1. Indian economy, inclusive growth and Budgeting

Key pointers

1. **Behavioural changes**
    1. SBM — More than five lakh swachhagrahis, foot soldiers of the SBM, were recruited to reinforce the message of toilet usage.
    2. Beti Bachao Beti Padhao —The campaign was flagged from Panipat, Haryana, which had the worst child sex ratio at 834 among other Indian states.
    3. Swachh Bharat to Sundar Bharat.
    4. From "Give It Up" for the LPG subsidy to "Think about the Subsidy".
2. The principle is that most data are generated by the people, of the people and should be used for the people. Enabling the sharing of information across datasets would improve the delivery of social welfare, empower people to make better decisions, and democratise an important public good.
3. Data collection is highly decentralised as different ministries collect this data separately. Therefore, each ministry only has a small piece of the jigsaw puzzle that is the individual/firm.
4. Samagra Vedika Initiative of Telengana links around 25 existing government datasets using a common identifier – the name and address of an individual.
5. India will have to shed its service led structure and transform into an innovation driven economy and focus on becoming a creator rather than an adopter.
6. The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materialsand products as long as possible. In this way, the life cycle of products is extended.

Basel norms

1. Basel guidelines refer to broad supervisory standards formulated by group of central banks to reduce risks to banks and the financial system. The purpose of the accord is to ensure that financial institutions have

enough capital on account to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking system.

2. The committee's decisions have no legal force. The committee encourages convergence towards common standards and monitors their implementation, but without attempting detailed harmonisation of member countries supervisory approaches.
3. **Why international cooperation is needed**
    1. It is because these banks lend not only to its country men but also to other nations. Also, private investors and sovereign nations take loans from banks across other nations.
    2. Further, the financial system of the world is so interconnected that one incident of a banking collapse has its repercussions all over the world. There can be no better example that the 2008 global recession.
4. **Why uniform standards are required**
    1. It is important for investors and agencies to measure the stability of the banking system. If all the nations adopt different standards, then calculating stability figures will be a difficult.
    2. Also, suppose some nations run banks on better standards i.e. better risk management, better returns, lower exposure to volatile markets etc., then they have a better chance of getting foreign investment.
5. **Challenges in implementation of Basel**
    1. **Higher capital:** The private banks have the autonomy to raise capital from the markets. But the Public sector banks have to rely on the government mostly. The government has recently decided to infuse 12000 Cr rupees in the PSBs. In the coming years even more will be required.
    2. **More technology:** Implementing the norms would require much more sophisticated technology and management styles that the Indian banks are presently using. Upgrading both will impose huge cost on the banks and hurt their profitability in the coming years.
    3. **Liquidity crunch:** Banks would need to invest more on liquid assets. These assets do not give handsome returns usually which would reduce the bank's operating profit margin. Further higher deployment of more funds in liquid assets may crowd out good

private sector investments and also affect economic growth.

4. **NPAs:** Banks are already suffering from lack of returns on NPA assets. This will impose even more burden.

6. **The way ahead for the banks**
    1. **Change in business:** Banks will need to lend more to profitable yet safe sectors. Ex: Corporate loans. But even corporate loans in India have been under a lot of stress. Banks are facing increasing NPAs. Still they are safer and more profitable than retail loans.
    2. **Low cost funding:** Banks need to focus on having a stable low cost deposit base. For this, banks need to focus more on having business correspondents to reach customers as adding branches will increase costs and have an impact on the profit margin. The RBI is thinking of introducing UID based mobile wallets to increase the reach of the financial system.
    3. **Improvement in systems:** Refining the systems and procedures may help banks economise their risk-weighted assets, which will help reduce capital requirements to some extent. It is possible that they would impose cost in the short-run, but they would yield great returns in the future.
    4. **Operational complexities:** They must anticipate changes in the Indian economic system and react accordingly. Indian banking regulations are one of the most stringent and consequently one of the safest in the world.

Non Performing Assets (NPA)

1. A loan asset becomes a Non Performing Asset (NPA) when it ceases to generate income, i.e. interest, fees, commission or any other dues for the bank for more than 90 days. Gross NPA ratio declined to 9.3 percent as on March 2019 against the peak of 11.5 percent recorded in March 2018.
2. **Why PSBs are more affected than private banks**
    1. The burden of stalled infrastructure projects is largely borne by PSBs.
    2. Government interference in the appointment of top executives affect sanctioning and disbursal of loans, leading to crony capitalism and loan waivers.

    3. The huge amount of loan granted under poverty alleviation schemes was totally done by PSBs which is vulnerable to non payments.
    4. PSBs reflect poor level of debt recovery, patronage to wilful defaulters, whereas private banks concentrate more on less risky lending.
3. **Causes**
    1. Economic slowdown has resulted in various stalled projects in mining, manufacturing, etc. Coupled with this, cancellation of 2G spectrum licenses has resulted in slow down in telecom.
    2. Credit prioritisation is not done by the PSBs. Delay in loan disbursement by banks leads to project off track and effect on its capacity to repay.
    3. Priority sector lending (PSL) by commercial banks to MSME, farmers is the major cause of loan defaults. Education loan contributed 20 percent to total NPAs.
    4. Populist promises by government during election time like waiving off farm loans.
    5. Corporate debtors using political pressure to get banks to waive their debts. Wilful defaulters and lack of integration in banking sector database to nail those wilful defaulters.
    6. PJ Nayak committee emphasised that problem at PSBs was fundamentally one of governance. There is politicisation of appointment process which has led to growth of wilful defaulters.
4. **Impact on banks**
    1. It hurts banks profitability and delays further lending.
    2. It also hurts liquidity of banks as money gets blocked without return.
    3. Involvement of management's time and efforts of banks increasing of loan recovery process.
    4. Loss of public confidence and market for credit will reduce.
5. **Government methods**
    1. **4R strategy:** Government's 4Rs strategy of recognition, resolution, recapitalisation and reform. Bad loans reduces by Rs.89,000 crore.
    2. **Recapitalisation:** Has announced a recapitalisation package (of

    Rs. 70,000 crore for PSBs). Government has announced to bring down its stake in some PSBs to 51% for generating necessary capital. But this is far from sufficient.
3. **Bankruptcy code:** When passed, will supplement RBI's efforts by speeding legal solutions.
4. **Bank Boards Bureau (BBB):** This will help in identifying and appointing MDs and other senior executives of banks.
5. **Split CMD post for PSBs:** For better allocation of tasks and management. Now, chairman will be the custodian of governance and MD will be the custodian of assets and efficiency.
6. **De-stressing:** To destress banks by strengthening asset reconstruction companies. 100% FDI in ARC will encourage foreign entities, thus address the capital problem of ARCs.
7. **Empowerment:** Giving autonomy to banks in decision making with out govt interference and more flexibility in hiring.
8. **Accountability:** To boost efficiency of banks, they will be assessed by qualitative (human resource) and quantitative parameters (NPA).
9. **Governance reforms:** Gyaan sangam where Government and bank officials meet to resolve banking issues and frame future policies.

6. **RBI measures**
    1. Asset restructuring companies (ARC). Many ARCs have been created, but they have solved only a small portion of the problem, buying up only about 5 percent of total NPAs.
    2. Scheme for Sustainable Structuring of Stressed Assets (S4A) under which banks can split the overall loans of struggling companies into sustainable and unsustainable based on the cash flows of the projects. The unsustainable debt could be converted into equity.
    3. Strategic Debt Restructuring (SDR) in which consortium of lenders converts a part of their loan in an ailing company into equity, with the consortium owning at least 51 percent stake.
    4. Corporate Debt Restructuring (CDR) mechanism and Joint Lenders Forum.
    5. 5:25 scheme to allow banks to extend long term loans of 20-25 years to match the cash flow of projects while refinancing them

every 5-7 years.

7. **Issues with above schemes**
    1. The Asset Quality Review (AQR) was meant to force banks to recognise the true state of their balance sheets but banks keep on ever greening loan.
    2. Large debtors have many creditors, who need to agree on a strategy. This is often difficult when major sums are involved.
    3. Public sector bankers are even more cautious in granting debt reductions in major cases, as this may attract the attention of not only the investigative agencies, but also the wider public.
    4. PSBs are reluctant to grant write downs under S4A, because there are no rewards and also could quickly deplete banks capital cushions.
    5. The new bankruptcy system is not yet fully in place, and even when it is, the new procedures (and participants) will need to be tested first on smaller cases.
8. **Measures to reduce NPAs**
    1. Proper evaluation of credit proposals prior to lending. An effective bank management committee (BMC) should be set up to determine the feasibility of lending such loans.
    2. PSBs and other banks need to monitor the loans advanced to check whether they are spent in the proposed project. In case of priority sector lending (PSL), banks have to constantly monitor the borrowers whether they are using it for stated purposes.
    3. Government should reduce the political clout in banking decisions. Banks should be left to function professionally in appointment process of bank directors, management decisions, etc.
    4. The government must infuse more capital into the better-performing PSBs.
    5. RBI should caution the state Governments against loan waivers.
    6. Parliament must create an apex Bad bank for tackling bad loans at PSBs. This would vet restructuring of the bigger loans at PSBs and mitigate policy paralysis.
    7. Banks ought to take a haircut on existing debt to make the restructured project attractive for SDR, S4A, ARCs, NIIF to work.

8. Banks should learn from private sector experiences in dealing such cases. It is also crucial for the government to give a serious thought to privatisation of Government banks. So far, this government has shown an aversion to the privatisation of banks.

9. **PARA or Bad bank**
    1. Bad Bank would be set up as a separate entity that would buy the NPAs from other banks to free up their books for fresh lending. The concept has been successfully implemented in many western European countries post the 2007 financial crisis like Ireland, Sweden, France etc.
    2. It could solve the coordination problem, since debts would be centralised in one agency.
    3. It would separate the loan resolution process from concerns about bank capital. Bad Bank would essentially help in clearing the books of banks and this could make the banks more attractive to buyers.
    4. The segregation would help in managing NPAs more effectively. The organisational requirements and skill sets are very different in a restructuring and winding up situation than in a lending situation.
    5. It could be set up with proper incentives by giving it an explicit mandate to maximise recoveries within a defined time period.
    6. Raghuram Rajan was of the view that this concept may not be relevant for India since much of the assets backing the banks loans are viable or can be made viable. Ex: A large chunk of projects stalled due to extraneous factors like problems in land acquisition or environmental clearance.
    7. There are issues with respect to composition and management of the Bad Bank. A majority stakes with government would render the Bad Bank with the same issues of governance and capitalisation as PSBs.
    8. If loans are transferred at inflated prices, banks would be transferring losses to the Rehabilitation Agency. As a result, private sector banks could not be allowed to participate.

10. The RBI has issued guidelines for quicker recognition and resolution of stressed assets. It has developed a Prompt Corrective Action (PCA) for recovery or sale of unviable accounts. It has lightened norms for Asset

Reconstruction Companies by increasing cash stake of ARCs in assets purchased by them. These measures are expected to tackle the issue of increasing NPAs.

RBI

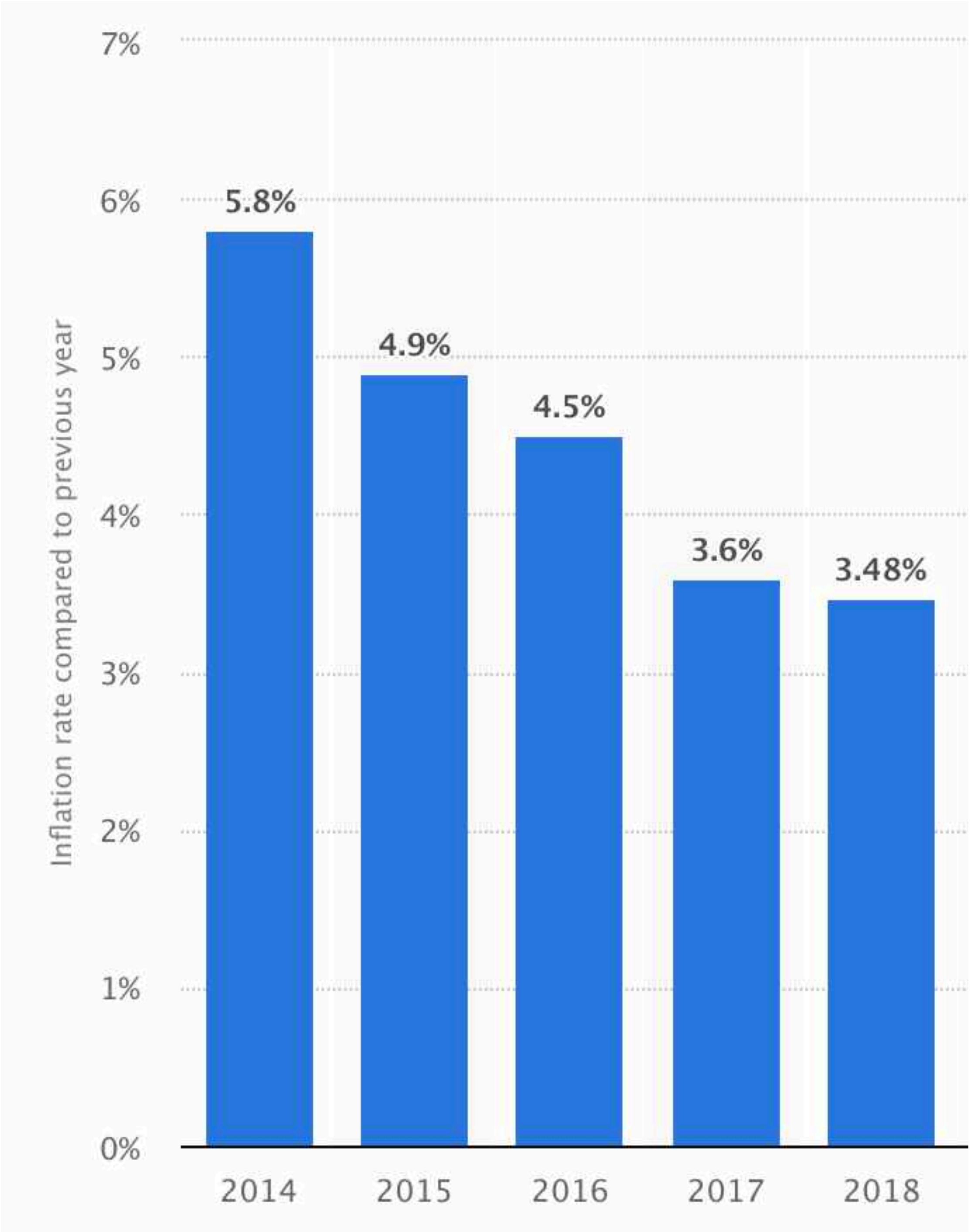
1. RBI controls monetary policy in India. The objective of monetary policy is ultimately to create confidence in the economy by maintaining a stable price environment for all agents including consumers, producers, savers and investors. Stability allows all agents to make sound economic choices.
2. **Main ways**
    1. Focus on exchange rate and inflation.
    2. Our monetary policy, till now, used to focus on multiple indicators such as GDP, IIP, inflation, etc.
3. **Why monetary policy is ineffective in India**
    1. Higher proportion of non-banking credit.
    2. Presence of informal sector which is unaffected by the monetary policy.
    3. High Currency-Deposit Ratio.
    4. Institutions like mutual funds, venture capital companies have an abundant influence in effecting the overall liquidity in the economy.
    5. Rigidity in policy and growing fiscal needs.
    6. Weak monitoring system.
4. **Disadvantages of multiple indicator method**
    1. No nominal anchor, so no actual target.
    2. In this method WPI is focussed. WPI doesn't take into effect food and fuel, which were biggest source of inflation problem. That is why policy has remained ineffective in controlling inflation.
    3. Since this strategy doesn't have a clear cut transparent targets, it becomes vulnerable to various pressure groups.
    4. Therefore Urjit Patel committee recommended to RBI to focus on inflation targeting. In this strategy RBI will decide a nominal anchor, say CPI, to monitor inflation. Based on that anchor, monetary policy will be changed to maintain inflation within

targeted range.

5. **What is inflation targeting**
    1. Inflation targeting is a monetary policy strategy used by Central Banks for maintaining price level at a certain level or within a range. It indicates the primacy of price stability as the key objective of monetary policy. India adopted inflation targeting based on Urjit Patel Committee Report. Under this RBI would aim to contain consumer price inflation within 4 percent with a band of (+/-) 2 percent.
6. **Tools for inflation targeting**
    1. **Liquidity Adjustment Facility (LAF):** With this RBI controls the money supply in the economy. These interest rates and inflation rates tend to move in opposite directions.
    2. **Open Market Operations (OMO):** RBI buys or sells short-term securities in the open market, thus impacting money available with the public.
    3. **Reserve Requirement:** Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR) are increased or decreased in accordance with inflation or deflation respectively.
    4. **Bank rate:** It is the rate at which RBI lends money to commercial banks without any security. When bank rate is increased interest rate also increases leading to inflation.
    5. **Moral Suasion:** If there is a need RBI can urge the banks to exercise credit control at times to maintain the balance of funds in the market.
7. **Advantages of inflation targeting**
    1. No one can put pressure on RBI to change the monetary policy as its aim is to control inflation. If inflation is within the range then automatically rates will o down.
    2. It brings transparency. Even people can understand what RBI's policy is and whether it's yielding result or not.
    3. Easy to track progress. Because CPI data released after every twelve days.
    4. Central banks in all advanced economies and emerging market economies have adopted this method.
    5. Policy will be linked to medium term goals, but with some short

term flexibility.

8.



9. **Drawbacks of inflation targeting**
    1. It puts too much weight on inflation relative to other goals. Central Banks starts to ignore more pressing problems.
    2. Inflation target reduces flexibility. It has the potential to constrain policy in some circumstances in which it would not be desirable to

do so.

3. Cost push inflation may cause a temporary blip in inflation.
4. In the CPI inflation, which is what the RBI will target, the weight of food items is around 50 percent. But food inflation in India is usually caused by supply side constraints of food. So, monetary policy has less impact.
5. Monetary policy transmission mechanism is weak in case of India because of lack of fully developed financial markets and dependence on money lenders. Thus interest rates may not have much real impact and RBI may find
6. Target inflation is quite broad from two per cent to six per cent which should cover most situations.

10. **Why lower limit on inflation**
    1. 2% lower limit is set. Every business has fixed cost of production like, minimum light bill, phone bill, office rent, staff salary etc. So, if prices keep falling and falling, then businessman will suffer losses. He has no motivation to expand business. He will cut down his production costs, which leads to low employment, etc.
    2. If prices of everything fall, Government tax collections also fall. So, government spends less on education, healthcare, social sector, etc. which has bad effects on economy.
11. **2016 agreement between Government and RBI**
    1. Reasserting that monetary policy will be solely handled by RBI.
    2. By January 2016, CPI would be contained below 6% and following years, it will vary between a 2% band. This will bring taming inflation to forefront for RBI giving secondary priority to interest rate cut, thus somehow resolving the growth-inflation dilemma.
    3. Criteria has been set that will determine when RBI missed the target. In such case it has to explain to government the causes and state remedial measures that will be taken. It will publish a biyearly document explaining people the source of inflation.
    4. Its inflation forecast for next 6-8 months will give an officials estimate enabling many to form strategies accordingly.
12. **RBI autonomy**
    1. According to a paper published in the International Journal of Central Banking in 2014, RBI was listed as the least independent

among 89 central banks considered under the study.

2. These rankings are likely to have improved since the adoption of inflation targeting and monetary policy committee (MPC).
3. However, vacancies in RBI's board and government's reluctance to fill them up raises questions about the decisions taken and whether proper deliberations on those decisions are being held.
4. The relationship between RBI governor and boards and the government has to be healthy, collaborative and mutually respectful.
5. Post the north Atlantic financial crisis, central bank's role in the economy goes beyond monetary policy and extends to growth and financial stability. With stable tenures and board members from various fields, this can be achieved.
6. The RBI board has had representatives from agriculture, social services and even scientists in the past. RBI is not just a monetary authority worried exclusively on issues of inflation, but much beyond.

13. **Longer tenure for RBI governor**
    1. Since India is moving to a new rules based monetary policy framework, a longer and more certain tenure is necessary.
    2. Apart from monetary policy, RBI also looks after banking supervision, currency market, and has an interest in maintaining overall financial stability in the economy. Hence, a longer tenure will allow the governor to plan better.
    3. A more clearly defined term for the governor will also help reduce uncertainty in financial markets.
    4. Various studies have also shown how central bankers who lived under the fear of recall were less effective in their duties.
    5. A fixed term is also widely seen as a mechanism to reduce the vulnerability of the central banker to political pressure.
14. **Way ahead**
    1. Any government should avoid uncertainty by clearly defining the term of the RBI governor.
    2. The term should not be so short that it hampers longer term thinking, and it should not be so long to block new ideas.
    3. The government has amended the RBI act to create a monetary

   policy committee (MPC) that will have a term of four years.
   4. The inflation target will be decided by the finance ministry every five years. Clearly, a three year term for the RBI governor does not make sense in this context. It will lead to misaligned incentives.

15. **Role performed by RBI in regulating financial sector**
    1. Regulating credit lending by commercial banks in India via qualitative and quantitative measures, including fixing cash and liquid reserves requirement, repo and reverse repo rates, credit guidelines, margin limitations and moral suasion.
    2. Granting licenses to setup new banks.
    3. Penalising banks for malpractices.
    4. Keeping NPAs and other stressed assets of banks in check.
    5. Balancing credit uptake with controlled inflation in the economy. RBI has been successful in reducing inflation from around 5.4% in 2014 to 3.45% in 2018.
16. **Criticisms of RBI's role**
    1. RBI has not always been able to contain inflationary tendencies, especially around 2012-13.
    2. RBI has not always been able to maintain a balance between curbing inflation and promoting growth. Rajan was criticised for not lowering interest rates leading to lower credit uptake in the economy.
    3. The NPAs have risen with time, especially in public sector banks.
    4. Commercial banks complain about higher reserve requirements by the RBI, leaving them with lesser amount to lend out.
    5. The bank has not always seen eye-to-eye with the ruling Government's view on economic policy of the country

RBI and Govt stand off

1. At the heart of the RBI-Government standoff is a proposal by the Finance Ministry seeking to transfer a surplus of Rs 3.6 lakh crore, more than a third of the total Rs 9.59 lakh crore reserves of the central bank, to the government. The Ministry has suggested that the RBI and the government can manage this surplus jointly.

2) HOW DOES RBI BUILD ITS RESERVES?

1 RBI earns income from:

1] Interest on government bonds held for conducting open market operations

2] Fees from government's market borrowing programme

3] Income from investment in foreign currency assets

2 Earnings retained after giving dividends to govt are parked in reserves

3 Revaluation of foreign assets and gold goes to revaluation reserves

4) WHY DOES A CENTRAL BANK NEED CAPITAL?

1] Foreign asset holdings

Central banks that have such assets need capital to absorb potential losses

RBI's foreign assets (₹ lakh crore)

FY17	23.7
FY18	26.4

2] Likelihood of monetary/ financial shocks

Central bank of an economy prone to shocks will need more capital

4] Range of functions

Central bank charged with price stability, exchange stability and others will need more in reserve

3] Political stability

In case of unstable govts, monetary authorities carry a bigger burden

Central banks will need more capital in such a situation

5] Independence

Low capital will force central bank to turn to government in time of need

This will give government influence over central bank

5) IS THERE A RIGHT LEVEL OF RESERVES?

RBI Act does not specify amount to be transferred to government

There is no consensus on the right level of capital for a central bank

Unlike a pvt bank, a central bank can work with a negative net worth also

2. For the year ending 2018, RBI had total reserves of Rs 9.59 lakh crore, comprising mainly currency and gold revaluation account (Rs 6.91 lakh crore) and contingency fund (Rs 2.32 lakh crore). While Contingency Fund represents the provisions made for unforeseen contingencies, the Currency and Gold Revaluation Account (CGRA) represent unrealised market gains/losses.

3. The Ministry's view is that RBI has been conservative and at times arbitrary, especially when it came to the transfer of the interim surplus. The CGRA accounts for 19.11% of total assets and the contingency reserve for another 6.41%. Usha Thorat committe suggested that the CGRA should be 12.26% of total assets while the contingency reserve should be 5.5%, totalling 17.76% in all.

Arguments In Favour Of Transfer Of Reserves

- ***Surplus Reserves Are High As Per International Standard:*** The Government believes that, when compared with global central banks, the RBI holds much higher total capital as a percentage of its total assets ***(at about 28 %)***. While, countries including the US, the UK, Argentina, France, Singapore maintain much lower capital as a percentage of total assets.
- ***Over Estimation Of Capital Requirement Due To Conservative Assessment Of Risk:*** The Finance Ministry claims that the existing economic capital framework, which governs the RBI's capital requirements and terms for the transfer of its reserves to the government is based on a very conservative assessment of risk by the Central Bank. Thus, RBI has over-estimated its capital reserves requirements resulting in excess capital of *Rs 3.6 lakh crore*.
- ***Unilateral Adoption by RBI:*** For its part, the Finance Ministry argues that the RBI unilaterally adopted the current framework in July 2017, because both the government nominees on the Board were not present during the meeting. The government did not accede to this framework and has since then been constantly seeking discussions with the RBI.
- ***Viable Deployment:*** The government has proposed that the use of these funds be decided in consultation with the RBI. These funds can be used, for example, to recapitalize public sector banks, help them expand their loan book and come out of the Prompt Corrective Action (PCA) framework.

Arguments Against Transfer Of Reserves

- ***Lender Of Last Resort:*** Central banks need to be adequately capitalized in order to perform their core functions, which include being the lender of last resort for the banking system.
- ***Weaken RBI's Balance Sheet And Its Role:*** If the RBI dips its reserves further to pay the Centre, this would weaken its balance sheet. Moreover, it will also impact on the RBI's role in *Open Market Operations (OMOs) via* which it implements monetary policy and also supports its role as the public
- ***RBI Most Under-Capitalized Central Bank:*** Only a third of RBI capital is actually contingency funds that can be deployed when needed. Thus, the deployable capital base of the RBI is just about **7 % of total assets**. This makes the RBI one of the most under-capitalized central banks in the world.
- ***Impact Macro-economic Stability:*** The RBI view is that this attempt by the Government to dip into its reserves can adversely impact macro-economic stability. The transfer will not only hurt the government's commitment to fiscal prudence, it also affects the confidence of the financial markets.
- ***No Fresh Receipt:*** RBI in its opinion also states that reserves do not tantamount to any fresh income and was essentially in the nature of issuing new securities to fund government expenditure.
- ***International Experience:*** The transfer of excess reserves from a central bank to government can be catastrophic, as had been proven in the *case of Argentina*. The transfer of $6.6 billion of its central bank's reserves to the national treasury, sparked off the worst constitutional crises in Argentina and led to a grave reassessment of its sovereign risk.

NBFCs

1. A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances. NBFCs whose asset size is of Rs. 500 crore or more are considered as systemically important NBFCs. NBFCs cannot accept demand deposits. Unlike banks, CRR does not apply on any NBFCs. NBFC do not form part of the payment and settlement system. NBFCs get license under Companies Act, 1956 and Banks under Banking regulation Act. Deposit insurance facility is not available to depositors of NBFCs.
2. **Current problems with NBFCs**
    1. **Multiple regulatory bodies:** RBI doesn't regulate all the NBFC. Other institutions such as NHB , SEBI, IRDAI, etc. are also involved depending on the type of NBFC.
    2. **Difficulties in access to credit:** Interest rates are now going up both domestically and also in the international market. Investors are getting reluctant to lend post the IL&FS crisis.
    3. **Riskier lending pattern:** Unlike banks, NBFCs are less cautious while lending. For example NBFCs have grown their portfolio of small and micro loans in a big way where there are risks of lack of credit history, scale and historically high NPAs.

4. **Cascading effect of IL&FS default**: Created a liquidity squeeze for the entire NBFC sector.
5. **Delayed Projects:** Many infrastructural projects financed by NBFCs are stalled due to various reasons like delayed statutory approvals.

Rupee slide

1. In last September, the Indian rupee weakened past the 71 mark for the first time ever, registering a loss of about 10% of its value against the dollar since the beginning of 2018.
2. The tightening of liquidity in the West, with the U.S. Federal Reserve raising interest rates, has played a major role in the strengthening of the dollar since February last year. Investors who earlier put their money in emerging markets have recently preferred American assets, which now yield higher returns. The chief among the troubles of emerging market economies like India is higher domestic inflation when compared to the economies in the West

Payment regulator

As we are moving towards digital economy we need a strong payments regulator

GA - 1111

⊙ Payments Regulator

1) Issue

RBI released a dissent note conveying that it is opposed to an independent regulatory body to supervise India's payments and settlements architecture

cheque; dd's

NEFT's

2) Payment System (includes both physical payment and digital payment mechanism)

i) A system that enables payments to be effected between a payer and beneficiary
ii) It include debit or credit card operations, money transfer operations or such similar operations
iii) It is regulated by the Payment and settlement Systems Act 2007 and the Payments and systems regulations 2008
iv) RBI is undertaking the oversight function over the Payment system
v) The Board for Regulation and Supervision of Payment and settlement system (BPSS) a sub committee of the Central Board of RBI is the highest policy making body on payment systems in the country

!- Payment → clearance → settlement (transferred to another person's account)

3) The Proposal by Garg committee

i) A govt appointed committee proposed the creation of an independent Payments Regulatory Board (PRB) and suggested replacing the RBI governor as chairperson with a person appointed by the govt in consultation with RBI

→ to improve the regulation and performance

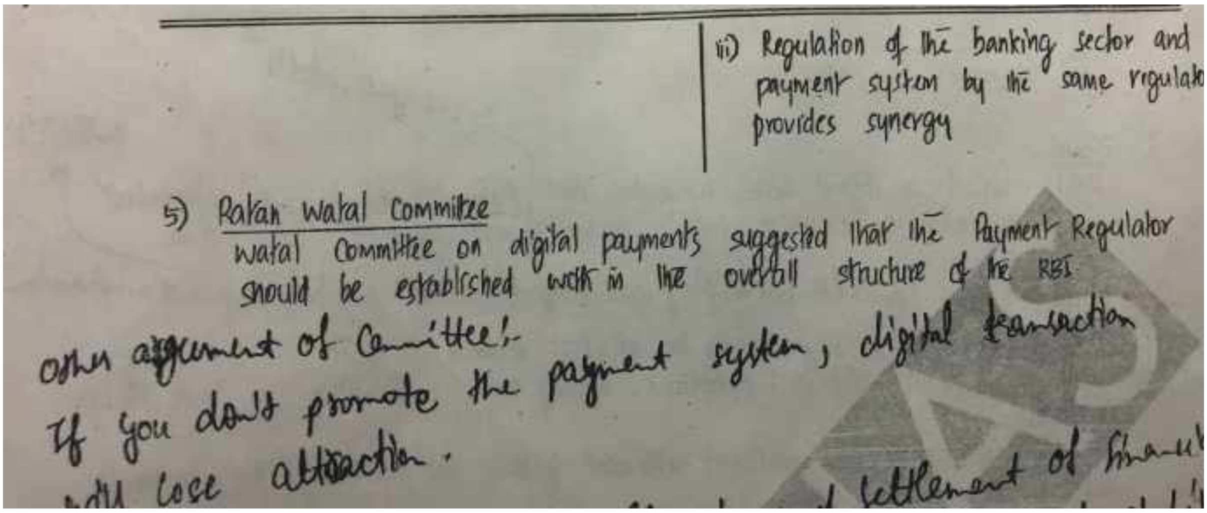
4)

Merits

i) For better regulation, fostering competition and performance
ii) Presently the regulations are becoming bank focused.
iii) Electronic payments can happen without banking so it requires separate regulation
iv) It is important to create a financial ecosystem to promote digital economy

Demerits

i) The sector is critical to the financial stability of the economy and the system is working efficiently under RBI regulation
ii) RBI dissent note:
(a) activities of payment system comes under traditional banking for which RBI is the regulator so there is no need of a separate regulator
(b) It ensures holistic oversight by the RBI and also lowering of compliance costs
(c) There is no evidence of any inefficiency in the present payments system
(d) The system is a subset of currency which is regulated by RBI



ii) Regulation of the banking sector and payment system by the same regulato[r] provides synergy

5) Ratan Watal Committee

Watal Committee on digital payments suggested that the Payment Regulator should be established with in the overall structure of the RBI

other argument of Committee:-
If you don't promote the payment system, digital transaction will lose attraction.

FRBM

1. FRBM law (2003) was enacted to limit the government's borrowing authority under Article 268 of the constitution. The FRBM law envisaged a fiscal deficit of 3% of GDP by 2008-09, but due to Global Financial Crisis and amendments over the years the same target has been set now to 2017-18. This act was mirrored by Fiscal Responsibility Legislation (FRL) adopted in the states, laws that were no less important than the FRBM, since states account for roughly half the general government deficit.
2. **Achievements of FRBM act**
    1. Brought centrality to the issues relating to fiscal consolidation as the government has to mandatorily present medium term and annual strategy statements.
    2. High fiscal deficits raise the debt-to-GDP ratio and increase interest payments as proportion of revenue.
    3. It improved the fiscal performance of both centre and states, which has contributed to their economic stability, as reflected in controlled inflation in the past year.
    4. Performance on controlling fiscal deficit has been an important factor deciding sovereign debt ratings. Adherence to consolidation has helped us from being downgraded.
    5. Strict adherence to the path of fiscal consolidation during pre-crisis period created enough fiscal space for pursuing counter cyclical fiscal policy.
3. **Reasons for poor performance of Centre in FD**

    1. Major hike in capital expenditure.
    2. Huge leakages in Govt subsidies.
    3. Poor performance of PSUs.
    4. Tax evasion and tax avoidance.
    5. Low private expenditure.
4. **NK singh committee review**
    1. Instead of fiscal and revenue deficit numbers, the government should focus on public debt as a proportion to GDP to 60% by 2023 (presently 68%). This is a simple measure of insolvency, also used by rating agencies.
    2. With an aim to provide flexibility to policy makers within the fiscal deficit, the panel, has suggested a steady target of 3% from FY18 to FY20 and reach 2.5% by 2022-23.
    3. It has also recommended certain strict escape clauses which will allow the Government deviate from the fiscal road map by 0.5% for any given year. The escape clauses are proposed for overriding consideration of national security like acts of war and calamities.
    4. It suggested the setting up of a fiscal council, an independent body which will be tasked with monitoring the government's fiscal announcements for any given year.
    5. The panel's report also says that the focus of policymakers should be on reducing primary deficit rather than fiscal deficit.
    6. It will provide its own forecasts and analysis for the same as well as advise the finance ministry on triggering the escape clauses.
5. **Fiscal responsibility Legislation (FRL)**
    1. Fiscal targets were established, which were the same for all states.
    2. The overall deficit was not allowed to exceed 3 percent of GSDP at any point, while the revenue deficit was to be eliminated by 2008/9.
    3. The 12th Finance Commission allowed states to borrow directly from the market, in the hope that investors would also exercise some discipline, by pushing up interest rates on states whose fiscal position had not improved.
    4. Finally, broad public discipline was enhanced by introducing new reporting requirements. States were required to publish annual Medium-Term Fiscal Policy reports.

6. **Assessment of FRLs**
    1. FRLs clearly made an important difference, both in terms of outcomes and behaviour. States kept their average fiscal deficit at 2.4 percent of GSDP in the 10 years after the FRL, well below the prescribed ceiling of 3 percent of GSDP.
    2. Another indication that the FRL had a significant impact is that states kept a tight rein on wage and salary expenditure.
    3. And there was also a striking change in behaviour of budgeting of states. Budget forecasting procedures improved, and there was a more cautious approach to guarantees, a build-up of cash balances, and a reduction in debt.
    4. Therefore, FRL had a significant impact on both fiscal deficit and revenue deficit. Most states achieved and maintained the target fiscal deficit level (3 percent of GSDP) and eliminated the revenue deficit soon after the introduction of their Fiscal Responsibility Legislation (FRL).
7. **Reasons for effective consolidation**
    1. Although FRL played an important role in keeping the deficit low, it was not the sole impetus behind this impressive fiscal performance.
    2. Acceleration of GDP growth helped boost states revenues. Better tax collections (VAT revenue) and improved jurisdiction. Own tax revenues as a percent of GSDP increase by 1 percentage point.
    3. Index rankings like Ease of Doing Business take cognisance of existing deficit levels has forced states to take appropriate actions against deficit levels.
    4. Increased transfers from the centre because of the 13th Finance Commission recommendations and the surge in central government revenues helped.
    5. Decline in interest payments on account of the debt restructuring package offered by the centre and increased central CSS expenditure.
    6. State competitiveness and federal competition amongst states is also a big promoter for reducing deficit levels.
8. **Reasons for poor performance of states in FD**
    1. UDAY scheme.
    2. Farm loan waivers announced by various states like AP,

    Telangana, UP, etc.
    3. Lack of fiscal discipline.
    4. Stagnancy of state's own tax revenue.
    5. Implementation of state's pay commision recommendations due to pressure form state Govt employees.
    6. Revenue uncertainties on account of implementation of GST.
9. Greater market based discipline on state government finances is imperative. There is a complete lack of correlation between the spread on state government bonds and their debt or deficit positions.

Cashless economy

1. The ratio of cash to GDP is one of the highest in the world at 12.42%. Cashless economy is one where the financial transactions happen primarily through various electronic channels such as e-wallets, credit and debit cards, etc. Faceless, Paperless, Cashless is one of professed role of Digital India.
2. **Benefits of cashless economy**
    1. Time savings and convenience.
    2. Safety from money being lost, stolen, robbed etc.
    3. Increased efficiency in welfare programmes as money is wired directly into the accounts of recipients. It will plug loopholes in public welfare programmes.
    4. Efficiency gains as transaction costs across the economy should also come down.
    5. Reducing use of cash would also strangulate the grey economy, prevent money laundering and even increase tax compliance, which will ultimately benefit the customers at large.
3. **Barriers to cashless transactions**
    1. Lack of access to banking for a large part of the population as well as cash being the only means available for many.
    2. Lack of internet access in rural areas also act as barrier to cashless economy.
    3. An overwhelming majority of retailers, suppliers and service providers belong to the unorganised, informal sector. They do not have the infrastructure to offer card based transactions.

4. The perception of consumers also sometimes acts a barrier. It is universally believed that having cash helps you negotiate better.
5. High transaction cost for using payment gateways.

4. **How can the situation be improved**
    1. By effective implementation of initiatives like Jan Dhan Yojana.
    2. Creation of efficient and reliable internet infrastructure as all digital payments rely on internet connectivity through implementation of new technologies like googles project LOON, drones, etc.
    3. Increasing cyber security network to avoid scams. Constitute an independent digital payment regulatory body which would act as regulator for digital payment platforms.
    4. Introducing apps in major regional languages as presently BHIM app is only available in English and Hindi.
    5. Asking the banks to keep merchant discount rates to minimum to encourage consumers to transact via debit-credit cards.
    6. Constituting grievance redressal body for complaints from consumers.
5. **Government efforts to promote digital transactions**
    1. Aadhar enabled payment system (AEPS).
    2. Bharat Interface for Money (BHIM).

digital payments

- **Cash counters** can send an indent to a customer's phone to enable payment through UPI

Campaign to cover all merchants through Bhim-UPI as there are only 3.1 million POS terminals in India to cover 60 million merchants

- **Getting** more vehicles to adopt FASTag – only 20% payments received by NHAI are through FASTag
- **All govt** utility bills – of power, water or phone – should carry a QR code
- **More push** to National Common Mobility Card in metros for common transportation needs

1.

6. **RBI efforts**
    1. To promote electronic transactions RBI would review guidelines relating to mobile banking, NEFT and prepaid instruments which

include m-wallets, prepaid cards and paper vouchers.

2. RBI will help in building a robust e-payment and settlement infrastructure. Strengthening of existing payment systems will be done.
3. The Unified Payments Interface (UPI) will make it convenient for customers to use digital channels to make payments for a host of activities ranging from mobile bills to restaurant payments.
4. Usage of Aadhaar for authentication would be encouraged by RBI.

GDP

1. Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period of time. GDP includes the output of foreign owned businesses that are located in a nation following foreign direct investment.
2. **GDP can be determined in three methods**
    1. **Expenditure Approach** (Aggregate Demand): The full equation for GDP using this approach is GDP = C + I + G + (X-M).
    2. **Income Approach** (adding together factor incomes): GDP is the sum of the incomes earned through the production of goods and services. This is Income from people in jobs and in self-employment (e.g. wages and salaries) + Profits of private sector businesses + Rent income from the ownership of land. Transfer payments, Income not registered with the tax authorities are excluded.
    3. **Production Approach**: This measure of GDP adds together the value of output produced by three sectors in the economy using the concept of value added. Value added = value of production - value of intermediate goods.
    4.

Expenditure method	Income Method	Production Method
Consumption + Investment + Government + Net Exports	Wages + Rental rate on Capital + Firm Profits	Final value of all goods and services - Intermediate costs

3. **Why GDP measurement is not accurate**
    1. Much activity is not officially recorded – including subsistence farming and barter transactions.
    2. All value additions for self consumption, which are not put out in the market, are not accounted in the GDP.
    3. GDP does not take into account the value of non-monetised activity such as work of housewives, volunteering, etc.
    4. GDP does not measure the quality of life. For example, OECD annually issues a report based on a study of 140 countries indicating the levels of happiness in those countries. Denmark, Finland, have ranked at the top and India is no where to be seen.
    5. It does not allow for the health of children the quality of their education or the strength of marriages, neither compassion nor devotion to country which makes life worthwhile.
    6. GDP does not measure the inequalities in the society.
    7. GDP does not take into account the sustainability of the future GDP. More measurable things such as damage to our environment are also left out.
    8. GDP also assumes all growth is good growth. So savings from energy efficient devices counts as a negative for GDP growth, even though it is a positive for society.
    9. GDP does not differentiate between more or less productive economic activity (i.e. implicitly assumes that economic activity is the desirable ends rather than a means to an end).
4. **Pros**

1. It is the least inaccurate method to compute the growth rate of the economy.
2. If by growth one means the expansion of output of goods and services, then real GDP which measures growth without the effects of inflation is perfectly satisfactory.
3. It captures the wellbeing that results from the production of goods and services.
4. Easier to compute than other indicators.

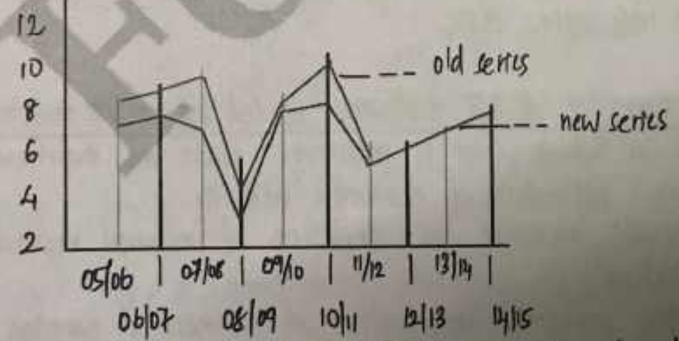
Backseries GDP Data

1) To keep track of the development of a country, economists make use of indicators such as, GDP, GVA etc. These data acts as a guide for policy makers and also allow cross-country comparison. These indicators are calculated with reference to a base year which is revised periodically

2) Need to revise GDP calculation periodically
   (i) To take account of the structural changes in the economy
   (ii) Accomodate new and better data
   (iii) To use improved methodologies of estimation

3) changes made to GDP calculation
   (i) The base year for GDP calculation was revised from 2004-05 to 2011-12
   (ii) Industry wise estimates will be presented as Gross value Added (GVA) at basic prices
   (iii) 'GDP at factor cost' will no longer will be discussed in the press releases. 'GDP at market prices' will hence forth be referred to as GDP
   (iv) Data from MCA-21 (Ministry of Corporate Affairs) were used

4) Issue
   (i) These changes led to the problem of not being able to compare recent data with years proceeding 2011-12
   (ii) Thus govt used new methodology to arrive at back series GDP calculation to estimate the data for the years before 2011-12



GDP growth rate comparison of old and new series

5) Advantages

① new method is more sensitive to current data
② new data is more comparable and reflective of real state of economy
③ uses more indicators and ensures better coverage
④ use of updated data

Issues

① CSO data is different from data of National statistical commission
② new data is also at varience with other indicators during that period. for eg corporate earnings, stock market profit and investment, credit growth, exports imports etc were better in 2004 – 2014
③ The data released by the CSO has been questioned by economists, led to the independence and credibility of CSO being questioned
④ India needs to maintain credibility in the global stage in order to attract foreign investments

6) Major takeaways from the new data

(1) change in GDP growth rate : India's GDP grew at 8·5% in the 2011–12 (FY) as compared to the earlier estimated figure of 10·3%. GDP growth rate during UPA (I & II) avaraged 6·7%.
(2) Recovery from Global financial Crisis : Indias recovery from GFC took longer than previously thought. Data shows that in sectors like mining and manufacturing the impact of GFC lingered. There was a collapse in manufacturing sector little after GFC

7) Committee – Estimates Committee of the Parliament headed by Murli Manohar Joshi
(1) The current manner in which GDP is measured needs an overhaul as it provides an incomplete estimation of economic activity
(2) GDP calculation does not measure the depletion of natural resources, it only considers their utilisation
(3) It did not consider the economic contribution of women in running households
(4) It could not assess whether an increase in GDP resulted in an increase in happiness

Social progress index (SPI)

1. It is an aggregate index of social and environmental indicators that captures 3 dimensions of social progress which are basic human needs,

foundations of wellbeing, and opportunity.

2. **Limitations of other indices**
    1. **GDP:** While the GDP measures the economic progress of a nation, it does not include non-market activities like gardening at home, mother taking care of child, etc. It also excludes factors like environment, happiness, equality, access to justice etc.
    2. **Gini coefficient:** It measures the income inequalities among citizens but ignores other aspects like health, education and other social benefits.
    3. **GHI:** Originally developed by Bhutan, it measures the happiness level but ignores elements like gender equality, quality education and good infrastructure. Further it can't be used for international comparison due to subjectivity in the meaning of happiness.
    4. **HDI:** It covers life expectancy, mean years of schooling, expected years of schooling, and living standards but it falls short in capture of unequal distribution of wealth, environmental and infrastructural development.
3. **Benefits of SPI**
    1. It is outcome based rather than the amount of money spent or efforts involved. So, it can bring betterment in policy making because it measures ground level improvement.
    2. It is more comprehensive than other indicators. It contains the basic human needs like water, shelter, safety, etc., well being like ecosystem sustainability, health, access to knowledge, etc., opportunity like personal freedom, tolerance, etc.
    3. Relevant to all countries as it provides a holistic measure of social progress. So, it can be suited for international comparison.
    4. It is in sync with SDGs and help achieve them.
4. The index has so far been the most comprehensive way of measuring a country's social progress and is independent of any economic indicator, thus giving an opportunity to examine the relationship between social progress and economic growth. It can thus be used as a complementary to GDP.

Inclusive growth

1. Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all. In other words, inclusive economic growth is not only about expanding national economies but also about ensuring that dividends reach the most vulnerable people of societies. According to recent Oxfam report, top 1% of Indians hold 58% of India's wealth. This has increased from the time of 1991 economic reforms. Goal 8 of SDG specifically aims to promote inclusive and sustainable economic growth.
2. **Causes of income inequality**
    1. The main reason for low level of income of the majority of Indian people is unemployment and underemployment and the consequent low productivity of labour.
    2. Poor growth in agriculture sector.
    3. Women left out of the economy due to patriarchal structures.
    4. Politics and corporate nexus.
    5. The increase in the salary of higher-paid employees in absolute terms is more than the lower-paid employees. New information technology played a central role in driving up the skill premium, resulting in increased labour income inequality.
    6. High tax evasion and avoidance and give birth to a parallel economy.
    7. Economic survey points out that subsidies on railway fare, diesel, petrol, etc., benefit rich more than the poor.
    8. Trade has been an engine for growth in many countries by promoting competitiveness and enhancing efficiency. Nonetheless, high trade and financial flows between countries, partly enabled by technological advances, are commonly cited as driving income inequality.
3. **Inclusive growth and sustainability**
    1. **Women:** Women account for 49.5 % of the population of the country and their inclusion in the workforce and economic activities will increase GDP by 27% according to IMF and will contribute towards sustainability of the economy.
    2. **Farmers:** In India, more than half of the population is dependent on agricultural activities. Inclusion of farmer by providing them with the benefit of growth is a must for food security and development of food processing industries. This will also lead

towards doubling farmer's income by 2022.

3. **Youth**: The working age group 15-59 years account for 62.5% of India's population. Inclusion of youth in countries economic journey by providing them with skills and employment will contribute greatly in the long term economic growth.
4. **Poor:** Food security and employment opportunity lead to better nutrient intake which ultimately provides a healthy workforce to the nation.
5. **Regional Inclusivity:** Some social groups and territories have been left out for decades and need support. This leads to extremist and secessionist tendencies to create volatility.
6. **Tribal:** In tribal areas where the development programs for economic growth come in conflict with the cultural sentiments of the tribal population, which hampers social sustainability.

4. **Consequences**
    1. High and sustained levels of inequality, especially inequality of opportunity can entail large social costs. Entrenched inequality of outcomes can significantly undermine individuals educational and occupational choices.
    2. Higher inequality lowers growth by depriving the ability of lower income households to stay healthy and accumulate physical and human capital. For instance, it can lead to underinvestment in education as poor children end up in lower quality schools and are less able to go on to college.
    3. Extreme inequality may damage trust and social cohesion and thus is also associated with conflicts, which discourage investment.
    4. The Arab Spring of 2011 and subsequent political conflicts in the Middle-East, rise in extremist forces in the world is attributed to rising disparity between nations and within particular nations.
5. **How to fight wealth inequalities**
    1. Clamp down on tax dodging by corporations and rich individuals.
    2. Invest in universal, free public services such as health and education. Also ensure adequate safety nets for the poorest, including a minimum income guarantee.
    3. Share the tax burden fairly, shifting taxation from labour and consumption towards capital and wealth. This will make rich to

contribute more.

4. Introduce minimum wages and move towards a living wage for all workers.
5. Wealth inequalities are also glaring among men and women. Introducing equal pay legislation and promoting economic policies to give women a fair deal will reduce gender wealth inequalities.
6. Agree a global goal to tackle inequality.

Economic growth across states

1. Despite high economic growth, there was no uniform growth across states in India. While the states like AP, TS, Maharashtra witnessed a GSDP of 10%, some North-eastern states performed very badly. Five of the six best performing states in 2001 - Gujarat, Tamil Nadu, Andhra Pradesh, Kerala and Punjab - continue to be the top performers in 2011.
2. **Factors for non-uniform growth in India**
    1. **Natural resources:** Some states such as West Bengal, Jharkhand, Odisha, Chhattisgarh etc. are endowed with better mineral resources while others such as Punjab and Haryana have better irrigation facilities.
    2. **Historical reasons:** Neglect of some regions and preference of other regions in terms of investments and infrastructure facilities. Historical factors that go back to mughal era and became prominent in British Era, have also contributed to regional inequities.
    3. **Government Polices:** Faulty planning process inherited from colonial rule in the post-independence era. Red tapism, corruption, lack of political will and lack of ease of doing of business environment and political and administrative inefficiency. Also Industrial reform policy did not encourage similar growth momentum in all states as investment expenditures undertaken by individual states differed.
    4. **Access to markets, communication and transport:** Coastal states like GJ, MH, KL, Andhra Pradesh etc have efficient port facilities for transport.
    5. **Social and physical factors**: Naxal-affected areas and areas with

under developed social indices (education and health) are less attraction to investors. Availability of human and natural resources and conducive environment across different states.

6. **LPG reforms:** Transfer of power from government to markets in deciding the location and level of investment benefitted already richer states. For example, States like Bihar, MP, Rajasthan etc., lagged behind as compared to significantly growing states like Gujarat, Maharashtra etc.
7. **Growth experience of states**: Inability of states to sustain higher growth as a result of dependency on agriculture only. Ex: Steady acceleration of agricultural growth was seen only in Karnataka, Kerala and WB whereas industrial growth fuelled states like Gujarat, Punjab etc. Maharashtra and West Bengal were the only states which witnessed high growth rates across all 3 sectors of agriculture, industry and services.
8. **Uni-directional growth spill over among states**: States like Rajasthan and WB are considered growth-inducing states as they subsequently help in growth of other states when they grow, but vice-versa was not observed.

3. **Measures to ensure backward states catch up to the growth wagon**
   1. **Constitutional provisions**: Article 371(A-J) includes special provisions for some states for creation of development boards, facilities for technical education, vocational training, employment in public services etc.
   2. **Aspirational Districts**: NITI Aayog's Aspirational Districts Programme with a focus on 115 districts which fare poorly in health, education, skill development etc, especially in backward districts of BH, UP and MP. The states have been asked to be considered as sites of potential transformation rather than poor or backward areas.
   3. **Higher central financial assistance in schemes**: 90:10 ratios in North-Eastern states to strengthen capacity.
   4. **Setting up of IITs and other higher quality professional institutions**: For ex: IIT in North Karnataka region.
   5. **Increasing regional connectivity in transport infrastructure**: UDAN scheme, expressway, Industrial corridors etc.
   6. **Schemes:** Increasing penetration of Gram Swaraj Abhiyan aimed

at improving socio-economic indices in villages lagging behind in key indices. Other schemes like Pradhan Mantri Ujjwala Yojana (PMUY), DDUGJY, Saubhagya scheme, Swachh Bharat Abhiyan directly or indirectly help in mainstreaming some of the most backward areas in India. Concentration of Mudra loan scheme in underprivileged districts to help create jobs.

7. Solving problems specific to backward region like Naxalism; patriarchy; discrimination based on sex and caste.
8. Scientific and technological developments like prudent interlinking of rivers; internet access through innovative projects like project loon; prospect of cloud seeding in drought prone areas; e-education; e-health etc.

Financial inclusion

1. **Objectives@75**
    1. Banking for the unbanked (Bank accounts, Digital payment services).
    2. Securing the unsecured (Insurance, social security and asset diversification).
    3. Better access to credit at a reasonable cost for those presently excluded.
2. **Current situation**
    1. The government has launched many flagship schemes to promote financial inclusion and provide financial security to empower the poor and unbanked in the country. These include the Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Mudra Yojana, Stand-Up India Scheme, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Atal Pension Yojana (APY).
    2. The promotion of Aadhaar and DBT schemes facilitate financial inclusion.
    3. Awareness and use of mobile payments in India had been low. In 2016, the percentage of the population using mobile money services in India was only 1 percent.
    4. In terms of credit access, India has considerable ground to make up. Informal credit still accounts for more than 40% of total credit

in the rural India.

3. **Constraints**
    1. Lack of financial literacy amongst low income households and small informal businesses.
    2. The high cost of operations of the traditional banking model.
    3. Excessive regulatory requirements on products, and market entry to new technologies.
    4. Poor internet penetration.
4. **Way forward**
    1. Launching a new scheme for comprehensive financial literacy. An Arthik Shiksha Abhiyan will help improve financial literacy and may be integrated in the regular school curriculum.
    2. Assess the performance of banking correspondents and give better incentives. The issue of inadequate training is being addressed by the RBI.
    3. Facilitating growth of online and paperless banking. Expand digilocker services by including more issuers of documents.
    4. Using technology to improve the assessment of credit worthiness for households. One of the main constraints in providing low-income households and informal businesses is the lack of information available with formal creditors to determine their credit worthiness.
    5. Leverage payment banks and other platforms to scale up payments systems in underserved areas. Payments through the USSD channel have an advantage over the internet in that it can also cover a large proportion of non-smartphone users.
    6. Household acceptance of formal financial products, such as insurance, equity, etc., can be increased if regulations governing these are simplified and made more consumer friendly.

Exports

1. Foreign Trade Policy 2015-20 aims to double the export potential to $900 billion and achieve the 3.5% world share of exports from about 2% by 2020.
2. **External impediments in growth of exports in India**

    1. Global growth slow down, which as per IMF it is expected to shrink to 3.3 percent in 2019.
    2. Non-tariff barriers by other nations, mainly in case of phytosanitary products e.g. By European Union in case of mangoes.
    3. Increasing trade wars between USA, China and other countries is leading to uncertain markets.
    4. Protectionist measures, along with withdrawal of Generalised System of Preferences (GSP) status, by US, which is our largest export destination.
    5. In most of our FTAs, our counter parts are getting more benefits. For example, India-ASEAN FTA has negative impact on India's export of oil palm and textiles because of competition from Indonesia and Vietnam. Most of India's PTAs and FTAs have limited product coverage.
    6. Global issues like Brexit, macroeconomic stress in Argentina, Turkey and Italy, and the US-China wrangle cause uncertainty in the markets.
    7. Competition from neighbouring countries facilitating cheap labour and favourable policies. Ex: Competition in Textile from Vietnam and Bangladesh.
    8. Slow progress in drafting trade agreements impacts India's ability to participate in global value chains, affecting export growth. Ex: RCEP.
3. **Internal impediments in growth of exports in India**
    1. India's exports are not diversified which is evident from the fact that top 20 export categories account for 78% of the total.
    2. India is still exporting majority of raw material instead of the final products. Ex: India is exporting cotton yarn rather than technical textiles
    3. Poor logistics infrastructure results in weak trade facilitation regime. In World Bank's Logistics Performance Index 2018, India ranks at 44, below China (26) and Vietnam (39).
    4. India's ill-conceived trade pacts have resulted in inverted duty structure – High import duties on raw materials and intermediates, and lower duties on finished goods. This discourage exports and encourages imports.

    5. Land and labour reforms are still pending, hindering large scale investments in export sectors.
    6. In case of agricultural exports, low value addition & lack of food processing keeps export low by value.
    7. Tightly regulated markets do not give enough space for exports to grow. Under the World Bank's Doing Business rankings, India ranks 77, compared with China at 46 and Vietnam at 69.
    8. As per Economic Survey, there is huge state wise regional disparity in prevalence of manufacturing industries where few states contribute to major chunks of export.
4. **Foreign Trade policy, 2015**
    1. It introduced two new schemes known as MEIS and SEIS. These new schemes replace multiple schemes earlier in place, each with different conditions for eligibility and usage.
    2. Branding campaigns planned to promote exports in sectors where India has traditional Strength.
    3. Online filing of documents, online inter-ministerial consultations and simplification of processes, digitisation and e-governance.
    4. Provide incentives to e-commerce companies exporting products from sectors that create jobs.
    5. Within manufacturing exports, the government will chart out a strategy to promote key sectors like engineering products, electronic goods and textile exports.
    6. Within services, a host of incentives are likely to be rolled out to sectors such as tourism, hospitality, education, etc, which might be promoted in the form of project exports from India.
5. **Measures**
    1. **Diversification:** The Indian export basket is skewed in favour of agricultural commodities. The global crash in commodities prices has thus adversely affected Indian exports. The government must see this as an opportunity and attempt to diversify its export baskets.
    2. **Sunrise industries:** For fast returns, there must be increased focus on a few high growth industries like food processing, footwear manufacturing, etc.
    3. Quality control based on international standards so as to prevent

our goods from non-tariff barriers.

4. Initiatives like Sampada, which are promoting food processing industry should be given impetus.
5. Improve logistics, by developing industrial corridors, waterways, etc. as in case of Sagarmala and Bharatmala.
6. Ease of doing business by reducing red tape, enhancing foreign direct investment limits, revamping labour laws and environmental clearance processes, thus making manufacturing hassle free.
7. Services related exports can be quickly scaled up and are more remunerative. Thus, the government should also focus on this segment for more value.
8. **SEZ:** Reviewing the SEZ policy and tweaking it to ensure better utilisation of the land and other incentives provided.
9. **Labour reforms:** A key problem cited in the skewed business structure in India, which favours small scale manufacturing which is inherently inefficient is the stringent labour regulations. Reform of these laws would help the businesses scale up.

Labour reforms

1. Labour reforms is one of the important factor for success of Make in India programme and making India a manufacturing destination. Of India's total workforce of about 52 crore, agriculture employed nearly 49 percent while contributing only 15 per cent of the GVA. Industry and services accounted for 13.7 and 37.5 percent of employment. By some estimates, India's informal sector employs approximately 85 percent of all workers.
2. **Issues**
    1. Labour laws only apply to just 10% of employees in formal employment. 90% are out of it. The wages in the informal sector can be one twentieth of those in firms producing the same goods or services but in the formal sector.
    2. Labour being in concurrent list, many states and even centre have enacted numerous laws. In 2016, there were 44 labour laws under the statute of the central government. More than 100 laws fall under the jurisdiction of state governments. The multiplicity and

complexity of laws makes compliance and enforcement difficult.

3. Many of the laws are obsolete and hamper ease of doing business. For example, Industrial Disputes Act (IDA) requires firms employing more than 100 workers to seek permission from state governments to lay off workers.
4. Employers contend that labour laws in India are excessively pro-worker in the organized sector. There is too much of inspection, and industries are looked upon with suspicion.
5. Another major weakness in current labour reforms is less focus on apprenticeship. Our education system is not responsive to need of market therefore apprenticeship becomes important.
6. Due to the complex and massive numbers of labour laws, industries prefer to hire contractual labourers not covered under these laws and without any social security or termination protection.
7. According to the India Skill Report 2018, only 47 per cent of those coming out of higher educational institutions are employable.
8. We currently lack timely employment data of the work force. This lack of data prevents us from rigorously monitoring the employment situation and assessing the impact of various interventions to create jobs.

3. **Solutions**
    1. NITI ayoog recommends complete codification of central labour laws into four codes by 2019.
    2. Labour laws should be applied universally and there should not be categorisation like applicable to 5-10 or 20 employees.
    3. Encourage the wider use of apprenticeship programmes by all the enterprises. This may require an enhancement of the stipend amount paid by the government.
    4. Enhance female labour force participation. by ensuring effective implementation of and employers' adherence to the recently passed Maternity Benefit (Amendment) Act, 2017, and the Sexual Harassment of Women at Work Place.
    5. Conduct an annual enterprise survey using the goods and service tax network (GSTN) as the sample frame. Increase the use of administrative data viz. EPFO, ESIC and the NPS to track

regularly the state of employment.

    6. Enhance occupational safety and health (OSH) in the informal sector through capacity building and targeted programmes.
    7. Make compliance with the national floor level minimum wage mandatory. Expand the Minimum Wages Act, 1948, to cover all jobs. Enforce the payment of wages through cheque or Aadhaar-enabled payments for all.
    8. Designing single window portals for clearance of various formalities will help not only in reducing red tapism and quicker compliance.
    9. Due to already overburdening of judicial system, a separate tribunals for labour issues may be created.

4. While addressing the issue of simplifying and codifying the labour laws and for ensuring ease of compliance to promote an enabling business environment, the overall interests of labour like wages, employment, social security, working environment, health and safety etc., should be duly addressed.
5. **Government steps**
    1. **Shram Suvidha Portal:** This allots unique labour identification number (LIN) to units and allow them to file online compliance for 16 out of 44 labour laws.
    2. **Random inspection scheme:** To eliminate human discretion in selection of units for inspection, and uploading of inspection reports within 72 hours of inspection mandatory.
    3. **Universal Account Number (UAN):** Enables 4.17 crore employees to have their Provident Fund account portable, hassle free and universally accessible.
    4. **Apprentice Protsahan Yojana:** Government will support manufacturing units mainly and other establishments by reimbursing 50% of the stipend paid to apprentices during first two years of their training.
    5. **RSBY:** Introducing a smart card for the workers in the unorganised sector seeded with details of two more social security schemes.
    6. The National Career Service (NCS) portal brings together job seekers, employers and other stakeholders on a common platform by providing services like job matching, career counselling, etc.

7. Payment of Wages Bill, 2016 it enable the centre and state governments to specify industrial units which will have to pay wages only either through cheques or by transferring into bank accounts.
8. Modal shops and establishment bill, 2016 tries to boost the employment generation in general, especially for women. The law as they will be permitted to work night shifts, with adequate safety and other facilities such as drinking water, canteen, first-aid, lavatory and crèche facilities at workplace.

6. **Why labour laws are difficult in India**
   1. Trade unions have strong influence in India. They oppose any labour reforms and no consensus is generally achieved.
   2. No political will too, as labour laws is very sensitive subject.
   3. Presence of strong opposition from mainstream pro-labour parties also present a challenge to them.
   4. Relaxation may affect labour rights like minimum wages, hire and fire easily, etc.
   5. Labour is concurrent subject. So, both states and centre have to come to agreement for meaningful labour reforms, which is often difficult.
7. **Demands of the labour organisations**
   1. Increase in the daily minimum wage for unskilled workers from Rs.246 to Rs.692.
   2. Stop contractualisation of labour for perennial work.
   3. Ensure the payment of same wage for contract workers as regular workers.
   4. Scrapping of proposed labour law amendments.
   5. Universal social security for all workers.
8. **Concerns raised by labour organisations**
   1. Organised labour in India, sees itself as a loser in the changes unleashed by liberalisation and globalisation. It fears that if the government goes ahead with some of its proposed reforms more losses are gonna occur.
   2. Dismissal laws in France are more stringent than in India, but that did not come in the way of France's prospering for over a century. China itself has made its labour laws more stringent.

    3. Some studies suggest that giving workers greater protection helps increase productivity by giving workers more incentives to invest in firm specific skills.
    4. There is also evidence that the bias against workers in Indian industry may have more to do with tax incentives for capital than with restrictive labour laws.
    5. Contract labour is a serious assault on workers rights. The Supreme Court has made strong observations on companies resort to contract labour in order to avoid statutory obligations. This was one of the reasons for labour unrest at Maruti's plant at Manesar in Haryana last year.
    6. Privatisation and FDI are other areas of concern for organised labour. With government opening up FDI, merging the public sector banks, unions see these moves as a way that impacts their jobs adversely.
9. **Improving employment data**
    1. NITI Aayog's Task Force made recommendations to create a 21st century statistical system in India for the generation of comprehensive employment, unemployment and wage estimates on a sustained basis.
    2. Conduct of household surveys on annual basis.
    3. Introduction of time-use survey, that be conducted every three years (such surveys also help in measuring women's participation in unpaid work).
    4. Use of technology for faster and better data collection, processing and assimilation.
    5. Introduction of annual enterprise survey using enterprises registered with the GSTN as the sample frame.
    6. Separate annual survey of enterprises excluded from the GSTN database (i.e. those in health and education sectors, and those with turnover < INR 20 Lakh in other sectors).
    7. Adoption of inclusive and wider definition of 'formal workers'.
    8. Adoption of GSTN across all legislations, ministries and departments as the universal establishment number.
10. **Job creation**
    1. As outlined in the NITI Aayog's Action Agenda, India suffers more from the problem of underemployment (i.e. low

productivity, low wage jobs) than unemployment. For example, agriculture engaged nearly 50% of the workforce but contributed 15% to GDP.

2. Expansion of the organized sector to create well-paid high productivity jobs.
3. Shift towards labour intensive goods and services e.g. apparel, footwear, food processing, tourism etc.
4. Expansion in export market by developing Coastal Employment Zones (CEZ), using better technology, and improving on quality to remain competitive. Leverage on economies of scale offered by exports market potential.
5. Filling in for ageing workforce of countries like China and also rising labour wages there.

Employment

⊙ Employment

1) Data

i) According to a report by Centre for Sustainable Employment & Azim Premji University: unemployment levels have been steadily rising; after several years of staying around 2-3%, the headline rate of unemployment reached 5% in 2015, with youth unemployment being a very high 16%.

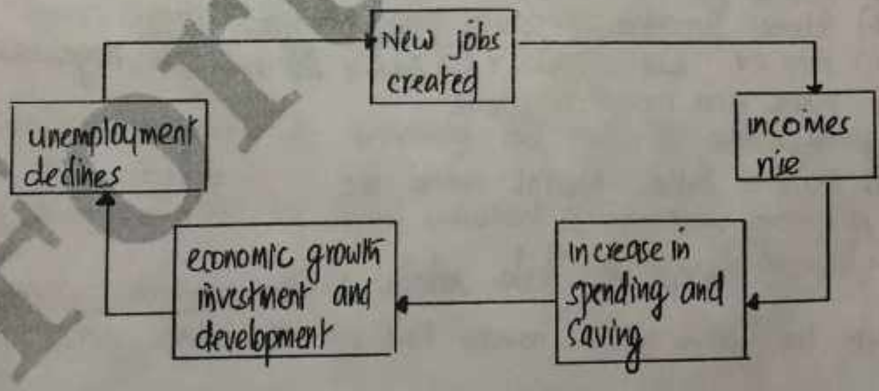
ii) The shortage of jobs is compounded by depressed wages, with 82% of men and 92% of women earning less than Rs 10,000 per month

iii) A 10% increase in GDP now results in less than 1% increase in employment

iv) World Employment and social outlook: Trends 2018 by ILO the no. of jobless in the country will increase to 18.6 million in 2018, 18.9 million in 2019 against 18.3 million in 2017

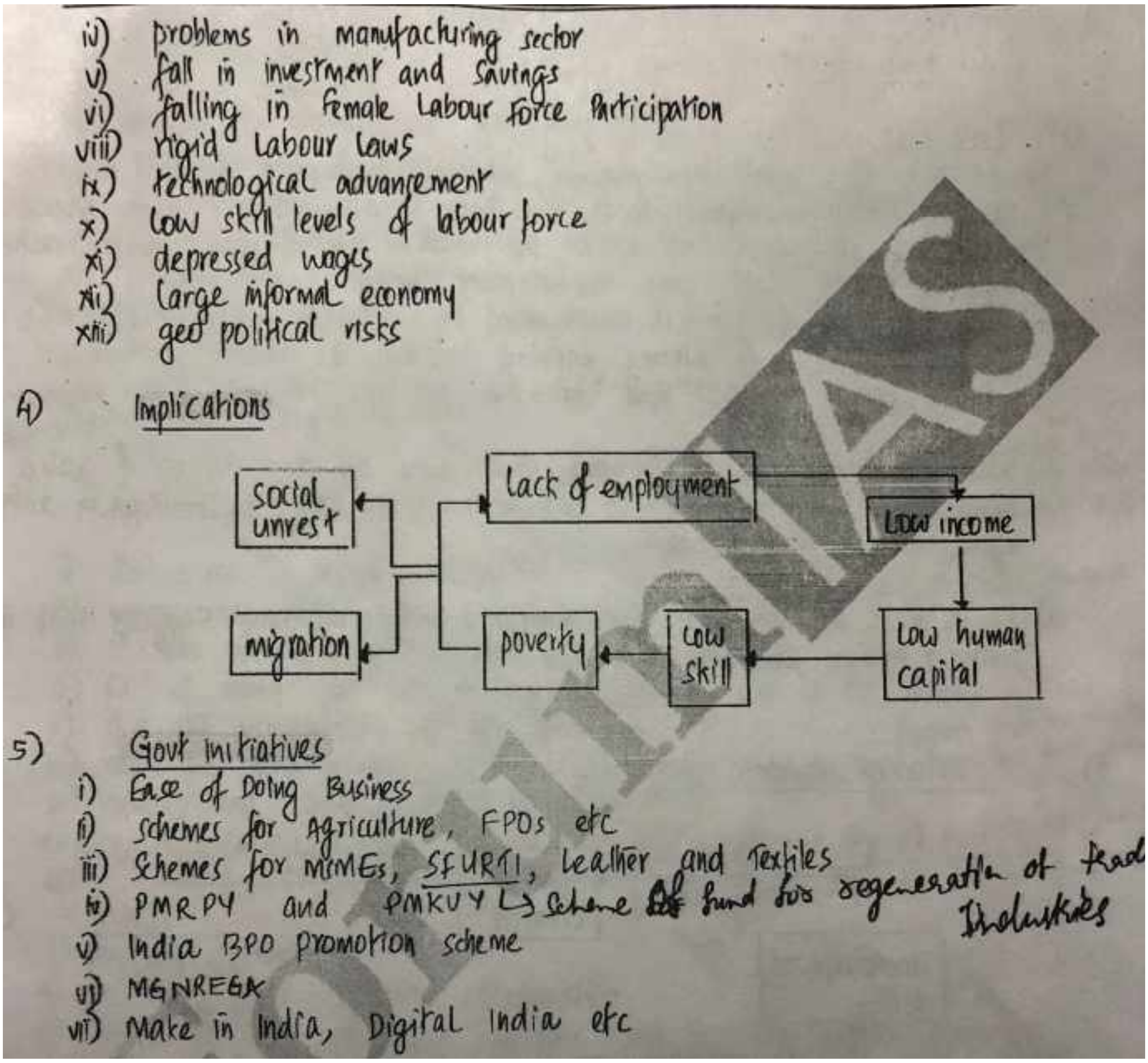
v) An estimate by the centre for Monitoring Indian economy suggests that in 2017 2 million jobs were created

2) A virtuous economic cycle



3) Issues

i) Jobless growth
ii) stalling of structural transformation process
iii) pre-mature de-industrialisation



iv) problems in manufacturing sector
v) fall in investment and savings
vi) falling in female labour force participation
viii) rigid labour laws
ix) technological advancement
x) low skill levels of labour force
xi) depressed wages
xii) large informal economy
xiii) geo political risks

4) Implications

5) Govt initiatives
i) Ease of Doing Business
ii) schemes for Agriculture, FPOs etc
iii) Schemes for MSMEs, SFURTI, leather and Textiles
iv) PMRPY and PMKUY ↳ Scheme of fund for regeneration of trad Industries
v) India BPO promotion scheme
vi) MGNREGA
vii) Make in India, Digital India etc

Way forward on job creation

1. Shift development focus towards labour intensive sectors like Food Processing, leather and footwear, wood manufacturers, textiles, etc.
2. Cluster development to support job creation in MSMEs.
3. Formalisation of workforce where growth in jobs must be inclusive and new jobs need to be decent and secure with better work conditions.
4. Greater focus is required on better and relevant skilling opportunities.
5. Expansion in export market by developing Coastal Employment Zones (CEZs), using better technology, etc.
6. Incentivising industry by reducing corporate tax, easing lending norms, improving ease of doing business, etc.

7. Increase public investments in health, education, police and judiciary to create many government jobs.
8. The government should introduce reforms to quell the wage gap and get more women to become a part of the country's workforce.
9. India needs good quality jobs not merely large number of jobs. NITI Aayog's Three Year Action Agenda also reported that underemployment is a more serious issue than unemployment.

Employment data

Household Surveys:

- (+) Comprehensively cover the entire labour force
- (-) These are conducted every five years
- (-) Time lag between data collection and availability of the results
- Eg. - Employment-Unemployment Survey (NSSO), Annual Labour Force Survey (Labour Bureau)

Enterprise Surveys:

- (+) Better accuracy than Household surveys, in accessing industry structure, wages and other employment characteristics
- (-) Available sample frames may not cover small, unorganized enterprises
- (-) Self-employed and farm workers are excluded
- Eg. - Economic Census (by MOSPI), Annual Survey of Industries (MoSPI), Unorganized Sector Surveys of Industries and Services (NSSO), Quarterly Employment Survey (QES) (Labour Bureau)

Social Security Schemes:

- (+) Wide coverage of new job additions
- (-) Highly partial coverage and potential double-counting of jobs
- (-) Substantial overlap across the government schemes
- Eg. - Employees' Provident Fund Organization (EPFO), Employees' State Insurance Corporation (ESIC)

Other sources:

- Administrative data: it includes tax returns and filings, pension and medical insurance programs etc.
  - (+) Good measure of formal employment
  - (-) Partial coverage
  - (-) Difficult to gauge addition of jobs
- Data from government schemes: it includes estimates via MGNREGA, MUDRA, job creations under programs such as ICDS, PMKVY, DDUGKY etc.
- Emerging sources: GSTN, Big Data analytics

1. NSSO started an exercise named the Periodic Labour Force Survey (PLFS) that will provide annual estimates of labour force, employment, unemployment, industry structure of workforce, nature of employment and wages nationally and regionally on an annual basis. The PLFS replaces the NSSO's Employment-Unemployment Survey.
2. **Changes introduced in PLFS Survey**
   1. Rather than using monthly per capita expenditure of the household, PLFS uses education levels of members of the households.
   2. Better training of field officers for a uniform understanding.

    3. Usage of technology by adapting the World Bank Computer Assisted Personal Interviewing (CAPI) solution platform with appropriate inputs and data collected in the field using tablets.
    4. Quarterly Bulletin contains key indicators for urban areas only, whereas the Annual Report contains the indicators for both rural and urban areas.

Extent of formal sector and formal employment

1. Formalisation of economy means to bring firms and their transactions under tax-net, credit supply, and regulations such as the Companies Act and labour laws, possibly giving social security to the employees.
2. **Various ways of measuring formal sector employment**
    1. Measuring the extent of formal economy can be approached through various ways. This gives rise to discrepancies in estimating its extent.
    2. Formal economy can include all those units who are registered under any of the statues governing business – such as Companies Act, Factories Act, Industrial Disputes Act, etc.
    3. Measuring the number of salaried employees along with those businesses that regularly file tax returns.
    4. Estimating through registrations under GST or with the EPFO or ESIC can be used as measures for estimation.
3. **Depending on the criteria chosen, there are varying results**
    1. A recent study of EPFO data – "Towards a payroll reporting in India" – states that 80% of workforce in India is unorganised labour i.e. not registered with EPFO or other formal sector databases..
    2. According to economic survey, from a social security perspective, formal employment is estimated at 31% of the non-agricultural workforce.
    3. According to economic survey, from a tax perspective, formal employment is nearly 54% of the non-agricultural workforce. However, this figure excludes many formal workers in sectors outside the GST such as health & education.
    4. Further, assessments of employment are hampered by lack of

timely data, as the employment surveys are conducted after a significant time lapse.
4. Thus, the measurement of extent of formal economy and formal employment remains hazy. Nevertheless, in order to spread formalization and bring more Indians into the income tax net, government has undertaken a number of monetary and taxation reforms such as GST, Demonetisation, changes in labour codes, measures against black money, etc.

Minimum wages

1. The Minimum Wages Act, 1948 protects both regular and casual workers. Minimum wage rates are set both by the Central and the State governments for employees working in selected 'scheduled' employment. Minimum wages have been set for different categories of workers according to skill levels, location and occupations. The Act did not prescribe norms for fixing the level of the minimum wage.
2. **Issues with minimum wages**
    1. Massive expansion in job categories and wage rates has led to major variations not only across states but also within states.
    2. Lack of uniform criteria for fixing the minimum wage rate. The notified lowest minimum wage rate varies from Rs. 115 in Nagaland to Rs. 538 in Delhi.
    3. Minimum Wages Act, 1948 does not cover all wage workers as one in every three-wage workers in India is not protected by it.
    4. Presence of gender discrimination. For instance, women dominate in the category of domestic workers while men dominate in the category of security guards. While both these occupations fall within the category of unskilled workers, the minimum wage rate for domestic workers within a state is consistently lower than that for the minimum wage rates for security guards.
    5. It has been observed that compliance levels are significantly higher for regular wageworkers when compared to casual wage earners.
3. **Way forward**
    1. Simplification and rationalisation of minimum wages as proposed under the Code on Wages Billshould be taken ahead. The

proposed Code on Wages Bill should extend applicability of minimum wages to all workers in all sectors and should cover both the organized as well as the unorganized sector.
2. Setting a National Floor Level Minimum Wage by the Central Government. Accordingly, the states can fix the minimum wages, which should not be less than the 'floor wage.'
3. The Code on Wages Bill should consider fixing minimum wages based on either of the two factors- (i) the skill category i.e unskilled, semi-skilled, etc and (ii) the geographical region, or else both. This key change would substantially reduce the number of minimum wages in the country.
4. A national level dashboard needs to be set up by the Ministry of Labour & Employment, which shows the date of the last revision in the minimum wage adjunct to the mandated period. This would enable dissemination of information and increased transparency in the system.
5. Role of technologies including a variety of online, mobile phone and networking technologies can be used to streamline the complex system. It can help the workers to process the information on different wages and use it for their benefit.
6. Grievance redressal including an easy to remember toll-free number for complaints and a culture of swift action on them should be established.

4. An effective minimum wage policy is a potential tool not only for the protection of low-paid workers but is also an inclusive mechanism for more resilient and sustainable economic development.

Fixed-Term Employment Rules

1. FTE is a contract in which a company hires an employee for a specific period of time. The employee is not on the payroll of the company. Their payment is fixed in advance and is not altered till the term expires. Such contracts are given out for temporary jobs and not for routine jobs.
2. Such workers are entitled to all statutory benefits (work hours, wages etc.,) available to a permanent worker in the same establishment. Industrial Employment (Standing Orders) Central

(Amendment) Rules, 2018 in March notification allowed all industries to hire workers on contract with a fixed tenure.

3. **Benefits of Fixed-Term Employment (FTE)**
    1. **Fixed wages and work conditions:** The workers are ensured to have a fixed wage and work conditions from before. This provides them livelihood security for the given period.
    2. **Workers benefit:** The workers are entitled to have statutory benefits. Therefore, they gain greater sense of accountability from the principal employer.
    3. **Forecast labour costs:** The fixed term contract enables the business to forecast their labour costs. It also provides relief against protests related to salary hikes etc. Due to in-built flexibility in hiring and firing the workers, the business will be able to safeguard its commercial competitiveness through finding suitable employees.
    4. **Short term Employment shortage:** During peak seasons, industries face shortage of workers. Fixed-term employment will help them to hire and remove workers according to their requirements without extra legislative burdens.
    5. **Job creation:** FTE is expected to boost job creation, provided the cost of capital does not remain so low as to deter labour use.
4. **Criticism against the move**
    1. **Hire-and-fire:** Central trade unions are protesting against the government's policy of hire-and-fire. Trade unions will go unrecognised by the move.
    2. **Removal of Safety nets:** As the government has enabled the employers to sidestep even the minimum protection offered by the Factories Act 1948, Industrial Disputes Act 1947 and Contract Labour (Regulation and Abolition) Act 1970.
    3. **Undermines Job Regularisation:** Collective bargaining talks for wage increase will not be possible. Business will have no incentive to regularise the jobs.
    4. **Against the earlier judgments of Supreme court:** The courts have allowed FTE only in seasonal activities. The Supreme Court has ruled earlier that a fixed-term contract worker who had worked for 7 years should be regularised.

5. **Industries will be converted into Sweatshops:** The major reason of conflict of workers with management (e.g. in Maruti-Suzuki incident) is common issues of non-recognition of trade unions, temporary workers far outnumbering regular workers and paying them very low wages. The move may encourage the same.

5. The norms should be arrived at in a transparent, consensual manner. Labour reforms will not be politically acceptable in the absence of a better social safety net.

Indian statistical system

1. Recently, there have been controversies and debates over the credibility of data and statistics published by different agencies including government bodies, independent think tanks and private players.
2. The Ministry of Statistics & Programme Implementation (MoSPI) was created in 1999. The Ministry has two wings, Statistics and Programme Implementation. The Statistics Wing called the National Statistical Office (NSO) consists of the Central Statistical Office (CSO) and the National Sample Survey Office (NSSO). National Statistical Commission (NSC) was set up in 2005 in order to oversee the entire range of official statistics.
3. **General Issues with Indian Statistics**
    1. Data sources are not available readily. Ex: Agricultural prices are based on mandis or retail touch-points, where such data may not be final. Non-availability of critical fiscal data such as the data on pay and allowances.
    2. Time lag issues.
    3. Capacity Building of the human and organisational resources of the statistical agencies have not improved since the 1980s.
    4. Divergence in definitions and criteria of different indicators, which are used by various agencies.
    5. Large unorganised Sector. Lack of transparency and reliability of fiscal data due to cash-based accounting.
    6. Politicisation of data which has led to inflation and deflation of statistics to suit one's own performance. Ex: Divergence between high growth and low jobs in India. Erosion of autonomy of institutions. Senior officials of National Statistics Commission

(NSC) resigned recently over the holding back of jobs data.

4. Rather than strive for speed in disseminating data on a more real-time basis, it would be better to tarry and provide final numbers even if there are lags involved. This would avoid the embarrassment of changing the discourse or commentary when reacting to new numbers.

Cess

1. Cess is an additional levy, apart from normal taxes, over the total amount for some specific objective.
2. **Criticism of overuse of Cess**
    1. Already taxes in India are high. Additional such cesses leads to tax terrorism on people. Once imposed they are revised, hiked and shifted around, but seldom discontinued.
    2. Use of cess is regressive in nature, as it is more like an indirect tax. It also increases cost of doing business.
    3. Use of instruments like cess and surcharge complicate the tax structure encouraging the practice of tax evasion.
    4. Revenue raised through a cess or surcharge is excluded from the pool that is split between centre and states (Article 270) and thus is against cooperative federalism.
    5. The collections made through cess do not effectively translate into matching outcomes. For example, road cess of 23,000 crore a year is collected, yet matching improvement is not seen in road infrastructure.
    6. CAG has pointed out that there is inadequate transparency and incomplete reporting in government accounts of the manner in which the money is spent.
3. **Way forward**
    1. Government should focus on expanding the tax base and simplifying the tax structure to increase the revenues to fund new initiatives.
    2. Swacch Bharat cess lacks clarity on the institutional structure under which resources are to be spent. For a cess to be effective it is important to have a total clarity on how collected money will be used. Imposition of cess for initiatives like Swacch Bharat takes

away the moral incentive and instead the focus should be on imparting greater civic sense backed by grass root initiatives such as door to door garbage collection.

2.Indian economy, inclusive growth and Budgeting

Bank consolidation

1. Bank consolidation occurs when two or more banks become one bank, this happens through either a takeover by a bank or via a mutual merger.

2. Pros

1. Larger banks may be more efficient and profitable than smaller ones and generate economies of scale and scope. The efficiency gains may lead to lower cost of providing services and higher quality.
2. There are significant overlaps between SBI and its associates. They target similar client bases. Eliminating the overlaps will save cost and capital.
3. Increased capacity to meet corporate and infrastructure funding needs.
4. Larger banks can better cater to global needs and can penetrate towards new markets with innovative products.
5. It will help in meeting BASEL-III norms.
6. It will end unhealthy and intense competition among the banks and will reduce volume of inter-bank transactions.

○ Bank merger

CA - 4.1

→ Govt has decided to merge 3 PSBs - Bank of Baroda, Vijaya Bank and Dena Bank. The new entity will be third largest PSB after SBI and PNB

→ Background

1) → Narasimhan Committee (1991) recommended to consolidate banks to create a handful of large national lenders and a few strong regional lenders
→ Committee envisaged a three tier banking structure (Pic below)

- I → 3 large banks with international presence
- II → 8-10 national banks
- III → Large no. of regional and local banks

2) → PJ Nayak Committee recommended the govt to transfer its holdings in PSBs to a Bank Investment Company

3) → In 2017 Govt merged SBI with its five associate banks and Bharatiya Mahila Bank

4) → An 'Alternative Mechanism Panel' headed by FM to fast-track consolidation among PSBs

5) → Bank mergers are regulated by Banking Regulation Act 1949

→ Merits

Merits

For Banks
- → better governance and capital allocation
- → economies of scale
- → rationalisation of branches
- → can deliver variety of services
- → international presence

For Govt
- → govt's recapitalisation plans are inadequate
- → ensure effective monitoring

For General Public
- → Better service delivery
- → prices of products or services will decrease

For Economy
- → Credit growth
- → robust banking system
- → fund for long-gestation projects

3. Challenges

1. It may affect Government's financial inclusion drive, as India needs more banks.
2. India needs more banking competition than consolidation to improve banking efficiency.

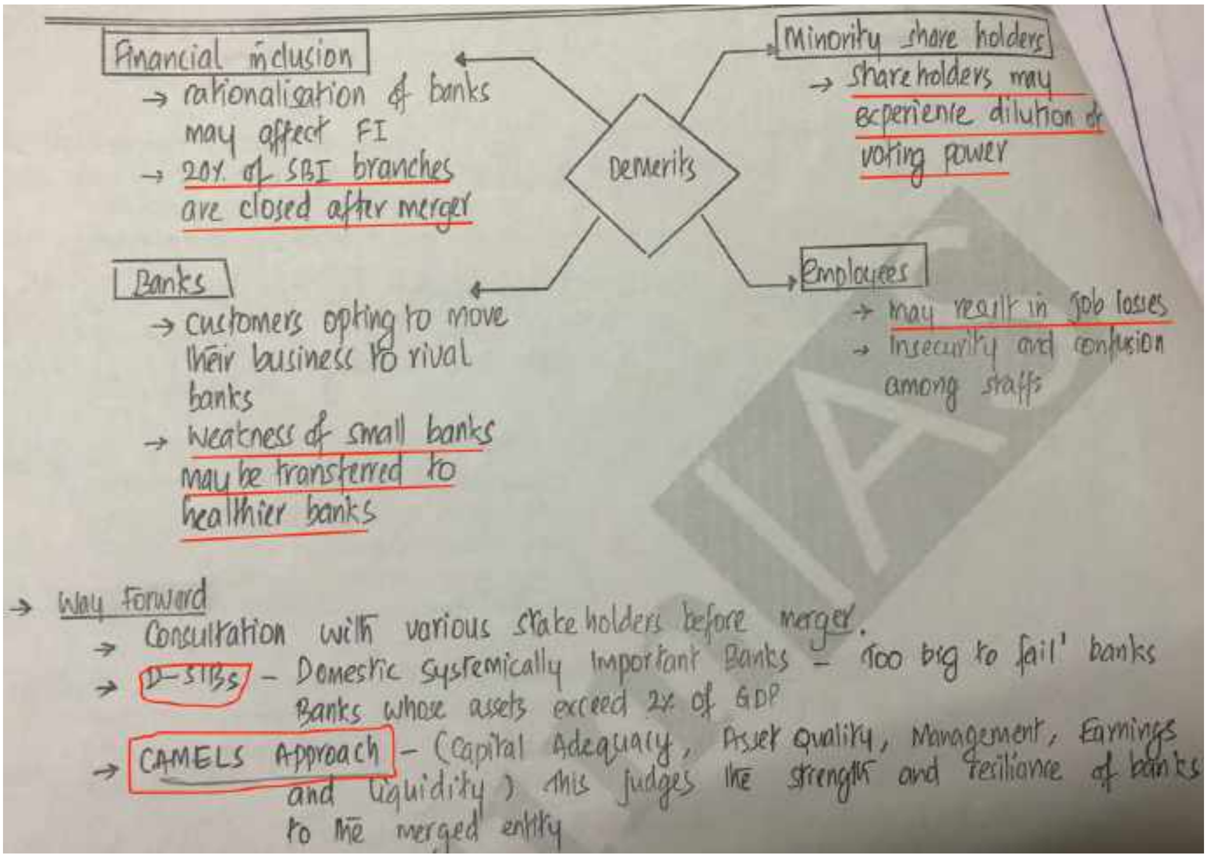
3. Opposition by trade unions who may fear identity loss. It will result in immediate job losses.

4. Larger banks may shift their portfolios towards higher risk return investment. Thus, it may neglect local needs. Thus large banks lead to consolidation of risks as well. Ex: Global financial crisis of 2007.

5. Most of the NPAs were accumulated due to inefficient functioning of the PSBs. The weakness of the small banks may get transferred to large banks as well.

6. Poor government record on mergers like in Air India and Indian Airlines.

4. Instead, clearing the NPAs, improving administration, increased transparency in the working of PSBs would be a better way out in the current situation.



5. How privatisation is better than consolidation

1. Mergers still mean that bad loans will remain on the books. Privatization means that the low quality assets will be taken over by private party thus easing Govt's burden. It can also reduce burden on taxpayer and also the fiscal deficit.

2. Privatisation would bring in market discipline and competition among the banks which will force them to be aggressive and competitive, thus

making them take the path of growth.

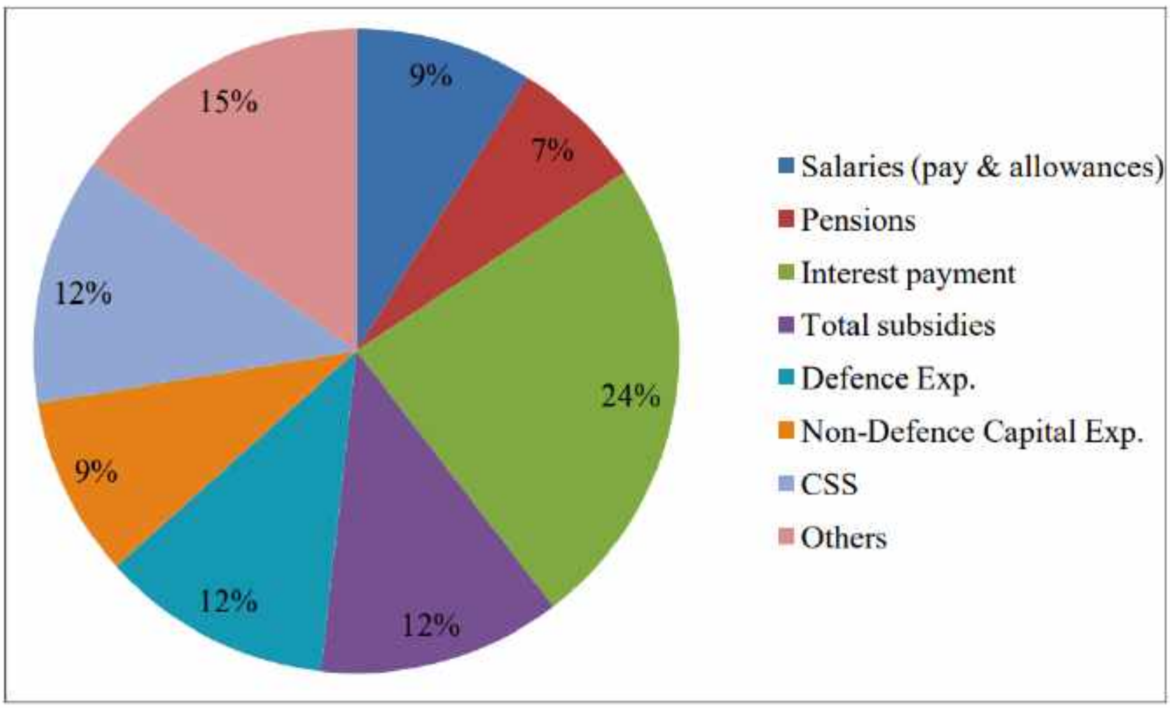
3. Privatization means that staff and management also share some of the risks borne out by shareholders. This is a good practice in itself. Their attitude changes from rigid bureaucratic attitude.
4. Privatisation of banks that are unviable will bring resources that can be utilised for supporting some of the banks with better prospect.
5. Acquisition of stressed banks by a bigger bank will create a still bigger entity, but with poor health. This is a macroeconomic risk.

6. Why privatization isn't advisable

1. It is not practicable. Govt will not get the support of unions, opposition, etc.
2. Political will is lacking.
3. 2008 financial crisis was due to spurious lending leading to market failure and thus government control is also necessary.
4. Until a bond market is developed, PSBs will be indispensable to funding long gestation but important areas like mining, infrastructure, etc.

Privatisation will take away this leverage from Government.

Figure 7: Composition of Expenditure in 2018-19 RE



Taxation

1. India has 7 taxpayers for every 100 voters ranking us 13th amongst 18 of our democratic G-20 peers. Tax to GDP ratio of India is low 16.6%. Fiscal democracy refers to the freedom of the elected government to spend and tax so as to best serve the people at present, instead of being tied down by expenditure commitments of the previous governments.
2. **Why is there low tax to GDP ratio**
    1. **Low per capita income:** Low average incomes and a high poverty rate result in a very small portion of the labor force being eligible to pay personal income taxes. Agricultural income is untaxed in India.
    2. **Tax exemption:** Populist measures like raising tax slabs in the budget speech, which further narrows the tax base. As a result, there is less tax buoyancy. Similarly tax expenditure is raising.
    3. **Tax evasions:** Tax compliance in India is extremely low, especially w.r.t. indirect taxes. High volume of transactions in cash leads to no paper trails, making it easier for people to evade taxes.
    4. **Tax disputes:** India has one of the highest numbers of disputes between tax administration and taxpayers. For example the Vodafone tax dispute involving Rs 20000 crore lingering since 2008.
    5. **Loop holes in DTAA:** Provisions for tax exemption from short term capital gains are often misused by companies to re-route their investments from such countries.
    6. **Informal market ecosystems:** Informal sectors like Kirana stores, stationery shops, etc. evade taxation.
3. **Measures**
    1. **Improving compliance:** GAAR provisions may be useful in dealing with tax evasions where tax benefits exceed Rs 3 crore.
    2. **Aadhar seeding:** Mandatory seeding of bank accounts with PAN, stringent KYC norms and Aadhaar seeding for easy traceability. Project INSIGHT, SAKSHAM etc in order to leverage technology and nab tax evaders.
    3. **Fixing loopholes in DTAA:** Renegotiating double tax avoidance treaties which are frequently misused to evade tax. Recent amendments in Mauritius double tax avoidance agreement is a

case in point.

4. **Phasing out tax exemptions:** Tax exemptions to be reviewed and phased out. Reasonable taxation of the better-off, regardless of where they get their income from industry, services, real estate, or agriculture.
5. **Property taxation:** They are not only progressive and buoyant but also difficult to evade since they are imposed on a non-mobile good, which can with today's technologies, be relatively easily identified.
6. **Fast tracking of tax disputes:** Reducing discretion of taxman and creating a predictable dispute resolution mechanism.
7. **Shome Panel:** Recommendations of Parthasarathy Shome panel for simplifying the tax laws need to be considered.
8. **Formal Jobs:** Revamping labour laws and improving Ease of Doing Business to increase formal sector jobs and thus the tax base.
9. Government has to reduce corruption. By reducing corruption, more citizens believe that public resources are not wasted, the greater their willingness to pay taxes.

4. **Observations made by TARC**
    1. The current organisational setup has the Revenue Secretary at the top of the tax administration, above CBDT and CBEC. The revenue secretary is not a tax expert, yet he has the final say in terms of tax administration before it reaches the Finance Minister.
    2. There is an artificial separation between direct and indirect tax administration, and lack of cooperation between CBDT and CBEC.
    3. India has one of the highest numbers of disputes between tax administration and taxpayers, with lowest proportion of recovery of tax arrears.
    4. The selection of CBDT and CBEC members does not consider specialisation, policy experience, etc. and is based on seniority.
    5. There is pressure on tax officers to meet externally imposed revenue targets. In addition, there is a lack of protection for tax officers from the large number of anonymous vigilance complaints.
    6. There is complete absence of research based analysis of policy,

and lack of impact assessment studies. The benefits of ICT systems have not been reaped.

5. **Lack of fiscal democracy in India**
    1. Government utilises public funds for fulfilling short term goals, populist measures etc and doesn't go for capital asset building and long term benefits.
    2. Populist measures such as lower taxes and more exemptions also lead to reduced revenues, hampering fiscal democracy.
    3. Lack of devolution of funds at the lowest level like Panchayats.
    4. Funds allotted to various government departments for welfare remained unspent due to lax attitude of political leadership and officials.
    5. India always remained a fiscal deficit nation it shows the govt functions on borrowing which in turn reflects towards debt of the future generations.
    6. Lack of proper financial inclusion.
6. Western democracies have had a much longer period of political evolution allowing them to build state capacity where as India has had only 7 decades to develop fiscal capacity. This is one of the reasons for low fiscal capacity of India.

Goods and services tax

1. Parliament recently passed GST bill to bring an overhaul in India's indirect taxation regime.
2. **What**
    1. The Goods and Services Tax (GST) is an indirect tax that would replace all the existing indirect taxes such as excise duty, service tax and value added tax (VAT), central sales tax, state level sales tax etc.
    2. Both the centre and state governments will impose tax with various slabs on all goods and services produced within the country.
    3. Goods and services tax (GST) aims at bringing uniformity in the structure, avoid multiple taxing system and widen the tax base.
    4. GST will not include exports and direct taxes.

3. **Economic benefits**
    1. GST will increase GDP growth by 1.0 to 1.5 percent which will lead to a revival of the investment cycle and improvement in the government's tax buoyancy.
    2. A national unified market will be established. This will significantly lower transit time and also improve truck utilisation.
    3. It is estimated that India will gain $15 billion a year by implementing the GST as it would promote exports, raise employment and boost growth.
    4. Furthering 'Make in India' by eliminating bias in favour of imports. It will make domestic tax levied on imports more effective and less leaky, which will make domestic goods more competitive.
    5. GST will remove cascading taxes like CST. Thus it will be conducive to combating inflation.
    6. The Economist has reported that India's long distance truckers are parked 60 percent of the time. This also leads to delaying of delivery of goods at destinations. The abolition of entry tax will be a great boon for the movement of goods by road transport.
4. **Governance benefits**
    1. GST will simplify India's tax structure, broaden tax base by increased compliance by citizens and traders. Thus Government can check tax evasion. Between June and July 2017, 6.6 lakh new agents previously outside the tax net have sought GST registration.
    2. Nearly all domestic indirect tax decisions to be taken jointly by Centre and states through GST council. This furthers cooperative federalism.
    3. Under GST, taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimising exemptions. Also distinction between services and goods will go.
    4. At present, the invoices are more detailed since taxes on goods and services are written separately for one transaction. With the introduction of GST only one rate will be written.
    5. Reduced tax disputes. It is expected to build a transparent and corruption free tax administration.

5. **Other benefits**
    1. Textile and clothing sector is now fully part of the tax net. Previously, some parts of the value chain, especially fabrics, were outside the tax net, leading to informalisation and evasion.
    2. Similarly, one segment of land and real estate transactions has been brought into the tax net. This in turn would allow for greater transparency and formalisation of cement, steel, and other sales, which tended to be outside the tax net.
    3. GST will rectify the inadequacies of the previous system of domestic taxes levied on imports—the countervailing duty to offset the excise tax.
    4. The longer-term benefits include the GST's impact on financial inclusion. Small businesses can build up a real time track record of tax payments digitally, and this can be used by lending institutions for credit rating and lending purposes.
6. **Concerns**
    1. High manufacturing states like Maharashtra, Gujarat, Tamil Nadu may face downfall in tax collections in the short term.
    2. Petroleum and liquor still out of GST. They form almost 40% of India's total trade, so significant portion is still outside.
    3. Keeping health and education completely out is inconsistent with equity because these are services consumed disproportionately by the rich.
    4. The tax on gold and jewellery products, items that are disproportionately consumed by the very rich, at 3 percent is still low.
    5. Financial autonomy of states would be affected as states would no longer have the independence to introduce taxes as per their wishes. Concurrency of GST council would be required for introducing fresh taxes.
    6. The revenue loss would be compensated for 5 years only. If states fail to adapt even after 5 year then once again it would have to depend on Center for financial aid.
    7. There is no tax capping in the GST bill. Higher GST tax will nullify the benefits enjoyed by the GST.
    8. Poor and people in unorganised sector likely to be affected the most. States would no longer be able to keep them out of the

ambit based on SECC criteria.

9. GST Dispute Settlement Authority is not included in the Bill. This is a serious lacuna that must be filled. GST council may not be able to deal objectively due to political contingencies. Tax redressal mechanisms are quite poor. State commision or tribunals are yet to be established and defined.
10. Initially, GST may actually increase the burden of indirect taxes on consumers.

7. **Problems in implementation**
    1. Improving coordination between state and central machinery so as to effectively implement the tax regime.
    2. Need for political consensus across the spectrum so that GST isn't subject to partisan forces.
    3. Online filing of returns require extensive network penetration which pose challenges in areas where connectivity infrastructure is in bad shape.
    4. One state with one vote without size of contribution create dissatisfaction.
    5. States virtually have no taxing power which could make state dependent on center and unable to raise tax in some kind of emergency.
    6. Local bodies left untouched. Third tier governance not even mentioned in the bill.
    7. New form of litigation might evolve as many provisions are open ended and vague. Thus, might put a stress on judicial system.
    8. Large scale restructuring of departments, institutions, ministries has to be done to absorb GST provisions. Any delay would result in delay in overall implementation. This capacity building would put financial stress on many states.
8. **How GST differs from current regime**
    1. Cascading effect of taxation was present in previous tax regimes which inflated the tax rate. The tax burden will be distributed and not be more on the end consumer.
    2. Multiple taxes earlier when compared to single uniform tax in GST.
    3. Services and Manufacturing will be taxed at uniform rates in GST which will remove confusion arising out of definitions.

4. The producer states gained more than the consumer states and there is no possibility to have one market for every good and service. This will change.
5. The tax net will be such that the tax is less but the products and services under its ambit will become more.

9. **Issues out of GST council**
    1. The recommendations made by GST Council will be judged by the council itself which would be unfair and against the principles of natural justice which states a party to a dispute should not judge its own cause.
    2. Decisions are to be made via voting where final decision would require 3/4th votes. The Centre has 1/3rd of this share while states have the rest giving the veto power over key decisions to the centre.
    3. Absence of a judicial member to resolve legal matters is not fair and States at loss may feel cheated and go to courts.
    4. The very legitimacy of Dispute Resolution mechanism would be under a scanner if States have to move to courts often and DRM would be eventually struck down in judicial review.

Inclusive growth

PMJDY

1. The government decided to make the Pradhan Mantri Jan Dhan Yojana

(PMJDY) an open-ended scheme, meaning that it will continue indefinitely. It is a financial inclusion program of Government of India that aims to expand and make affordable access to financial services such as bank accounts, remittances, etc.

2. **Significance**
    1. **Helped in financial inclusion:** As per the Global Findex Database, almost 80% of adult Indians now have bank accounts. Financial inclusion has taken place in three ways. Financialisation of savings by giving lower income households access to a safe investment product. Diversification of financial products with increasing enrolments for the low-cost accident insurance cover and Transition to electronic payments.
    2. **Improved balance sheets of banks:** Falling percentage of zero balance accounts from 58% in 2015 to 15% in 2019.
    3. **Helped in inclusive growth:** Of 35.70 crore account holders, around 18.88 crore account holders are women.
    4. **Direct benefit transfer (DBT)**.
    5. **Plugging leakages from Subsidy:** According to the Economic Survey, leakages in LPG subsidy transfers fell 24% and the exclusion of beneficiaries had been greatly reduced, due to banking infrastructure created by the combination named as JAM trinity.
3. **Challenges**
    1. **Dependency on unsecured debt:** Access to bank accounts has not reduced the impact on private moneylenders.
    2. **Internet connectivity issues**: The inadequate infrastructure base for internet facilities basically in tribal and hilly areas make it difficult for Business Correspondents to deliver the required basic banking services.
    3. **Funds for Overdraft Facility:** Clarity has still not emerged on where the funds would be diverted from to finance the overdraft facility.
    4. **Increasing Cost of Business Correspondents:** If these accounts have to be functional and not remain dormant then the density of banking correspondent has to be increased, which will increase the cost of delivering the banking services.
    5. **Tackling Unaccounted Money Deposited During**

Demonetisation: After the announcement of Demonetization total deposits in 255 million Jan Dhan accounts have increased to Rs 642521 million by November 2016.

4. With the high deposits in the banks, the Government must nudge the banks to offer much-needed loan products to the account holders. Allowing them to build up a credit and transaction history in the banking system is critical to wean them away from the grip of informal money lenders.

Universal Basic income (UBI)

1. A basic income is an income unconditionally granted to all on an individual basis, without work requirement. The Union government has recently mooted the idea of UBI for BPL Indian citizens. Sikkim will be the first state in India to roll out the UBI.
2. **Two basic pre-requisites**
    1. Functional JAM (Jan Dhan, Aadhar and Mobile) system as it ensures that the cash transfer goes directly into the account of a beneficiary.
    2. Centre-State negotiations on cost sharing.
3. **Characteristics of UBI**
    1. Periodic (being paid at regular intervals, not lump sum).
    2. Cash payment (not in kind or vouchers, leaving it on the recipient to spend it as they like).
    3. Individual (not to households or families).
    4. Universal (for all).
    5. Unconditional (irrespective of income or prospects of job).
4. **Economic advantages**
    1. According to Tendulkar commitee, still 30% of Indians fall in poverty net. UBI can reduce poverty in one fell swoop. This income floor will provide a safety net against health, income and other shocks.
    2. It is universal and not targeted. This will remove exclusion errors and will reduce the administrative burden on the state. This improves efficiency in our welfare schemes.

3. Another important feature is cash transfer in lieu of in-kind transfer. Cash transfers are supposed to be much less market distorting than in-kind transfers.
4. This will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an improvement in financial inclusion.

5. **Social prosperity**
    1. UBI is premised on the idea that a just society needs to guarantee minimum income for a dignified life with access to basic goods. Thus social justice can be ushered in. It promotes liberty because it is anti-paternalistic, opens up the possibility of flexibility in labour markets. It promotes equality by reducing poverty.
    2. UBI can make a citizen move away from being a subject of government welfare programme to agents of its own change.
6. **Arguments against**
    1. It would reduce the motivation for work and might encourage people to live off assured cash transfers.
    2. Arriving at an acceptable and decent UBI would be tough for economists. A vast section of the population is in the BPL category, surviving on Rs.50 a day.
    3. It is simply unaffordable. An estimate puts, it would entail a cost of 11% of GDP, which is way above the 4.2% of GDP that the government currently spends on explicit subsidies.
    4. There is an apprehension that the amount would be used wastefully by the poor especially on injurious products like alcohol and other adulterated substances leading to social stress.
    5. It is also argued that unconditional cash transfers might raise wages due to the decline in the supply of casual labourers.
    6. Gender norms may regulate the sharing of UBI within a household. Men are likely to exercise control over spending of the UBI. This may not always be the case with other in-kind transfers.
    7. Infrastructure for cash transfer and means to withdraw same in remote areas. Scaling up of banking infrastructure is required before such a scheme gets approved.
    8. There is also question of whether a shift towards it should be a substitute for all existing subsidies or whether it should complement the existing ones.

    9. None of the places where UBI has been tried have levels of income disparity that exist in India. So, while the idea might work in Sikkim, it might not in, say, Bihar.
7. **Solutions**
    1. UBI should be made universal first across easily identifiable vulnerable groups like widows, old, pregnant women etc. The challenge to this may be of absence of bank accounts with them.
    2. Centre can run a pilot UBI programme to transfer, a part of the redistributive resources to the poorer states, directly in the beneficiaries bank account as UBI. The challenge is of the limited capacities of these states.
    3. Define the non-deserving based on ownership of key assets such as automobiles etc and SECC data. Adopt a Give it up scheme to enable well off to opt out. List of UBI beneficiaries should be publicly displayed which would name and shame the rich who avail UBI benefits.
    4. Linking it with learning of skills or with some work, will give desired result and people will be motivated to learn skill and work, so that they can get UBI.
    5. Government service delivery is under revolution, due to role of technology. Similar to DBT, this could be transferred to beneficiaries and an implementing body should look after it.
    6. UBI can achieve the outcomes Mahatma Gandhi so deeply cared about and fought for all his life. UBI may not be ripe for implementation but merits serious discussion.
8. UBI can wipe out every tear from eye as Gandhiji envisaged. But it is simply unaffordable for the Government at the present time.

Foreign exchange swap

KEY POINTS

- Forex swap, refers to conduction of an auction by RBI that will see banks selling dollars to the RBI in exchange of rupees.
- An FX swap allows sums of a certain currency to be used to fund charges designated in another currency without acquiring foreign exchange risk.

Impact in the Indian Economy

- During the time of election which is known to pull out currency from the market, forex swap from the RBI may help partly bridge the liquidity deficit in market.
- If the auction is successful, it is expected to immediately release $5 billion worth of rupee liquidity into the banking system, thus cooling short-term bond yields.
- The auction will immediately shore up RBI's foreign exchange reserves by $5 billion.
- Banks which are currently short on SLR securities and cannot participate in OMOs, will receive liquidity infusions too.
- The swap deal may temporarily bring down hedging costs in the domestic market, helping local firms with foreign exchange exposures hedge their open trade or loan exposures.
- The forex swap, like OMOs, essentially puts more money in the hands of banks, who in turn have discretion to decide whether to step up credit to lower-rated borrowers.

Apparel industry

1. According to economic survey 2016, Apparels and leather sector is most promising in terms of job creation and export and can thus push the India's growth trajectory. India also exports less apparel in absolute value than Vietnam, which is less than one-tenth of India in terms of both population and GDP.
2. **Important attributes of the industry**
    1. **Social transformation:** Boost to women employment as it requires no special technical training, can be operated from home, education or literacy level of women is not a barrier and their natural creative skills. Also 3/4th of total production is done by MSME which would lead to inclusive growth.
    2. **High employment:** The industry has an appetite for creating 1.5 million jobs annually and is much attractive in terms of jobs created relative to investment.
    3. **Decrease in competition:** Rising wage levels in China has led to decrease in its market share and provides opening to India's low wage competitive cost structure.
    4. **Boost forex:** Even though marred by under performance the exports are growing at 20% in apparel, and 25% in leather goods.
    5. **Abundance of raw materials:** Largest bovine population, with

1/10th of world's goat and sheep.

3. **Challenges**
    1. **Logistics:** The costs and time involved in getting goods from factory to destination are greater than those for other countries. The overarching Coastal Employment Zones (CEZs) will help improve export logistics in India.
    2. **Labour regulations:** There are strict regulations for overtime wage payment as the Minimum Wages Act, 1948, mandates payment of overtime wages at twice the rate of ordinary rates of wages of the worker. Centre needs to work with states on reforming labour regulations.
    3. **Tariff policy:** High domestic taxes on man made fabrics vis-a-vis cotton based fabrics. Expensive raw material and transaction costs (high excise and custom duties) made this sector more unviable. Long staple cotton imported from Uganda, Egypt etc are very expensive.
    4. **Discrimination in export markets:** India's competitors enjoy better market access by way of zero or at least lower tariffs in USA and EU. For example, in the EU, Bangladesh exports enter mostly duty free, while Indian exports of apparels face 9.1 percent tariff.
    5. **Lack of finances**: Inadequate credit availability has dried the production and export capacity of power looms.
    6. **International trading:** The global demand for footwear is shifting away from leather footwear and towards non-leather footwear.
    7. **Cotton export**: Cotton corp of India exported good quality cotton abroad at prices higher than international market that may have led to instant profits but ultimately made Indians lose their textile market.
    8. **High MSP**: MSP for cotton was too high which further made the Indian textile sector unviable.
4. **Initiatives taken by Govt**
    1. Government approved Rs. 6,000 crore special package for textile & apparel sector to boost employment creation, exports and investment.

2. The subsidy under Amended Technology Upgradation Fund Scheme (ATUFS) was increased from 15% to 25% for the garment sector. A unique feature of the scheme is to disburse the subsidy only after the expected jobs are created.
3. Under the Market Development Assistance (MDA) Scheme, financial assistance is provided for a range of export promotion activities implemented by Textiles Export Promotion Councils.
4. The Ministry of Textiles has signed memorandum of understanding (MoU) with 20 e-commerce companies, aimed at providing a platform to artisans and weavers in different handloom.
5. The Government has started promotion of its India Handloom initiative on social media like Facebook, etc., to promote high quality handloom products.
6. Negotiations are on the way for new FTAs with the European Union (EU) and the United Kingdom (UK).
7. Introduction of the GST offers an excellent opportunity to rationalise domestic indirect taxes so that they do not discriminate in the case of man-made apparels.
8. Number of labour reforms are implemented to overcome obstacles to employment creation in these sectors.

Skill development

1. An abysmally low level of skilled workers is acting as a major impediment in the development of the Indian economy. While all major economics such as Germany, US and South Korea have high level of skilled labor force, this has not been possible in India.
2. **Reasons for low skilled force**
    1. There is an inadequate skills training capacity in our existing training institutes.
    2. Even if there are few vocational training institute, there is wide variation in quality among them.
    3. High school dropout rates is one of the most significant cause for abysmal level of formally skilled workers. This owes it existence to socio-economic conditions of a family.

4. One of the main causes of this problem is lack of industry ready skills even in professional courses, which compel industries to not employ people even with good degrees. This exists because of lack of Industry-Academia collaboration.
5. A large section of workforce, in rural areas, engage in agricultural sector. The lack of agriculture related reforms renders this section to work in informal sectors.

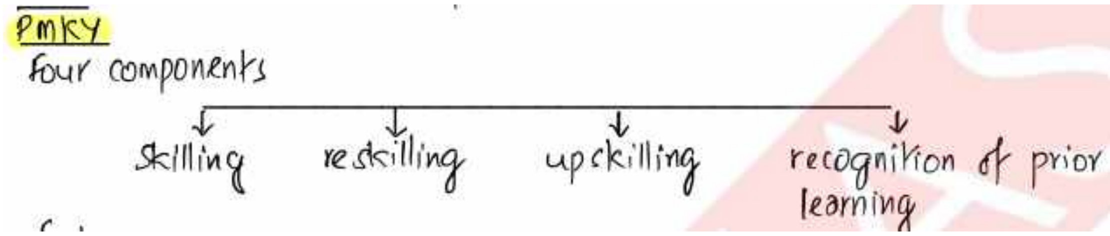
3. **Government steps**
   1. A dedicated department of Skill Development and Entrepreneurship has been created under the Ministry of skill development to accord focused attention towards skilling the youth.
   2. The Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDUGKY) is a placement linked skill development scheme for poor rural youth. Moreover, it laid greater emphasis on projects for poor rural youth in Jammu and Kashmir (HIMAYAT), the North-east region and 27 Left-wing districts (LWE) districts (ROSHINI).
   3. For bringing minorities into mainstream development, Nai Manzil, a program for education and skill development of dropouts, has been started. MANAS for upgrading entrepreneurial skills of minority youths.
   4. USTTAD has been started to conserve traditional arts and building capacity of traditional artisans and craftsmen belonging to minority communities has also been introduced.
   5. Nai Roshni, a leadership training programme for women which focusses on equipping women with knowledge, tools and techniques to interact with government systems, banks and intermediaries.
   6. Increased allocations of Rs. 4,500 crore to the Deendayal Antyodaya Yojana - National Rural Livelihood to create self employment opportunities.
   7. Government has launched Skill Acquisition and Knowledge Awareness for Livelihood Promotion Programme (SANKALP).
   8. Pradhan Mantri YUVA Yojana will provide entrepreneurship education and training to over 7 lakh educated students in 5 years through 3050 Institutes.

9. Government has laid down the foundation stone of Indian Institute of Skills inspired by Singapore model of training. The Institute would adopt various best practices from the country.
10. Skill India Mission Operation (SIMO) is a World Bank assisted national level project. It targets at training of 400 million Indian people between 2017 and 2022 through with special emphasis on reaching women, poor and other excluded communities.
11. In order to provide a platform to fresher in job market there is launch of Apprenticeship training and increase the engagement of apprentices from present 2.3 lakh to 50 lakh cumulatively by 2020.
12. Adoption of National Skills Qualifications Framework (NSQF). It integrates vocational with formal education by introducing vocational training classes linked to the local economy from class nine onwards in at least 25% of the schools, over the next five years.
13. Recognition of Prior Learning (RPL) framework is an outcome based qualification framework linked to NSQF against which prior learning through formal/informal channels would be assessed and certified.
14. In order to make India the human resource capital of the world, the government has set up 50 global skill banks (training centres) to train potential immigrant workers in 110 job roles as per international standards.

4. **Issues with skill development schemes**
    1. **Poor accreditation process:** The Quality Council of India (QCI) has often compromised with the quality of accreditation and affiliation process.
    2. **Multiplicity of norms, procedures:** Policies and initiatives related to skill development are spread across nearly 20 ministries and hence lacks coherency and holistic approach.
    3. Many skill development schemes are in non-alignment with the demand, due to lack of relevant data and studies.
    4. There is non-availability of good trainers.
    5. Success of schemes is mainly judged by whether input and output targets are met, numbers enrolled and numbers of trainees certified.

6. There are no central checks to verify whether the placements reported are accurate, no monitoring system to see what wages are earned or whether jobs are commensurate with training and aspirations.
7. Some beneficiaries get multiple benefits for undergoing same type of training, while others don't get opportunities.
8. Concerns with educational, vocational and professional academic bodies.

5. **Features of new skill development scheme**
    1. The emphasis is to skill the youths in such a way so that they get employment and also improve entrepreneurship.
    2. It provides training and support for all occupations that were of traditional type like carpenters, cobblers, welders, blacksmiths, masons, nurses, tailors, weavers etc.
    3. More emphasis will be given on new areas like real estate, construction, transportation, textile,, where skill development is inadequate or nil.
    4. The training programmes would be on the lines of international level to meet the labour demands of US, Japan, China, Germany, etc.
    5. The new ministry will be the certifying agency. Certificates will be issued to those who complete a particular skill or programme and this certificate has to be recognised by all public and private agencies.
    6. Tailor made, need based programmes would be initiated for specific age groups which can be like language and communication skills, life and positive thinking skills, personality development skills, behavioural skills, including job and employability skills.
6. **PMKSY**



7. **Challenges in creating new jobs**
    1. Of the 10.5 million new manufacturing jobs created between 1989

and 2010, only 3.7 million were in the formal sector. The slow pace of labour reform has encouraged firms to resort to hiring of contract workers.

2. Contract workers in India have increased from 12 percent of all registered manufacturing workers in 1999 to over 25 percent in 2010.
3. States are under pressure to be seen as attractive destinations for investments that will create jobs. There may be a possibility of competitive federalism becoming too competitive into giving too many concessions.
4. Apparel industry's input costs include 30 percent from wages and only 2-3 percent are capital intensive inputs like power. Despite this, India is ceding market share to countries like Bangladesh and Vietnam.
5. A new business model of relocating apparel industry to second and third-tier towns. This model of moving factories to workers has a number of commercial and social advantages.

8. **Disadvantages of hiring contract labour**
    1. Hiring workers through a contractor can be more expensive.
    2. Contract workers do not feel as much loyalty to the company as regular workers.
    3. It also reduces the employers incentive to invest in their training.
    4. It hurts a firm's future productivity as contract workers do not accumulate firm-specific human capital.
9. **Significance of SC ruling giving temporary employees equal pay**
    1. **Purchasing power:** The purchasing power of the employees will increase pumping more liquidity in the economy.
    2. **Motivation:** Equal pay will motivate the temporary employees to upgrade their skills on a regular basis.
    3. **Labour cost:** This will increase the cost of labour. This in turn might enhance the work stress on permanent workers. India might lose its attraction for its cheap labor and might reduce the number of outsourced jobs to India.
    4. **Formalisation of labour:** This will enhance workers in formal employment and so the tax base will be enhanced significantly.
    5. **A push to DPSP:** It promotes constitutional provision of equality

in Article 39 (d) of DPSP, that is equal pay for equal work.

6. **Sends a good message:** This would also send a message to the private enterprises to take notice of the government following the practice of considering employees both temporary and regular on equal pay scales and implement for itself in future.

10. **National Apprenticeship Promotion Scheme**
    1. The cabinet has given approval for National Apprenticeship Promotion Scheme (NAPS). NAPS has been framed to meet objective of National Policy of Skill Development and Entrepreneurship, 2015, which focuses on apprenticeship as one of the key components.
    2. Union Government will directly share, 25% of the total stipend payable and 50% of total expenditure for providing basic training to an apprentice, with employers.
    3. It will be implemented by Director General of Training (DGT) under the aegis of Union Ministry of Skill Development and Entrepreneurship (MSDE).
    4. For MSME sector, this scheme will encourage third party agencies to provide basic training when in-house training infrastructure is not available.
    5. Act has dismantled the outdated system of trade wise and unit wise regulation of apprentices under a prescriptive regime. Now the minimum target of apprentices is 2.5% and maximum is 10%.
11. **Significance**
    1. India has less than 3 lakh apprentices. This is a small proportion of over a crore people annually joining labour force of 48 crore workers.
    2. It substantially improves the employability of youth and market value as well as their capability to become self employed.
    3. The industry will benefit from enhanced skills, higher productivity and better professionalism once apprentices join the workforce.
    4. Among a large number of skilling schemes, the efficacy of apprenticeship system is the highest.
    5. NAPS is a part of labour reforms. Government has already amended Factory act, Apprenticeship act and labour laws act in 2014.

12. It is estimated that the demographic dividend is expected to last for 25 years. Thus, to reap the benefits of this one-off opportunity India needs to significantly scale up its skill development initiatives.

Transforming aspirational districts

1. The Aspirational Districts Programme (ADP) was launched in 2018. Under phase-1 of ADP, 115 districts were identified based on the level of human development, physical infrastructure, threat of left wing extremism (LWE) and the views of state governments.
2. The main aim is to achieve balanced development in India by uplifting 115 districts, currently below the national average in the areas of health and nutrition, education, agriculture and water resources, financial inclusion and skill development, and basic infrastructure.
3. A list of 49 target indicators has been developed by NITI Aayog. These will be regularly monitored for promoting improvements in health and nutrition, education, agriculture and water resources, financial inclusion and skill development, and basic infrastructure.
4. **Constraints**
    1. The constraints impeding the development of these districts are institutional.
    2. Non-availability of periodical data makes it difficult to track progress and implement evidence-based policymaking.
    3. There is lack of social awareness and community participation in development programmes.
    4. There is lack of competitiveness among districtsto improve developmental performance.
    5. Governance inadequacy hampers the effective implementation of government schemes. There is no accountability on the part of either the government or district administrations.
    6. The institutional framework has been fragmented because of the multiplicity of implementing agencies and schemes.
5. **Way forward**
    1. Make development a mass movement. Referring to these districts as 'aspirational' rather than 'backward' recognises that people are the most valuable resource.
    2. Use data to inform decision making and spur competition among

districts.
3. Converge initiatives across all levels of government.
4. Promote federalism and put in place institutional mechanisms to ensure teamwork between the central, state and district administration.
5. Partner with expert organizations with demonstrated technical competence.

Spatial development

1. Spatial development means that industries and services are concentrated in high density economically developed area and engines of growth have failed to spread to less dense secondary cities.
2. Uneven spatial development can be seen both in manufacturing as well as services sector. Unlike in China, Europe and the US, where the engines of growth and job creation have spread to the secondary cities, in India medium-sized cities remain mired in joblessness and poverty. India's manufacturing sector is spatially spreading at a much faster pace than the services sector. The low density manufacturing districts are growing at a much faster pace than high-density districts in India.
3. A report from the rating agency Crisil found that the inter-State disparities have widened in recent years even as the larger economy grows in size. Many low income States have experienced isolated years of strong economic growth above the national average.
4. Bihar was the fastest growing State this year. But they have still failed to bridge their widening gap with the richer States since they have simply not been able to maintain a healthy growth rate over a sustained period of time.
5. **Reasons for uneven spatial development**
    1. Historically, regional imbalances in India started from its British regime. The British rulers as well as industrialists started to develop only those earmarked regions of the country which as per their own interests.
    2. Geographical factors play an important role. The difficult terrain surrounded by hills, dense forests leads to increase in the cost of administration, and thus are usually ignored. Plain areas with

availability of river waters are preferred destination for industrialists.

3. Economic overheads like transport and communication facilities, power, technology, banking and insurance etc., are considered very important for the development of a particular region.
4. Failure of economic planning etc.
5. Manufacturing sector has not spread to all districts. Only those districts that have improved their physical and human infrastructure have attracted manufacturing enterprises. While large manufacturing enterprises are moving away from more congested megacities into secondary cities, this is not happening at a faster pace to create more jobs.
6. High density service clusters have continued to grow at a much faster pace than less dense areas and more dense locations have become more concentrated over time.

Investment rate in India

1. Investment denotes gross capital formation (GCF) and is one of the principal growth engines of an economy. Investment rate in India has gradually declined from 38% to 27% over the last decade. It is the private corporate investment that is responsible for most of the decline in total investment.
2. **Reasons for decline**
    1. The onset of financial crisis in 2008 had disrupted the investment decisions. Many world economies are still struggling with its after effects.
    2. Indian economy has been suffering from twin balance sheet syndrome since 2012, where the ongoing projects are stalled and bankers balance sheet is stressed, leading to rising NPAs and declining credit off-take.
    3. High rate of interests because of high inflation during 2010-13 period also led to delaying of investment decisions. Even though inflation has subsided, investors have remained wary.
    4. Litigations in the PPP projects have also discouraged investments.
    5. Unfavourable perception about risks and expected returns, for example retrospective taxation laws create an environment

of uncertainty.

    6. Insufficient allocation of resources towards technological advancement and logistics has hampered new investments.
    7. Slow roll out of land and labour reforms.
    8. Household savings and investment rates have been falling.
3. **Changes**
    1. Quick recognition and resolution of NPAs, in order to address the "Twin Balance Sheet problem".
    2. Recapitalisation of PSBs to recoup their credit making capabilities.
    3. Time bound resolution of insolvency cases, as envisioned and mandated by the Insolvency and Bankruptcy Code
    4. Capacity building and adoption of fixed deadlines for implementation of further changes in the GST programme.
    5. Speedy labour and land reforms to further improve ease of doing business. A predictable and stable taxation regime, which gives investors a clearer vision to make decisions.
    6. Increase public investment in infrastructure sector, creating employment. This would pull in private investment, while increasing money supply at the same time.
    7. Make appropriate changes in investment models to make investment attractive for investors, like HAM model.
    8. Renegotiate the PPP projects according to the existing situation, thereby building confidence among investors.
4. **Raising investment rates to 36 per cent by 2022-23**
    1. To raise the rate of investment (gross fixed capital formation as a share of GDP) from about 29 percent in 2017-18 to about 36 percent of GDP by 2022-23.
    2. To enhance public investment, India should aim to increase its tax-GDP ratio to at least 22 per cent of GDP by 2022- 23. Demonetization and GST will contribute positively to this critical effort. In addition, efforts need to be made to rationalise direct taxes for both corporate tax and personal income tax. Simultaneously, there is a need to ease the tax compliance burden and eliminate direct interface between taxpayers and tax officials using technology.

   3. States could also undertake greater mobilization of own taxes such as property tax, and taking specific steps to improve administration of GST to increase tax collections.
   4. Two areas in which higher public investment will easily be absorbed are housing and infrastructure. Investment in housing, especially in urban areas, will create very large multiplier effects in the economy. Private investment needs be encouraged in infrastructure through a renewed public-private partnership (PPP) mechanism on the lines suggested by the Kelkar Committee.
   5. By 2022-23, the government may consider further liberalizing FDI norms across sectors. Domestic savings can be complemented by attracting foreign investment in bonds and government securities.
   6. The government should continue to exit central public sector enterprises (CPSEs) that are not strategic in nature.
5. **Focus on exports and manufacturing**
   1. A focused effort on making the logistics sector more efficient is needed.
   2. Power tariff structures may be rationalized to ensure global competitiveness of Indian industries.
   3. Import tariffs that seek to promote indigenous industry should come with measures to raise productivity which will provide the ability to compete globally.
   4. Improve connectivity by accelerating the completion of announced infrastructure projects. We should complete projects that are already underway such as the Delhi-Mumbai Industrial Corridor (DMIC) and Dedicated Freight Corridors.
   5. Work with states to ease labour and land regulations. In particular, we should introduce flexibility in labour provisions across sectors.
   6. The government has recently established a dedicated fund of INR 5,000 crore for enhancing 12 "Champion Services Sectors". Among others, these include IT & ITeS, tourism, medical value travel and audio visual services.
   7. Strengthen the governance and technical capabilities of Export Promotion Councils (EPCs) by subjecting them to a well-defined, performance-based evaluation.

8. Explore closer economic integration within South Asia and the emerging economies of South East Asia.

6. Steps like Make in India, initiatives for quick approvals and clearances, FDI reforms and strengthening bond market for long term financing will further improve investment rate in India. In the long run, it is imperative to create a clear, transparent, and stable tax and regulatory environment to revive and boost investments.

Credit rating agencies (CRA)

4) Issues
1) Concentrated industry, Big 3 controlling majority of the business
2) Serious mistakes in the past, as in the case of IL&FS crisis
3) Ratings have direct impact on the market and economy
4) Conflict of interest in the Issuer paid model

5) Steps taken
1) Guidelines issued by SEBI, under which CRAs have to disclose factors that could potentially impact the rating
2) MoF developed a Comparative Rating Index of Sovereigns (CRIS)
3) BRICS planned to establish an alternative CRA to counter Western dominance

Corporate governance

5) Issues
(i) Examples
(a) Satyam scandal, 2009 - Founder chairman of Satyam computers Ramalinga Raju confessed manipulating company's accounts
(b) Infosys - Company's founders expressed concerns over transparency and CG

(ii) Organisational issues
(a) nepotism in board appointments
(b) non transparent policies
(c) influence of promoters

(iii) Independent Directors & Share holders

(a) 'ID's are not 'independent'

(b) minority share holders role is limited

(c) no regular meetings

(iv) Regulation

(a) role of regulators

(v) Other issues

(a) Salaries of Indian companies lag behind global standards

(b) India lacks large MNCs