Crux of Indian Economy for IAS Prelims 2020 Book

Economy Current Affairs September 2019

RBI Monetary Policy Stance

Calibrated Tightening- Calibrated tightening means that in the current rate cycle, a cut in the policy repo rate is off the table, and we are not obliged to increase the rate at every policy meeting. In that case policy repo rate is kept unchanged. Later, RBI decresed the repo rate and changed the policy stance from Calibrated tightening to Neutral.

Neutral Stance - means policy repo rate may be unchanged/increased/decreased.

Accommodative Stance - means policy repo rate will be further decreased.

RBI Makes External Benchmark Based Interest Rate mandatory for certain categories of loans from October 1, 2019

Reserve Bank had constituted an Internal Study Group (Chairman: Dr. Janak Raj) to examine various aspects of the marginal cost of funds-based lending rate (MCLR) system.

The final report of the ISG was published in October 2017 for public feedback. The ISG observed that internal benchmarks such as the Base rate/MCLR have not delivered effective transmission of monetary policy. The Study Group had, therefore, recommended a switchover to an external benchmark in a time-bound manner.

Internal benchmarks were linked to Banks' cost of funds. This gave banks a lot of discretion while setting interest rates and spreads, thereby slowing transmission of policy rate changes by RBI. When RBI cuts the policy rates banks generally do not pass the cut to borrowers.

The RBI therefore has issued a circular making it mandatory for banks that **All new floating rate personal or retail loans** (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from **October 01, 2019** shall be benchmarked to **one of the following**:

- Reserve Bank of India policy repo rate
- Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL)
- Government of India 6-Months Treasury Bill yield published by the FBIL
- Any other benchmark market interest rate published by the FBIL.

Spread under External Benchmark-Banks are free to decide the spread over the external benchmark. However, credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract.

Banks are free to offer such external benchmark linked loans to other types of borrowers as well.

In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, a bank must adopt a uniform external benchmark within a loan category; in other words, the adoption of multiple benchmarks by the same bank is not allowed within a loan category.

The **interest rate** under external benchmark shall be reset at least once in three months.

Existing loans and credit limits linked to the MCLR/Base Rate/BPLR shall continue till repayment or renewal. Provided that floating rate term loans sanctioned to borrowers who, in terms of extant guidelines, are eligible to prepay a floating rate loan without pre-payment charges, shall be eligible for switchover to External Benchmark without any charges/fees, except reasonable administrative/ legal costs.

Financial Benchmark India Private Ltd (FBIL)

Financial Benchmark India Private Ltd (FBIL) was jointly promoted by Fixed Income Money Market & Derivative Association of India (FIMMDA), Foreign Exchange Dealers' Association of India (FEDAI) and Indian Banks' 'Association (IBA).

It was incorporated on 9th December 2014 under the Companies Act 2013. It was recognised by Reserve bank of India as an **independent Benchmark administrator** on 2nd July 2015.

The company is run by a Board of Directors, assisted by an oversight committee.

The main object of the company is to act as the administrators of the Indian interest rate and foreign exchange benchmarks and to introduce and implement policies and procedures to handle the benchmarks.

It also will make policies for possible cessation of any benchmark and to follow steps for ensuring orderly transition to the new benchmarks. FBIL will review each benchmark to ensure that the benchmarks accurately represent the economic realities of the interest that it intends to measure .It will take up/consider such other benchmarks as may be required from time to time by periodically assessing the emerging needs of the end -users.

Promoters and Shareholding

S. No.	Shareholder's Name	No. of shares	% of total shares of the Company
1	Fixed Income Money Market & Derivatives Association of India	760000	76
2	Foreign Exchange Dealers' Association of India	140000	14
3	Indian Banks' Association	100000	10
	Total	**100000**	**100**

The FBIL is committed to providing financial benchmarks that are (i) free from bias, (ii) backed by robust data driven research and (iii) compliant with global best practices.

RBI Central Board accepts Bimal Jalan Committee recommendations and approves surplus transfer to the Government (26-08-2019)

The Central Board of the RBI decided to transfer a sum of ₹1,76,051 crore to the Government of India comprising of ₹1,23,414 crore of surplus for the year 2018-19 and ₹52,637 crore of **excess provisions** identified as per the revised Economic Capital Framework (ECF) adopted at the meeting of the Central Board.

In December 2018, RBI, in consultation with the Government of India, had constituted an Expert Committee to Review the Extant Economic Capital Framework of the RBI (Chairman: Dr. Bimal Jalan).

Expert Committee would

- review status, need and justification of various provisions, reserves and buffers presently provided for by the RBI;
- review global best practices followed by the central banks in making assessment and provisions for risks which central bank balance sheets are subject to;
- suggest an adequate level of risk provisioning that the RBI needs to maintain;
- determine whether the RBI is holding **provisions**, reserves and buffers in surplus / deficit of the required level of such provisions, reserves and buffers;
- propose a suitable profits distribution policy taking into account all the likely situations of the RBI, including the situations of holding more provisions than required and the RBI holding less provisions than required;

The Committee has since submitted its report to the Governor of the RBI. The Committee's recommendations were based on the consideration of the role of central banks' financial resilience, cross-country practices, statutory provisions and the impact of the RBI's public policy mandate and operating environment on its balance sheet and the risks involved.

The Reserve Bank of India (RBI) transfers its surplus profits to the Government of India in terms of the provisions of Section 47 of the Reserve Bank of India Act, 1934 which is as follows:

"**After making provision** for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and for all matters for which provision is to be made by or under this Act or which are usually provided for by bankers, the balance of the profits shall be paid to the Central Government."

The Central Board accepted all the recommendations of the Committee and finalized the RBI's accounts for 2018-19 using the revised framework to determine risk provisioning and surplus transfer.

The implications of this decision are given below:

(i) Realized Equity: Given that the available realized equity stood at 6.8 per cent of balance sheet, while the requirement recommended by the Committee was 6.5 per cent to 5.5 per cent of balance sheet, **there was excess of risk provisioning** to the extent of ₹11,608 crore at the upper bound of CRB and ₹52,637 crore at the lower bound of CRB. The Central Board decided to maintain the realized equity level at 5.5 per cent of balance sheet and the resultant excess risk provisions of ₹ 52,637 crore were written back.

(ii) Economic capital levels: While the revised framework technically would allow the RBI's economic capital levels as on June 30, 2019 to lie within the range of 24.5 per cent to 20.0 per cent of balance sheet (depending on the level of realized equity maintained and availability of revaluation balances), the economic capital as on June 30, 2019 stood at 23.3 per cent of balance sheet. As **financial resilience was within the desired range**, the **entire net income** of ₹1,23,414 crore for the year 2018-19, of which an amount of ₹28,000 crore has already been paid as interim dividend, will be transferred to the Government of India.

Merger of 10 Public Sector Banks (PSBs) into 4 (30-08-2019)

Government unveiled a plan to merge 10 public sector banks (PSBs) into four, reducing the number of state-owned banks from 18 to 12, in a bid to create "next-generation" financial institutions with stronger balance sheets and bigger risk appetite.

Punjab National Bank (PNB) will take over Oriental Bank of Commerce (OBC) and United Bank of India (UBI) to become the country's largest lender after State Bank of India (SBI) in terms of business.

Canara Bank will subsume Syndicate Bank; Andhra Bank and Corporation Bank will merge with Union Bank of India; and Allahabad Bank will become part of Indian Bank.

Cabinet approves Mechanism revision of ethanol price for supply to Public Sector Oil Marketing Companies for procurement of ethanol w.e.f. December'19 for one year period (03-09-2019)

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi has given its approval for the following, including fixing higher ethanol price derived from different raw materials under the EBP Programme for the forthcoming sugar season 2019-20 during ethanol supply year from 1st December 2019 to 30th November 2020:

(i) The price of ethanol from C heavy molasses route be increased from Rs.43.46 per lit to Rs.43.75 per litre,

(ii)The price of ethanol from B heavy molasses route be increased from Rs.52.43 per lit to Rs.54.27 per litre,

(iii)The price of ethanol from sugarcane juice/sugar/sugar syrup route be fixed at Rs.59.48 per litre,

(iv) Additionally, GST and transportation charges will also be payable. OMCs have been advised to fix realistic transportation charges so that long distance transportation of ethanol is not disincentivised,

(v) OMCs are advised to continue according priority of ethanol from 1) sugarcane juice/sugar/sugar syrup, 2) B heavy molasses 3) C heavy molasses and 4) Damaged Food grains/other sources, in that order,

All distilleries will be able to take benefit of the scheme and large number of them are expected to supply ethanol for the EBP programme. Remunerative price to ethanol suppliers will help in reduction of cane farmer's arrears, in the process contributing to minimizing difficulty of sugarcane farmers.

Ethanol availability for EBP Programme is expected to increase significantly due to higher price being offered for procurement of ethanol from all the sugarcane based routes, subsuming "partial sugarcane juice route" and "100% sugarcane juice route" under "sugarcane juice route" and for the **first time allowing** sugar and sugar syrup for ethanol production.

Increased ethanol blending in petrol has many benefits including reduction in import dependency, support to agricultural sector, more environmental friendly fuel, lesser pollution and additional income to farmers.

Background:
Government has been implementing Ethanol Blended Petrol (EBP) Programme wherein OMCs sell petrol blended with ethanol up to 10%. This programme has been extended to whole of India except Union Territories of Andaman Nicobar and Lakshadweep islands with effect from 01st April, 2019 to promote the use of alternative and environment friendly fuels. This intervention also seeks to reduce import dependence for energy requirements and give boost to agriculture sector.

Government has notified administered price of ethanol since 2014. For the first time during 2018, differential price of ethanol based on raw material utilized for ethanol production was announced by the Government. These decisions have significantly improved the supply of ethanol thereby ethanol procurement by Public Sector OMCs has increased from 38 crore litre in ethanol supply year 2013-14 to estimated over 200 crore litre in 2018-19.

Consistent surplus of sugar production is depressing sugar price. Consequently, sugarcane farmer's dues have increased due to lower capability of sugar industry to pay the farmers.

With a view to limit sugar production in the Country and to increase domestic production of ethanol, Government has taken multiple steps including, allowing diversion of B heavy molasses and sugarcane juice for ethanol production.

As the ex-mill price of sugar and conversion cost have undergone changes, there is a need to revise the ex-mill price of ethanol derived from different sugarcane based raw materials. There is also a demand from the industry to include sugar and sugar syrup for ethanol production to help in solving the problem of inventory and liquidity with the sugar mills.

Constitution of task force for drawing up National Infrastructure Pipeline of Rs. 100 Lakh Crore from FY 2019-20 to FY 2024-25 (07-09-2019)

Availability of quality infrastructure is a pre-requisite to achieve broad-based and inclusive growth on a sustainable basis. Investment in infrastructure is also necessary for sustaining the high growth rate of India.

To achieve the GDP of $5 trillion by 2024-25, India needs to spend about $1.4 trillion (Rs. 100 lakh crore) over these years on infrastructure. In the past decade (FY 2008-17), India invested about $1.1 trillion on infrastructure. The challenge is to step-up annual infrastructure investment so that lack of infrastructure does not become a binding constraint on the growth of the Indian economy.

Hon'ble Prime Minister in his Independence Day speech highlighted that Rs.100 lakh crore would be invested on infrastructure over the next five years. Infrastructure projects will include social and economic infrastructure projects. To implement an infrastructure program of this scale, it is important that projects are adequately prepared and launched. In pursuance of this, an annual infrastructure pipeline would be developed.

To achieve this task, a Task Force under the **chairmanship of Secretary (DEA)** has been constituted by Union Finance Minister to draw up a National Infrastructure Pipeline for each of the years from FY 2019-20 to FY 2024-25.

The Terms of Reference of the Task Force are as follows:
- To identify technically feasible and financially/ economically viable infrastructure projects that can be initiated in FY 2019-20.
- To list the projects that can be included in the pipeline for each of the remaining 5 years between FY 2021-25.
- To estimate annual infrastructure investment/capital costs.
- To guide the Ministries in identifying appropriate sources of financing.
- To suggest measures to monitor the projects so that cost and time overrun is minimized.

The National Infrastructure Pipeline would include greenfield and brownfield projects **costing above Rs 100 crore** each. Other qualifications for inclusion in the pipeline for the current year will include availability of a DPR, feasibility of implementation, inclusion in the financing plan and readiness/ availability of administrative sanction.

Each Ministry/ Department would be responsible for monitoring of projects so as to ensure their timely and within-cost implementation.

The Task Force will also enable robust marketing of the pipeline of projects requiring private investment through the India Investment Grid (IIG), National Investment & Infrastructure Fund (NIIF), etc.

The Task Force will submit its Report on the pipeline for FY 2019-20 by 31st October, 2019 and on the indicative pipeline for FY 2021-25 by 31st December 2019.

Bharat Bill Payment System - Expansion of biller categories (16-09-2019)

BBPS, as an interoperable platform for repetitive bill payments, currently covers bills of five segments viz. Direct to Home (DTH), Electricity, Gas, Telecom and Water.

RBI decided to expand the scope and coverage of BBPS to include all categories of billers who raise recurring bills (except prepaid recharges) as eligible participants, on a voluntary basis.

Cabinet approves Amendment in the Terms of Reference for the Fifteenth Finance Commission (17-07-2019)

The Union Cabinet chaired by Prime Minister Narendra Modi has approved the proposed amendment to enable Fifteenth Finance Commission to address serious concerns regarding the allocation of adequate, secure and non-lapsable funds for **defence and internal security** of India.

Under the Terms of Reference (ToR) of the Commission, it is proposed to ensure an assured allocation of resources towards defence and internal security imperatives.

The amendment provides that Fifteenth Finance Commission shall also examine whether a separate mechanism for funding of defence and internal security ought to be set up and if so how such a mechanism could be operationalized.

Corporate tax rates slashed to 22% for domestic companies and 15% for new domestic manufacturing companies and other fiscal reliefs (20-09-2019)

The Government has brought in the **Taxation Laws (Amendment) Ordinance 2019** to make certain amendments in the Income-tax Act 1961 and the Finance (No. 2) Act 2019. This was announced by the Union Minister for Finance & Corporate Affairs Smt Nirmala Sitaraman during the Press Conference in Goa. The Finance Minister elaborated further , the salient features of these amendments , which are as under:-

a. **In order to promote growth and investment**, a new provision has been inserted in the Income-tax Act with effect from **FY 2019-20** which allows any domestic company an option to pay **income-tax at the rate of 22%** subject to condition that they will not avail any exemption/incentive. The effective tax rate for these companies shall be 25.17% inclusive of surcharge & cess. Also, such companies shall not be required to pay Minimum Alternate Tax.

b. **In order to attract fresh investment in manufacturing** and thereby provide boost to 'Make-in-India' initiative of the Government, another new provision has been inserted in the Income-tax Act with effect from FY 2019-20 which allows any new domestic company incorporated on or after 1st October 2019 making fresh investment in manufacturing, an option to pay **income-tax at the rate of 15%.** This benefit is available to companies which do not avail any exemption/incentive and **commences their production on or before 31st March, 2023**. The effective tax rate for these companies shall be 17.01% inclusive of surcharge & cess. Also, such companies shall not be required to pay Minimum Alternate Tax.

c. A company which does not opt for the concessional tax regime and avails the tax exemption/incentive shall continue to pay tax at the pre-amended rate. However, these companies can opt for the **concessional tax regime** after expiry of their tax holiday/exemption period. After the exercise of the option they shall be liable to pay tax at the rate of 22% and option once exercised cannot be subsequently withdrawn. Further, in order to provide relief to companies which continue to avail exemptions/incentives, the **rate of Minimum Alternate Tax has been reduced** from existing 18.5% to 15%.

d. **In order to stabilise the flow of funds into the capital market**, it is provided that enhanced surcharge introduced by the Finance (No.2) Act, 2019 shall not apply on capital gains arising on sale of equity share in a company or a unit of an equity oriented fund or a unit of a business trust liable for securities transaction tax, in the hands of an individual, HUF, AOP, BOI and AJP.

e. The **enhanced surcharge shall also not apply** to capital gains arising on sale of any security including derivatives, in the hands of Foreign Portfolio Investors (FPIs).

f. **In order to provide relief to listed companies** which have already made a public announcement of buy-back before 5th July 2019, it is provided that tax on buy-back of shares in case of such companies shall not be charged.

g. The Government has also decided to **expand the scope of CSR 2% spending**. Now CSR 2% fund can be spent on incubators funded by Central or State Government or any agency or Public Sector Undertaking of Central or State Government, and, making contributions to public funded Universities, IITs, National Laboratories and Autonomous Bodies (established under the auspices of ICAR, ICMR, CSIR, DAE, DRDO, DST, Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting SDGs.

The total revenue foregone for the reduction in corporate tax rate and other relief estimated at Rs. 1,45,000 crore.

India's Immediate Payment Service (IMPS) has been rated as the world's best real-time payment service (19-09-2019)

"India received the only 5+ rating, and remains the global leader in real-time payments usage," according to the sixth annual Flavours of Fast report by FIS. IMPS is rated highest in FIS's 'Faster Payments Innovation Index', beating real-time payment services of countries such as the United States, China, Japan, the United Kingdom, Germany, and others,

India saw a 10-fold increase in value and an eight-fold increase in transaction volumes through IMPS over the last year,"

International Migrant Stock 2019 (17-09-2019)

The global number of international migrants reached an estimated 272 million in 2019. Currently, international migrants comprise 3.5 per cent of the global population.

In 2019, **India was the leading country of** origin of international migrants, with 17.5 million persons living abroad. Migrants from Mexico constituted the second largest "diaspora" (11.8 million), followed by China (10.7 million), the Russian Federation (10.5 million) and the Syrian Arab Republic (8.2 million).

Europe hosted the largest number of international migrants (82 million), followed by Northern America (59 million) and Northern Africa and Western Asia (49 million). The largest number of international migrants (51 million) resided in the United States of America.

International Migrant Stock 2019 was Prepared by the Population Division of the United Nations Department of Economic and Social Affairs.

Bamboonomics (13-09-2019)

Union Minister for Tribal Affairs Shri Arjun Munda launched the Biggest Tribal movement to promote tribal enterprise through Bamboonomics in the country which will be a beacon for the rest of the world.The government is all set to make economically viable use of bamboo with focus on charcoal made from it a key component of the action plan to combat desertification and to create livelihoods for tribals.

Rectification- Ways and Means Advances (Page No 57 of Crux)

RBI, in consultation with the Government of India, decided that the limits for Ways and Means Advances (WMA) for the second half of the financial year 2019-20 (October 2019 to March 2020) will be ₹35,000 crore.

Limits for Ways and Means Advances (WMA) for the first half of the financial year 2019-20 (April 2019 to September 2019) was ₹75,000 crore.

The Reserve Bank may trigger fresh floatation of market loans when the Government of India utilises 75 per cent of the WMA limit.

The Reserve Bank retains the flexibility to revise the limit at any time, in consultation with the Government of India, taking into consideration the prevailing circumstances.

The **interest rate on WMA/overdraft** will be:
WMA: Repo Rate
Overdraft: 2% above the Repo Rate

WMA Scheme

Under Section 17(5) of RBI Act, 1934, the RBI provides Ways and Means Advances (WMA) to the **Central and State Governments** repayable in each case not later than **three months** from the date of the making of the advance.

They are provided to help them to tide over temporary mismatches in the cash flow of their receipts and payments.

They are intended to provide a cushion to the Govt. to carry on their essential activities and normal financial operations.

Update- Maharatna PSU (Page No 227 of Crux)

Government of India, vide letter dated 11/09/2017, has conferred Bharat Petroleum Corporation Limited (BPCL) with MAHARATNA status.

Update- 6 members Monetary policy committee (Page No 45 of Crux)

1. RBI Governor- Shaktikanta Das
2. Dr. Viral V. Acharya resigned on 23-07-2019 six months before the end of his term. Bibhu Prasad Kanungo (Deputy Governor of RBI) is now member of MPC.

Update- Economic Advisory Council to the Prime Minister (Page No 243 of Crux)

Government of India has reconstituted the Economic Advisory Council to the Prime Minister (EAC-PM) for a period of two years with effect from 26th September 2019.

Dr. Bibek Debroy and Shri Ratan P. Watal will continue to be the Chairman and Member Secretary respectively of the reconstituted EAC-PM.

Apart from these two Full-Time Members, the EAC-PM will have two Part-Time Members. While Dr. Ashima Goel continues to be one of the Part-Time Members, Dr. Sajjid Chinoy has been made as another Part-time Member.

Update- RBI Publications (Page No 61 of Crux)

Handbook of Statistics on Indian Economy (Annually)
Handbook of Statistics on Indian States (Annually)
Macroeconomic and Monetary Developments (Annually)
State Finances : A Study of Budgets (Annually)
Report on Currency and Finance (Annually)

Miscellaneous

1. **G7 Summit 2019 in France**- 2020 Summit will be held in USA. Russia may be invited to rejoin to make group G-8. Russia was suspended in 2014 due to annexation of Crimea from Ukraine.

2. IMD World Digital Competitiveness Ranking 2019 measures the capacity and readiness of 63 economies to adopt and explore digital technologies as a key driver for economic transformation in business, government and wider society. USA ranks 1st in the overall digital ranking. India advanced by four places from 48th to 44th. (26-09-2019).

3. Prime Minister Narendra Modi and Prime Minister of Nepal, K.P. Sharma Oli jointly inaugurated **South Asia's first cross-border petroleum products pipeline** from Motihari in India to Amlekhgunj in Nepal through video conference. (10-09-2019).

4. Prime Minister Narendra Modi launched the Pradhan Mantri Kisan Maan Dhan Yojana at Ranchi, the Capital of Jharkhand. Prime Minister also launched the National Pension Scheme for the Traders and The Self-Employed. (12-09-2019). (For details of scheme refere page no 216 of Crux).

5. **Imported Inflation:** When the general price level rises in a country due to the rise in prices of imported commodities, it is termed imported inflation. For example, increase in price of crude oil, Gold etc.