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Banking events Update

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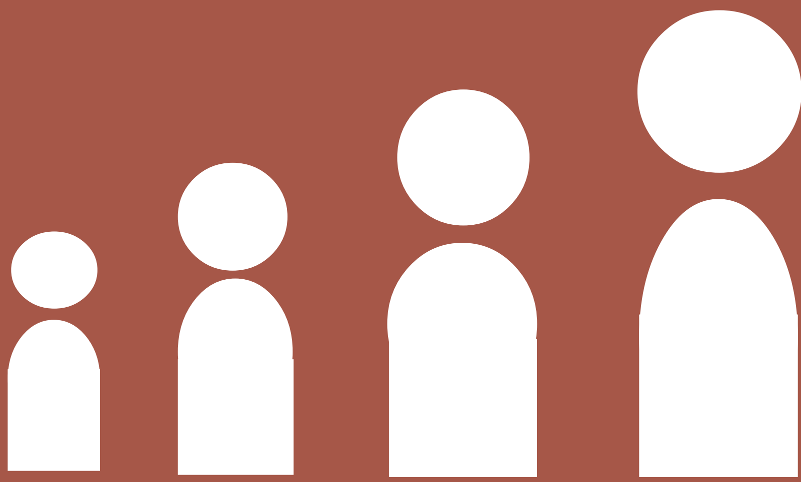

Those who win, are those, who think they can

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Budget and Economics Special

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BANKING POLICY

Ombudsman for Digital Transactions

RBI introduced the Ombudsman Scheme for Digital Transactions, 2019 u/s 18 Payment and Settlement Systems Act, 2007, w.e.f. January 31, 2019.

Objective : To provide an expeditious and cost-free apex level mechanism for resolution of complaints regarding digital transactions undertaken by customers of the System Participants.

Appointment of Ombudsman: He/she is a senior official, appointed (max for 3 years) by RBI. 21 Ombudsman have been appointed by RBI located mostly in State Capitals. (Sacretariat cost borne by RBI). Ombudsman is to send report to Governor RBI as on 30th Jun every year on general review of activities.

Entities covered : System Participants (SP) are the entities (other than a bank) participating in the payment system excluding system provider.

Grounds of complaints: Deficiency in services and non-adherence of RBI instructions by System Participants such as

(1) Prepaid Payment Instruments;

(2) Mobile / Electronic Fund Transfers;

3) Payment through Unified Payments Interface (UPI) / Bharat Bill Payment System (BBPS) / Bharat QR Code / UPI QR Code:

Grounds of complaint generally include:

a) Failure in crediting merchant's account within reasonable time;

b) Failure to load funds within reasonable time in wallets / cards;

c) Unauthorized electronic fund transfer;

d) Non-Transfer / Refusal to transfer/ failure to transfer within reasonable time, balance in PPI to the holder's 'own' bank account or back to source, expiry of validity period etc., of PPI;

e) Failure or refusal to refund within reasonable time in case of unsuccessful / returned / rejected / cancelled / transactions;

f) Non-credit / delay in crediting the account of PPI holder as per the terms and conditions;

g) Failure to effect online payment / fund transfer within reasonable time;

h) Unauthorized electronic fund transfer;

i) Failure to act upon stop-payment instructions;

j) Failure to reverse the amount debited from customer account in cases of failed payment transactions within prescribed timeline;

k) Failure in crediting funds to the beneficiaries' account;

NOTE: For digital transactions done on third party platforms, it will be the responsibility of the Payment Service Provider to resolve customer disputes arising out of such transactions.

Time to file a complaint:

For redressal, the complainant must first approach the System Participant concerned. If the System Participant does not reply within a period of one month, or rejects the complaint, or if the complainant is not satisfied with the reply given, the complainant can file the complaint with the Ombudsman within whose jurisdiction the branch or office of the System Participant complained against, is located. For complaints arising out of services with centralized operations, it shall be filed before the Ombudsman within whose territorial jurisdiction the billing / declared address of the customer is located.

Grounds of rejection by the Ombudsman:

a) If SP is not covered under the Scheme.

b) If one has not approached SP concerned in the first instance for redressal.

c) If the subject matter is not pertaining to the grounds of complaint.

d) Complaint not made within prescribed period. (Ombudsman may accept a complaint made after such period, before the expiry of limitation period under Limitation Act, 1963).

e) Complaint is pending for disposal / dealt with at any other forum (court, consumer court etc.)

f) Complaint settled through Ombudsman in any previous proceedings.

g) Complaint is frivolous or vexatious.

h) Complaint falls under the disputes covered under Section 24 of the Payment and Settlement Systems Act, 2007.

i) The complaint pertains to dispute arising from a transaction between customers.

Procedure for filing the complaint :

A complaint can be filed by complainant or authorized representative (other than Advocate), written on a plain paper and sending it by post/ fax/hand delivery or by email. A complaint form is available on RBI's website, though, it is not mandatory to use this format.

There are no charges or any fee for filing / resolving customers' complaints.

Types of settlement of complaint : It can be settlement by agreement or conciliation and mediation or by way of passing of award.

Action by Ombudsman on a complaint:

The proceedings will be summary in nature.

1) Effort shall be made by Ombudsman to promote settlement through conciliation/ mediation by agreement between parties. Based on such agreement, Ombudsman will pass an order as per terms of settlement which becomes binding on both parties.

2) If the System Participant is found to have adhered to the norms and the complainant is informed about this and complainant does not raise objections, within the time frame provided, the Ombudsman may pass an order to close the complaint.

3) Ombudsman can pass an Award after providing reasonable opportunity. It is upto the complainant to accept the Award as full and final settlement or reject it.

Award and compensation: Ombudsman can award compensation limited to loss arising directly out of omission or commission of SP, or Rs.20 lac (two million) whichever is lower. The compensation shall be over and above the disputed amount. Additional compensation up to Rs.1 lac (0.1 million) can be awarded for effort, time, mental agony and harassment.

The award shall lapse, if complainant does not send acceptance for full and final settlement, to System Participant, within 30 days of receipt of copy of award.

The System Participant shall comply with the award, within 30 days of receipt of such acceptance and send compliance report to Ombudsman.

The System Participant shall send a report of compliance to RBI within 15 of award becoming final.

If System Participant does not implement the award, the complaint can approach RBI.

Appeal : A person aggrieved by such Award can approach the Appellate Authority (Deputy Governor-in-Charge of the department of the RBI implementing the Scheme) within 30 days of the date of receipt of communication of Award or rejection.

System Participant can appeal (with permission of CMD/CEO/ED) within 30 days from the date, when acceptance was received from complainant.

The Appellate Authority may allow a further period not exceeding 30 days.

Nodal officer : SP shall appoint nodal officer at their Regional/Zonal Office who shall be responsible to provide information to Ombudsman concerned.

Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit

Government of India decided to include merchant exporters also, w.e.f. January 2, 2019, under the ongoing Interest Equalisation Scheme for Pre and Post Shipment Rupee Export Credit and allow them interest equalisation at the rate of 3% on credit for export of products covered under 416 tariff lines identified under the Scheme.

Basel III Capital Regulations- Review of transitional arrangements

As per extant RBI guidelines, last tranche of 0.625% of Capital Conservation Buffer (CCB) was to be implemented by 31.03.2019. On 10.01.19, RBI decided to defer the implementation of this tranche from March 31, 2019 to March 31, 2020. Accordingly, minimum capital conservation ratios as applicable from March 31, 2018 will also apply from March 31, 2019 till the CCB attains the level of 2.5% on March 31, 2020.

The pre-specified trigger for loss absorption through conversion / write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.5% of RWAs and will rise to 6.125% of RWAs on March 31, 2020. ●

Central Govt. Budget FY 2019-20

The Central Govt. budget for the financial year 2019-20 was presented by the Finance Minister in Parliament on February 01, 2019. The salient features include:

- India overtook France in 2018 to become, world's 6th largest economy.
- It is expected to take 5th position from the UK, this year on way to a $3 trillion GDP in 2020.
- India poised to become USD 5 trillion economy in next 5 years
- Since 2000, India's share in global economy has double from 1.5% to 3.2%.

VISION-2030 : Central Govt., while presenting interim Budget presented VISION-2030, with focus on following 10 key areas.

1) The construction of next generation infrastructure to power a $10 trillion economy
2) To develop a 'Digital India' that encompasses all citizens
3) A clean and green India which would adopt electric vehicles and utilise renewable energy
4) Boosting rural industrialisation using modern technologies to generate massive employment
5) Cleaning up rivers to ensure supply of safe drinking water to all
6) Harnessing the potential of the country's coastlines and oceans to power a 'Blue Economy'
7) Furthering India's space programme by making the nation a global base for launches into orbit; sending an Indian into space by 2022
8) Bettering agricultural productivity and working towards food self-sufficiency
9) Creating a healthy country which is distress-free and is covered by a comprehensive wellness system
10) Continuing with the aim of 'minimum government, maximum governance'

Other highlights

- Standard deduction for salaried taxpayers increased to Rs. 50,000 from Rs. 40,000.
- Resident taxpayers earning taxable income (after all applicable deductions) up to Rs 5 lakh, will get full tax rebate. Earlier, the tax liability was of up to Rs. 13,000, inclusive of health and education cess. If gross income is up to Rs. 6.5 lakh, a person may not be required to pay any tax if he/she make investments in Provident Fund, specified savings, insurance, etc, which are eligible for deduction under Section 80c.
- Threshold for TDS on interest income from deposits with banks and post offices increased from Rs. 10,000 to Rs. 40,000. The limit for a senior citizen payee continues to be Rs. 50,000.
- Threshold for TDS on rent paid by any person (other than individual of HUF not subject to tax audit) to a resident increased from Rs. 1.80 lakh per year to Rs. 2.40 lakh per year.
- If a tenant is a small individual taxpayer, TDS will apply only if the rent payout is more than Rs. 50,000 per month.
- No notional rental income will be added to the taxable income for a second house property owned that is not let out. This will allow you to own up to two houses without notional rent on the second property being added to the taxable income.
- Tax exemption on long-term capital gain on sale of a residential house will be available for investment in up to two residential house properties located in India against one earlier. The option is available only once in a lifetime for individuals or HUFs where capital gain on sale of house property is up Rs. 2 Crore. This will allow individuals of HUFs to sell one house property and make investment in two without paying any capital gain tax.
- The I-T department plans to be more taxpayers – friendly by processing income tax returns within 24 hours and issuing refunds simultaneously.
- 100% tax holiday on profit and gains from development of affordable housing projects extended to project approved till March 31, 2020.
- Exemption from notional rent taxation on unsold inventory for builders and developers extended from 1 year to 2 year.
- Gratuity limit increased from 10 lakh to 20 lakh rupees.
- ESI cover limit increased to Rs.21,000.
- Interest subvention of 2% during disaster to be provided to farmers for the entire period of reschedulement of loan
- 2% interest subvention to farmers for animal husbandry and fisheries activities; additional 3% in case of timely repayment

New Schemes

- **Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)** to extend direct income support at the rate of Rs. 6,000 per year to farmer families, having cultivable land upto 2 hectares. The outlay is Rs.75,000 crore for the FY 2019-20 and Rs.20,000 crore in the Revised Estimates of FY 2018-19". Under this Central Govt. funded Scheme, Rs.2,000 each will

Summary edited by : Arundeep Toor (Sydney - Australia) (Source Ministry of Finace, Govt. of India, Website).

be transferred to the bank accounts of around 12 crore Small and Marginal farmer families, in three equal installments. This programme would be made effective from 1st December 2018 and the first installment for the period upto31st March 2019 would be paid during FY 2018-19.

- **Pradhan Mantri Shram-Yogi Maandhan -** It is a scheme for unorganized sector workers with monthly income upto Rs.15,000. It shall provide an assured monthly pension of Rs.3,000 from the age of 60 years on a monthly contribution. A worker joining the pension yojana at 18 years, will have to contribute Rs.55 per month. The Government will deposit equal matching share in the pension account of the worker every month. A worker joining pension yojana at the age of 29 years will have to contribute only Rs.100 per month till the age of 60 years. The scheme will be implemented from the current year.
- **Creation of Department of fisheries** : To provide sustained and focused attention towards development of Fisheries, Government decided to create a separate Department of Fisheries.

Interim Budget at a Glance

	2017-18 Actual	2018-19 Budget Estimates	2018-19 Revised Estimates	2019-20 Budget Estimates
1. Revenue Receipts	1435233	1725738	1729682	1977693
2. Tax Revenue				
(Net to Centre)	1242488	1480649	1484406	1705046
3. Non Tax Revenue	192745	245089	245276	272647
4. Capital Receipts [1]	706742	716475	727553	806507
5. Recovery of Loans	15633	12199	13155	12508
6. Other Receipts	100045	80000	80000	90000
7. Borrowings and Other				
Liabilities	591064	624276	634398	703999
8. Total Receipts (1+4)	2141975	2442213	2457235	2784200
9. Total Expenditure (10+13)	2141975	2442213	2457235	2784200
10. On Revenue Account	1878835	2141772	2140612	2447907
of which				
11. Interest Payments	528952	575795	587570	665061
12. Grants in Aid for creation				
of capital assets	191034	195345	200300	200740
13. On Capital Account	263140	300441	316623	336293
14. Revenue Deficit (10-1)	443602	416034	410930	470214
(as percent of GDP)	2.6	2.2	2.2	2.2
15. Effective Rev Def (14-12)	252568	220689	210630	269474
(as percent of GDP)	1.5	1.2	1.1	1.3
16. Fiscal Deficit [9-(1+5+6)]	591064	624276	634398	703999
(as percent of GDP)	3.5	3.3	3.4	3.4
17. Primary Deficit (16-11)	62112	48481	46828	38938
(as percent of GDP)	0.4	0.3	0.2	0.2

Note- GDP for BE 2019-2020 has been projected at Rs.21007439 crore assuming 11.5% growth over the estimated GDP of Rs.18840731 crore for 2018-19 (RE).

- Interest subsidy expansion: 2% interest subvention to the farmers pursuing the activities of animal husbandry and fisheries, who avail loan through Kisan Credit Card. Further, in case of timely repayment of loan, they will also get an additional 3% interest subvention.
- The Department of Industrial Policy and Promotion will now be renamed as the Department for Promotion of Industries and Internal Trade.
- Tax benefits for affordable housing extended till March 31, 2020
- Current Account Deficit pegged at 2.5% of GDP for FY20
- Disinvestment target of Rs 80,000 cr in 2018-19 likely to be met; Target for FY20 set at Rs 90,000 cr
- 25% additional seats in educational institutions to meet the 10% reservation for the poor
- Defence budget to cross Rs 3,00,000 cr for the first time
- One lakh villages to be transformed into digital ones in 5 years
- New portal to support national programme on Artificial Intelligence
- Reforms in stamp duty; amendments to ensure streamlined system for levy

Contd... on page 13

How Rupee Comes & Goes

Source (in paise)	**100**
1. GST	21
2. Capital receipts	22
3. Corporate tax	21
4. Income Tax	17
5. Excise duties	07
6. Custom duties	04
7. Non-tax revenue	08
Uses: (in paise)	**100**
1. State share of tax	23
2. Interest payments	18
3. Pensions	05
4. Central sponsored schemes	09
5. Central sector schemes	12
6. Defence	08
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.

Compilation : Sapandeep Toor (in Sydney - Australia) (Source Ministry of Finance, Govt. of India, Website).

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.

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.

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.

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.to:

- Reduce the fiscal deficits to 3% of GDP by 31.3.17 (new target by FY 2020-21).
- Reduce revenue deficit to 1.5% by 31.3.17. (this target dropped in FY 2018-19)
- 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.

Compilation : Manjot Kaur Toor (Sydney - Australia) (Source Ministry of Finance, Govt. of India, 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,

Financial Events

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 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 2nd 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.

Economic 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.

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 stamp duties to be imposed and collected at one place.

- Anti-camcord regulations to be introduced in the Indian Cinematograph Act to prevent piracy and contact theft of Bollywood films.
- The number of operational airports has crossed 100 with the commissioning of the Pakyong airport in Sikkim. Arunachal Pradesh came on the air map recently and Meghalaya, Tripura and Mizoram have come on India's rail map for the first time.

Fiscal Programme for 2019-20 :

The estimate of incomes and expenditure pegged the fiscal deficit of year 2019-20 at 3.4% of GDP. (3.3% for year 2018-19).

Total expenditure rises from Rs.24,57,235 crore in 2018-19 RE (revised estimates) to Rs.27,84,200 crore in 2019-20 BE (budget estimates), a rise of Rs.3,26,965 crore or approximately 13.30%.

Capital Expenditure for 2019-20 BE is estimated to be Rs.3,36,292 crore.

Centrally Sponsored Schemes (CSS) are proposed to be allocated Rs.3,27,679 crore in BE 2019-20.

- MGNREGA - Rs.60,000 crores for 2019-20.
- Pradhan Mantri Gram Sadak Yojana (PMGSY) : Rs.19,000 crore
- Integrated Child Development Scheme (ICDS) - Rs.27,584 crore .
- Welfare of the Scheduled Castes and Scheduled Tribes - Rs.76,801 crore
- Allocation for National Education Mission is being increased from ‘ 32,334 crore in RE 2018-19 to ‘ 38,572 crore in BE 2019-20.
- Capital support from the budget for Indian Railways is proposed at Rs.64,587 crore in 2019-20 (BE). The Railways' overall capital expenditure programme is of Rs. 1,58,658 crore. The Operating Ratio is expected to improve from 98.4% in 2017-18 to 96.2% in 2018-19 (RE) and further to 95% in 2019-20 (BE).

India's Debt to GDP ratio was 46.5% in year 2017-18. The FRBM Act prescribes that the Debt to GDP ratio of the Government of India should be brought down to 40% by 2024-25.

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) No tax on income up to Rs.5.00 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 onwards)
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%

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)

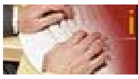
Where: C = household consumption expenditures / personal consumption expenditures.

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.



MOCK-TEST PAPER

Questions on Interim Budget 2019-20

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 In the Interim Budget for FY 2019-20 proposals, Central Govt. has changed the amount of standard deduction from:

a Rs.20000 to Rs.30000

b Rs.30000 to Rs.40000

c Rs.40000 to Rs.50000

d Rs.50000 to Rs.100000

06 In the Interim Budget for FY 2019-20 proposals, Central Govt. has fixed the income tax exemption limit at: (which one is wrong)

a Rs.250000

b Rs.300000 for senior citizens

c Rs.500000 for very senior citizens

d Rs.500000 for all

07 In the Interim Budget for FY 2019-20 proposals, Central Govt. has proposed that persons with taxable income up to Rs.____ need not pay any income tax?

a Rs.250000

b Rs.300000

c Rs.500000

d Rs.650000

08 In the Interim Budget for FY 2019-20 proposals, Central Govt. has enhanced the threshold for TDS on interest income from deposits with banks and post offices from ___ to ____:

a Rs.10000 to Rs.30000

b Rs.10000 to Rs.40000

c Rs.20000 to Rs.40000

d Rs.10000 to Rs.50000

09 In the Interim Budget for FY 2019-20 proposals, Central Govt. has enhanced the threshold for TDS on rent payment from ___ to ___:

a Rs.180000 to Rs.210000

b Rs.180000 to Rs.220000

c Rs.180000 to Rs.240000

d Rs.180000 to Rs.250000

10 In the Interim Budget for FY 2019-20 proposals, Central Govt. has enhanced the amount of gratuity from ___ to ___

a Rs.10 lac to Rs.25 lac

b Rs.10 lac to Rs.20 lac

c Rs.10 lac to Rs.15 lac

d Rs.5 lac to Rs.10 lac

11 In the Interim Budget for FY 2019-20 proposals, Central Govt. has increased to ESI cover limit to:

a Rs.10000

b Rs.14000

c Rs.21000

d Rs.28000

12 In the Interim Budget for FY 2019-20, Central Govt. has proposed that interest subvention of 2% shall be available to farmer covered by relief measures for:

a one year

b 2 years

c 5 years

d entire period of re-schedulement

13 In the Interim Budget for FY 2019-20 proposals, Central Govt. has proposed that interest subvention of 2% and additional subsidy of 3% for prompt payment shall be available to ___ also?

a agri clinic and agro business centres

b agro and food processing

c animal husbandry and fisheries activities

d all

14 In the Interim Budget for FY 2019-20 proposals, Central

Govt. has proposed to credit a fixed sum to the bank accounts of farmers with land holding up to ___, as a direct income support:

a 1 acre

b 2 acres

c 1 hectare

d 2 hectares

15 In the Interim Budget for FY 2019-20 proposals, Central Govt. has proposed to credit a fixed sum of Rs.__ to bank accounts of marginal and small farmers?

a Rs.2000

b Rs.3000

c Rs.5000

d Rs.6000

16 In the Interim Budget for FY 2019-20 of Central Govt. unorganized sector workers with monthly income up to Rs. ____ are eligible to be covered under PM Sharam Yogi Maandhan Yojna:

a 20000

b 15000

c 10000

d 5000

17 In the Interim Budget for FY 2019-20 proposal of Central Govt. unorganized sector workers shall receive assured pension of Rs.____ at age of 60 years.

a 5000

b 4000

c 3000

d 2000

18 In the Interim Budget for FY 2019-20 of Central Govt. for assured pension, the unorganized sector worker has to deposit Rs.___ monthly, if the scheme is joined at 18 years:

a Rs.45

b Rs.55

c Rs.65

d Rs.100

19 In the Interim Budget for FY 2019-20 proposals, Central Govt. has fixed disinvestment target of __

a Rs.100000 cr

b Rs.90000 cr

c Rs.80000 cr

d Rs.75000

20 In the Interim Budget for FY 2019-20 of Central Govt. the revenue deficit shall be ___% of GDP?

a 0.2% b 1.3%

c 2.2% d 3.4%

21 In the Interim Budget for FY 2019-20 of Central Govt. the fiscal deficit shall be ___% of GDP?

a 0.2% b 1.3%

c 2.2% d 3.4%

22 In the Interim Budget for FY 2019-20 of Central Govt. the effective revenue deficit shall be ___% of GDP?

a 0.2% b 1.3%

c 2.2% d 3.4%

23 In the Interim Budget for FY 2019-20 of Central Govt. the primary deficit shall be ___% of GDP?

a 0.2% b 1.3%

c 2.2% d 3.4%

24 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

25 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

26 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.

27 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

28 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

29 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

30 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

31 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

32 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

33 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

34 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

35 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

36 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

37 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

38 The corpus of Contingency Fund approved by Parliament, at present is:

a Rs.10000 cr

b Rs.5000 cr

c Rs.1000 cr

d Rs.500 cr

39 Tax imposed on domestic production by the Govt. is called:

a excise duty

b customs duty

c service tax

d value added tax

40 The tax (like income tax) that is imposed by the Govt. according to the paying capacity of the tax payer is called:

a ad valorem tax

b progressive tax

c regressive tax

d Tobin tax

41 The tax levied by the Govt. on all, without taking into account, the paying capacity of the tax payer (like excise duty), is called:

a ad valorem tax

b progressive tax

c regressive tax

d Tobin tax

42 Tax imposed on imported goods by the Govt. is called:

a excise duty

b customs duty

c service tax

d value added tax

43 A statement of estimates of expenditure from the Consolidated Fund and to be voted by Lok Sabha in respect of each ministry or department is called:

a appropriation bill

b demand for grant

c public account

d outcome budget

44 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, is known as:.

a appropriation bill

b demand for grant

c public account

d outcome budget

45 It is an account in which money received through transactions not relating to the Consolidated Fund, is kept. These are transactions in respect of which the govt. acts more as a banker (for example, transactions relating to provident funds, small savings collections, other deposits etc). This account is known as:

a Contingency fund

b budgetary provisions

c vote on account

d public account

46 _________ means a grant, made in advance, by the Parliament, in respect of 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.

a vote on account

b demand for grant

c appropriation bill

d performance account

47 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. are of which of the following:.

a capital receipts

b revenue receipts

c budgetary receipts

d grants in aid

48 The expenditure of the govt. on the Central Plan, Central assistance to state and UT plans which forms a sizeable proportion of the total expenditure of the Central govt. is called:

a revenue expenditure

b non-plan expenditure

c capital expenditure

d plan expenditure

49 Which of the following group of expenses, include only the capital expenditure items:

a construction of roads and airports, disinvestment in public sector undertakings, loans granted to state governments

b construction of roads and airports, investment in public sector undertakings, recovery of loans granted to state governments

c construction of bridges, investment in public sector undertakings, recovery of loans granted to UTs

d construction of roads and airports, investment in public sector undertakings, loans granted to state governments

50 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

51 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

Answers

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

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 policy 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 helps 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.

Repo Rate : When it is increased, banks reduce their borrowing from RBI, which lowers their lendable resources. The money supply decline, 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) implemented during June 1998. The current measures are monetary (M) and liquidity (L) aggregates.

Money Supply Measures

There are 4 most common measures of money supply used in India. These are

M 1 (Narrow Money) = Currency with public + demand deposits with banking system + other deposits with RBI.

M 2 = M 1 + savings bank deposits of post offices

M 3 (Broad money) = M 2 + term deposits of banking system.

M 4 = M3 + all deposits with post office saving banks excluding NSCs.

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)	Mar31'18	Jan18'19
Aggregate deposits	10805150	11986460
Cash in hand/RBI	570490	570240
Investments	3043660	3362270
Bank Credit:	7881890	9331690
-Food	53930	70950
-Non-Food	7827960	9260740
Cash-Deposit Ratio	5.27	4.75
Investment-Deposit	28.14	28.02
Credit-Deposit	72.95	77.81

Money Stock

(Rs.in cr)	Mar31'18	Jan18'19
M3 (Out of which)	13962590	14759190
(a) Currency with public	1759710	1986660
(b) Demand deposits-Banks	1483710	1330380
(c) Time Deposits - Banks	10695260	11416300
(d) Other deposits with RBI	23910	25850

Sources of Money Supply

(a) Net Bank credit to Govt	4001400	4431720
(b) Bank credit to Comrcl sector	9213720	9927960
(c) Net Forex assets of Banks	2922300	2947920

Important Banking Indicators

Statutory Liquidity Ratio	19.25%	(04.01.2019)
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	06.25%	(02.08.2018)
Repo Rate	06.50%	(02.08.2018)
MSF Rate	06.75%	(02.08.2018)
Bank Rate	06.75%	(02.08.2018)

Small Savings Interest Rates

PPF	8.0%	(01.10.2018)
NSC	8.0%	(01.10.2018)
Sukanya Smridhi	8.5%	(01.10.2018)
Senior Citizen Saving	8.7%	(01.10.2018)

Capital & Money Market Indicators

Parameter	end-Jan18	end-Jan19
Dollar-spot TT (Rs.)	63.56	71.24
BSE - Sensex (points)	35066	36469
NSE - Nifty(S&P CNX)	10761	10894
Foreign reserves (Million $)	417789	398178
Gold /Oz in USD)	1344	1324

INDIAN ECONOMY-IMPORTANT PARAMETERS

RBI's growth estimate for 2018-19	: 7.4%
GDP growth-2016-17 (revised estimate)	: 6.7%
GDP@constant mkt prices (cr) 2017.18	: 12985363
GVA@2011-12 basic prices (cr) 2017-18	: 11871321
GDP projected by Govt. for 2019-20	: 21007439
Fiscal Deficit Target (2019-20) 3.4% of GDP	: 703999 cr
Revenue Deficit Target (2019-20) 2.2.% of GDP	: 470214 cr
Wholesale Price Index	: 3.2%
Money Supply (M3) expansion	: 13.4%
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 2018) US $	: 514.4 Bn
Tax-GDP ratio (2014-15)	: 9.93%
Apr- Nov18:Export $ 217.5bn$ Imports	: 345.6 bn
Per capita Income 2017-18 (Rs.)	: 111782
Indian economy's ranking in PPP terms	: 3rd
Indian economy's ranking in world in value	: 6th

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