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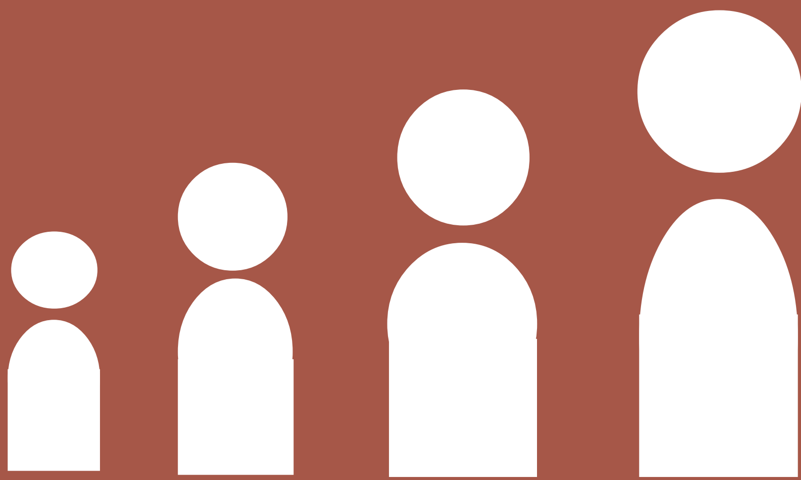
Banking events Update



Those who win, are those, who think they can

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Contents of this Issue

Budget and Economics Special

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BANKING POLICY

Refinance of ECB

In order to provide a level playing filed, RBI decided (Jan 04, 2018), in consultation with the Government of India, to permit the overseas branches/subsidiaries of Indian banks to refinance ECBs of highly rated (AAA) corporates as well as Navratna and Maharatna PSUs, provided the outstanding maturity of the original borrowing is not reduced and all-in-cost of fresh ECB is lower than the existing ECB. Partial refinance of existing ECBs will also be permitted subject to same conditions.

7.75% Savings (Taxable) Bonds, 2018 (RBI Jan 03, 2018)

Govt. of India decided to issue 7.75% Savings (Taxable) Bonds, 2018 with effect from January 10, 2018.

Eligibility for Investment: The Bonds may be held by –

(i) an individual, not being a Non-Resident Indian - in his or her individual capacity, or in individual capacity on joint basis, or in individual capacity on any one or survivor basis, or on behalf of a minor as father/mother/legal guardian.

(ii) a Hindu Undivided Family.

Limit of Investment: There is no maximum limit for investment.

Tax Treatment: Interest on the Bonds will be taxable under Income Tax Act, 1961 as applicable according to the relevant tax status of the Bond holders. The Bonds will be exempt from wealth-tax under the Wealth Tax Act, 1957.

Issue Price: The Bond will be issued at par i.e. at Rs.100.00 with a minimum amount of Rs.1,000 (face value) and in multiples thereof. Accordingly, the issue price will be Rs.1,000 for every Rs.1,000 (Nominal) face value.

Date of Issue : The Bonds will be issued, in demat form and credited to the Bond Ledger Account (BLA) of the investor/s on the date of tender of cash or the date of realization of draft/ cheque.

Form : The Bonds will be issued only in the demat form and held at the credit of the holder in an account called Bonds Ledger Account (BLA), opened with the receiving bank. The Bonds issued to the credit of BLA of an investors will be held by any number of branches of the banks and SHCIL, authorised by RBI.

Application: Applications (in physical or electronic form), may be made in Form A.

Receiving Offices: Applications for the Bonds will be received at any number of branches of SBI, Nationalised Banks, three private sector banks and SCHIL and Branches of any other bank as specified by the RBI in this behalf from time to time.

Nomination:

i. A sole holder or all the joint holders (investors) of a Bond, being individual/s, may nominate in Form B, one or more persons who in the event of death of the sole holder/all joint holders, as the case may be, would be entitled to the Bonds and to the payment due thereon, provided that the person or each of the persons nominated is himself/herself is competent to hold the Bond.

ii. Where the nomination has been made in favour of two or more nominees and either or any of them dies before such payment becomes due, the title to the Bonds shall vest in the surviving nominee or nominees and the amount being due thereon shall be paid accordingly.

iii. In the event of the nominee or nominees predeceasing the holder, the holder may make a fresh nomination.

iv. The investor(s) can make separate nomination for each investment.

v. No nomination shall be made in respect of the Bonds issued in the name of a minor.

vi. A nomination made by a holder of a Bond can be changed by a fresh nomination in Form B, or as near there to as may be, or may be cancelled by giving notice in writing to the Receiving Office in Form C.

vii. Every nomination and every cancellation or variation shall be registered at the Receiving Office where the Bond is issued and shall be effective from the date of such registration.

viii. If the nominee is a minor, the holder of Bonds may appoint any person to receive the Bonds/ amount due in the event of death during the period the nominee is a minor.

Transferability: The Bonds held to the credit of Bonds Ledger Account of an investor shall not be transferable.

Interest: The Bonds will be issued in 'Cumulative' or 'Non-cumulative' form, at the option of investor and will bear interest at the rate of 7.75% per annum.

i. Interest on non-cumulative Bonds will be payable at half-yearly intervals from the date of issue and interest on cumulative Bonds will be compounded with half-yearly rests and will be payable on maturity along with the principal.

ii. In the latter case, the maturity value of the Bonds shall be Rs. 1,703.00 (being principal and interest) for every Rs.1,000/-(Nominal).

iii. Interest to the holders opting for non-cumulative Bonds will be paid from date of issue up to 31st July / 31st January as the case may be, and thereafter half-yearly for period ending 31st July and 31st January on 1st August and 1st February.

iv. Interest on Bonds held to the credit of Bonds Ledger Account of an investor will be paid, electronically by credit to bank account of the holder as per the option exercised by the investor/ holder.

Tax Deduction at Source: Tax will be deducted at source while making payment of interest on the Non-Cumulative Bonds from time to time and credited to Government Account.

Advances/ Tradability against Bonds: Bonds shall not be tradable in the secondary market and shall not be eligible as collateral for availing loans from banks, financial Institutions and Non-Banking Financial Companies.

Repayment: (i) The Bonds shall be repayable on the expiration of 7 years from the date of issue.

(ii) Premature encashment in respect of the Bonds shall be allowed for individual investors in the age group of 60 years and above, subject to submission of document relating to date of birth of the investor in support of age to the satisfaction of the issuing bank, after minimum lock in period from the date of issue as indicated below:

a. Lock in period for investors in the age bracket of 60 to 70 years shall be 6 years from the date of issue.

b. Lock in period for investors in the age bracket of 70 to 80 years shall be 5 years from the date of issue.

c. Lock in period for investors in the age of 80 years and above shall be 4 years from the date of issue.

(iii) In case of joint holders or more than two holders of the Bond, the above lock in period will be applicable even if any one of the holders fulfills the above conditions of eligibility.

(iv) After aforesaid minimum lock in period from the date of issue an eligible investor can surrender the bonds at any time after the 12th, 10th and 8th half year corresponding to the respective lock in period but redemption payment will be made on the following interest payment due date. Thus, the effective date of premature encashment for eligible investors will be 1st August and 1st February every year. However, 50% of interest due and payable for last six months of the holding period will be recovered in such cases, both in respect of Cumulative and Non-cumulative bonds.

Brokerage: (i) Brokerage at the rate of Re 1.00 per Rs.100 will be paid to the brokers registered with the Receiving Offices.

XBRL Returns – Harmonization of Banking Statistics

RBI had constituted an inter-departmental Task-force in Dec 2014, to provide "harmonised" definitions of major balance sheet/ profit and loss/ off-balance sheet items covered in the banking/ regulatory returns received across RBI departments. A set of harmonised definitions for 106 data elements reported in multiple returns was released on March 30, 2017. RBI harmonized (Jan 04, 2018) the definitions for another set of 83 data elements which are reported in multiple returns.

Interpretation of a few data elements may be contextual, depending upon the purpose of the return and requirements of the user departments. For granular details, relevant master circulars/ directions/ guidance notes need to be referred. In the event of conflict between the definition of a term provided in this circular vis-à-vis the statutory/accounting/regulatory (provided in the relevant circulars) definition, the latter would prevail. ●

Central Govt. Budget FY 2018-19

The Central Govt. budget for the financial year 2018-19 was presented by the Finance Minister in Parliament on February 01, 2018. The salient features are:

Agriculture and Rural Economy

- Govt. considers agriculture as an enterprise. It proposes to double farmers' income by 2022 (75th year of independence). Emphasis in budget allocations, is, on generating higher incomes for farmers.
- As per pre-determined principle, Govt. proposes to keep MSP for the all unannounced crops of kharif at least at 150% of their production cost.
- If price of the agriculture produce in the market is less than MSP, Govt. proposes to purchase either at MSP or work in a manner to provide MSP for the farmers through some other mechanism.
- Proposal to develop and upgrade existing 22,000 rural haats into Gramin Agricultural Markets (GrAMs). GrAMs, electronically linked to e-NAM and exempted from regulations of APMCs, will provide facility to make direct sale to consumers and bulk purchasers.
- An Agri-Market Infrastructure Fund with a corpus of Rs.2000 crore will be set up for developing and upgrading agricultural marketing infrastructure in the 22000 GrAMs and 585 APMCs.
- For PM Krishi Sampada Yojana (a flagship programme for boosting investment in food processing) allocation is being doubled to Rs.1400 crore in BE 2018-19.
- Government proposes to launch an "Operation Greens" (for potato, onion and tomato) on the lines of "Operation Flood". It shall promote Farmer Producers Organizations (FPOs) for agri-logistics, processing facilities and professional management. Allocation Rs.500 crore for this purpose made.
- Proposal to extend KCC facility to fisheries and animal husbandry farmers for working capital needs.
- Bamboo ('Green Gold') grown outside forest areas removed from the definition of trees. Proposal to launch a Re-structured National Bamboo Mission with an outlay of Rs.1290 crore.
- Government had set up a Long Term Irrigation Fund in NABARD to meet funding requirement of irrigation works. Scope of the Fund would be expanded to cover specified command area development projects.
- Proposal for setting up a Fisheries and Aquaculture Infrastructure Development Fund for fisheries sector and an Animal Husbandry Infrastructure Development Fund for financing infrastructure requirement of animal husbandry sector with total Corpus of Rs.10,000 cr.
- Increase in volume of institutional credit for agriculture sector from Rs.10 lakh crore in 2017-18 to Rs.11 lakh crore for the year 2018-19.
- Presently, lessee cultivators are not able to avail crop loans. NITI Aayog will evolve a suitable mechanism to enable access of lessee cultivators to credit, without compromising the rights of the land owners.
- PM Ujjwala Scheme was launched, with a target to provide free LPG connections to 5 cr poor women. Proposal to increase the target to 8 crore poor women.
- Govt. had launched PM Saubhagya Yojana for providing electricity to all households. 4 crores poor households are being provided with electricity connection free of charge by spending Rs.16000 crore.
- Under Swachh Bharat Mission, Govt. has constructed more than 6 crore toilets. Govt. is planning to construct around 2 crore more toilets.
- Govt. will establish a dedicated Affordable Housing Fund (AHF) in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorized by the Government of India.

Health, Education and Social Protection

- Government is implementing a comprehensive social security and protection programme. Allocation on National Social Assistance Programme this year has been kept at Rs.9975 crore.
- Proposal to treat education holistically without segmentation from pre-nursery to Class 12.
- Govt. proposes to increase digital intensity in education and move gradually from "black board" to "digital board". Technology will be used to upgrade the skills of teachers through digital portal "DIKSHA".
- To provide the best quality education to the tribal children in their own environment, by 2022, every block with more than 50% ST population and at least 20,000 tribal persons, will have an *Ekalavya Model Residential School* on par with Navodaya Vidyalayas.
- To step up investments in research and related infrastructure in premier educational institutions, including health institutions, proposal to launch a major initiative named "Revitalising Infrastructure and Systems in Education (RISE) by 2022" with a total investment of Rs.1,00,000 crore in next four years.
- Govt. announced two major initiatives as part of "Ayushman Bharat" programme aimed at making path breaking interventions to address health holistically, in primary, secondary and tertiary care system

covering both prevention and health promotion.

- The National Health Policy, 2017 has envisioned 1.5 lac Health and Wellness Centres as the foundation of India's health system.
- Proposal to launch a flagship National Health Protection Scheme to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto Rs.5 lakh per family, per year for secondary and tertiary care hospitalization. This will be the world's largest government funded health care programme.
- Proposal to make villages, open-defecation-free Galvanizing Organic Bio-Agro Resources Dhan (GOBAR-DHAN) for management and conversion of cattle dung and solid waste in farms to compost, fertilizer, bio-gas and bio-CNG.
- Government will expand the coverage under PM Jan Dhan Yojana by bringing all 60 crore basic accounts within its fold and undertake measures to provide services of micro insurance and unorganized sector pension schemes through these accounts.

MSMEs and Employment

- Govt. has provided Rs.3794 crore to MSME Sector for giving credit support, capital and interest subsidy and innovations
- Proposal to onboard public sector banks and corporates on Trade Electronic Receivable Discounting System (TReDS) platform and link this with GSTN. Online loan sanctioning facility for MSMEs will be revamped for prompt decision making by the banks.
- Target of Rs.3 lakh crore for lending under MUDRA for 2018-19, set.
- Govt. will contribute 12% of wages of the new employees in the EPF for all the sectors for next 3 years. Also, the facility of fixed term employment will be extended to all sectors.
- Proposal to amend the Employees Provident Fund and Miscellaneous Provisions Act, 1952 to reduce women employees' contribution to 8% for first 3 years of their employment (existing 12% or 10%) with no change in employers' contribution.

Infrastructure and Financial Sector Development

- Railways' Capex for the year 2018-19 pegged at Rs.1,48,528 crore.
- A 'Safety First' policy, with allocation

Contd... on page 12

Budget at a Glance (Rs. in Crores)

	2016-2017 Actuals	2017-2018 Budget Estimates	2017-2018 Revised Estimates	2018-2019 Budget Estimates
1.Revenue Receipts	1374203	1515771	1505428	1725738
2. Tax Revenue (net to Centre)	1101372	1227014	1269454	1480649
3. Non-Tax Revenue	272831	288757	235974	245089
4. Capital Receipts1	600991	630964	712322	716475
5. Recovery of Loans	17630	11933	17473	12199
6. Other Receipts	47743	72500	100000	80000
7. Borrowings and Other liabilities	535618	546531	594849	624276
8.Total Receipts (1+4)	1975194	2146735	2217750	2442213
9. Total Expenditure (10+13)	1975194	2146735	2217750	2442213
10.On Revenue Account				
-of which	1690584	1836934	1944305	2141772
11. Interest Payments	480714	523078	530843	575795
12. Grants in Aid for creation				
of capital assets	165733	195350	189245	195345
13. On Capital Account	284610	309801	273445	300441
14. Revenue Deficit (10-1)	316381	321163	438877	416034
(% of GDP)	-2.1	-1.9	-2.6	-2.2
15. Effective Revenue Deficit (14-12)	150648	125813	249632	220689
(% of GDP)	-1	-0.7	-1.5	-1.2
16. Fiscal Deficit [9-(1+5+6)]	535618	546531	594849	624276
(% of GDP)	-3.5	-3.2	-3.5	-3.3
17. Primary Deficit (16-11)	54904	23453	64006	48481
(% of GDP)	-0.4	-0.1	-0.4	-0.3

Note : GDP for BE 2018-2019 has been projected at Rs.18722302 crore assuming 11.5% growth over the estimated GDP of Rs. 16784679 crore for 2017-18 (RE).

How Rupee Comes & Goes

Source (in paise)	**100**
1. GST	23
2. Capital receipts	22
3. Corporate tax	19
4. Income Tax	16
5. Excise duties	08
6. Custom duties	04
7. Non-tax revenue	08
Uses: (in paise)	**100**
1. State share of tax	24
2. Interest payments	18
3. Pensions	05
4. Central sponsored schemes	09
5. Central sector schemes	10
6. Defence	09
7. Subsidies	09
8. Finance commission payments	08
9.Other expenditure	08

Budget Related Terms

The annual budgeting exercise is a means to layout the roadmap for efficient use of public resources. In India, the Budget System was introduced on 7th April, 1860 by Mr. James Wilson, the first Indian Finance Member. After independence, the first budget was presented on Nov 26, 1947 by Sri R.K. Shanmugham Chetty.

Constitutional provisions: The Indian Constitution provides that the President shall, get laid before both the Houses of Parliament, a statement of the estimated receipts and expenditure of the Govt. for every financial year. This statement known as the 'Annual Financial Statement' is the main fiscal or budgetary document of the Govt. The financial year for the Union and the State Governments from April to March was introduced in India from 1867 (earlier it was 1st May to 30th April).

Salient features of Union Budget :

1. Cash Basis: Amount actually received or paid during a financial year (including arrears of the past years) is budgeted in a year.

2. Rule of Lapse: All unutilized funds within the year lapse, at the end of the financial year.

3. Budget / Annual Financial Statement : As per Section – 112 of the Indian Constitution, it is the statement of estimated receipts and expenditure of the Central Govt. along with a detailed plan, for each financial year and is laid before the Parliament.

There are usually 3 components of budget (1) Consolidated Fund of India, (2) Contingency Fund, (3) Public Account.

(i) Consolidated Fund of India- Under Article 266 (1) of the Constitution, all revenues of the Union Govt., loans raised by it and all moneys received in repayment of loans, form one common fund, called the Consolidated Fund of India. No moneys out of this Fund can be appropriated except in accordance with the law and for the purposes and in the manner, provided in the Constitution.

(ii) Contingency Fund – It is a Fund established under the Contingency Fund of India Act, 1950, in terms of Article 267 (1) of the Constitution. Contingency Fund is in the nature of an imprest, the corpus of which is Rs.500 crore at present. The Contingency Fund is intended to provide advances to the executive / Government to meet unforeseen expenditure arising during the year pending authorization by the Parliament. The amounts drawn from the Contingency Fund are recouped after the Parliament approves it through the Supplementary Demands.

(iii) Public Account: It is an account in which money received through transactions not relating to the Consolidated Fund, is kept. These are transactions for which the Govt. acts more as a banker (for example, transactions relating to provident funds, small savings collections, other deposits etc). Such money is kept in the Public Account and the connected disbursements are also made from it. Public Account funds do not belong to the Govt. and have to be paid back to the persons and authorities who deposited them. Parliamentary authorisation for payments from the Public Account is not required.

BUDGET TERMS

Appropriation Bill : It is presented to Parliament for approval, to enable the govt. to withdraw from the Consolidated Fund of India, the amounts required for meeting the expenditure. This is introduced after the general discussion on budget proposals and the completion of voting on grants. The procedure to pass the bill in Parliament, is like other Money bill.

Budget Estimates : These are the detailed estimates of receipts and expenditure of a financial year.

Budget Deficit :- It is a situation when the expenditure is more than revenues. As a result, the budgetary exercise is considered a failure, as there is shortage of funds.

Capital Budget: It consists of capital receipts and payments in addition to transactions in Public Account. It has 2 components (1) Capital Receipt (2) Capital Expenditure.

Capital Expenditure: It consists of payments for (1) acquisition of assets like land, buildings, machinery, equipment, (2) investments in shares (3) loans and advances granted by the Central govt. to State and Union Territory Governments, government companies, corporations etc.

Capital Receipt: It include (1) loans raised by the Govt. from public called market loans, (2) borrowings by the Govt. from RBI and other parties by sale of Treasury Bills, (3) loans received from foreign governments and bodies and (4) recoveries of loans granted by the Central govt. to State and Union Territory governments and other parties (5) proceeds from disinvestment of government equity in public sector enterprises.

Demands for Grants: It is a statement of estimates of expenditure from the Consolidated Fund. It is voted by Lok Sabha. Generally, one Demand for Grant is presented in respect of each Ministry or Department.

Direct Taxes : These are taxes imposed directly on the individuals or customers. Corporate tax and Income tax are direct taxes.

Disinvestment : Govt. makes a number of investment in public sector undertakings. But when it dilutes its stake in these undertakings, it is called disinvestment.

Expenditure Budget: It contains estimates both for revenue expenditure and capital expenditure. These estimates are brought together and shown on a net basis at one place by major heads.

Excise Duties : The tax imposed on goods manufactured within the country is known as Excise duty.

Finance Bill: This contains the Govt.'s proposals to levy new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament. It is submitted to Parliament along with the Budget for its approval.

Fiscal Deficit : It is the amount of difference of (1) Revenue Receipts + capital receipts other than borrowing and (2) Total Expenditure. This indicates the total borrowing requirements of the government from all sources.

Indirect Taxes : Taxes imposed on goods manufactured or imported (such as Excise Duties, Custom Duties etc.)

Monetised Deficit : It is the help extended to the Central government's borrowing program by RBI.

Non-Plan Expenditure: It includes revenue and capital expenditure on interest payments, the defence expenditure subsidies, postal deficit, police, pensions, economic services, loans to public enterprises and loans as well as grants to state governments, union territory governments and foreign governments. This classification has been dropped w.e.f. Central Budget for 2017-18.

Outcome Budget- It is the document presented annually to the Parliament, reflecting the purposes and objectives for which funds were provisioned, the cost of various programmes and activities proposed for achieving these objectives and quantitative projection of the work performed and services rendered under each programme and activity.

Compilation : Sapandeep Toor (in Sydney - Australia) (Source RBI Website).

Plan Expenditure: It includes both revenue and capital expenditure of the Govt. on the Central Plan, Central assistance to State and UT plans. It forms a sizeable proportion of the total expenditure of the Central govt. This classification has been dropped w.e.f. Central Budget for 2017-18.

Primary Deficit: It is the difference between fiscal deficit and interest payments.

Performance Budget : The compiled form of varied activities of various departments and ministries is termed as Performance Budget. Sometimes it is used synonymously with program budget.

Public Accounts Committee : It is a Committee constituted by Lok Sabha for examining the reports of the Comptroller and Auditor General of India relating to the appropriation accounts of the Central Govt., the Finance accounts of the Central Govt. or such other accounts or financial matters as are laid before it or which the Committee deems necessary to scrutinize.

Revenue Budget: It consists of the revenue receipts of the govt. (tax revenues plus other revenues) and the expenditure met from these revenues. It has 2 components: Revenue Receipt and Revenue Expenditure.

Revenue Deficit : It is excess of revenue expenditure over revenue receipts.

Revenue Expenditure : It is meant for the normal running of govt. departments and various services, interest charges on debt incurred by the govt. and subsidies. The expenditure which does not result in creation of assets is treated as revenue expenditure. All grants given to state governments and other parties are also treated as revenue expenditure even though some of the grants may be for creation of assets.

Revenue Receipt : It includes proceeds of taxes and other duties levied by the Centre, interest and dividend on investments made by the govt., fees and other receipts for services rendered by the govt.

Vote on Account: It is a grant, made in advance, by the Parliament, for the estimated expenditure, for a part of new financial year, pending the completion of the procedure relating to the voting of the demand for grants and the passing of the Appropriation Act.

FISCAL RESPONSIBILITY & BUDGET MANAGEMENT ACT 2002

With a view to bring the Central finance under discipline, the Fiscal Responsibility & Budget Management Act (FRBM Act) notified on July 02, 2004 came into force w.e.f. July 5, 2004. The Act provided for an institutional framework binding the Government to pursue a prudent fiscal policy. It casts responsibility on the Central Government to ensure fiscal management and long-term macroeconomic stability by achieving sufficient revenue surplus, removing fiscal impediments in the conduct of monetary policy and prudential debt management through limits on borrowings and deficits.

Targets :

The Act provided for the following targets for the Central Govt.:

- Reduce the fiscal deficits to 3% of GDP by 31.3.17 (new target by FY 2020-21).
- To reduce revenue deficit to 1.5% by 31.3.17.
- To set a ceiling on guarantees - 0.5% of GDP.

Report to the Parliament: Government is to place before the Parliament, 3 statements each year along with the Budget, covering (a) Medium Term Fiscal Policy, (b) Fiscal Policy Strategy and (c) Macro Economic Framework. The Parliament is also to be informed through quarterly reviews on the implementation.

Borrowing from RBI : The Act prohibits the Centre from borrowing from RBI (i.e. restriction on deficit financing through money creation). The RBI is also barred from subscribing to primary issues of Central Government securities. Temporary Ways and Means Advances to tide over cash flow problems are permitted.

Amendment- Govt. introduced the concept of Effective Revenue Deficit and Medium Term Expenditure Framework statement as part of Finance Bill, 2012:

- Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. This will help in reducing consumptive component of revenue deficit and create space for increased capital spending.
- Medium-term Expenditure Framework" statement will set forth a 3-year rolling target for expenditure indicators.

Fiscal Policy

The fiscal policy is the policy relating to govt. expenditure and revenue collection, to influence economic activity. Two main instruments of fiscal policy are govt. expenditure and taxation.

The change in the level and composition of taxation and government spending can impact the following variables :

1. Aggregate demand and the level of economic activity;
2. The pattern of resource allocation;
3. The distribution of income.

Stance of fiscal policy:

The 3 possible stances of fiscal policy are neutral, expansionary and contractionary.

(a) A **neutral stance** of fiscal policy implies a balanced economy. This results in a large tax revenue. Government spending is fully funded by tax revenue and the budget outcome has a neutral effect on the level of economic activity.

(b) An **expansionary stance** of fiscal policy involves government spending exceeding tax revenue.

(c) A **contractionary fiscal** policy occurs when government spending is lower than tax revenue.

Deficits: If the govt. spending is higher than the govt. revenue, there will be deficit, which can be :

(a) Revenue deficit = Revenue expenditure - revenue receipts.

(b) Effective Revenue Deficit = Revenue deficit - grants for creation of capital assets.

(c) Fiscal deficit = Total expenditure - (revenue receipts + non-borrowing capital receipts).

(d) Primary deficit = Fiscal deficit - interest payments.

There are various methods of funding of these deficits. Fiscal deficit is generally financed by way of borrowing by the govt. by selling treasury bills or by raising long term loans etc. This borrowing entails interest cost and in case it increase beyond the reasonable level, it can create sovereign default problem.

Methods of funding : Govt. spends money on a wide variety of things, from general administration to the military and police to services like education and healthcare, as well as transfer payments such as welfare benefits. This expenditure can be funded by way of Taxation, Seigniorage (by printing money), borrowing money from the public or from abroad, consumption of fiscal reserves, sale of fixed assets (e.g., land) i.e. disinvestment. All of these except, taxation are forms of deficit financing.

Economic effect of fiscal policy

Governments use fiscal policy to influence the level of aggregate demand in the economy, in an effort to achieve economic objectives of price stability, full employment, and economic growth. Increasing the govt. spending and decreasing tax rates, are the methods to stimulate aggregate demand. This can be used in times of recession or low economic activity as an essential tool for building the framework for strong economic growth and working towards full employment.

National Income Concepts

A no. of measures of national income and output are used to estimate total economic activity in a country. These help in counting the total amount of goods and services produced within geographically boundary or by citizens.

Gross Domestic Product (GDP): It is total money value of all final goods & services produced within a country's domestic territory during a particular period. The goods should be consumer goods or capital goods (intermediary goods and services to be excluded).

(GDP = Money value of final goods and services)

Net Domestic Product = GDP – Depreciation on fixed capital.

Gross National Product (GNP): It is seen in the context of citizenship (nationality), and calculated by adding the net factor income from abroad to GDP.

The net factor income from abroad can be positive or negative depending upon wages, rent, interest and profit earned by foreign citizens in India and Indian citizens in foreign countries.

(GNP = GDP + or - net factor income from abroad)

Net National Product (NNP) = GNP – Depreciation.

National Income : It means the net national product at factor cost, which include total of net domestic product at factor cost plus net factor income from abroad.

Net domestic product at factor cost : It is total amount earned by various factors of production with in the domestic territory. The NDP at factor cost is the net domestic product at market price (-) indirect taxes (+) amount of subsidies given by the government.

Net domestic product at market price : It is market value of all the final goods and services produced within domestic territory of a country. In practice the net domestic product at factor cost and at market price are not equal although they should be equal.

The NDP at market price is the net domestic product at factor cost (+) indirect taxes (-) subsidies.

FORMULAE

Ministry of Statistics & Program Implementation revised the base year from 2004-05 to 2011-12 for national accounts and introduced the following formulae:

1. Gross value added (GVA) at basic prices = CE + OS/MI + CFC + Production taxes less Production subsidies
2. GVA at factor cost (earlier referred to as GDP at factor cost) = GVA at basic prices plus Production taxes less Production subsidies
3. GDP = GVA at basic prices + Product taxes - product subsidies
4. NDP/NNI = GDP/GNI - CFC
5. GNI = GDP + Net primary income from ROW
6. Primary Incomes = CE + Property and Entrepreneurial Income
7. NNDI =NNI + other current transfers from ROW, net (Receipts less payments)
8. GNDI = NNDI + CFC = GNI + other current transfers from ROW, net (Receipts less payments)
9. Gross Capital Formation= Gross Savings+ Net Capital Inflow from ROW
10. GCF = GFCF + CIS + Valuables + Errors and Omissions
11. Gross Disposable Income of Govt. = GFCE + Gross Saving of GG
12. Gross Disposable Income of Households = GNDI GDI of Govt. Gross Savings of All Corporations

Calculation of GDP – Different approaches

(1) Output approach : GDP at market price = value of output in an economy minus intermediate consumption

NNP at factor cost = GDP at market price - depreciation + NFIA (net factor income from abroad) - net indirect taxes

(2) Income approach : NDP at factor cost = Compensation of employees + Net interest + Rental & royalty income + Profit of incorporated and unincorporated firms + Income from self-employment. (continued in the adjoining column)

National income = NDP at factor cost + NFIA (net factor income from abroad).

(3) The expenditure approach

GDP = C + I + G + (X - M)

Where: C = household consumption expenditures / personal consumption expenditures.

I= gross private domestic investment

G = govt. consumption and gross investment expenditures

X = gross exports of goods and services

M = gross imports of goods and services.

Compilation : Manjot Kaur Toor (Sydney - Australia) (Source RBI website).

ECONOMICS TERMS

Balance of trade: The difference in value between a country's imports and exports, over a period of time.

Current account: Part of a nation's balance of payments which includes the value of all goods and services imported and exported, as well as the payment and receipt of dividends and interest.

Economic Goods : Scarce goods which command a price. It is opposite of free goods.

Free Goods : Goods with zero market price. It is opposite of economic goods.

Normal Goods : Goods, the consumption of which increases with rise in income; also called superior goods (as against inferior goods).

Poverty line: A level of income below which people are deemed poor. It facilitates comparison of how many poor people are there in different countries. It is only a crude estimate, because the line does not recognize differences in the buying power of money in different countries. Further it does not recognize other aspects of poverty than the material or income poverty.

Real Income : Purchasing power of money income; quantity of real goods and services that money income can buy (as against money income).

Special Drawing Rights (SDRs) : Supplementary reserves with IMF in the form of universally acceptable drawing rights allocated to members as quotas, to help finance balance of payment deficits.

Bretton woods Agreement: An agreement (reached in Bretton Woods, New Hampshire in 1944) on the basis of which the structure of the international monetary system was designed after the 2nd world war and set up the IMF and the World Bank. It was agreed that the exchange rates of IMF members would be pegged to the US Dollar, with a maximum variation of 1% either side of the agreed rate.

Buyer's market: A market in which supply is more than demand and prices are low (it is opposite of a seller's market).

Cannibalise: A situation where companies come out with new products that compete with their existing products. The new products may eat into (cannibalise) their existing business. In the present day's innovative and technology-intensive economy, cannibalising is seen as a good strategy.

Capital flight: A situation when capital flows rapidly out of a country, as investors might have lost confidence in its economy. This is often associated with a sharp fall in the Exchange Rate of the abandoned country's currency.

Contagion: The domino effect, such as, when economic problems in one country spread to another.

Crony capitalism: An approach to business in which the companies give favours to their associate companies.

Currency board: A method by which a country tries to defend its currency from speculative attack. Such country commits itself to converting its domestic currency on demand at a fixed exchange rate.

Currency peg: When a Government announces that the exchange rate of its currency is fixed against another currency or currencies.

Deregulation: The process of removing legal or quasi-legal restrictions on the competition.

Devaluation: A deliberate act of Government policy, to sharply reduce the exchange rate of their currency to improve the export competitiveness. India had

Financial Events

done it in the year 1991.

Fiscal drag: A situation where the revenue from taxation rises as a share of GDP, in a growing economy. It is an automatic stabiliser, that acts naturally to keep demand stable.

Fiscal neutrality: When the net effect of taxation and public spending is neutral, neither stimulating nor dampening the demand. A balanced budget is neutral, as total tax revenue equals total public spending.

Gold standard: A monetary system in which a country backs its currency with a reserve of gold, and allows currency holders to exchange their notes and coins for gold. Up to 1914, most of the world's leading currencies had their exchange rate determined by the gold standard. After the 2^{nd} world war, a limited form of gold standard continued but only directly applied to the US Dollar; other major currencies had their exchange rates fixed to the Dollar under the Bretton Woods Agreement.

Hard currency: It is a currency which is expected to retain its value, or even benefit from appreciation (say US dollar), against softer currencies. This makes it a popular choice for people involved in international transactions.

Hot money: The money that is held in one currency but is liable to switch to another currency at a moment's notice in search of the highest available returns, thereby causing the first currency's exchange rate to plummet. It is often used to describe the money invested in currency markets by speculators.

Real exchange rate: An exchange rate that has been adjusted to take account of any difference in the rate of inflation in the two countries whose currency is being exchanged.

Reserve currency: A foreign currency held by a Government or Central Bank as part of a country's reserves. US dollar is a widely used reserve currency.

Shadow price: It is defined as the true economic price of an activity. It can be calculated for those goods and services that do not have a market price as the price is set by Government. Shadow pricing is often used in Cost-benefit analysis, where the whole purpose of the analysis is to capture all the variables involved in a decision, not merely those for which market prices exist.

Soft currency: A currency that is expected to drop in value relative to other currencies (opposite of Hard Currency).

Trade-weighted exchange rate: A country's exchange rate with the currencies of its trading partners weighted by the amount of trade done by the country in each currency.

Transfer pricing: The prices assumed, for the purposes of calculating tax liability, to have been charged by one unit of a multinational company when selling to another (foreign) unit of the same firm.

Inflation Related Terms

Inflation : Rise in the general or average price level of goods and services; consequently, a decline in the value of money (typically doubling of the general price level means halving the value of money).

Cost-Push Inflation : A situation of general rise in prices in which costs (payment made to factors owners) increase faster than productivity or efficiency (familiar examples, wage-push and profit-push inflation).

Demand-Pull Inflation : A state of rising prices brought about by increase in aggregate demand in the face of short supply.

Hyper Inflation : A situation in which general prices are rising sharply with no or little increases in output, also called 'runway' or 'galloping inflation'.

Disinflation: A fall in the rate of inflation. This means a slower increase in prices but not a fall in prices.

Deflation : A situation of fall in prices (negative inflation).

Business Cycle Related Terms

Business cycle: The long-run pattern of economic growth and recession. A Kitchin cycle lasted 39 months. The Juglar cycle lasts 8—9 years. The 20-year Kuznets cycle, was allegedly driven by house-building. The Kondratieff wave lasted for 50 years.

Depression : A phase of the business cycle in which economic activity is at a low ebb and there is unemployment/under employment of resources; prices, profits, consumption and rate of capital investment are also at a low level.

Recession : Down swing of business activity in a trade cycle. Income prices, profits and employment are falling during this phase of the trade cycle.

Re-flation: Policies to pump up demand and thus boost the level of economic activity. Such policies can result in higher inflation also.

Stagnation: A prolonged recession, but not as severe as a depression.

Employment Related Terms

Cyclical Unemployment : Unemployment in industrial market economies resulting from down showing of economic activity on account of deficient demand (insufficient to ensure Keynesian full employment).

Frictional unemployment: A part of the jobless, caused by people simply changing jobs and taking their time about it, because they are spending time on job search or are taking a break before starting with a new employer.

Full employment: A situation where everyone who wants work and is willing to work at the market wage is in work.

Structural unemployment: The unemployment caused by the structure of an economy rather than by changes in the economic cycle. It can be reduced only by changing the economic structures causing it.

Economics Theory related terms

Macroeconomics: The branch of economics that considers the relationships among broad economic aggregates such as national income, total volumes of saving, investment, consumption expenditure, employment, and money supply. It is also concerned with determinants of the magnitudes of these aggregates and their rates of change over time.

Microeconomics: The branch of economics concerned with individual decision units (firms and households) and the way in which their decisions interact to determine relative prices of goods and factors of production and how much of these will be bought and sold. The market is the central concept in microeconomics.

Positive Economics : Economics which deals with 'what is' instead of 'what ought to be'. Positive statement can be verified through facts in contrast to 'normative' statements, which involve value judgments. It is the opposite of Normative Economics, which suggests policies for increasing economic welfare.

Normative economics: It is form of economics that tries to change the world, by suggesting policies for increasing economic welfare. It is the opposite of positive economics, which tries to describe the world as it is, rather than prescribe ways to make it better.

Economy related terms

Market Economy : Economic system in which the central problems of an economy (what, how and for whom) are decided by the operation of free market forces of supply and demand.

Mixed Economy : An economy in which both the State and the private sector co-exit; decisions on what how and for whom are made partially by the market and by the State or any other public authority. Many consider it essentially a transitory form.

Closed economy: An economy that does not take part in international trade (opposite of OPEN ECONOMY).

Command economy: When a Government controls all aspects of economic activity.

Centrally planned economy: An economic system in which the production, pricing and distribution of goods and services are determined by the government rather than market forces. It is also referred to as a "non market economy." Former Soviet Union, China, and most other communist nations are examples of centrally planed economy.

Political economy: It is an attempt to merge economic analysis with practical politics (to view economic activity in its political context). Much of classical economics was political economy. Political economy is increasingly being recognized as necessary for any realistic examination of development problems.

Planned Economy : Economic system in which basic decisions in an economy are made according to a plan.

Open economy : An economy that encourages foreign trade and has extensive financial and non-financial contacts with the rest of the world in areas such as education, culture, and technology.

Weightless economy: An economy with higher share of services and or goods carrying higher value (like microprocessors, fine fibre-optic cables and transistors). It is dematerialised economy, which is deemed not only lighter but also more efficient.

Taxation Related terms

Tax : A compulsory payment to govt. against which there is no quid pro quo.

Progressive Tax : Graduated tax system where, those in higher income slabs pay a higher percent-age as tax. These are direct taxes such as personal tax and corporate tax.

Regressive Tax : When tax is imposed without taking into account the payment capacity of tax payer. These are indirect taxes such as excise duty, custom duty.

Tax Avoidance : Loopholes in tax laws used by tax payers to avoid taxes. (contrasted with tax evasion).

Tax Evasion : Illegal escape from tax payment; black market incomes result from tax evasion.

Tax Incidence : Ultimate burden of tax.

Tax Shifting : Shifting of the burden or incidence of tax.

Tariff : Custom duty or tax imposed on exports or imports.

VAT: A form of indirect sales tax paid on products and services at each stage of production or distribution, based on the value added at that stage and included in the cost to the ultimate customer.

Ad-Valorem Duties : The taxes fixed as a certain percentage of the price of the product.

Countervailing duties: Duties (tariffs) that are imposed by a country to counteract subsidies provided to a foreign producer.

Customs duty: Duty on import of certain goods. Unlike tariffs, customs duties are used mainly as a means to raise revenue for the government rather than protecting domestic producers from foreign competition.

Indirect tax: A tax you do not pay directly, but which is passed on to you by an increase in your expenses. For instance, a company might have to pay a fuel tax. The company pays the tax but can increase the cost of its products so consumers are actually paying the tax indirectly by paying more for the merchandise.

Tax arbitrage: Creating financial instruments or transactions that allow the parties involved to exploit loopholes in or differences between their tax exposures, so that all involved pay less tax.

Withholding tax: A tax that is collected at source, before the taxpayer has seen the income or capital to which the tax applies. It is imposed on interest and dividends.

Economic Laws & Theories

Engel's law: According to this law, people generally spend a smaller share of their budget on food as their income rises (as observed by Ernst Engel, a Russian statistician in 1857). As a result, the share of food in total spending falls as incomes grow.

Game theory: A technique for analysing how people, firms and governments should behave in strategic situations and in deciding what to do or take into account what others are likely to do and how others might respond to what they do. For instance, competition between two firms can be analysed as a game in which firms play to achieve a long-term competitive advantage. The theory helps each firm to develop its optimal strategy for, say, pricing of its products and deciding how much to produce.

Nash equilibrium: It is an important concept in Game Theory. A Nash equilibrium occurs when each player is pursuing their best possible strategy in the full knowledge of the strategies of all other players. It is named after John Nash, a mathematician and Nobel prize-winning economist.

Gini coefficient: It is an inequality indicator which measures the inequality of income distribution within a country. It varies from zero (which indicates perfect equality, with every household earning exactly the same) to one (which implies absolute inequality, with a single household earning a country's entire income).

Gresham's law: A situation where the bad money drives out good money. It is one of the oldest laws in Economics, named after Sir Thomas Gresham, an adviser to Queen Elizabeth I of England.

J-curve: The curve explains the shape of the trend of a country's trade balance following a devaluation. A lower exchange rate initially means cheaper exports and more expensive imports, creating bigger deficit in the current account. After some time, the volume of exports will start rising because of their lower price to foreign buyers, and domestic consumers will buy fewer of the costlier imports. Eventually, the trade balance will improve on what it was before the devaluation. If there is a currency appreciation there may be an inverted J-curve.

Kondratieff wave: A 50 year-long business cycle, named after Nikolai Kondratieff, a Russian economist. He identified cycles of economic activity lasting half a century or more in his 1925 book, The Long Waves in Economic Life.)

Laffer curve: Propounded in Nov 1974 by Arthur Laffer. According to him initially, the higher tax rates would increase revenue, but at some point further increases in tax rates would cause revenue to fall, by discouraging people from working. The curve became an icon of supply-side Economics.

Okun's law: Based on empirical research by Arthur Okun (1928–80), it describes as to what happens to unemployment when the rate of growth of GDP changes, It predicts that if GDP grows at around 3% a year, the jobless rate will be unchanged. If it grows faster, the unemployment rate will fall by half of what the growth rate exceeds 3% by; that is, if GDP grows by 5%, unemployment will fall by 1 percentage point.

Pareto efficiency: Named after Vilfredo Pareto (1843–1923), an Italian economist, it is a situation in which nobody can be made better off without making somebody else worse off.

Phillips curve: It was propounded in 1958, by A.W.H. Phillips (New Zealand). It proposed that there was a trade-off between inflation and unemployment (the lower the unemployment rate, the higher was the rate of inflation).

Say's law: As per this law propounded by Jean-Baptiste Say (1767–1832), the supply creates its own demand. Keynes argued against Say, making the case for the use of fiscal policy to boost demand if there is not enough of it to produce full employment.

Pigou effect: Named after Arthur Pigou (1877–1959), a sort of wealth effect, resulting from deflation. A fall in the price level increases the real value of people's savings, making them feel wealthier and thus causing them to spend more. This increase in demand can lead to higher employment.

Sharpe ratio: A rough guide to whether the rewards from an investment justify the risk, invented by Bill Sharpe, a winner of the NOBEL PRIZE FOR ECONOMICS and co-creator of the CAPITAL ASSET PRICING MODEL. The higher Sharpe ratio is the better, that is, the greater is the return per unit of risk.

Indicies

Big mac index: The Big Mac index was devised by Pam Woodall of The Economist in 1986, as a guide to whether currencies are at their "correct" level.

Black-scholes: A formula for pricing financial options devised by Myron Scholes and Robert Merton. They were awarded the Nobel prize for economics for their part in devising the formula.

Herfindahl-hirschman index: It is a warning signal of possible monopoly. To calculate it, take market share of each firm in the industry, square it, then add them all up. The higher the Herfindahl number, the more concentrated is market power.

Misery index: The sum of a country's INFLATION and UNEMPLOYMENT rates. The higher the score, the greater is the economic misery.

Index of industrial production: A quantity index that is designed to measure changes in the physical volume or production levels of industrial goods over time.

Central Govt. Budget 2018-19

Contd... from page 5

of adequate funds under Rashtriya Rail Sanraksha Kosh is cornerstone of Railways' focus on safety. Other major steps include increasing use of technology like "Fog Safe" and "Train Protection and Warning System".

- Redevelopment of 600 major railway stations is being taken up by Indian Railway Station Development Co. Ltd. All stations with more than 25000 footfalls will have escalators. All railway stations and trains will be progressively provided with wi-fi. CCTVs will be provided at all stations and trains to enhance security of passengers. Modern train-sets are being designed at Integrated Coach Factory, Perambur. First such train-set will be commissioned during 2018-19.
- Regional connectivity scheme of UDAN (Ude Desh ka Aam Nagrik) initiated by Govt. last year shall connect 56 unserved airports and 31 unserved helipads across the country. Proposal to expand airport capacity more than 5 times to handle a billion trips a year under a new initiative - NABH Nirman.
- RBI issued guidelines advising Corporates to access bond market. SEBI will also consider mandating the Corporates, to meet about 25% of their financing needs from the bond market.
- Corporate bonds rated 'BBB' are investment grade. In India, regulators permit bonds with 'AA' rating only, as eligible for investment. It is time to move from 'AA' to 'A' grade ratings. The Govt.and concerned regulators will take necessary action.
- Bharatnet project has enabled broadband access to over 20 crore rural Indians in about 250000 villages. Govt. proposes to setup 5 lac wi-fi hotspots to provide broadband access to 5 crore rural citizens.
- Distributed ledger system or the block chain technology allows organization of any chain of records or transactions without the need of intermediaries. The Government will explore use of block chain technology proactively for ushering in digital economy.

Building Institutions and Improving Public Service Delivery

- Every enterprise, major or small, needs a unique ID. Government will evolve a Scheme to assign every individual enterprise in India, a unique ID.
- Capital of the Food Corporation of India will be restructured to enhance equity and to raise long-term debt for meeting its standing working capital requirement.
- Disinvestment target set at Rs.80,000 cr for 2018-19.
- Strong Regional Rural Banks to be allowed to raise capital from market to increase their credit to rural economy.
- National Housing Bank Act is being amended to transfer its equity from RBI to the Government. Indian Post Offices Act, Provident Fund Act and National Saving Certificate Act are being amalgamated and certain additional people friendly measures are being introduced. To provide RBI an instrument to manage excess liquidity, RBI Act is being amended to institutionalize an Uncollateralized Deposit Facility. Securities and Exchange Board of India, Act 1992, Securities Contracts (Regulation) Act 1956, and Depositories Act 1996, are being amended to streamline adjudication procedures and

Income Tax Rates, Cess and Surcharge

Income	Tax Rate	+ Actual Tax
Up to Rs.2.50 lac	-	-
Above Rs.2.50 lac to Rs.5 lac	5%	5.20%
Above Rs.5 lac to Rs.10 lac	20%	20.80%
Above Rs.10 lac to Rs.50 lac	30%	31.20%
Above Rs.50 lac to Rs.1 cr	30%	34.32%
Above Rs.1 cr	30%	35.88%

Notes: + Actual tax including following cess/surcharge

1. Rs.2500 tax rebate for income up to Rs.3.50 lac
2. Health and Education Cess = 4% on tax payable
3. Surcharge 10% for income above Rs.50 lac to Rs.1 cr
4. Surcharge 10% for income above Rs.1 cr

Corporate tax rate:

1. 25% for annual turnover upto Rs.250 cr (2016-17)
2. 30% in case of other domestic companies

Surcharge on Corporate Tax:

1. Income above Rs.1 cr = 7%
2. Income above Rs.10 cr = 12%

to provide for penalties for certain infractions.

- Govt. will formulate a Gold Policy to develop gold as an asset class. Gold Monetization Scheme will be revamped.
- The emoluments are proposed to be revised to Rs.5 lakh for the President, Rs.4 lakhs for the Vice President and to Rs.3.5 lakh pm for the Governors.
- Proposal to refix the salary and allowance of Members of Parliament with effect from April 1, 2018 with automatic revision of every 5 years, indexed to inflation.

Tax incentive for promoting post-harvest activities of agriculture

- Proposal to allow 100% deduction to companies registered as Farmer Producer Companies and having annual turnover up to Rs.100 crores in respect of their profit derived from post-harvest activities for a period of 5 years from financial year 2018-19.

Incentivising micro, small and medium entrepreneurs

- In the Union Budget, 2017, reduction of corporate tax rate to 25% for companies whose turnover was less than Rs.**50 crore** in financial year 2015-16 was approved. Proposal to extend the benefit of this reduced rate of 25% also to companies who have reported **turnover up to** Rs.**250 crore** in the financial year 2016-17. This will benefit the entire class of MSMEs which accounts for **99%** of companies filing their tax returns.

Relief to senior citizen

- Exemption of interest income on deposits with banks and post offices to be increased from Rs.**10,000/- to** Rs.**50,000/-** and TDS shall not be required to be deducted on such income, under section 194A. This benefit shall be available also for interest from all fixed and recurring deposit schemes.
- Raising the limit of deduction for health insurance premium and/ or medical expenditure from Rs.**30,000/- to** Rs.**50,000/-**, under section 80D. All senior citizens can claim benefit of deduction up to Rs.50,000 p.a. for health insurance premium and/or any general medical expenditure incurred.
- Raising the limit of deduction for medical expenditure in respect of certain critical illness from, Rs.60,000 in case of senior citizens and from Rs.80,000/- in case of very senior citizens, to Rs.**1 lakh** u/s 80DDB.
- Proposal to extend PM Vaya Vandana Yojana up to March, 2020 under which an assured return of 8% is given by Life Insurance Corporation of India. The existing limit on investment of Rs.7.5 lakh per senior citizen under this scheme is also being enhanced to Rs.15 lakh.

Further Measures to control cash economy

- Currently, the income of trusts and institutions is exempt if they utilise the income as per Income-tax Act. To have audit trail of the expenses, the payments above Rs.10,000 in cash shall be disallowed.

Misc. Issues

- Govt. proposes to notify a new scheme where the assessment will be done in electronic mode which will almost eliminate person to person contact leading to greater efficiency and transparency.
- With GST roll, name of Central Board of Excise and Customs [CBEC] to be changed to Central Board of Indirect Taxes and Customs (CBIC).
- Govt. proposes to amend FRBM Act to set a 3% fiscal deficit target to be achieved by 2020-21.

ECONOMIC SURVEY 2017-18

Economic Survey is a document that provides information about developments in Indian Economy in the current year vis-a-vis the budget plans. It is prepared under guidance of Chief Economic Advisor and tabled by Finance Minister in Parliament. Highlights are as under:

Major achievements of past year : Implementing GST, responding quickly to transitional challenges, tackling longfestering Twin Balance Sheet challenge by sending stressd debtors to IBC & bank recap validation and first sovereign upgrade in 14 years.

- Economic growth pegged at 7-7.5 per cent for FY'19.
- For the fiscal year 2016-17, the real GDP growth was 6.75% and the Economic Survey predicts 7-7.5% growth in 2017-18.
- The **key focus areas** in the medium term are employment, education and agriculture.
- In 2017-18, the **Gross Value Added (GVA)** at constant basic prices is expected to grow at the rate of 6.1% as compared to 6.6% in 2016-17. **Agriculture, industry and services sectors** are expected to grow at the rate of 2.1%, 4.4%, and 8.3% respectively in 2017-18.
- India's GDP growth is highest among major economies of the world having an average of 7.3% for the period from 2014-15 to 2017-18.
- The next year's agenda include stabilizing the GST, solving twin balance sheet (TBS) problem and implementing necessary actions, privatizing Air India, and ensuring macroeconomic stability.
- 50% increase in the number of indirect taxpayers has been recorded.
- 18 lakh new individual income tax filers been recorded since Nov 2016.
- Exports of readymade garments (man-made fibers) increased by about 16% due to Rebate of State Levies (ROSL).
- 5 States namely Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana account for 70% of India's exports.
- India's internal trade in goods and services is 60% of GDP.
- IBC mechanism is being used actively to resolve NPA problem.
- 2017-18 averaged the lowest inflation in the last six years.
- Rs20,339cr approved for interest subvention in 2017-18.
- The ratio of domestic saving to GDP reached 29.2% in 2013 to a peak of 38.3% in 2007, before falling back to 29% in 2016.
- Weighted average collection rate (incidence) of GST is about 15.6 per cent. As such, the single tax rate that would preserve revenue neutrality is between 15 to 16 per cent.
- Tax departments have gone in for contesting several tax disputes but also with a low success rate, which is below 30 per cent.

Key Indicators of Indian Economy

Data category	2015-16	2016-17	2017-18
GDP at constant prices (Rs.Cr)	11381002	12189854	12985363
GDP growth rate (%)	8.0	7.1	6.5
GVA at constant basic prices (Rs.cr)	10490514	11185440	11871321
GVA growth rate (%)	7.9	6.6	6.1
Per capita net national income (Rs.)	94130	103219	111782
Foodgrains (million tonnes)	251.6	275.7	134.7#
WPI Inflation (%)	-3.7	1.7	2.9
CPI Combined inflation (%)	4.9	4.5	3.3
Forex reserves (USD billion)	360	370	409
Gross Fiscal deficit to GDP (%)	3.9	3.5	3.2@
Revenue deficit to GDP (%)	2.5	2.1	1.9@
Primary deficit to GDP (%)	0.7	0.4	0.1@

Apr-Nov 2017 @Budget estimate

- Largest firms account for much smaller exports than in other comparable countries. Top 1% of Indian firms account only for 38% of exports unlike in other countries where they account for substantially greater share – (72, 68, 67 and 55% in Brazil, Germany, Mexico, and USA, respectively).
- Indian society exhibits a strong desire for a male child. Most parents continue to have children until they get the desired number of sons.

Sectoral Growth

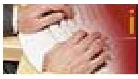
- 2017-18 industry growth seen at 4.4 per cent
- 2017-18 farm sector growth seen at 2.1 per cent
- 2017-18 services sector growth seen at 8.3 per cent

Fiscal deficit

- Current account deficit for 2017-18 expected to average 1.5-2 per cent of GDP
- Pause in general government fiscal consolidation cannot be ruled out in 2017-18
- Suggests modest (fiscal) consolidation that signals a return to path of gradual but steady deficit reductions

Inflation, policy rates

- Persistently high oil prices remain a key risk, to affect inflation
- If inflation doesn't deviate from current levels, policy rates can be expected to remain stable
- Average CPI inflation seen at 3.7% in 2017-18
- Policy vigilance required next fiscal if high oil prices persist or stock prices correct sharply
- Policy agenda for next year — support agriculture, privatise Air India, finish bank recapitalisation.
- Tax collection by states, local governments significantly lower than those in other federal countries
- Urban migration leading to feminisation of farm sector
- Rs 20,339 cr approved for interest subvention for farmers in current fiscal
- FDI in services sector rises 15% in 2017-18 on reforms
- Fiscal federalism, accountability to help avoid low equilibrium trap
- India's external sector to remain strong on likely improvement in global trade
- Swachh Bharat initiative improved sanitation coverage in rural areas from 39% in 2014 to 76% in Jan 2018
- Priority to social infrastructure like education, health to promote inclusive growth
- Centre, states should enhance cooperation to deal with severe air pollution
- Suvey 2017-18 in pink colour to highlight gender issues
- FDI in services sector rises 15% in 2017-18 on reforms
- For 2017-18, Gross national income at current prices and constant prices (2011-12 serices) is Rs.16438895 cr and Rs.12835004 cr. (annual growth rate 9.6% and 6.6%) repsectively.
- For 2017-18, Net national income at current prices and constant prices is Rs.14710563 cr and Rs.11404413 cr (annual growth rate 9.7% and 6.7%) respectively
- For 2017-18, Per capita net national income at current prices and constant prices is Rs.111782 and Rs.86660 (annual growth rate 8.3% and 5.3%) respectively.
- For 2017-18, Gross Domestic Product at constant prices (2011-12) : Rs.12985363 cr and Rs.16627585 cr at current prices.



MOCK-TEST PAPER

01 Negative gap between total revenue receipts and total revenue expenditure, is called:
a fiscal deficit
b revenue deficit
c effective revenue deficit
d primary deficit

02 Negative gap between (revenue receipts plus non-debt capital receipts) and total expenditure, is called:
a fiscal deficit
b revenue deficit
c effective revenue deficit
d primary deficit

03 Effective revenue deficit is calculated as:
a fiscal deficit less grants for creation of capital asset
b revenue deficit less grants for creation of capital assets
c fiscal deficit less interest payments
d primary deficit plus revenue deficit

04 Primary deficit is calculated as:
a fiscal deficit less grants for creation of capital asset
b revenue deficit less grants for creation of capital assets
c fiscal deficit less interest payments
d primary deficit plus revenue deficit

05 As per Central Govt. Budget 2018-19 proposals, what is primary deficit, as percent of gross domestic product?
a 2.2% b 1.2%
c 3.3% d 0.3%

06 As per Central Govt. Budget 2018-19 proposals, what is fiscal deficit, as percent of gross domestic product?
a 2.2% b 1.2%
c 3.3% d 0.3%

07 As per Central Govt. Budget 2018-19 proposals, what is revenue deficit, as percent of gross domestic product?
a 2.2% b 1.2%
c 3.3% d 0.3%

08 As per Central Govt. Budget 2018-19 proposals, what is effective revenue deficit, as percent of gross domestic product?
a 2.2% b 1.2%
c 3.3% d 0.3%

09 As per Central Govt. Budget 2018-19 proposals, ______ is proposed to promote Farmer Produce Organizations for agri-logitics, processing facilities and professional management.
a operation agriculture
b operation flood
c operation green
d operation farmer

10 As per Central Govt. Budget 2018-19 proposals, the facility of Kissan Credit Cards will be extended for which of the following activity?
a Fisheries and animal husbandry
b dairy and live stock management
c poultry and live stock management
d polult and fisheries

11 As per Central Govt. Budget 2018-19 proposals, 2 new funds namely Fisheries and Aquaculture Infrastructure Development Fund and Animal Husbandry Infrastructure Development Fund, are proposed to be created with a total corpus of Rs.____
a Rs.2000 cr
b Rs.5000 cr
c Rs.7500 cr
d Rs.10000 cr

12 As per Central Govt. Budget 2018-19 proposals, the volume of institutional credit for farm sector shall be:
a Rs.12 lac crores
b Rs.11 lac crores
c Rs.10 lac crores
d Rs.9 lac crores.

13 As per Central Govt. Budget 2018-19 proposals, the provision for interest subvention and interest subsidy on short term loans is kept at:
a Rs.15000 cr
b Rs.17500 cr
c Rs.20000 cr
d Rs.22500 cr

14 As per Central Govt. Budget 2018-19 proposals, each block with more than 50% ST population and at least 20000 tribal persons, will have ____:
a IIM type institutes
b Navodya Vidyalya
c Eklavya Vidyalya
d Kendriya Vidyala

15 As per Central Govt. Budget 2018-19 proposals, under National Health Protection Scheme, secondary and tertiary care hospalization cover up to Rs.____ per family per year would be provided to 10 cr poor families?
a Rs.10 lac
b Rs.5 lac
c Rs.2 lac
d Rs.1 lac

16 As per Central Govt. Budget 2018-19 proposals, for larger financing of MSMEs, which of

the following action is proposed?
a purchase of their NPA accounts
b onboarding banks and corporates on TReDS platform
c introduction of easy collateral security exemption rules
d all the above

17 As per Central Govt. Budget 2018-19 proposals, the lending under MUDRA target has been fixed at:
a Rs.100000 cr
b Rs.200000 cr
c Rs.300000 cr
d Rs.500000 cr

18 As per Central Govt. Budget 2018-19 proposals, govt. will contribute ____ of new employees in EPF for all the sectors for next 3 years.
a 8% of wages
b 10% of wages
c 12% of wages
d 15% of wages

19 As per Central Govt. Budget 2018-19 proposals, which of the following are proposed to be merged into one entity?
a public sector banks
b public sector general insurance companies
c public sector oil companies
d all the above

20 As per Central Govt. Budget 2018-19 proposals, the equity of which of the following is proposed to be transferred from RBI to Govt. of India?
a National Housing Bank
b EXIM Bank
c SIDBI
d NABARD

21 As per Central Govt. Budget 2018-19 proposals, the corporate tax rate shall be 25% on those corporates, whose annual turnover is up to Rs. ___ in the financial year 2016-17?
a Rs.50 cr
b Rs.100 cr
c Rs.200 cr
d Rs.250 cr

22 As per Central Govt. Budget 2018-19 proposals, the salaried tax payers will be allowed a standard deduction of:
a Rs.50000
b Rs.40000
c Rs.30000
d Rs.25000

23 As per Central Govt. Budget 2018-19 proposals, interest on SB, FD and RD up to Rs._____ per financial year earned by Senior Citizens shall be exempted from payment of income tax:
a Rs.1 lac
b Rs.60000
c Rs.50000
d Rs.10000

24 As per Central Govt. Budget 2018-19 proposals, TDS under Income Tax Act will not be deducted from Senior Citizens for interest on RD and FD up to Rs.___ per FY.
a Rs.1 lac
b Rs.60000
c Rs.50000
d Rs.10000

25 As per Central Govt. Budget 2018-19 proposals, the amount of max deposit under PM Vaya Vandhana Yojna has been increased from Rs.7.50 lac to:
a Rs.10 lac
b Rs.12.50 lac
c Rs.15 lac
d Rs.17.50 lac

26 As per Central Govt. Budget 2018-19 proposals, the rate of long term capital gains tax on listed equity shares or equity oriented MF units shall be:
a 10% b 12.5%
c 15% d 20%

27 As per Central Govt. Budget 2018-19 proposals, the health and education cess on tax payable, in place of education and higher education cess, shall be:
a 2% b 3%
c 4% d 4.5%

28 For the purpose budget receipts and expenditure, the GDP for the year 2018-19 has been assumed at:
a Rs.18722302 cr
b Rs.16784679 cr
c Rs.16067543 cr
d Rs.19057620 cr

29 As per Economic Survey 2017-18, the GDP at constant prices growth rate for 2017-18 is expected to be:
a 8.0% b 7.1%
c 6.7% d 6.5%

30 As per Economic Survey 2017-18, the GVA at constant price growth rate for 2017-18 is expected to be:
a 7.9% b 7.1%
c 6.6% d 6.1%

31 As per Economic Survey 2017-18, the per capita net national income for 2017-18 is:
a Rs.122792
b Rs.111782
c Rs.103219
d Rs.94130

32 As per Central Govt. Budget 2018-19 proposals, the surcharge on income tax on taxable income above Rs.50 lac shall be:
a 7% b 10%
c 12% d 15%

33 As per Central Govt. Budget 2018-19 proposals, the surcharge on income tax on taxable income above Rs.100 lac shall be:
a 7% b 10%
c 12% d 15%

34 As per Central Govt. Budget 2018-19 proposals, the surcharge on corporate tax on taxable income above Rs.100 lac shall be:

a 7% b 10%
c 12% d 15%

35 As per Central Govt. Budget 2018-19 proposals, the surcharge on corporate tax on taxable income above Rs.10 cr shall be:

a 7% b 10%
c 12% d 15%

36 As per Central Govt. Budget 2018-19 proposals, if a bank fails to submit statement of financial transactions or reportable accounts to Income Tax Department, the penalty shall be:

a Rs.100 per day
b Rs.200 per day
c Rs.500 per day
d Rs.1000 per day

37 As per Central Govt. Budget 2018-19 proposals, what will be the highest rate of income tax payable by an individual, inclusive of cess and surcharge?

a 31.20% b 34.32%
c 34.78% d 35.88%

Questions based on Budget Terms

38 The document that contains the government's proposals for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament, which is submitted to Parliament along with the Budget for its approval, is called:

a Annual budget
b Grants in aid
c finance bill
d budget memorandum

39 Which of the following is a revenue expenditure: (1) expenses relating to running of the govt. (2) interest paid by govt. on borrowing (3) expenses on construction of roads (4) grants given by Central govt. to state governments.

a 1 to 4 all
b 1, 2 and 4 only
c 1, 3 and 4 only
d 1, 2 and 3 only

40 Which of the following group of receipts has only the revenue receipts:

a taxes, dividends, interest on loans
b taxes, borrowing, dividends
c taxes, recovery of loans, dividends
d interest paid on borrowing, taxes, dividends.

41 Which of the following group of receipts has all the capital receipts:

a loans repayment, recovery of loans granted to state governments, disinvestment in public sector undertakings
b loans raised from market, recovery of loans granted to state governments, disinvestment in public sector undertakings
c loans raised from market, recovery of loans granted to state governments, investment in public sector undertakings
d loans raised from market, repayment of loans obtained from RBI, disinvestment in public sector undertakings

42 Those duties that are fixed as a certain percentage of the price of the product, are called:

a excise duties
b ad-valorem duties
c custom duties
d countervailing duties

43 The ______ duties are imposed on imports in order to check any kind of unfair trading practices carried by the foreign countries.

a excise duties
b ad-valorem duties
c custom duties
d countervailing duties

44 Which of the following statement is correct out of the following (1) Direct taxes are imposed directly on the individuals or companies (2) Direct taxes include Corporate tax (3) Direct taxes include Income tax (4) Direct taxes include excise duty.

a 1 to 4 all
b 1 to 3 only

c 1, 2 and 4 only

d 1, 3 and 4 only

45 Which of the following statement is correct out of the following (1) Indirect taxes are imposed on goods and services (2) Indirect taxes include Corporate tax (3) Indirect taxes include custom duty (4) Indirect taxes include excise duty.

a 1 to 4 all

b 1 to 3 only

c 1, 2 and 4 only

d 1, 3 and 4 only

46 The ______ deficit is the help extended to the Central government's borrowing program by the Reserve Bank of India.

a Fiscal deficit

b Monetized deficit

c primary deficit

d budget deficit

47 The situation when the expenditure is more than revenues and as a result the budgetary exercise is considered a failure, as there is shortage of funds, is called _____.

a Fiscal deficit

b Monetized deficit

c primary deficit

d budget deficit

48 Which of the following statement is correct (1) Value added tax (VAT) a tax that is imposed on a company or firm in respect of the percentage of its value addition (2) VAT is imposed to prevent the increasing effects of taxes through the different production processes (3) The sum determined by finding the difference between value of inputs and outputs is the basis of the value-added tax.

a 1 to 3 all

b 1 and 3 only

c 2 and 3 only

d 1 and 2 only

49 The ______ is the document presented to Parliament for approval, so that the govt. can withdraw from the Consolidated Fund, the amounts required for meeting the expenditure.

a demands for grant

b appropriation bill

c budget estimates

d capital budget

50 For the purpose of Budget, the payments for acquisition of assets like land, buildings, machinery, equipment, as also investments in shares and loans and advances granted by the Central govt. to State and Union Territory Governments, government companies, corporations etc. is part of:

a plan expenditure

b non-plan expenditure

c capital expenditure

d revenue expenditure

51 In the Budget, the loans raised by the Govt. from public called market loans, borrowings by the Govt. from RBI and other parties, through sale of Treasury Bills, loans received from foreign governments and bodies and recoveries of loans granted by the Central govt. to state and union territory governments and other parties, proceeds from disinvestment of government equity in public enterprises is categorised as.

a plan receipts

b capital receipts

c revenue receipts

d non-plan expenditure

52 Under Article 266 (1) of the Constitution, all revenues of the Union Govt., loans raised by it and all moneys received in repayment of loans form are credited to which of the following:

a Consolidated Fund of India

b Contingency Fund

c capital receipts

d revenue receipt

53 The ____ is intended to provide advances to the executive / Government to meet unforeseen expenditure arising in the course of a year pending its authorization by the Parliament.

a Consolidated Fund of India

b Contingency Fund

c capital receipts

d revenue receipt

Answers

01	b	02	a	03	b	04	c	05	d
06	c	07	a	08	b	09	c	10	a
11	d	12	b	13	a	14	c	15	b
16	b	17	c	18	c	19	b	20	a
21	d	22	b	23	c	24	c	25	c
26	a	27	c	28	a	29	d	30	d
31	b	32	b	33	d	34	a	35	c
36	c	37	d	38	c	39	b	40	a
41	b	42	b	43	d	44	b	45	d
46	b	47	d	48	a	49	b	50	c
51	b	52	a	53	b				

Economic Policy

Economic policy is the policy actions of the govt. in the economic field. The policy has a direct bearing on the economic strength, general economic welfare of citizens and economic ranking of a country in the world.

The policy sets economic priorities of govt. such as (a) national ownership of resources (b) the level of government income and spending (c) money supply and interest rates (d) conditions in the labour market and (e) many other areas of govt. interventions.

Economic policy is influenced by the social and political environment within the country and by the degree of integration with other economies of the world (called globalization) and the international institutions like IMF or World Bank.

Objectives of economic policy

1. Full employment - This ensures creation of opportunities where there are jobs for all of those, who are willing to work (full employment does not mean employment for all).

2. Inflation control - This keeps the purchasing power of the currency stable and real wage high. Increasing prices reduce the purchasing power of the currency and indirectly affect the standard of living.

3. GDP growth - It is major objective, as it increases the income of the people. If there is increase in per capita income of the population, it leads to better standard of life, provided there is equitable distribution of income.

Important policies that support the economic policy

1. Fiscal policy - It is the income, expenditure and tax policy of the govt. executed through annual budget. Through this, the govt. can impact all sectors of the economy. The policy determines the duty/ tax rates or tax concessions. In addition, the policy is about investments or disinvestments.

2. Monetary policy - It relates to monetary stabilisation to stimulate the economy. It regulates the money supply to ensure adequate liquidity for growth and not to allow excessive liquidity that results into inflation.

3. Credit policy - It is announced by RBI and ensures availability of credit to all productive sectors of the economy at reasonable interest rates. Through this, RBI impacts flow of credit, cost of deposit & credit etc.

4. Trade policy : This policy announced by Ministry of Commerce, covers internal and external trade of the country. The issues relating to tariffs, trade agreements and the international institutions are also dealt with through this policy.

Multidimensional Poverty Index (MPI)

Replacing the previous Human Poverty Index, MPI was developed in 2010 under United Nations Development Program. It uses different factors to determine poverty beyond the income base poverty.

MPI is an index of acute multi-dimension poverty. It indicates the no. of multi-dimensionally poor people who are deprived in rudimentary services.

MPI uses the same 3 dimensions as the Human Development Index, i.e. health, education and standard of living. These are measured by using 10 indicators as under:

A. Health - (1) Child mortality (2) Nutrition

B. Education - (1) Year of schooling (2) Children enrolled

C. Living standard (1)Cooking fuel (2) Toilet 3) Water 4) Electricity 5) Floor 6) Assets.

Each dimension and each indicator within a dimension is equally weighted. MPI is calculated as under:

MPI = H x A [H = %age of people who are MPI poor i.e. incidence of poverty. A= Average intensity of MPI across the poor (%)]

Genuine Progress Indicator (GPI)

GPI is a metric used to measure the economic growth of a country. It is considered as a replacement to gross domestic product (GDP) economic indicator. The GPI indicator takes everything the GDP uses, into account. GPI also adds other figures that represent the cost of the negative effects related to economic activity (such as the cost of crime, cost of ozone depletion and cost of resource depletion, among others). The GPI nets the positive and negative results of economic growth to examine whether or not it has benefited people overall.

The GPI metric was developed out of the theories of green economics. Proponents of the GPI see it as a better measure of the sustainability of an economy when compared to the GDP measure.

UN Human Development Index (HDI)

UN Human Development Index (HDI) measures poverty, literacy, education, life expectancy and other factors. It is a standard means of measuring well-being, especially child welfare. The index was developed in 1990 by the Pakistani economist Mahbub ul Haq. It is used since 1993 by the United Nations Development Programme in its annual report.

HDI measures the average achievements in a country in 3 basic dimensions of human development:

1. Long & healthy life (measured by life expectancy at birth).

2. Knowledge, as measured by adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrollment ratio (with one-third weight).

3. Decent standard of living, as measured by Gross Domestic Product per capita (Purchasing Power Parity in $US).

Each year, countries are ranked according to these measures. HDI is considered by many to be an excellent tool for measuring development, since both economic and social indicators are covered.

Value - HDI can have a value between 0 and 1. Nearer it is to 1, higher the level of human development. Countries and regions have classified into four categories:

1. Low human development: <0.535

2. Medium human development: from 0.535 to 0.710

3. High human development: 0.711 to 0.800

4. Very high human development >0.801

HDR 2016 : Country Ranking

The report covered 188 countries out of 193 UN member nations:

	Norway	India	China
Overall ranking	1	131	90
HDI Ranking (max 1)	0.949	0.624	0.738
Life Expectancy at birth (yr)	81.7	68.3	76.0
Mean years of schooling (Yr)	12.7	6.3	7.6
Expected years of schooling	17.7	11.7	13.5
Gross National $ Income (Per Capita) PPP	67614	5663	13345
Non-income HDI value (max 1)	0.977	0.575	0.728
Poverty (MPI) index	na	0.282	0.026

Limitation : The data availability determines HDI country coverage. To enable cross-country comparisons, the HDI is, to the extent possible, calculated based on data from leading international data agencies and other credible data sources available at the time of writing.

Economic Growth and Welfare

Economic growth is measured through GDP, GNP and Per capita income. Economic welfare is measured through Human Development Index.

Monetary Policy

Monetary policy is a tool with RBI to regulate the interest rate and money supply expansion that prevail in the economy. RBI is vested with the powers for formulating, supervising and controlling the monetary and banking system.

Instruments: There are 2 categories of instrument of monetary policy.

(1) **Under the general category**, it has powers to conduct **open market operations** (OMO), **change the reserve ratios** and **alter the discount rates**.
(2) **Under special category** it can have various credit direction program (priority sector, export credit, food credit etc.) and specifying margins and level of credit in special categories (selective credit control).

Easy or tight money Policy :

(1) An **easy money policy** is intended to increase the money supply. It help bring about a reduction in interest rates. Lower interest rates are expected to stimulate a sluggish economy. RBI buys securities from banks or reduces reserve ratio or the bank rate. RBI usually follows an easy policy in times of recessions and economic slowdown.
(2) **Tight policy** is intended to cool down an overheated economy by limiting credit availability or making it very costly. For this, RBI employs measures which would reduce the overall money supply, which basically are the reverse of what is adopted for an easy money policy. A tight money policy is implemented when economy suffers from inflationary pressures.

Open market operations : It refers to buying and selling of govt. securities by RBI in the open market. By its impact on the reserves of banks, OMO helps control the money supply in the economy. When RBI sells Govt. securities to banks, the lendable resources of the banks are reduced and banks are forced to reduce or contain their lending, thus curbing the money supply. When money supply is reduced, the consequent increase in the interest rates tends to limit spending and investment.

Varying Reserve Ratios: An increase in CRR or SLR would force banks to deploy a larger part of their lendable resources as reserves. As banks reduce their market lending operations, consequent decline in money supply would increase interest rate.

Bank rate / Repo Rate : When these are increased, banks reduce their borrowing from RBI, which lowers their lendable resources. The decline in money supply increases the interest rates. The opposite happens when RBI reduces these rates.

Of 3 kinds of general monetary instruments, OMO is more flexible and preferred.

MONETARY & LIQUIDITY AGGREGATES

Money stock measures were introduced by RBI during 1970 and the working group under Y V Reddy suggested major changes in the money stock measures, which gave its recommendations (during Dec 1997) and implemented during June 1998. The current measures are monetary (M) and liquidity (L) aggregates.

Monetary Aggregates

M 0 (called reserve money) = Currency in circulation + bankers' deposits with RBI + other deposits with RBI (including primary dealers' balance) (there is weekly report).

M 1 (called Narrow money) = currency with public + current deposits with banking system + 15% of demand liabilities portion of saving deposits with banking system + other deposits with RBI. (fortnightly report).

M 2 = M 1 + time liabilities portion (i.e. remaining 85%) of saving deposits with banking system + certificates of deposits issued by banks + term deposits (excluding FCNR-B deposits) with a contractual maturity of up to and including one year with banking system (fortnightly report).

M 3 (Called Broad money) = M 2 + term deposits (excluding FCNR-B) with a contractual maturity of over one year with the banking system + call borrowings from non-depository financial corporations by the banking system. (fortnightly report)

Important points regarding monetary aggregates:

1.**M0** is essentially the monetary base, compiled from the balance sheet of RBI.
2. **M1** purely reflects the non-interest bearing monetary liabilities of banking system.
3. **M 2,** besides currency and current deposits, includes saving and short term deposits reflecting the transactions balances of entities.
4. **M3** has been redefined to reflect, in addition to M2, the call funding that the banking systems obtains from other financial institutions.

Liquidity Aggregates

L I = M 3 + all deposits with post office saving banks (excluding NSCs)

L 2 = L 1 + term deposits with term lending institutions and refinancing institutions (FIs) + term borrowing by FIs + certificate of deposits issued by FIs and

L 3 = L 2 + public deposits of NBFCs.

DATA COLUMN

Business of Banks

(Rs.in cr)	Mar31'17	Jan19'17
Aggregate deposits	10805150	10977980
Cash in hand/RBI	570490	515600
Investments	3043660	3375520
Bank Credit:	7881890	8171400
-Food	53930	58610
-Non-Food	7827960	8112790
Cash-Deposit Ratio	5.27	4.73
Investment-Deposit	28.14	30.69
Credit-Deposit	72.95	73.86

Money Stock

(Rs.in cr)	Mar31'17	Jan19'17
M3 (Out of which)	12791940	13413300
(a) Currency with public	1264120	1660270
(b) Demand deposits-Banks	1396740	1234230
(c) Time Deposits - Banks	10109980	10492810
(d) Other deposits with RBI	21090	25990

Sources of Money Supply

(a) Net Bank credit to Govt	3856610	4041380
(b) Bank credit to Comrcl sector	8411490	8747240
(c) Net Forex assets of Banks	2558230	2771400

Important Banking Indicators

Statutory Liquidity Ratio	19.50%	(10.10.2017)
Cash Reserve Ratio	04.00%	(15.02.2013)
Overnight LAF (of NDTL)	0.25%	
14-days term Repo(of NDTL)	0.75%	
Reverse Repo Rate	05.75%	(02.08.2017)
Repo Rate	06.00%	(02.08.2017)
MSF Rate	06.25%	(02.08.2017)
Bank Rate	06.25%	(02.08.2017)

Small Savings Interest Rates

PPF	7.6%	(01.01.2018)
NSC	7.6%	(01.01.2018)
Sukanya Smridhi	8.1%	(01.01.2018)
Senior Citizen Saving	8.3%	(01.01.2018)

Capital & Money Market Indicators

Parameter	end-Jan17	end-Jan18
Dollar-spot TT (Rs.)	67.82	63.56
BSE - Sensex (points)	26627	35066
NSE - Nifty(S&P CNX)	8186	10761
Foreign reserves (Million $)	359671	417789
Gold /Oz in USD)	1138	1344

INDIAN ECONOMY-IMPORTANT PARAMETERS

RBI's growth estimate for 2017-18	: 7.6%
GDP growth-2016-17 (revised estimate)	: 7.1%
GDP@constant mkt prices (cr)2017.18	: 12985363
GVA@2011-12 basic prices (cr) 2017-18	: 11871321
GDP projected by Govt. for 2018-19	: 18722302
Fiscal Deficit Target (2018-19) 3.3% of GDP	: 624276 cr
Revenue Deficit Target (2018-19) 2.2.% of GDP	: 416034 cr
Wholesale Price Index	: 1.5%
Money Supply (M3) expansion	: 12.9%
Exports during 2016-17	: 274.0 bn
Imports during (2016-17)	: 379.6 Bn
Export target - 2017-18 (in $)	: 310 bn
India's share in world merchandise export	: 1.70%
India's currency rating (S&P)	: BB Postv
India's external debt (Jun 2017) US $	: 485.8 Bn
Tax-GDP ratio (2014-15)	: 9.93%
Apr- Nov17:Export $ 196.5 bn$ Imports	: 296.5 bn
Per capita Income 2017-18 (Rs.)	: 111782
Indian economy's ranking in PPP terms	: 3rd
Indian economy's ranking in world in value	: 10th

OUR PUBLICATIONS : REFER PAGE 9,11

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