, universally adopted and universally implemented.
- It is headquartered in London ,there are 172 member states of the IMO, which includes 171 of the UN member states plus the Cook Islands.

8.4 GAIL Pipeline in Kerala

Kozhikode in north Kerala recently witnessed violent protests against the laying of a pipeline by the Gas Authority of India Ltd (GAIL).

- The Kochi LNG terminal was meant to ensure natural gas supply for domestic and industrial use in Kerala and in South India.



- GAIL envisaged a pipeline to transport natural gas from Kochi to Mangaluru and Bengaluru.
- The Kochi-Koottanad-Bengaluru-Mangaluru Pipeline (KKBMPL) project was thus conceived in 2007.
- The first phase aimed at linking the terminal with local industrial users, including Bharat Petroleum Corporation Limited.
- The second phase of the pipeline was to go through seven districts of Kerala, besides covering parts of Tamil Nadu and Karnataka.

- **Concerns -** The project has been delayed considerably because of resistance to **acquisition of land** under the **Right of Use (RoU)** agreement.
- The **compensation** for farmers and landowners who allow GAIL to lay the pipeline through their property is a contentious issue.
- The government has however doubled the compensation, and said it will be fixed by pegging the market rate at 10 times the fair price.
- Also, despite GAIL stressing that the LNG is both safe and essential for the state's development, the agitators have serious **safety concerns**.
- Despite the disruption attempts, GAIL has managed to continue laying the pipeline, though under heavy police protection.
- However, the project, which should have been commissioned in 2013, now has a **revised deadline** of February 2019.
- Meanwhile, the delay is causing **huge losses** to the Kochi terminal and re-tendering is resulting in cost escalations.

Right of Use (RoU)

- GAIL acquires the Right of Use from landowners and/or farmers.
- Owners are then paid compensation as per the Petroleum and Mineral Pipelines (Acquisition of Right of User in Land) Act, 1962.
- Ownership remains with the landowners but they shouldn't cultivate deep-rooted trees at a distance of 10 metres, or carry out constructions.
- GAIL pays compensation as per the amount fixed by the state revenue department.

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