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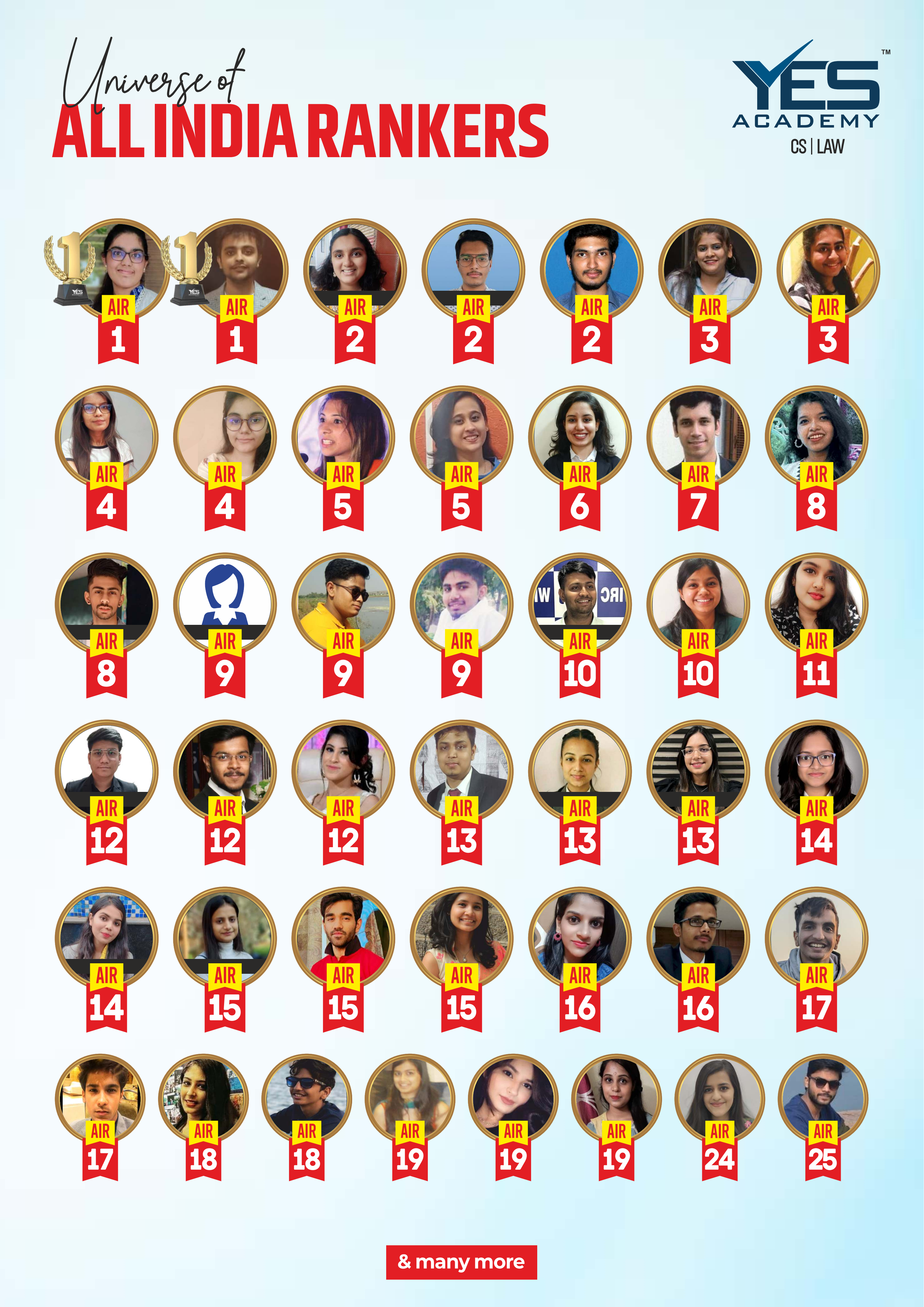
ECONOMICS

Adv. Vishishta Nayak

As updated
till June 2023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Company Secretary Executive Entrance Test (CSEET)

Paper 3

Economics and Business Communication

Part A

Economics

- Adv. Vishishta Nayak

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Chapter 01

BASICS OF DEMAND AND SUPPLY AND FORMS OF MARKET COMPETITION

What is Demand?

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.

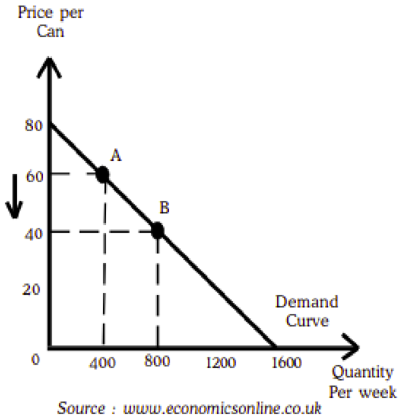
Law of Demand

According to the law of demand, there is an inverse relationship between the price and quantity demanded of a commodity, i.e., other things being equal, if price of a commodity falls, the quantity demanded of it will rise, and if price of the commodity rises, its quantity demanded will decline. In other words, other things being equal, quantity demanded will be more at a lower price than at a higher price. Thus, demand of a commodity is mainly determined by the price of commodity.

For example –

Price per Can (INR)	Quantity Demanded
100	00
80	100
60	300
40	500
20	800
00	1000

The same can be depicted in a graphical manner by way of the following graph –



Assumptions of the law of demand

The above stated law of demand is based on certain conditions. The law of demand is based on the following ceteris paribus assumptions:

1. No Change in Consumer's Income
2. No Change in Consumer's Preferences
3. No Change in the Fashion
4. No Change in the Price of Related Goods
5. No Expectation of Future Price Changes or Shortages
6. No Change in Size, Age Composition and Sex Ratio of the Population
7. No Change in the Range of Goods Available to the Consumers
8. No Change in the Distribution of Income and Wealth of the Community
9. No Change in Government Policy
10. No Change in Weather Conditions

It is therefore, always stated with the 'other things being equal'. It relates to the change in price variable only, assuming other determinants of demand to be constant.

Exceptions to the Law of Demand

There are few exceptional cases where the law of demand is not applicable, which are as follows:

1. **Giffen Goods :** In the case of certain inferior goods called Giffen goods (named after Sir Robert Giffen), when the prices fall, less quantity will be purchased than before because of the negative income effect and people's increasing preference for a superior commodity with the rise in their real income.
   Examples - bread, rice, and wheat.

2. **Articles of Snob Appeal** : Sometimes, certain commodities are demanded just because they happen to be expensive or prestige goods, and have a 'snob appeal'. They satisfy the aristocratic desire to preserve exclusiveness for unique goods.
   Example – Gold jewellery, premium luxury cars.

3. **Speculation** : When people speculate about changes in the price of a commodity in the future, they may not act according to the law of demand at the present price, say, when people are convinced that the price of a particular commodity will rise still further, they will not contract their demand with the given price rise: on the contrary, they may purchase more for the purpose of hoarding.

4. **Consumer's Psychological Bias or Illusion** : When the consumer is wrongly biased against the quality of the commodity with the price change, they may contract this demand with a fall in price.

What is Supply?

Supply represents how much the market can offer. The quantity supplied refers to the amount of a good producers are willing to supply when receiving a certain price. The supply of a good or service refers to the quantities of that good or service that producers are prepared to offer for sale at a set of prices over a period of time.

Supply is not the same concept as the stock of something in existence. For example, the stock of commodity X in Delhi means the total quantity of Commodity X in existence at a point of time; whereas, the supply of commodity X in Delhi means the quantity actually being offered for sale, in the market, over a specified period of time

Law of Supply

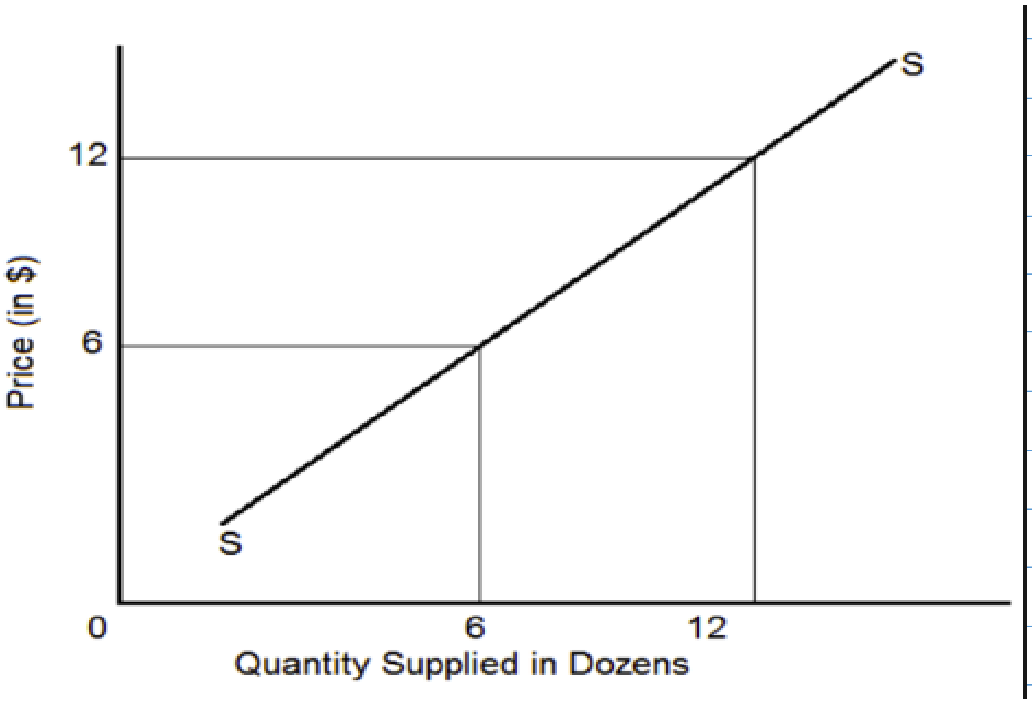
According to the law of demand, a firm will produce and offer to sell greater quantities of a product or service as the price of that product or service rises, other things being equal. There is a direct relationship between price and quantity supplied. Therefore, under the law of supply, change in price is the cause and change in supply is the effect. Thus, the price rise leads to an increase in supply and not otherwise. The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale.

Assumptions of the law of supply

The above stated law of supply is based on certain conditions. The law of supply is based on the following ceteris paribus assumptions:

1. No change in the state of technology.
2. No change in the price of factors of production.
3. No change in the number of firms in the market.
4. No change in the goals of the firm.
5. No change in the seller's expectations regarding future prices.
6. No change in the tax and subsidy policy of the products.
7. No change in the price of other goods

The law of supply can be depicted in a graphical manner by way of the following graph–

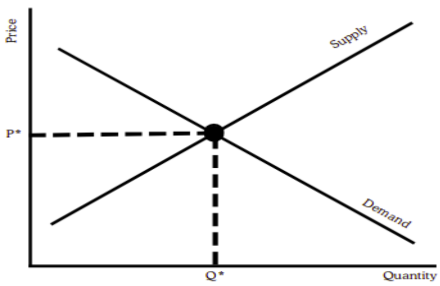


What is Equilibrium?

Equilibrium is a situation wherein there is no shortage or surplus unless a determinant of demand or a determinant of supply changes.

Equilibrium Price

The equilibrium price is the market price where the quantity of goods supplied is equal to the quantity of goods demanded. This is the point at which the demand and supply curves in the market intersect.



If a change in the price of a good or service creates a shortage, it means that consumers want to buy a higher quantity than the one offered by producers. In this case, demand exceeds supply. In contrast, if a change in the price of a product or a service creates a surplus, it means that consumers want to buy less quantity than the one offered by producers. In this case, supply exceeds demand.

For example –

Price	Quantity Demanded	Quantity Supplied	Surplus	Shortage
100	5	50	45	
80	18	35	17	
60	25	25	0	
40	41	18		23
20	50	9		41

Elasticity of Demand

Elasticity of demand means how sensitive the demand for a good is to changes in other economic variables, such as prices and consumer income. Elasticity of demand is the responsiveness of the quantity demanded of a commodity to changes in one of the variables on which demand depends.

Demand elasticity is calculated as the percent change in the quantity demanded divided by a percent change in another economic variable. In other words, it is the percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends. A higher demand elasticity for an economic variable means that consumers are more responsive to changes in this variable.

Types of elasticity of demand

There are majorly three types of elasticity of demand. They are –

1. Price elasticity;
2. Income elasticity
3. Cross elasticity

Price elasticity of demand

The price elasticity of demand is the response of the quantity demanded to change in the price of a commodity. It is assumed that the consumer's income, tastes, and prices of all other goods are steady. Therefore, price elasticity of demand is:

$$Ep = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

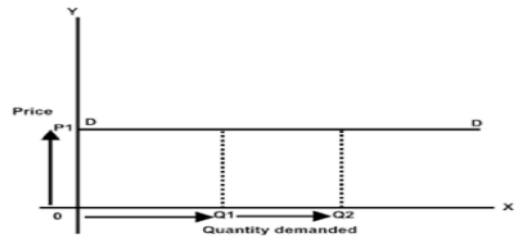
$$\text{Or, } Ep = \frac{\text{Change in Quantity}}{\text{Original Quantity}} \times \frac{\text{Original Price}}{\text{Change in Price}}$$

The extent of responsiveness of demand with change in the price is not always the same. The demand for a product can be elastic or inelastic, depending on the rate of change in the demand with respect to change in price of a product. Elastic demand is the one when the response of demand is greater with a small proportionate change in the price. On the other hand, inelastic demand is the one when there is relatively less change in the demand with a greater change in the price.

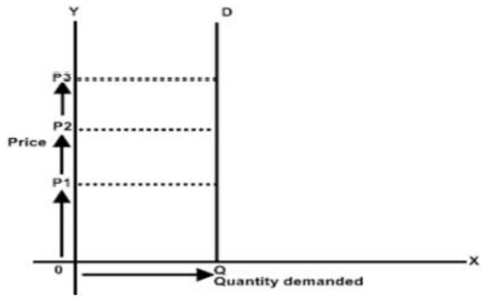
Types of price elasticity of demand

1. **Perfectly Elastic Demand** : When a small change in the price of a product causes a major change in its demand, it is said to be perfectly elastic demand. In perfectly

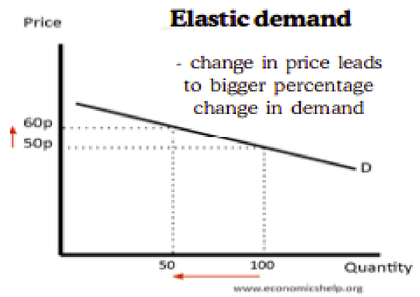
elastic demand, a small rise in price results in a fall in demand to zero, while a small fall in price causes an increase in demand to infinity.



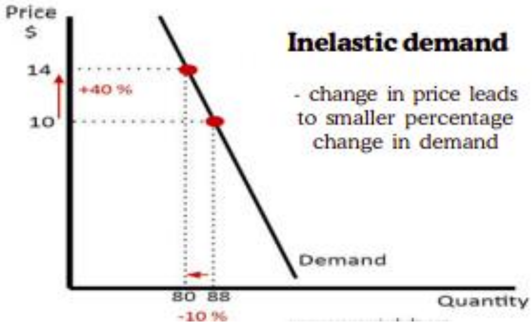
2. **Perfectly Inelastic Demand** : A perfectly inelastic demand is one when there is no change produced in the demand of a product with a change in its price.



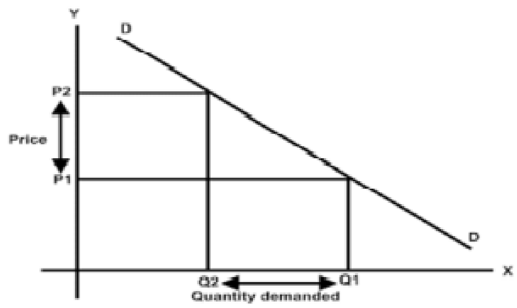
3. **Relatively Elastic Demand** : Relatively elastic demand refers to the demand when the proportionate change produced in demand is greater than the proportionate change in price of a product.



4. **Relatively Inelastic Demand**: Relatively inelastic demand is one when the percentage change produced in demand is less than the percentage change in the price of a product.



5. **Unitary Elastic Demand** : When the proportionate change in demand produces the same change in the price of the product, the demand is referred as unitary elastic demand.



Numerically, the types of price elasticity of demand can be shown as follows –

1. Perfectly Elastic Demand (EP = ∞)
2. Perfectly Inelastic Demand (EP = 0)
3. Relatively Elastic Demand (EP > 1)
4. Relatively Inelastic Demand (Ep< 1)
5. Unitary Elastic Demand (Ep = 1)

Factors affecting Price Elasticity of Demand

The following factors affect price elasticity of demand –

1. **Price Level** : The demand is generally elastic for moderately priced goods but, the demand for very costly and very cheap goods is inelastic. The rich do not bother about

the prices of the goods that they buy. Very costly goods are demanded by the rich people and hence their demand is not affected much by the change in prices. For example, on increase in the price of Toyota car from Rs. 5,00,000 to Rs. 5,20,000 will not make any noticeable difference in its demand. Similarly, the change in the price of very cheap goods (such as salt) will not have any effect on their demand, for their consumption which is very small and fixed.

2. **Availability of Substitutes** : If a good has close substitutes, the price elasticity of demand for a commodity will be very elastic as some other commodities can be used for it. A small rise in the price of such a commodity will induce consumers to switch their consumption to its substitutes. For example gas, kerosene oil, coal etc. will be used more as fuel if the price of wood increases. On the other hand, the demand of such commodities which have no close substitutes is inelastic, such as salt.

3. **Necessities** : If a good is a necessity, then the demand tends to be inelastic. For example, if the price for drinking water rises, then there is unlikely to be a huge drop in the quantity demanded since drinking water is a necessity.

4. **Time Period** : Over time, a good tends to become more elastic because consumers and businesses have more time to find alternatives or substitutes. For example, if the price of gasoline goes up, over time people will adjust for the change, i.e., they may drive less or use public transportation or form carpools.

5. **Habits** : The demand for addictive or habitual products is usually inelastic. This is because the consumer has no choice but no pay whatever the producer is demanding. For example, if the price for a pack of cigarettes goes up, it will likely not have any effect on demand.

6. **Nature of the Commodities** : The demand for necessities is inelastic and that for comforts and luxuries is elastic. This is so because certain goods which are essential will be demanded at any price, whereas goods meant for luxuries and comforts can be dispensed with easily if they appear to become costlier.

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7. **Various Uses** : A commodity which has several uses will have an elastic demand such as milk, wood etc. On the other hand, a commodity having only one or fewer uses will have inelastic demand. The consumer finds it easier to adjust the quantity demanded of a good when it is to be used for satisfying several wants than if it is confined to a single or few uses. For this reason, a multiple-use good tends to have more elastic demand.

8. **Postponing Consumption** : Usually the demand for commodities, the consumption of which can be postponed, is elastic as the prices rise and are expected to fall again. For example, the demand for mp3 is elastic because its use can be postponed for some time if its price goes up, but the demand for rice and wheat is inelastic because their use cannot be postponed when their prices increase.

Income Elasticity of Demand

Income elasticity of demand is the degree of responsiveness of demand to the change in income. It is defined as : "*Income elasticity of demand is the rate of change of quantity with respect to changes in the income, other determinants remaining constant.*" '

$$Ey = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in income}}$$

$$\text{Percentage change in quantity demanded} = \frac{\text{New quantity demanded } (\Delta Q)}{\text{Original quantity demanded } (Q)}$$

$$\text{Percentage change in income} = \frac{\text{New income } (\Delta Y)}{\text{Original income } (Y)}$$

Therefore, $Ey = \Delta Q/Q \times \Delta Y/Y$

Types of Income Elasticity of Demand

1. **Negative** - Demand for a commodity falls as income rises - The trend is visible in case of inferior goods.
2. **Zero** - Demand for a commodity does not change as income changes - This is true in the case of essential goods.
3. **Greater than zero but less than one -** Demand for commodity rises with a rise in income.
4. **Unity** - Demand for commodity rises in the same proportion as rise in income.
5. **Greater than the unity** - Demand for commodity rises more than in proportion to rise in income

Cross Elasticity of Demand

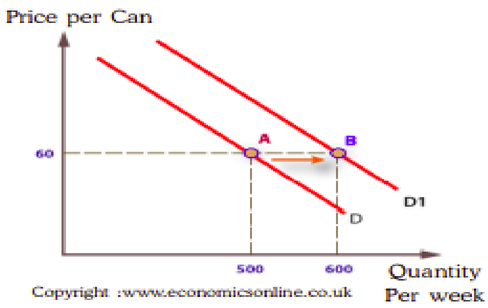
The responsiveness of demand to changes in prices of related commodities is called cross elasticity of demand. Prof. Watson defines it as, "Cross elasticity of demand is the rate of change in quantity associated with a change in the price of related goods." Thus cross elasticity of demand is the responsiveness of demand for commodity X to change in price of commodity Y.

If Cross elasticity of two products X & Y is Infinity, it means that commodity X is nearly a perfect substitute for commodity Y.
If Cross elasticity of two products X & Y is Zero, it means that Commodity X and Y are not related.
If Cross elasticity of two products X & Y is Negative, it means that Commodities X and Y are complementary.

Increase and Decrease in Demand

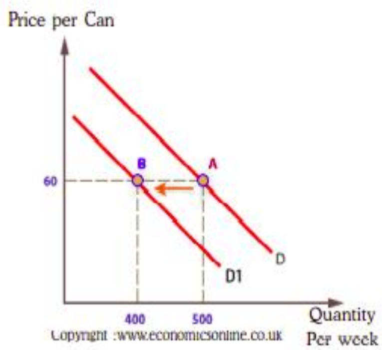
What is increase in demand?

"Increase in demand means more demand at same price". When demand increases not because of price but because of changes in other determinants of demand, it is a case of increase in demand.



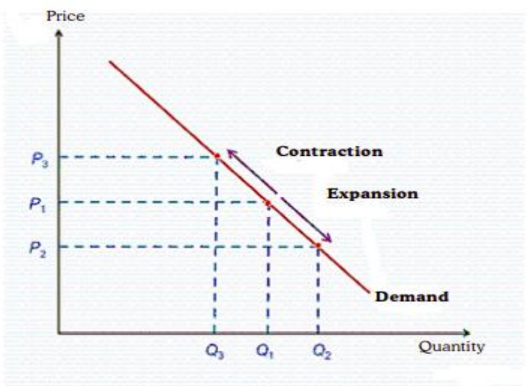
What is decrease in demand?

"Decrease in demand means less demand at same price". When demand decreases not because of price but because of changes in other determinants of demand, it is a case of decrease in demand.



Expansion and Contraction of Demand

When the quantity demanded of a commodity increases as a result of the fall in the price, it is called extension (or expansion) in demand and when the quantity demanded decreases as a result of an increase in the price of the commodity, it is called contraction in demand.



FORMS OF MARKET COMPETITION

1. Perfect Competition

In a perfect competition market structure, there are a large number of buyers and sellers. All the sellers in the market are small sellers in competition with each other. There is no one big seller with any significant influence on the market. So, all the firms in such a market are price takers. A perfect competition market is pretty much a theoretical concept.

Assumptions for perfect competition -

- The products on the market are homogeneous, i.e. they are completely identical
- All firms only have the motive of profit maximization
- There is free entry and exit from the market, i.e. there are no barriers
- And there is no concept of consumer preference

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2. Monopolistic Competition

This is a more realistic scenario that actually occurs in the real world. In monopolistic competition, there are still a large number of buyers as well as sellers. But they all do not sell homogeneous products. The products are similar but all sellers sell slightly differentiated products. Here, consumers have the preference of choosing one product over another. The sellers can also charge a marginally higher price since they may enjoy some market power. So, the sellers become the price setters to a certain extent.

For example, the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours.

3. Oligopoly

In an oligopoly, there are only a few firms in the market. While there is no clarity about the number of firms, 3-5 dominant firms are considered the norm. So, in the case of an oligopoly, the buyers are far greater than the sellers. The firms in this case either compete with another to collaborate together, They use their market influence to set the prices and in turn maximize their profits. So, the consumers become the price takers. In an oligopoly, there are various barriers to entry into the market, and new firms find it difficult to establish themselves.

4. Monopoly

In a monopoly type of market structure, there is only one seller, so a single firm will control the entire market. It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller. Monopolies are extremely undesirable. Here the consumers lose all their power and market forces become irrelevant. However, a pure monopoly is very rare in reality.

5. Duopoly

A duopoly is a kind of oligopoly: a market dominated by a small number of firms. In the case of a duopoly, a particular market or industry is dominated by just two firms. This means that there are the only two firms in the entire market (this almost neveroccurs); in practice, it usually means the two duopolistic firms have a great deal of influence, and their actions, as well as their relationship to each other, powerfully shape their industry. Duopolistic markets are imperfectly competitive, so entry barriers are typically significant for those attempting to enter the market, but there are usually still other, smaller businesses persisting alongside the two dominant firms.

Elasticity of Supply

Elasticity of supply establishes a quantitative relationship between the supply of a commodity and it's price. While elasticity can also be calculated with respect to the other determinants of supply, the major factor controlling the supply of a commodity is its price. Therefore, we generally talk about the price elasticity of supply. The price elasticity of supply is the ratio of the percentage change in the price to the percentage change in quantity supplied of a commodity.

$Es = [\Delta q/q)\times 100] \div [(\Delta p/p)\times 100] = (\Delta q/q) \div (\Delta p/p)$

Δq = The change in quantity supplied

q = The quantity supplied

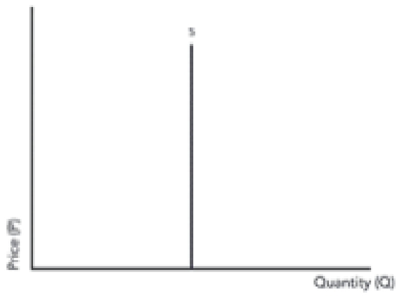
Δp = The change in price

p = The price

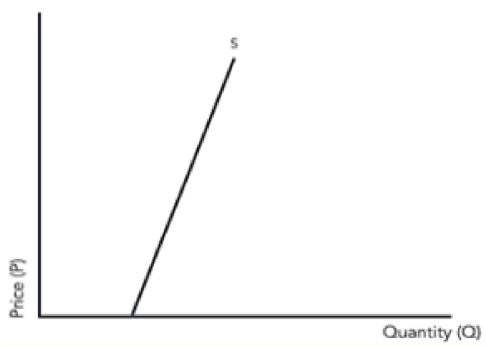
Types of Price Elasticity of Supply

1. **Perfectly Inelastic Supply :** A service or commodity has a perfectly inelastic supply if a given quantity of it can be supplied whatever might be the price. The elasticity of

supply for such a service or commodity is zero. A perfectly inelastic supply curve is a straight line parallel to the Y-axis. This is representative of the fact that the supply remains the same irrespective of the price. The supply of exclusive items, like the painting of Mona Lisa, falls into this category. Whatever might be the price on offer, there is no way we can increase its supply.

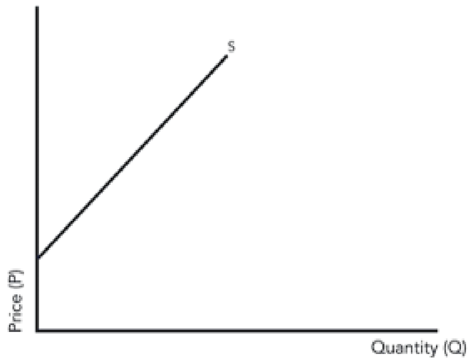


2. **Relatively Less-Elastic Supply :** When the change in supply is relatively less when compared to the change in price, we say that the commodity has a relatively-less elastic supply. In such a case, the price elasticity of supply assumes a value less than 1.

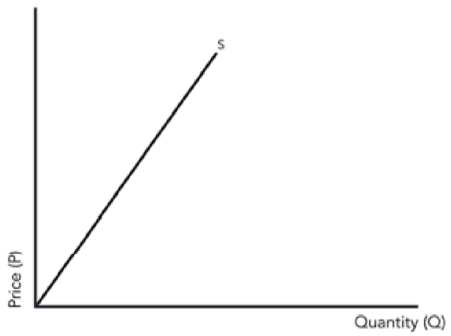


3. Relatively Greater-Elastic Supply : When the change in supply is relatively more when compared to the change in price, we say that the commodity has a relatively greater-

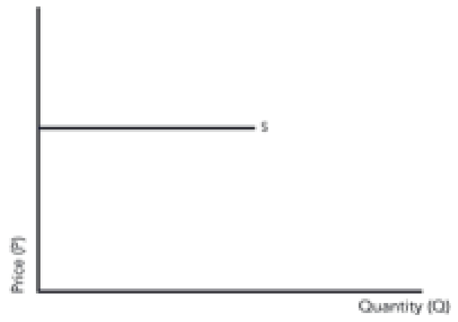
elastic supply. In such a case, the price elasticity of supply assumes a value greater than 1.



4. **Unitary Elastic Supply** : For a commodity with a unit elasticity of supply, the change in quantity supplied of a commodity is exactly equal to the change in its price. In other words, the change in both price and supply of the commodity is proportionately equal to each other. The elasticity of supply in such a case is equal to one.



5. Perfectly Elastic supply : A commodity with a perfectly elastic supply has an infinite elasticity. In such a case the supply becomes zero with even a slight fall in the price and becomes infinite with a slight rise in price. This is indicative of the fact that the suppliers of such a commodity are willing to supply any quantity of the commodity at a higher price. A perfectly elastic supply curve is a straight line parallel to the X-axis.



Factors influencing the elasticity of supply

1. **Price of the Good** : The supply and elasticity of supply of a good depend upon the price of the good. If the price of a good increases or decreases, the quantity supplied of it will also increase or decrease, respectively. This is the law of supply.

2. **Probability that the Price would Change in Future** : If the sellers think that the price of the good will increase (or decrease) in near future, then, at any particular price at present, they would want to decrease (or increase) their supply. In this case, the supply curve for the good would shift to the left (or to the right).

3. **Conditions regarding Cost of Production** : If the cost of production of good increases (or decreases), i.e., if its cost curve shifts upwards (or downwards), then the quantity supplied of the good would decrease (or increase) at any particular price, i.e., the supply curve would shift to the left (or to the right).

4. **Nature of the Good** : The supply of a good depends upon the nature of the good, e.g., on the perishability and lumpiness of the good. The more the perishability or lumpiness of the good, the more would be its market localised, and, in a localised market, the supply of a good at any particular price would be relatively small.

5. **Length of Time** : If the price of good rises, then by how much would supply rise, or, how large will be the price-elasticity of supply, would depend on the length of time available for the necessary adjustments (e.g., in the quantities of the factor inputs used) to complete.

Chapter 02

NATIONAL INCOME ACCOUNTING AND RELATED CONCEPTS

Introduction

National income is an uncertain term which is used interchangeably with national dividend, national output and national expenditure. On this basis, national income has been defined in a number of ways. In common parlance, national income means "*the total value of goods and services produced annually in a country.*" In other words, *the total amount of income accruing to a country from economic activities in a year's time is known as national income.* It includes payments made to all resources in the form of wages, interest, rent and profits. While computing National Income only finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies.

Methods to Measure National Income

There are three methods of measuring the national income of a country. They yield the same result. These methods are:

1. The Product Method or Value Added Method.
2. The Income Method
3. The Expenditure Method

The Product Method or Value Added Method

The Product method measures the contribution of each producing enterprise in the domestic territory of the country. This method involves the following steps:

a. Identifying the producing enterprise and classifying them into individual sectors according to their activities.
b. Estimating net value added by each producing enterprise as well as each industrial sector and adding up the net value added by all the sectors.

The product approach defines a nation's gross product as that market value of goods and services currently produced within a nation during a one year period of time. The product approach measuring national income involves adding up the value of all the final goods and services produced in the country during the year. The main sectors whose production value is added up are:

(i) agriculture
(ii) manufacturing
(iii) construction
(iv) transport and communication
(v) banking
(vi) administration and defence
(vii) distribution of income

Precautions for Product Method

1. **Problem of double counting :** When we add up the value of output of various sectors, we should be careful to avoid double counting. This pitfall can be avoided by either counting the final value of the output or by including the extra value that each firm adds to an item.
2. **Value addition in particular year :** While calculating national income, the values of goods added in the particular year in question are added up. The values which had previously been added to the stocks of raw material and goods have to be ignored. GDP thus includes only those goods, and services that are newly produced within the current period.
3. **Stock appreciation :** Stock appreciation, if any, must be deducted from value added. This is necessary as there is no real increase in output.
4. **Production for self consumption :** The production of goods for self consumption should be counted while measuring national income. In this method, the production of goods for self consumption should be valued at the prevailing market prices.

Expenditure Method

The expenditure approach measures national income as total spending on final goods and services produced within the nation during a year. The expenditure approach to measuring national income is to add up all expenditures made for final goods and services at current market prices by households, firms and government during a year. Total aggregate final expenditure on final output thus is the sum of four broad categories of expenditures:

1. Consumption
2. Investment
3. Government
4. Net export

1. **Consumption expenditure (C)** : Consumption expenditure is the largest component of national income. It includes expenditure on all goods and services produced and sold to the final consumer during the year.

2. **Investment expenditure (I) :** Investment is the use of today's resources to expand tomorrow's production or consumption. Investment expenditure is expenditure incurred by business firms on (a) new plants, (b) adding to the stock of inventories and (c) on newly constructed houses.

3. **Government expenditure (G)** : It is the second largest component of national income. It includes all government expenditure on currently produced goods and services but excludes transfer payments while computing national income.

4. **Net exports (X - M)** : Net exports are defined as total exports minus total imports.

National income calculated from the expenditure side is the sum of final consumption expenditure, expenditure by a business on plants, government spending and net exports.

Precautions for Expenditure Method

1. The expenditure on second hand goods should not be included as they do not contribute to the current year's production of goods.
2. Expenditure on purchase of old shares and bonds is not included as these also do not represent expenditure on currently produced goods and services.
3. Expenditure on transfer payments by government such as unemployment benefit, old age pensions, interest on public debt should also not be included because no productive service is rendered in exchange by recipients of these payments.

Income Method

This method seeks to measure national income at the phase of distribution. In the production process of an economy, the factors of production are engaged by the enterprises. They are paid money incomes for their participation in the production. The payments received by the factors and paid by the enterprises are wages, rent, interest and profit. National income thus may be defined as the sum of wages, rent, interest and profit received or occurred to the factors of production in lieu of their services in the production of goods. Briefly, national income is the sum of all income, wages, rents, interest and profit paid to the four factors of production. The four categories of payments are briefly described below:

1. **Wages** : It is the largest component of national income. It consists of wages and salaries along with fringe benefits and unemployment insurance.
2. **Rents :** Rents are the income from properly received by households.
3. **Interest** : Interest is the income private businesses pay to households who have lent the business money.
4. **Profits**: Profits are normally divided into two categories (a) profits of incorporated businesses and (b) profits of unincorporated businesses (sole proprietorship, partnerships and producers cooperatives).

Precautions for Income Method

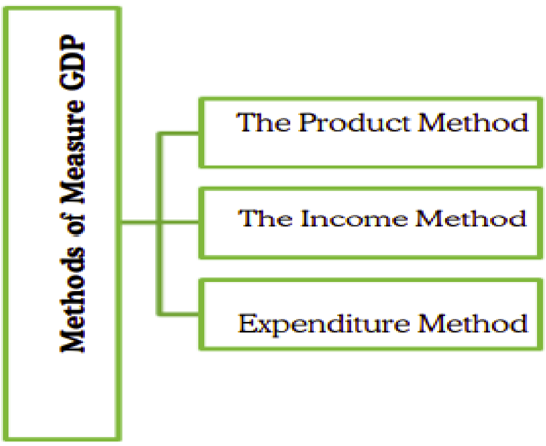
While estimating national income through income method, the following precautions should be undertaken -

1. Transfer payments such as gifts, donations, scholarships, indirect taxes should not be included in the estimation of national income.
2. Illegal money earned through smuggling and gambling should not be included.
3. Windfall gains such as prizes won, lotteries etc. are not to be included in the estimation of national income.
4. Receipts from the sale of financial assets such as shares, bonds should not be included in measuring national income as they are not related to the generation of income in the current year's production of goods.

Gross Domestic Product (GDP)

GDP is the total value of goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. Dernberg defines GDP at market price as "*the market value of the output of final goods and services produced in the domestic territory of a country during an accounting year.*"

There are three different ways to measure GDP:



1. ***The Product Method :*** In this method, the value of all goods and services produced in different industries during the year is added up. This is also known as the value added method to GDP or GDP at factor cost by industry of origin. The following items are included in India in this: agriculture and allied services; mining; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estates and ownership of dwellings and business services; and public administration and defence and other services (or government services). In other words, it is the sum of gross value added.

2. ***The Income Method :*** The people of a country who produce GDP during a year receive income from their work. Thus GDP by income method is the sum of all factor incomes: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.

3. ***Expenditure Method*** : This method focuses on goods and services produced within the country during one year. GDP by expenditure method includes:
    a. Consumer expenditure on services and durable and non-durable goods (C).
    b. Investment in fixed capital such as residential and non-residential building, machinery, and inventories (I).
    c. Government expenditure on final goods and services (G).
    d. Export of goods and services produced by the people of the country (X).
    e. Less imports (M) - That part of consumption, investment and government expenditure which is spent on imports is subtracted from GDP. Similarly, any imported component, such as raw materials, which are used in the manufacture of export goods, is also excluded.

Thus,

GDP by expenditure method at market prices = C+ I + G + (X – M)

where (X-M) is net export which can be positive or negative.

GDP at Factor Cost

GDP at factor cost is the sum of the net value added by all producers within the country. Since the net value added gets distributed as income to the owners of factors of production, **GDP is the sum of domestic factor incomes and fixed capital consumption (or depreciation).**

Thus GDP at Factor Cost = Net value added + Depreciation.

GDP at factor cost includes:

1. Compensation of employees i.e., wages, salaries, etc.
2. Operating surplus which is the business profit of both incorporated and unincorporated firms [Operating Surplus = Gross Value Added at Factor Cost—Compensation of Employees—Depreciation].
3. Mixed Income of Self- employed.

Conceptually, GDP at factor cost and GDP at market price must be identical because the factor cost (payments to factors) of producing goods must equal the final value of goods and services at market prices. However, the market value of goods and services is different from the earnings of the factors of production.

In GDP at market price, indirect taxes are included and subsidies by the government are excluded.

Therefore, in order to arrive at GDP at factor cost, indirect taxes are subtracted and subsidies are added to GDP at market price.

Thus, **GDP at Factor Cost = GDP at Market Price – Indirect Taxes + Subsidies.**

Net Domestic Product (NDP)

NDP is the value of the net output of the economy during the year. Some of the country's capital equipment wears out or becomes obsolete each year during the production process. The value of this capital consumption is some percentage of gross investment which is deducted from GDP.

Thus Net Domestic Product = GDP at Factor Cost – Depreciation.

Nominal and Real GDP

When GDP is measured on the basis of current price, it is called GDP at current prices or nominal GDP. On the other hand, when GDP is calculated on the basis of fixed prices in some year, it is called GDP at constant prices or real GDP.

Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of a arise in prices (or inflation). On the contrary, GDP may increase as a result of a fall in prices in a year but actually it may be less as compared to the last year. In both these cases, GDP does not show the real state of the economy.

This is avoided by measuring GDP at constant prices which is called real GDP. To find out the real GDP, **a base year is chosen when the general price level is normal, i.e., it is neither too high nor too low.** The prices are set to 100 (or 1) in the base year. The price level of the year for which real GDP is to be calculated is related to the base year on the basis of the following formula which is called the deflator index:

Real GDP = GDP for the Current Year x Base Year (100) / Current Year Index

GDP Deflator

GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100. Thus,

$$\text{GDP Deflator} = \frac{\text{Nominal (or Current Prices) GDP}}{\text{Real (or Constant Prices) GDP}} \times 100$$

Gross National Product (GNP)

GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

GNP includes four types of final goods and services:

1. Consumers' goods and services to satisfy the immediate wants of the people;
2. Gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods;
3. Goods and services produced by the government;
4. Net exports of goods and services, i.e., the difference between the value of exports and imports of goods and services, known as net income from abroad.

Precautions while calculating GNP

1. GNP is the measure of money, in which all kinds of goods and services produced in a country during one year are measured in terms of money at current prices and then added together.

2. In estimating GNP of the economy, the market price of only the final products should be taken into account. Many of the products pass through a number of stages before they are ultimately purchased by consumers. If those products were counted at every

stage, they would be included many a time in the national product. Consequently, the GNP would increase too much. To avoid double-counting, therefore, only the final products and not the intermediary goods should be taken into account.

3. Goods and services rendered free of charge are not included in the GNP, because it is not possible to have a correct estimate of their market price. For example, the bringing up of a child by the mother, imparting instructions to his son by a teacher, recitals to his friends by a musician, etc.

4. The transactions which do not arise from the produce of current year or which do not contribute in any way to production are not included in the GNP. The sale and purchase of old goods, and of shares, bonds and assets of existing companies are not included in GNP because these do not make any addition to the national product, and the goods are simply transferred.

5. Payments received under social security, e.g., unemployment insurance allowance, old age pension, and interest on public loans are also not included in GNP, because the recipients do not provide any service in lieu of them. But the depreciation of machines, plants and other capital goods is not deducted from GNP.

6. Profits earned or losses incurred on account of changes in capital assets as a result of fluctuations in market prices are not included in the GNP if they are not responsible for the current production or economic activity. For example, if the price of a house or a piece of land increases due to inflation, the profit earned by selling it will not be a part of GNP. But if, during the current year, a portion of a house is constructed anew, the increase in the value of the house (after subtracting the cost of the newly constructed portion) will be included in the GNP. Similarly, variations in the value of assets, that can be ascertained beforehand and are insured against flood or fire, are not included in the GNP.

7. Income earned through illegal activities is not included in the GNP. Although the goods sold in the black market are priced and fulfil the needs of the people, but as they are not useful from the social point of view, the income received from their sale and purchase is always excluded from the GNP. There are two main reasons for this. One, it is not known whether these things were produced during the current year or the preceding years. Two, many of these goods are foreign made and smuggled and hence not included in the GNP.

Three Approaches to GNP

1. The income method to GNP;
2. The expenditure method to GNP
3. The value added method to GNP

Income Method to GNP

The income method to GNP consists of the remuneration paid in terms of money to the factors of production annually in a country. Thus GNP is the sum total of the following items:

1. **Wages and salaries** : Under this head are included all forms of wages and salaries earned through productive activities by workers and entrepreneurs. It includes all sums received or deposited during a year by way of all types of contributions like overtime, commission, provident fund, insurance, etc.
2. **Rents** : Total rent includes the rents of land, shop, house, factory, etc. and the estimated rents of all such assets as are used by the owners themselves.
3. **Interest** : Under interest comes the income by way of interest received by the individual of a country from different sources. To this is added, the estimated interest on that private capital which is invested and not borrowed by the businessman in his personal business. But the interest received on governmental loans has to be excluded, because it is a mere transfer of national income.

4. **Dividends** : Dividends earned by the shareholders from companies are included in the GNP.
5. **Undistributed corporate profits** : Profits which are not distributed by companies and are retained by them are included in the GNP.
6. **Mixed incomes** : These include profits of an unincorporated business, self-employed persons and partnerships. They form part of GNP.
7. **Direct taxes** : Taxes levied on individuals, corporations and other businesses are included in the GNP.
8. **Indirect taxes** : The government levies a number of indirect taxes, like excise duties and sales tax. These taxes are included in the price of commodities. But revenue from these goes to the government treasury and not to the factors of production. Therefore, the income due to such taxes is added to the GNP.
9. **Depreciation** : Every corporation makes allowance for expenditure on wearing out and depreciation of machines, plants and other capital equipment. Since this sum also is not a part of the income received by the factors of production, it is, therefore, also included in the GNP.
10. **Net income earned from abroad** : This is the difference between the value of exports of goods and services and the value of imports of goods and services. If this difference is positive, it is added to the GNP and if it is negative, it is deducted from the GNP.

GNP according to the Income Method = Wages and Salaries + Rents + Interest + Dividends + Undistributed Corporate Profits + Mixed Income + Direct Taxes + Indirect Taxes + Depreciation + Net Income from abroad.

Expenditure Method to GNP

From the expenditure viewpoint, GNP is the sum total of expenditure incurred on goods and services during one year in a country. It includes the following items:

1. **Private consumption expenditure** : It includes all types of expenditure on personal consumption by the individuals of a country. It comprises expenses on durable goods like watch, bicycle, radio, etc., expenditure on single-used consumers' goods like milk, bread, ghee, clothes, etc., as also the expenditure incurred on services of all kinds like fees for school, doctor, lawyer and transport. All these are taken as final goods.
2. **Gross domestic private investment** : Under this the expenditure incurred by private enterprise on new investment and on replacement of old capital. It includes expenditure on house construction, factory- buildings, and all types of machinery, plants and capital equipment.
3. **Net foreign investment** : It means the difference between exports and imports or export surplus. Every country exports to or imports from certain foreign countries. The imported goods are not produced within the country and hence cannot be included in the national income, but the exported goods are manufactured within the country. Therefore, the difference in value between exports (X) and imports (M), whether positive or negative, is included in the GNP.
4. **Government expenditure on goods and services** : The expenditure incurred by the government on goods and services is a part of the GNP. Central, state or local governments spend a lot on their employees, police and army. To run the offices, the governments have also to spend on contingencies which include paper, pen, pencil and various types of stationery, cloth, furniture, cars, etc. It also includes the expenditure on government enterprises. But expenditure on transfer payments is not added, because these payments are not made in exchange for goods and services produced during the current year.

GNP according to the Expenditure Method=Private Consumption Expenditure (C) + Gross Domestic Private Investment (I) + Net Foreign Investment (X-M) + Government Expenditure on Goods and Services (G) = C+ I + (X-M) + G.

Value Added Method to GNP

Another method of measuring GNP is by value added. In calculating GNP, the money value of final goods and services produced at current prices during a year is taken into account. This is one of the ways to avoid double counting. But it is difficult to distinguish properly between a final product and an intermediate product.

For instance, raw materials, semi-finished products, fuels and services, etc. are sold as inputs by one industry to the other. They may be final goods for one industry and intermediate for others. So, to avoid duplication, the value of intermediate products used in manufacturing final products must be subtracted from the value of total output of each industry in the economy.

Thus, the difference between the value of material outputs and inputs at each stage of production is called the value added. If all such differences are added up for all industries in the economy, we arrive at the GNP by value added. GNP by value added = Gross value added + net income from abroad.

GNP at Market Prices

When we multiply the total output produced in one year by the market prices prevalent during that year in a country, we get the Gross National Product at market prices. Thus GNP at market prices means the gross value of final goods and services produced annually in a country plus net income from abroad.

GNP at Market Prices = GDP at Market Prices + Net Income from Abroad.

GNP at Factor Cost

GNP at factor cost is the sum of the money value of the income produced by and accruing to the various factors of production in one year in a country. It includes all items mentioned above under income method to GNP less indirect taxes. GNP at market prices always includes indirect taxes levied by the government on goods which raise their prices. But GNP at factor cost is the income that the factors of production receive in return for their services alone. It is the cost of production.

Thus GNP at market prices is always higher than GNP at factor cost. Therefore, in order to arrive at GNP at factor cost, we deduct indirect taxes from GNP at market prices. Again, it often happens that the cost of production of a commodity to the producer is higher than a price of a similar commodity in the market. In order to protect such producers, the government helps them by granting monetary help in the form of a subsidy equal to the difference between the market price and the cost of production of the commodity. As a result, the price of the commodity to the producer is reduced and equals the market price of a similar commodity.

For example, if the market price of rice is Rs. 3 per kg but it costs the producers in certain areas Rs. 3.50. The government gives a subsidy of 50 paise per kg to them in order to meet their cost of production. Thus in order to arrive at GNP at factor cost, subsidies are added to GNP at market prices.

GNP at Factor Cost = GNP at Market Prices – Indirect Taxes + Subsidies.

Net National Product (NNP)

NNP includes the value of the total output of consumption goods and investment goods. But the process of production uses up a certain amount of fixed capital. Some fixed equipment wears out, its other components are damaged or destroyed, and still others are rendered obsolete through technological changes. All this process is termed depreciation or capital *consumption allowance. In order to arrive at NNP, we deduct depreciation from GNP. The word 'net' refers to the exclusion of that part of total output which represents depreciation.*

So, **NNP = GNP—Depreciation.**

NNP at Market Prices

Net National Product at market prices is the net value of final goods and services evaluated at market prices in the course of one year in a country. If we deduct depreciation from GNP at market prices, we get NNP at market prices.

NNP at Market Prices = GNP at Market Prices - Depreciation.

NNP at Factor Cost

Net National Product at factor cost is the net output evaluated at factor prices. It includes income earned by factors of production through participation in the production process such as wages and salaries, rents, profits, etc. It is also called National Income. This measure differs from NNP at market prices in that indirect taxes are deducted and subsidies are added to NNP at market prices in order to arrive at NNP at factor cost. Thus,

NNP at Factor Cost = NNP at Market Prices – Indirect taxes+ Subsidies

= GNP at Market Prices – Depreciation – Indirect taxes + Subsidies.

= National Income.

Normally, NNP at market prices is higher than NNP at factor cost because indirect taxes exceed government subsidies. However, NNP at market prices can be less than NNP at factor cost when government subsidies exceed indirect taxes.

Domestic Income

Income generated (or earned) by factors of production within the country from its own resources is called domestic income or domestic product.

Domestic income includes:

(i) Wages and salaries,

(ii) rents, including imputed house rents,

(iii) interest,

(iv) dividends,

(v) undistributed corporate profits, including surpluses of public undertakings,

(vi) mixed incomes consisting of profits of unincorporated firms, self-employed persons, partnerships, etc.,

(vii) direct taxes.

Since domestic income does not include income earned from abroad, it can also be shown as:

Domestic Income = National Income-Net income earned from abroad.

Thus the difference between domestic income and national income is the net income earned from abroad. If we add net income from abroad to domestic income, we get national income.

National Income = Domestic Income + Net income earned from abroad

The net national income earned from abroad may be positive or negative. If exports exceed imports, net income earned from abroad is positive. In this case, national income is greater than domestic income. On the other hand, when imports exceed exports, net income earned from abroad is negative and domestic income is greater than national income.

Private Income

Private income is income obtained by private individuals from any source, productive or otherwise, and the retained income of corporations. It can be arrived at from NNP at Factor Cost by making certain additions and deductions.

The additions include transfer payments such as pensions, unemployment allowances, sickness and other social security benefits, gifts and remittances from abroad, windfall gains from lotteries or from horse racing, and interest on public debt. The deductions include income from government departments as well as surpluses from public undertakings, and employees' contribution to social security schemes like provident funds, life insurance, etc.

Private Income = National Income (or NNP at Factor Cost) + Transfer Payments + Intereston Public Debt — Social Security — Profits and Surpluses of Public Undertakings.

Personal Income

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in one year. Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

Personal income is derived from national income by deducting undistributed corporate profits, profit taxes, and employees' contributions to social security schemes. These three components are excluded from national income because they do reach individuals.

But business and government transfer payments, and transfer payments from abroad in the form of gifts and remittances, windfall gains, and interest on public debt which are a source of income for individuals are added to national income.

Personal Income = National Income – Undistributed Corporate Profits – Profit Taxes –Social Security Contribution + Transfer Payments + Interest on Public Debt.

Personal income differs from private income in that it is less than the latter because it excludes undistributed corporate profits.

Personal Income = Private Income – Undistributed Corporate Profits – Profit Taxes

Disposable Income

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain disposable income, direct taxes are deducted from personal income. Thus, **Disposable Income=Personal Income – Direct Taxes.**

But the whole of disposable income is not spent on consumption and a part of it is saved. Therefore, disposable income is divided into consumption expenditure and savings.

Thus, **Disposable Income = Consumption Expenditure + Savings.**

If disposable income is to be deduced from national income, we deduct indirect taxes plus subsidies, direct taxes on personal and on business, social security payments, undistributed corporate profits or business savings from it and add transfer payments and net income from abroad to it.

Disposable Income = National Income – Business Savings – Indirect Taxes + Subsidies – Direct Taxes on Persons – Direct Taxes on Business – Social Security Payments + Transfer Payments + Net Income from abroad.

Real Income

Real income is national income expressed in terms of a general level of prices of a particular year taken as a base. National income is the value of goods and services produced as expressed in terms of money at current prices. But it does not indicate the real state of the economy.

It is possible that the net national product of goods and services this year might have been less than that of the last year, but owing to an increase in prices, NNP might be higher this year. On the contrary, it is also possible that NNP might have increased but the price level might have fallen, as a result, national income would appear to be less than that of the last year. In both situations, the national income does not depict the real state of the country. To rectify such a mistake, the concept of real income has been evolved.

In order to find out the real income of a country, a particular year is taken as the base year when the general price level is neither too high nor too low and the price level for that year is assumed to be 100. Now the general level of prices of the given year for which the national income (real) is to be determined is assessed in accordance with the prices of the base year. For this purpose, the following formula is employed.

Real NNP = NNP for the Current Year x Base Year Index (=100) / Current Year Index

Per Capita Income

The average income of the people of a country in a particular year is called Per Capita Income for that year. This concept also refers to the measurement of income at current prices and at constant prices. For instance, in order to find out the per capita income for 2018, at current prices, the national income of a country is divided by the population of the country in that year.

$$\text{Per Capita Income for 2018} = \frac{\text{National Income for 2018}}{\text{Population of 2018}}$$

Similarly, for the purpose of arriving at the Real Per Capita Income, this very formula is used.

$$\text{Real Per Capita Income for 2018} = \frac{\text{Real National Income for 2018}}{\text{Population of 2018}}$$

This concept enables us to know the average income and the standard of living of the people. But it is not very reliable, because in every country due to unequal distribution of national income, a major portion of it goes to the richer sections of the society and thus income received by the common man is lower than the per capita income.

Chapter 03

INDIAN UNION BUDGET

Overview of Indian Union Budget

A description of anticipated receipts and expenses, known as the "Annual Financial Statement," must be presented to Parliament for consideration each fiscal year in accordance with Article 112 of the constitution. AFS → 112 → Parliament — FM

Budget

The Indian Union Budget is an annual financial statement presented by the Finance Minister of India in the Parliament. It outlines the government's revenue and expenditure for the upcoming financial year, which begins on April 1st and ends on March 31st of the following year.

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The Union Budget is an important tool for the government to manage the economy, allocate resources, and implement policies to achieve its economic and social objectives. Union Budget of a year, also referred to as the annual financial statement of the estimated receipts and expenditure of the government for that particular year. The followings are the estimates for the year 2023 and 2024 of the sources of various receipts and expenditures.

Objectives and Significance of Budget

One of the key objectives of the Indian Union Budget is to promote economic growth and development. To achieve this, the government allocates resources to various sectors such as agriculture, education, health, infrastructure, and defense.

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The budget also aims to promote social welfare and reduce poverty by increasing investments in social programs and schemes. Another objective of the Union Budget is to maintain macroeconomic stability by managing inflation and reducing the fiscal deficit. To achieve this, the government may introduce measures such as increasing taxes, reducing subsidies, and rationalizing government expenditure.

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The government may also take steps to attract foreign investment and promote exports, in order to increase foreign exchange reserves and stabilize the economy. The Indian Union Budget is also a reflection of the government's policy priorities and political agenda.

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For instance, in the 2021-22 Union Budget, the government focused on promoting infrastructure development, increasing healthcare spending, and boosting rural and agricultural growth. The government also announced several measures to promote digitalization, innovation, and entrepreneurship, as part of its vision to make India self-reliant and a global manufacturing hub. Businesses and industries are affected by changes in tax rates, subsidies, and government policies. Investors and financial markets also closely monitor the budget announcements, as they can affect stock prices, bond yields, and currency exchange rates. Similarly, individual taxpayers are affected by changes in income tax rates, deductions, and exemptions.

2047- Make in India

The Union Budget is also a platform for the government to announce policy reforms and initiatives. For instance, in recent years, the government has introduced several reforms such as the Goods and Services Tax (GST), Digital India, Make in India, and Atmanirbhar Bharat, which have had a significant impact on the Indian economy and society.

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Major Components of Union Budget

The Union Budget comprises three major components:

1. **Revenue Budget**
2. **Capital Budget**
3. **Fiscal Policy Statement**

The revenue budget includes the government's revenue and expenditure for the upcoming year, while the capital budget outlines the government's capital expenditure, including investments in infrastructure, and other long-term assets. The fiscal policy statement provides an overview of the government's macroeconomic policies and objectives for the upcoming financial year.

Revenue Budget:

The Revenue Budget consists of the revenue receipts of the Government (Tax revenues and non-tax revenues) and the revenue expenditure.

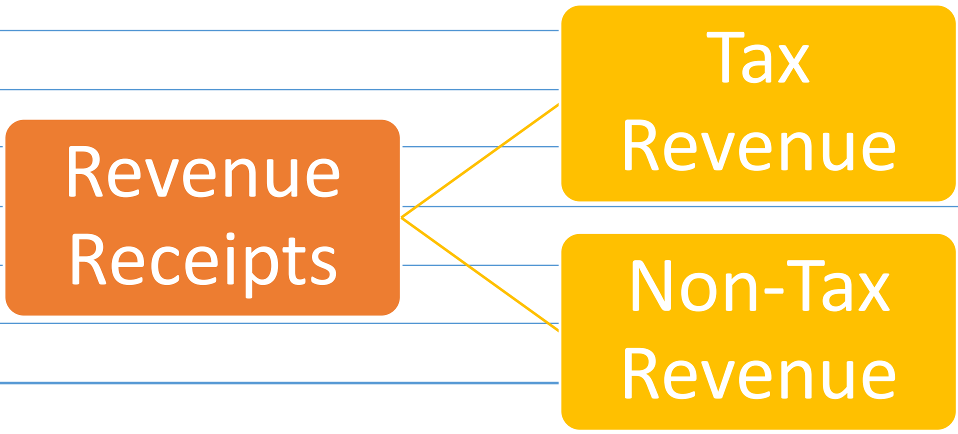
Tax revenues comprise proceeds of taxes and other duties levied by the Union. Other revenues are receipts of the government mainly consisting of interest and dividend on investments made by the government, and fees and receipts for other services rendered by the government.

The Revenue Budget of India is an essential component of the Union Budget, which lays out the government's revenue and expenditure plans for the upcoming fiscal year. The Revenue Budget is a crucial tool for promoting economic growth and development in India, as it enables the government to allocate resources efficiently and effectively towards critical areas such as education, healthcare, infrastructure, and social welfare programs.

The Revenue Budget comprises two major components:

1. Revenue Receipts
2. Revenue Expenditure

Revenue Receipts refer to the government's revenue inflows from various sources such as taxes, duties, fees, and other levies. Revenue Expenditure refers to the government's expenditure on various heads such as salaries and wages, interest payments, subsidies, pensions, and grants, among others. Revenue receipts includes tax revenue and non-tax revenue.



Tax Revenue: Tax revenue is the most significant source of revenue for the Indian government, which includes both direct and indirect taxes.
Direct taxes refer to taxes that are paid directly by individuals and corporations, such as income tax, corporate tax, and wealth tax. Indirect taxes refer to taxes that are levied on goods and services, such as excise duty, customs duty, and service tax. Tax revenue contributes around 70% of the government's total revenue receipts.

Non-Tax Revenue: Non-tax revenue refers to the government's revenue inflows from sources other than taxes, such as fees, fines, and other levies. Non-tax revenue includes sources such as interest receipts, dividends, and profits from public sector undertakings (PSUs), among others. Non-tax revenue contributes around 30% of the government's total revenue receipts.

There are three sources of the revenue that includes:
1. Tax Revenue
2. Non-tax Revenue
3. Capital Receipts (non-debt receipts and debt receipts)

Revenue Expenditure:
Revenue expenditure is the government's expenditure on various heads such
as salaries and wages, interest payments, subsidies, pensions, and grants, among others. The Revenue

Expenditure is broadly classified into two categories:
1. Plan Revenue Expenditure
2. Non-Plan Revenue Expenditure.

Plan Revenue Expenditure: Plan Revenue Expenditure refers to the government's expenditure on various Plan schemes and programs such as the National Rural Health Mission, National Rural Employment Guarantee Scheme, and National Highways Development Project, among others.

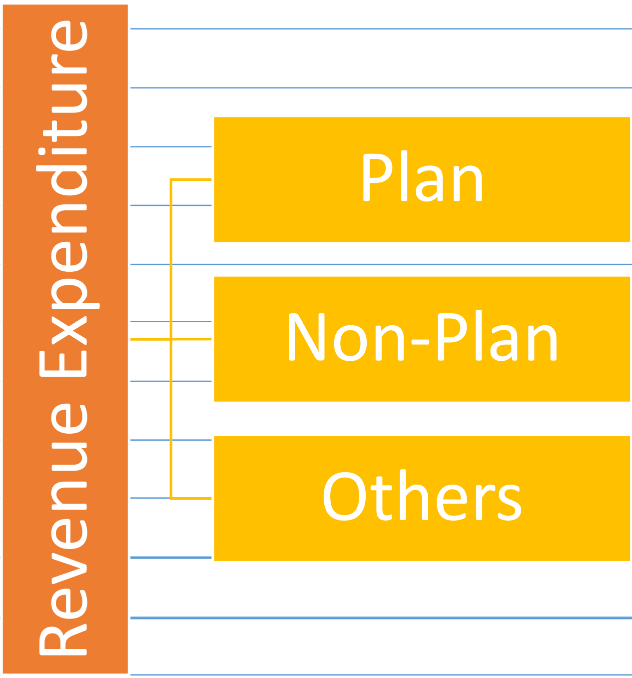
Plan Revenue Expenditure is an essential tool for promoting economic growth and development as it supports the government's socio-economic objectives and promotes inclusive growth.

Non-Plan Revenue Expenditure: Non-Plan Revenue Expenditure includes the government's expenditure on defense, interest payments, and subsidies, among others. Defense expenditure is a critical component of the government's expenditure as it ensures national security and sovereignty. Interest payments refer to the government's expenditure on servicing its debt, which is an essential component of fiscal management.

Subsidies are provided by the government to promote specific sectors such as agriculture, energy, and food, among others, and to support vulnerable sections of society.

Other Revenue Expenditure: Other Revenue Expenditure refers to the government's expenditure on various heads such as pensions, grants, and loans, among others. Pensions are provided to retired government employees as a form of social security.

Grants are provided to various organizations and institutions for promoting specific sectors such as education, healthcare, and social welfare. Loans are provided by the government to various organizations and institutions for promoting economic growth and development.



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Capital Budget

Capital Budget is an important component of the Union Budget. It refers to the government's expenditure on long-term assets, such as infrastructure, machinery, and equipment, which are expected to yield benefits over a period of time.

The capital budget is an essential tool for promoting economic growth and development by investing in critical areas such as transportation, energy, water supply, and communication. The Capital Budget is a critical tool for promoting economic growth and development in India.

It enables the government to invest in critical areas such as infrastructure, energy, and education, among others, which are essential for promoting economic development and improving the quality of life of its citizens. The Capital Budget also plays an important role in promoting social welfare and reducing poverty by investing in social programs and schemes.

Components:

Capital budget comprises three major components:

1. Plan Capital Expenditure
2. Non-Plan Capital Expenditure
3. Public Sector Undertakings (PSUs)

Plan Capital Expenditure

Plan Capital Expenditure includes the government's expenditure on various Plan schemes and programs such as the National Rural Health Mission, National Rural Employment Guarantee Scheme, and National Highways Development Project. Non-Plan Capital Expenditure includes the government's expenditure on defense, interest payments, and subsidies.

Public Sector Undertakings refer to government-owned companies such as Indian Oil, BHEL, and SAIL, among others, in which the government invests to promote their growth and development. Plan Capital Expenditure is a crucial component of the Capital Budget as it supports the government's socio-economic objectives and promotes inclusive growth.

The government allocates resources to various sectors such as agriculture, education, health, infrastructure, and defense, among others, to promote economic development and improve the quality of life of its citizens.
For instance, the government may invest in building roads, railways, airports, and ports to improve connectivity and promote trade and commerce. It may also invest in education and healthcare to improve human capital and reduce poverty.

Non-Plan Capital Expenditure

It is an important component of the Capital Budget as it includes expenditure on defense, interest payments, and subsidies, among others.
Defense expenditure is a critical component of the government's expenditure as it ensures national security and sovereignty. Interest payments refer to the government's expenditure on servicing its debt, which is an essential component of fiscal management.

Subsidies are provided by the government to promote specific sectors such as agriculture, energy, and food, among others, and to support vulnerable sections of society.

Public Sector Undertakings (PSUs) are government-owned companies in which the government invests to promote their growth and development.
The government may invest in PSUs to promote strategic sectors such as defense, energy, and infrastructure, among others. The government may also invest in PSUs to promote social welfare and support vulnerable sections of society, such as through investments in healthcare, education, and housing.

The Capital Budget is an essential tool for promoting economic growth and development by investing in critical areas such as infrastructure, energy, and education, among others. The Capital Budget also plays an important role in promoting social welfare and reducing poverty by investing in social programs and schemes. As such, it is important for the government to manage the Capital Budget effectively and transparently and ensure that its policies and measures are inclusive and sustainable.

Fiscal Deficit

Fiscal deficit is the gap between a government's total expenditure and its total revenue. In the context of India's budget, it refers to the amount of money the government borrows to finance its spending when its revenue falls short of expenses. The fiscal deficit is a crucial component of the budget, as it indicates the government's borrowing requirement and its impact on the economy.

There are several components of fiscal deficit in India's budget. The primary deficit is the difference between the government's revenue from taxes and non-tax sources and its expenses, excluding interest payments on past debt.

This component reflects the government's ability to finance its expenses from its revenue, excluding the cost of borrowing. Another component of fiscal deficit is the interest payments on past debt. This component indicates the burden of interest payments on the government's borrowing, which can impact the country's future borrowing ability and overall economic growth.

Additionally, the fiscal deficit also includes the revenue deficit, which is the difference between the government's revenue from taxes and non-tax sources and its expenses, excluding capital expenses. This component indicates the government's inability to finance its regular expenses from its revenue, excluding investments in long-term projects.

Capital expenses are another significant component of the fiscal deficit. These expenses are investments made by the government in infrastructure, education, healthcare, and other long-term projects. Capital expenses can help boost economic growth, but they also increase the government's borrowing requirement, leading to a higher fiscal deficit.

In recent years, India's fiscal deficit has been a major concern, with the country consistently reporting a high fiscal deficit to GDP ratio. The COVID-19 pandemic has further exacerbated the situation, with the government increasing its spending to support the economy and its citizens.

The fiscal deficit for the financial year 2020-21 was 9.5% of GDP, and the government has projected a fiscal deficit of 6.8% of GDP for the financial year 2021-22. But the percentage of fiscal deficit and primary deficit has declined in the latest budget estimate of 2023-24 by a significant amount which is a good sign of developing.

Fiscal Policy Highlights of 2023-24:

- Legislative proposals: In order to improve bank governance and boost investor trust, amendments will be made to the Banking Regulation Act of 1949, the Banking Companies (Acquisition and Transfer of Undertaking) Act of 1970, and the Reserve Bank of India Act of 1934. To enhance business operations in the Gujarat International Finance Tech-City International Financial Services Centre, several steps will be performed (GIFT IFSC). To avoid dual regulation under the Special Economic Zones Act of 2005, the IFSC Authority Act, 2019 will be revised to include arbitration and associated services under GIFT IFSC.

- Infrastructure: The program offering state governments 50 years of interest-free loans will be made available in 2023–2024 with a budget of Rs. 1.3 lakh crore. 100 essential transportation infrastructure projects will be undertaken to provide last and first mile connections for numerous industries, including ports, coal, and steel. A total of Rs 75,000 crore would be invested on this, including Rs 15,000 crore from private sources.

- Urban Development: Public agencies in tier-2 and tier-3 cities will be able to create urban infrastructure through the establishment of an urban infrastructure development fund. The National Housing Bank will handle the Fund, which is anticipated to receive a yearly allocation of Rs 10,000 crore. Urban planning reforms including effective land use and transit-oriented development would be encouraged in states and localities. By reforming property taxes and allocating user fees, cities will be encouraged to increase their credit worthiness for municipal bonds.

- Agriculture: To support Agri-startups in rural areas, an agriculture accelerator fund will be established. With an investment of Rs 6,000 crore, a sub-scheme of the PM Matsya Sampada Yojana would be introduced to aid fishers, fish vendors, and MSMEs. Farmer storage facilities will be made up to accommodate their product. The PM Program for Restoration, Awareness, Nourishment and Improvement of Mother Earth (PM-PRANAM) will be introduced to encourage states and UTs to encourage the balanced use of chemical and natural fertilizers.

- Energy and Environment: Under the Environment (Protection) Act of 1986, a Green Credit Program will be announced in order to encourage businesses, people, and local governments to take ecologically responsible measures and to assist raise additional funds for such initiatives. Viability gap funds will be used to assist battery energy storage systems with a 4,000 MWh capacity.

- Research and development (R&D): At a few elite academic institutions, three centres of excellence for AI R&D will be developed. Engineering schools will establish up 100 labs for the creation of 5G-enabled applications. Access to anonymized data will be made possible by the publication of a national data governance policy. Via centers of excellence, a program to encourage pharmaceutical research and innovation will be implemented.

- Health: In addition to the 157 medical colleges currently in operation, nursing institutions will be established. A Project involving seven crore individuals in the age range of 0-40 in impacted tribal areas will be started in order to eradicate sickle cell anemia by 2047.

- Finance: For access to all financial and auxiliary information, a national registry will be set up. Mahila Samman Savings Certificate, a short-term savings program, will be introduced. Moreover, the Senior Citizens Savings Scheme deposit cap would rise from Rs 15 lakh to Rs 30 lakh.

- *Governance: Financial sector regulators will be urged to adopt a KYC system, and the KYC procedure will be made simpler. For reporting data to various government entities, a unified filing process will be established. To resolve legal issues between the government and its undertakings, a voluntary settlement program will be implemented. On a pilot basis, the finance structure for a few schemes will be switched from input-based to result-based.*

Saptarishi-7 Priorities of Union Budget 2023-24

YES ACADEMY
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Chapter 04

INDIAN FINANCIAL MARKETS

Introduction

Financial markets refer broadly to any marketplace where the trading of securities occurs, including the stock market, bond market, forex market, and derivatives market, among others. Financial markets are vital to the smooth operation of capitalist economies.

Types of Financial Markets

1. Stock Markets

These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO), with shares subsequently traded among various buyers and sellers in what is known as a secondary market.

Typical participants in a stock market include (both retail and institutional) investors and traders, as well as market makers (MMs) and specialists who maintain liquidity and provide two-sided markets. Brokers are third parties that facilitate trades between buyers and sellers but who do not take an actual position in a stock.

2. Over-the-Counter Markets

An over-the-counter (OTC) market is a decentralized market—meaning it does not have physical locations, and trading is conducted electronically—in which market participants trade securities directly between two parties without a broker. While OTC markets may handle trading in certain stocks (e.g., smaller or riskier companies that do not meet the listing criteria of exchanges), most stock trading is done via exchanges. Certain derivatives markets, however, are exclusively OTC, and so make up an important segment of the financial markets.

3. Bond Markets

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. You may think of a bond as an agreement between the lender and borrower that contains the details of the loan and its payments. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the United States Treasury, for example. The bond market also is called the debt, credit, or fixed-income market.

4. Money Markets

Typically the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers.

5. Derivatives Markets

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. In and of itself a derivative is worthless. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products, that derive their value from underlying instruments like bonds, commodities, currencies, interest rates, market indexes, and stocks.

Futures markets are where futures contracts are listed and traded. Unlike forwards, which trade OTC, futures markets utilize standardized contract specifications, are well-regulated, and utilize clearinghouses to settle and confirm trades. Options markets, such as the Chicago Board Options Exchange (CBOE), similarly list and regulate options contracts. Both futures and options exchanges may list contracts on various asset classes, such as equities, fixed-income securities, commodities, and so on.

6. Forex Market

The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than $5 trillion in daily transactions, which is more than the futures and equity markets combined. As with the OTC markets, the forex market is also decentralized and consists of a global network of computers and brokers from around the world. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

7. Commodities Markets

Commodities markets are venues where producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money.

The bulk of trading in these commodities, however, takes place on derivatives markets that utilize spot commodities as the underlying assets. Forwards, futures, and options on commodities are exchanged both OTC and on listed exchanges around the world such as the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE).

8. Cryptocurrency Markets

Today, hundreds of crypto currency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another. Since the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud. Decentralized exchanges are also available that operate without any central authority. These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies.

Overview of Indian Financial Ecosystem

The financial system of an economy is a crucial element for its economic development. It facilitates the flow of funds from the households (savers) to business organisations (investors), thereby assisting in the creation of wealth for the nation. Mainly, the financial system of a country is concerned with the following:

(a) Allocation and mobilisation of savings.

(b) Provision of funds.

(c) Facilitating the financial transactions.

(d) Developing financial markets.

(e) Provision of legal financial structure.

(f) Provision of financial and advisory services.

There are four main components of the Indian Financial System. This includes:

1. Financial Institutions
2. Financial Assets
3. Financial Services
4. Financial Markets

1. Financial Institutions

The Financial Institutions act as a mediator between the investor and the borrower. The investor's savings are mobilised either directly or indirectly via the Financial Markets.

The main functions of the Financial Institutions are as follows:

- A short term liability can be converted into a long term investment
- It helps in conversion of a risky investment into a risk-free investment
- Also acts as a medium of convenience denomination, which means, it can match a small deposit with large loans and a large deposit with small loans

The financial institutions can further be divided into two types:

1. **Banking Institutions or Depository Institutions** – This includes banks and other credit unions which collect money from the public against interest provided on the deposits made and lend that money to the ones in need.

2. **Non-Banking Institutions or Non-Depository Institutions** – Insurance, mutual funds and brokerage companies fall under this category. They cannot ask for monetary deposits but sell financial products to their customers.

Further, Financial Institutions can be classified into three categories:

1. **Regulatory** – Institutes that regulate the financial markets like RBI, IRDA, SEBI, etc.
2. **Intermediates** – Commercial banks which provide loans and other financial assistance such as SBI, BOB, PNB, etc.
3. **Non Intermediates** – Institutions that provide financial aid to corporate customers. It includes NABARD, SIBDI, etc.

2. Financial Assets

The products which are traded in the Financial Markets are called Financial Assets.

1. **Call Money** – When a loan is granted for one day and is repaid on the second day, it is called call money. No collateral securities are required for this kind of transaction.
2. **Notice Money** – When a loan is granted for more than a day and for less than 14 days, it is called notice money. No collateral securities are required for this kind of transaction.
3. **Term Money** – When the maturity period of a deposit is beyond 14 days, it is called term money.
4. **Treasury Bills** – Also known as T-Bills, these are Government bonds or debt securities with a maturity of less than a year. Buying a T-Bill means lending money to the Government.
5. **Certificate of Deposits** – It is a dematerialised form (Electronically generated) for funds deposited in the bank for a specific period of time.
6. **Commercial Paper** – It is an unsecured short-term debt instrument issued by corporations.

3. Financial Services

It is made up of products and services offered by Asset Management and Liability Management Businesses. They assist in obtaining the necessary cash and ensure that they are invested effectively.
They offer their expertise up to the stage of servicing lenders and help to decide the financing combination. They support lending and investing, making and authorising payments and settlements, buying and selling assets, managing risk exposures in financial markets, and borrowing.
Leasing firms, mutual fund companies, merchant bankers, portfolio managers, bill discounting and acceptance businesses are a few examples. Many expert services are provided by the financial services industry, including credit rating, venture capital funding, mutual funds, merchant banking, depository services, book building, etc.

4. Financial Markets

The marketplace where buyers and sellers interact with each other and participate in the trading of money, bonds, shares and other assets is called a financial market.

The financial market can be further divided into four types:

Capital Market –The purpose of the capital market is to finance long-term investments. The duration of the transactions in this market will be longer than a year.

Money Market – A wholesale debt market for highly liquid, short-term instruments with little risk. In this market, funds are offered for terms ranging from one day to one year. Generally speaking, the government, banks, and financial organisations control this market.

Foreign exchange Market – One of the most developed markets across the world, the Foreign exchange market, deals with the requirements related to multi-currency. The transfer of funds in this market takes place based on the foreign currency rate.

Credit Market – A market where short-term and long-term loans are granted to individuals or Organisations by various banks and Financial and Non-Financial Institutions is called Credit Market.

5. Money

Money is defined as anything that is accepted as payment for goods and services or as a means of repaying debt. It serves as a store of value and a means of exchange. It makes it simpler to swap various commodities and services for cash.

Key Facets and Growth of Financial Institutions in India

The significant characteristics of Indian financial system are as under:

1. Plays a pivotal role in accelerating the rate and volume of savings through the provision of different financial instruments and efficient mobilisation of savings.
2. It is playing a significant role in increasing the national output by providing funds to corporate customers to expand their business operations.
3. Safeguarding the interests of the investors by ensuring smooth financial transactions through regulatory bodies like, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) etc.
4. Contributes substantially towards the economic development and raising the standard of living of the people.
5. Promotes development of weaker sections of the society through rural development banks and cooperative societies.
6. Assist corporate customers to make better financial decisions by offering effective financial and advisory services.
7. Facilitates financial deepening and broadening. Financial deepening refers to an increase in financial assets as a percentage of GDP and financial broadening pertains to an increasing number of participants in the financial system.

(I) Banking Sector

The banking industry handles finances in a country including cash and credit. Banks are the institutional bodies that accept deposits and grant credit to the entities and play a major role in maintaining the economic stature of a country. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the monetary policy in the country.

Banks are classified into four categories –

(i) Commercial Banks

(ii) Small Finance Banks

(iii) Payments Banks

(iv) Co-operative Banks

A brief description of the aforesaid forms of banks is as under:

1. **Commercial Banks** : Commercial Banks can be further classified into public sector banks, private sector banks, foreign banks and Regional Rural Banks (RRB). On the other hand, cooperative banks are classified into urban and rural. Apart from these, a fairly new addition to the structure is payments bank. Commercial Banks are regulated under the Banking Regulation Act, 1949 and their business model is designed to make profit. Their primary function is to accept deposits and grant loans to the general public, corporate and government.

   Public sector banks are the nationalised banks and account for more than 75 per cent of the total banking business in the country. Majority of stakes in these banks are held by the government

   Private sector banks are those in which a major stake or equity is held by private shareholders. All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well.

   A foreign bank is one that has its headquarters in a foreign country but operates in India as a private entity. These banks are under the obligation to follow the regulations of their home country as well as the country in which they are operating.

   Regional Rural Banks (RRBs) are also scheduled commercial banks but they are established with the main objective of providing credit to weaker sections of the society like agricultural labourers, marginal farmers and small enterprises. They usually operate at regional levels in different states of India and may have branches in selected urban areas as well.

The list of scheduled public sector banks, private banks, foreign banks and regional rural banks are provided in the following tables.

Table 1

Scheduled Public Sector Banks

Sr.No.	List of scheduled public sector banks
1.	Bank of Baroda
2.	Bank of India
3.	Bank of Maharashtra
4.	Canara Bank
5.	Central Bank of India
6.	Indian Bank
7.	Indian Overseas Bank
8.	Punjab & Sind Bank
9.	Punjab National Bank
10.	State Bank of India
11.	UCO Bank
12.	Union Bank of India

Table 2

Scheduled Private Sector Banks

List of Scheduled Private Sector Banks

Sr.No.	Name of the Bank
1.	Axis Bank Ltd.
2.	Bandhan Bank Ltd.
3.	CSB Bank Ltd.
4.	City Union Bank Ltd.
5.	DCB Bank Ltd.
6.	Dhanlaxmi Bank Ltd.
7.	Federal Bank Ltd.
8.	HDFC Bank Ltd
9.	ICICI Bank Ltd.
10.	IndusInd Bank Ltd
11.	IDFC First Bank Ltd.

12.	Jammu & Kashmir Bank Ltd.
13.	Karnataka Bank Ltd.
14.	Karur Vysya Bank Ltd.
15.	Kotak Mahindra Bank Ltd
16.	Lakshmi Vilas Bank Ltd.
17.	Nainital Bank Ltd.
18.	RBL Bank Ltd.
19.	South Indian Bank Ltd.
20.	Tamilnad Mercantile Bank Ltd.
21.	YES Bank Ltd.

Table 3

List of Foreign Banks

List of Scheduled Foreign Banks in India

Sr.No.	Name of the Bank
1.	Australia & New Zealand Banking Group Ltd.
2.	Westpac Banking Corporation
3.	Bank of Bahrain & Kuwait BSC
4.	AB Bank Ltd.
5.	Sonali Bank Ltd.
6.	Bank of Nova Scotia
7.	Industrial & Commercial Bank of China Ltd.
8.	BNP Paribas
9.	Credit Agricole Corporate & Investment Bank
10.	Societe Generale
11.	Deutsche Bank
12.	HSBC Ltd
13.	PT Bank Maybank Indonesia TBK
14.	Mizuho Bank Ltd.
15.	Sumitomo Mitsui Banking Corporation

16.	MUFG Bank, Ltd.
17.	Cooperatieve Rabobank U.A.
18.	Doha Bank
19.	Qatar National Bank
20.	JSC VTB Bank
21.	Sberbank
22.	United Overseas Bank Ltd
23.	FirstRand Bank Ltd
24.	Shinhan Bank
25.	Woori Bank
26.	KEB Hana Bank
27.	Industrial Bank of Korea
28.	Kookmin Bank
29.	Bank of Ceylon
30.	Credit Suisse A.G
31.	CTBC Bank Co., Ltd.
32.	Krung Thai Bank Public Co. Ltd.
33.	Abu Dhabi Commercial Bank Ltd.
34.	Mashreq Bank PSC
35.	First Abu Dhabi Bank PJSC
37.	Barclays Bank Plc.
38.	Standard Chartered Bank
39.	NatWest Markets Plc
40.	American Express Banking Corporation
41.	Bank of America
42.	Citibank N.A.
43.	J.P. Morgan Chase Bank N.A.
44.	SBM Bank (India) Limited*
45.	DBS Bank India Limited*
46.	Bank of China Ltd.

Table 4

List of Scheduled Regional Rural Banks

Sr.No. Name of the RRB	Sr. No. Name of the RRB
1. Andhra Pragathi Grameena Bank	23. Manipur Rural Bank
2. Andhra Pradesh Grameena Vikas Bank	24. Meghalaya Rural Bank
3. Arunachal Pradesh Rural Bank	25. Mizoram Rural Bank
4. Aryavart Bank	26. Nagaland Rural Bank
5. Assam Gramin Vikash Bank	27. Odisha Gramya Bank
6. Bangiya Gramin Vikas Bank	28. Paschim Banga Gramin Bank
7. Baroda Gujarat Gramin Bank	29. Prathama UP Gramin Bank
8. Baroda Rajasthan Kshetriya Gramin Bank	30. Puduvai Bharathiar Grama Bank
9. Baroda UP Bank	31. Punjab Gramin Bank
10. Chaitanya Godavari Grameena Bank	32. Rajasthan Marudhara Gramin Bank
11. Chhattisgarh Rajya Gramin Bank	33. Saptagiri Grameena Bank
12. Dakshin Bihar Gramin Bank	34. Sarva Haryana Gramin Bank
13. Ellaquai Dehati Bank	35. Saurashtra Gramin Bank
14. Himachal Pradesh Gramin Bank	36. Tamil Nadu Grama Bank
15. J&K Grameen Bank	37. Telangana Grameena Bank
16. Jharkhand Rajya Gramin Bank	38. Tripura Gramin Bank
17. Karnataka Gramin Bank	39. Utkal Grameen bank
18. Karnataka Vikas Grameena Bank	40. Uttar Bihar Gramin Bank
19. Kerala Gramin Bank	41. Uttarakhand Gramin Bank
20. Madhya Pradesh Gramin Bank	42. Uttarbanga Kshetriya Gramin Bank
21. Madhyanchal Gramin Bank	43. Vidharbha Konkan Gramin Bank
22. Maharashtra Gramin Bank	

Small Finance Banks : This is a niche banking segment in the country and is aimed to provide financial inclusion to sections of the society that are not served by other banks. The main customers of small finance banks include micro industries, small and marginal farmers, unorganized sector entities and small business units. These are licensed under Section 22 of the Banking Regulation Act, 1949 and are governed by the provisions of RBI Act, 1934 and FEMA.

List of Scheduled Small Finance Banks

Sr.No.	Name of the Bank	Sr.No.	Name of the Bank
1.	Au Small Finance Bank Limited	7.	ESAF Small Finance Bank Limited
2.	Capital Small Finance Bank Limited	8.	Fincare Small Finance Bank Limited
3.	Equitas Small Finance Bank Limited	9.	Jana Small Finance Bank Limited
4.	Suryoday Small Finance Bank Limited	10.	North East Small Finance Bank Ltd.
5.	Ujjivan Small Finance Bank Limited	11.	Shivalik Small Finance Bank Limited
6.	Utkarsh Small Finance Bank Limited		

2. **Payments Bank :** This is a relatively new model of bank in the Indian Banking industry. It was conceptualised by the RBI and is allowed to accept a restricted deposit. they also offer services like ATM cards, debit cards, net-banking and mobile-banking. The following are the payments bank in India:

List of Scheduled Payments Banks

Sr.No.	Name of the Bank	Sr.No.	Name of the Bank
1.	India Post Payments Bank Limited	3.	Paytm Payments Bank Limited
2.	Fino Payments Bank Limited	4.	Airtel Payments Bank Limited

Comparison between Traditional Banks and Payment Banks

Features	Traditional Banks	Payment Banks
Accept deposits	Yes	Yes
Pay Interest on Deposits	Yes	Yes
Withdrawal facility for customers	Yes	Yes
Provide loans or involve in lending activities	Yes	No
Issue credit cards	Yes	No
Investment products	Yes	Yes
Maximum Deposit limit	No limit	Rs.1 lakh only per individual customer.

3. **Urban Co-operative Banks** : Urban Co-operative Banks refer to the primary cooperative banks located in urban and semi-urban areas. These banks essentially lent to small borrowers and businesses centered around communities, localities work place groups.

4. **State Co-operative Banks** : A State Cooperative Bank is a federation of the central cooperative bank which acts as custodian of the cooperative banking structure in the State.

The major developments of Indian banking sector is captured in the following table-

Years	Major Developments
1921	· Closed market · State-owned Imperial Bank of India was the only bank existing.
1935	· RBI was established as the central bank of country. · Quasi central banking role of Imperial Bank came to an end.
1936-1955	· Imperial Bank expanded its network to 480 branches. · In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India.
1956-2000	· Nationalisation of 14 large commercial banks in 1969 & 6 more banks in 1980.

	· Entry of private players such as ICICI intensifying the competition. · Gradual technology upgradation in PSU banks .
2000 onwards	· In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted into a bank · In 2009, the government removed the Banking Cash Transaction Tax which had been introduced in 2005.
2018 onwards	· As per Union Budget 2019-2020, Provision coverage ratio of banks reached highest in 7 years. · As per RBI, as of November 30, 2018, India recorded foreign exchange reserves of approximately US$ 393.72 billion.

Public Sector Banks

The banking sector was developed during the British era. British East India Company set up three banks: Bank of Bengal (1809); Bank of Bombay (1840) and Bank of Madras (1843). These three banks were later merged and called Imperial Bank, which was taken over by State Bank of India (SBI) in 1955. The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

July 19, 1969 was an important date in the history of Indian banking. As it is on this date that 14 major scheduled commercial banks having a deposit of more than INR 50 crore were nationalized. The 14 banks were Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Overseas Bank, Indian Bank, Bank of Baroda, Union Bank, Allahabad Bank, United Bank of India, UCO Bank and Bank of India.

A recent drastic initiative of Government of India is going to change the scenario of public sector banks. As a banking reform measure, 10 public sector banks will be merged into four entities. This would take the number of banks in the country from 27 in 2017 to 12. These bank mergers, and the ones already carried out, will lead to the creation of big banks with an enhanced capacity to give credit. These big banks, would also be able to compete globally and increase their operational efficiency by reducing their cost of lending.

The largest of the mergers announced is that of Punjab National Bank with Oriental Bank of Commerce and United Bank. The amalgamated entity — to be called Punjab National Bank — will become the second-largest public sector bank in India, after the State Bank of India. It will also become the second-largest bank in India in terms of its branch network, with a combined total of 11,437 branches.

The second merger announced was that of Canara Bank and Syndicate Bank, which would render the merged entity the fourth-largest public sector bank. The merger also has the potential to lead to large cost reductions due to network overlaps. Further, the similar business cultures of the two banks would also facilitate a smooth transition.

The fourth merger announced is of Indian Bank and Allahabad Bank. This, too, would lead to a doubling of the size of the business and would also lead to a huge potential for scaling up due to the complementary networks of the two banks.

Private Sector Banks

Private Sector Banks refer to those banks where most of the capital is in private hands. In India, there are two types of private sector banks viz. Old Private Sector Banks and New Private Sector Banks. Old private sector banks are those which existed in India at the time of nationalization of major banks but were not nationalized due to their small size or some other reason. After the banking reforms, these banks got the license to continue and have existed in India along with new private banks and government banks.

Industrial Finance Corporation Of India And Small Industries Development Bank Of India

(a) Industrial Finance Corporation of India

The Government of India established The Industrial Finance Corporation of India (IFCI) on July 1, 1948 by way of an IFC Act 1948.

IFCI was the first Development Financial Institution of India set up to propel economic growth through the development of infrastructure and industry. To aid in raising funds directly through capital markets, the constitution of IFCI was changed from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was changed to 'IFCI Limited' with effect from October 1999.

IFCI has been able to maintain the financial sustainability with the consistent support and cooperation of all its stakeholders and particularly the Government of India. In addition to its core competence in long term lending to industrial and infrastructure sectors, IFCI is also enhancing its organizational value through optimising the value of core and non-core assets & investments. Over the years, IFCI played a pivotal role in establishment of various institutes (including some of its subsidiaries & associates) - that are respected in their fields today, namely Stock Holding Corporation of India Ltd (SHCIL), National Stock Exchange Ltd (NSE), LIC Housing Finance Ltd, Tourism Finance Corporation of India Ltd (TFCI), Management Development Institute (MDI), ICRA Ltd, among many others. With the changes in the markets over a period of time a few of the subsidiaries were divested and currently IFCI Group has the following subsidiaries – Stock Holding Corporation of India Ltd, IFCI Venture Capital Fund Ltd, IFCI Factors Ltd, IFCI Infrastructure Development Ltd, IFCI Financial Services Ltd, MPCON, Management Development Institute and Institute of Leadership Development.

IFCI Products

1. Loan Products

2. Project Finance
3. Corporate Finance
4. Short Term Loan product (tenure upto 1 year)
5. Syndication & Advisory
6. Structured Products

(b) Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities.

Some of SIDBI's key initiatives over more than the past 25 years of tirelessly promoting the growth of MSMEs, include-

(i) Providing a cumulative assistance of around INR 5.40 lakh crore channelized into MSME segment.

(ii) Directly impacting over 360 lakh persons/enterprises through its branch network of around 80 offices spread across the country as well as through the network of banks / institutions (having more than 1.25 lakh branches) across the country.

(iii) Extending loans, equity and quasi-equity aggregating to INR 13,689 crore benefitting 356 lakh disadvantaged people, mostly women, through its Micro Finance operations.

(iv) Deepening its outreach by nurturing and evolving more than 100 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.

(v) Supporting more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling initiatives.

(vi) Facilitating Institutions Building by adopting a SIDBI Plus approach and creating its Subsidiary and Associate Institutions for providing impetus to the growth of MSME ecosystem.

(vii) Developing a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category, for serving the needs of the dynamic and consistently evolving MSME Sector.

Key Milestones in the Journey of SIDBI

Years	Milestones Achieved
1990	Setting up of SIDBI
1994	Foundation of Microfinance laid
1995	Technology Bureau for Small Enterprise (TBSE) was set up which converted into India SME Technology Services
1999	Setting up of SIDBI Venture Capital Limited
2000	Setting up of Credit Guarantee Fund Trust for Micro & Small Enterprise (CGTMSE)
2005	Setting up of SMERA Ratings Ltd.
2008	Birth of India SME Asset Reconstruction Company Ltd. (ISARC)
2015	Set up MUDRA
2016	Trade Recievables Discounting System (TReDS)
2017	Launched Certified Credit Counsellor (CCC)
2018	Launch MSME Pulse and CriSidEx

Regional Rural Banks (RRBs)

Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September, 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors.

The current structure of RRBs is that Central Government owns 50% , Sponsorship Bank holds 35% and State Government holds 15%.

Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions. RRBs perform various functions in the following heads:

(a) Providing banking facilities to rural and semi-urban areas.
(b) Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
(c) Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking,UPI etc.
(d) Small financial banks.

Cooperative Banks

Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

The cooperative banks, however, differ from joint stock banks in the following manner:

1. Cooperative banks issue shares of unlimited liability, while the joint stock banks issue shares of limited liability.
2. In a cooperative bank, one shareholder has one vote whatever the number of shares he may hold. In a joint stock bank, the voting right of a shareholder is determined by the number of shares he possesses.

3. Cooperative banks are generally concerned with the rural credit and provide financial assistance for agricultural and rural activities. Joint stock companies are primarily concerned with the credit requirements of trade and industry.
4. Cooperative banking in India is federal in structure. Primary credit societies are at the lowest rung. Then, there are central cooperative banks at the district level and state cooperative banks at the state level. Joint stock banks do not have such a federal structure.
5. Cooperative credit societies are located in the villages spread over the entire country. Joint stock banks and their branches mainly concentrate in the urban areas, particularly in the big cities.

History of Cooperative Banking in India

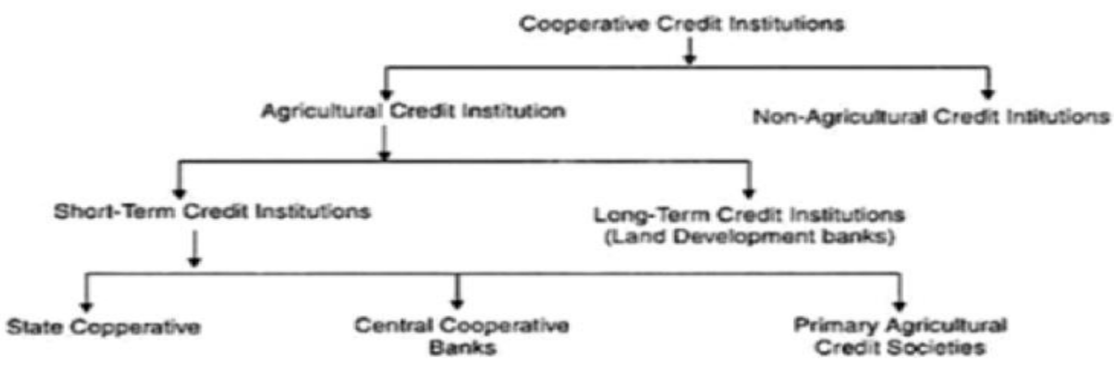
Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means."

Structure of Cooperative Banking

There are different types of cooperative credit institutions working in India. These institutions can be classified into two broad categories- agricultural and non-agricultural. Agricultural credit institutions dominate the entire cooperative credit structure. Agricultural credit institutions are further divided into short-term agricultural credit institutions and long-term agricultural credit institutions.

The short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have a three-tier federal structure- (a) at the apex, there is the state cooperative bank in each state; (b) at the district level, there are central cooperative banks;

(c) at the village level, there are primary agricultural credit societies. Long-term agricultural credit is provided by the land development banks.



There are 4 types of co-operative banks in India:

1. Central Co-Operative Banks : These banks are organized and operated at the district level and can be of two types:

(a) Co-operative Banking Union

(b) Mixed control Co-operative Bank

In the first, the members of the bank are the co-operative societies only. However, in the second, the members can be co-operative societies as well as individuals. The central co-operative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. State Co-Operative Banks : These banks are organized and operated at the district level and rest at the top of the hierarchy in the co-operative credit structure. These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.

3. Primary Co-Operative Banks : These offer credit services in urban and semi-urban regions. Thus, they are not considered as agricultural credit societies. Primary Co-Operative

Banks receive concessional refinance services from RBI and IDBI from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. Land Development Banks : The land development banks are divided into three tiers which are primary, state, and central. These offer credit services to the farmers for developmental purposes. They are regulated by the National Bank for Agricultural and Rural Development (NABARD).

Non-Banking Finance Companies (NBFCs)

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956/2013 and engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in instalments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

i. NBFC cannot accept demand deposits;
ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in the case of banks.

Different types of NBFCs

NBFCs are categorized a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs, b) non-deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and c) by the kind of activity they conduct. Within this broad categorization the different types of NBFCs are as follows:

1. **Asset Finance Company (AFC)** : An AFC is a company which is a financial institution carrying on as, its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as the aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

2. **Investment Company (IC)** : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.

3. **Loan Company (LC)** : LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

4. **Infrastructure Finance Company (IFC)** : IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs. 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.

5. **Systemically Important Core Investment Company (CIC-ND-SI)** : CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the some conditions

6. **Infrastructure Debt Fund : Non- Banking Financial Company (IDF-NBFC)** : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through the issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

7. **Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI)** : NBFC-MFI needs to deploy at least 85% of its assets in the form of micro-finance to be given as loans to those with an annual income of `120,000 (in urban areas) and `60,000 (in rural areas). These loans need to be sanctioned without collateral; should not exceed `50,000 and should not have a loan tenure of less than 24 months. The borrower has the repay the loan in weekly, monthly or fortnightly installments or as agreed.

8. **Non-Banking Financial Company – Factors (NBFC-Factors)** : NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

9. **Mortgage Guarantee Companies (MGC)** - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs. 100 crore.

10. **NBFC- Non-Operative Financial Holding Company (NOFHC)** is financial institution through which promoter / promoter groups will be permitted to set up a new bank.

It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

Services offered by NBFCs

NBFCs offer a wide range of financial services, including:

- Personal loans
- Home loans
- Vehicle loans
- Gold loans
- Microfinance
- Leasing and hire-purchase services
- Credit card services
- Insurance services
- Investment and asset management services

Differences between NBFCs and banks?

Although NBFCs lend money and make investments, just like banks do, there are a few distinct differences between them:

- NBFCs cannot accept demand deposits
- NBFCs cannot issue cheques drawn on itself
- Unlike in case of banks, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs
- NBFCs do not form part of the payment and settlement system

Basics Of Capital Market : Types of Shares and Debentures

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading centres were Bombay(now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre wherein bank shares were the major trading stock.

During the American Civil War (1860-61). Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was a tremendous slump in share prices.

Trading was at that time limited to a dozen brokers, their trading place was under a banyan tree in front of the Town Hall in Bombay. These stockbrokers organized an informal association in 1875-Native Shares and Stock Brokers Association. Bombay. The stock exchanges in Calcutta and Ahmedabad, also industrial and trading centres; came up later. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925. Indian remained largely inactive till the 1970s. Partial liberalisation of the economy and pro-capital market policies during the 1980s infused some life into the markets, but it was only the economic liberalisation of the 1990s that provided a lasting impetus.

Today, segments of India's capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency (price discovery), tradability (low impact cost), resilience (co-movement of rates across product classes and yield curves), and stability. In particular, their ability to withstand several periods of stress, notably the Asian financial crisis in 1997-98, the global financial crisis in 2007-09 and the "taper tantrum" episode in 2013, is a sign of their increasing maturity.

Types of Shares

Equity share capital -

Equity shares, also known as ordinary shares or common shares represent the owners' capital in a company. The holders of these shares are the real owners of the company. They have control over the working of the company. Equity shareholders are paid dividend after paying them to the preference shareholders. The rate of dividend on these shares depends upon the profits of the company. They may be paid a higher rate of dividend or they may not get anything.

Equity share is a main source of finance for any company giving investors rights to vote, share profits and claim on assets. Various types of equity share capital are authorized, issued, subscribed, paid up, rights, bonus, sweat equity etc. The expression of the value of equity shares in terms of the face value or par value, issue price, book value, market value, intrinsic value, stock market value etc.

Types of Equity Share Capital / Shares

Types of Equity Share Capital

- Authorised Share Capital
- Issued Share Capital
- Subscribed Share Capital
- Paid up Capital
- Rights Shares
- Sweat Equity Shares

YES ACADEMY
Say Yes to CS

1. **Authorised Share Capital** : It is the maximum amount of capital which a company can issue. The companies can increase it from time to time. However, for that we need to comply with some formalities and also have to pay some fees to the legal bodies.

2. **Issued Share Capital :** It is that part of authorized capital which the company offers to the investors.

3. **Subscribed Share Capital :** It is that part of issued capital which an investor accepts and agrees upon.

4. **Paid up Capital :** It is the part of the subscribed capital, which the investors pay.

6. **Rights Shares :** These shares are those which a company issues to it's existing shareholders. The company issues such kind of shares in order to protect the ownership rights of the existing investors

7. **Sweat Equity Shares** : Sweat equity shares are issued to exceptional employees or directors of the company for their exceptional job in terms of providing know-how or intellectual property rights to the company.

Preference Share Capital

Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. If the company enters bankruptcy, preferred stockholders are entitled to be paid from company assets before common stockholders. Most preference shares have a fixed dividend, while common stocks generally do not. Preferred stock shareholders also typically do not hold any voting rights, but common shareholders usually do.

Types of Preference Shares

Types of Preference Shares

- Cumulative Preference Shares
- Non-Cumulative Preference Shares
- Redeemable Preference Shares
- Participating Preference Shares
- Non-participating Preference Shares
- Convertible Preference Shares
- Non-convertible Preference Shares

1. ***Cumulative Preference Shares*** : *Preference dividend is payable if the company earns an adequate profit. However, cumulative preference shares carry additional features which allow the preference shareholders to claim unpaid dividends of the years in which dividend could not be paid due to insufficient profit.*

2. ***Non-Cumulative Preference Shares*** : *The holders of non-cumulative preference shares will get preference dividend if the company earns sufficient profit but they do not have the right to claim unpaid dividend which could not be paid due to insufficient profit.*

3. ***Redeemable Preference Shares*** : *Redeemable preference shares are those shares which are redeemed or repaid after the expiry of a stipulated period.*

4. **Participating Preference Shares :** Participating preference shareholders are entitled to share the surplus profit and surplus assets of the company in addition to the preference dividend.

5. **Non-participating Preference Shares** : Non-participating preference shareholders are not entitled to share surplus profit and surplus assets like participating preference shareholders.

6. **Convertible Preference Shares :** The holders of convertible preference shares are given an option to convert whole or part of their holding into equity shares after a specific period of time.

7. **Non-convertible Preference Shares** : The holders of non-convertible preference shares do not have the option to convert their holding into equity shares i.e. they remain as preference share till their redemption.

Debentures

"A debenture is a document under the company's seal which provides for the payment of principal sum and interest thereon at regular intervals, which is usually secured by a fixed or floating charge on the company's property or undertaking and which acknowledges a loan to the company".

A debenture holder is a creditor of the company. A fixed rate of interest is paid on debentures. The interest on debentures is a charge on the profit and loss account of the company.

Types of Debentures

Types of Debentures

- Secured Debentures
- Unsecured Debentures
- Redeemable Debentures
- Irredeemable Debentures
- Fully Convertible Debentures
- Partly Convertible Debentures
- Non-Convertible Debentures

1. **Secured Debentures :** These are debentures that are secured against an asset/assets of the company.]So in case the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan.

2. **Unsecured Debentures** : These are not secured by any charge against the assets of the company. Normally such kinds of debentures are not issued by companies in India.

3. **Redeemable Debentures** : These debentures are payable at the expiry of the end of a specified period. They are payable either in the lump sum or in installments over a time period.

4. **Irredeemable Debentures** : Such debentures are perpetual in nature. There is no fixed date at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long time interval.

5. **Fully Convertible Debentures** : These shares can be converted to equity shares at the option of the debenture holder.

6. **Partly Convertible Debentures** : Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

7. **Non-Convertible Debentures :** Such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

8. **Bearer Debentures** – Such debentures are payable to the bearer thereof. These can be transferred merely by delivery. Interest is paid to the person who produces the interest coupon attached to such debentures.

9. **Registered Debentures** are those which are payable to the persons who appear in the Register of Debenture holders. These can be transferred only by executing a transfer deed. Interest is paid to the registered holder.

Financial Assistance Scenario For Small And Medium Enterprises And Startups

I. Small and Medium Enterprises in India

(a) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

Description	The objectives of the scheme is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability, sustained employment, to enhance marketability of products of such clusters, to equip traditional artisans of the associated clusters with the improved skills, to make provision for common facilities and improved tools and equipments for artisans, to strengthen the cluster governance systems with the active participation of the stakeholders, and to build up innovated and traditional skills, improved technologies, advanced processes, market intelligence

and new models of public-private partnerships, so as to gradually replicate similar models of cluster-based regenerated traditional industries.

Nature of assistance	*The financial assistance provided for any specific project shall be subject to a maximum of Rs 8 (eight) crore to support Soft, Hard and Thematic interventions.*
Who can apply?	*Non-Government organizations (NGOs), institutions of the Central and State Governments and semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), Private sector by forming cluster specific SPVs, Corporates and Social Responsibillity (CSR) foundations with expertise to undertake cluster development.*

(b) A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)-

Objectives of the Scheme:

(i) Create new jobs and reduce unemployment
(ii) Promote entrepreneurship culture in India
(iii) Grassroots economic development at the district level
(iv) Facilitate innovative business solution for un-met social needs
(v) Promote innovation to further strengthen the competitiveness of MSME sector.

Nature of Assistance - *80 Livelihood business incubators (2014-2016) to be set up by NSIC, KVIC or Coir Board or any other Institution/agency of GoI/State Govt. on its own or by any of the agency/Scheme for promotion of Innovation, Entrepreneurship and Agro-Industry organisation of the M/o MSME, one-time grant of 100% of the cost of Plant & Machinery other than the land and infrastructure or an amount up to Rs.100 lakhs whichever is less to be provided*

YES ACADEMY
Say Yes to CS

(c) Entrepreneurship and Skill Development Programme (ESDP)

Description	Entrepreneurship Development Programmes are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSEs. These EDPs are generally conducted in ITIs , Polytechnics and other technical institutions, where skill is available to motivate them towards self-employment.
Nature of assistance	20 % of the total targeted of ESDPs are conducted exclusively for weaker sections of the society i.e. (SC/ST/women and PH) with a stipend of Rs.500/- per month per candidate under the Promotional Package for (Micro, Small Enterprises) MSEs. No fee is charged from the candidates under these programmes.
Who can apply?	These programmes are conducted by MSME-DIs of Ministry.

(a) Schemes of National Small Industries Corporation (NSIC)

The schemes of National Small Industries Corporation are as under:

Single Point Registration - The Government is the single largest buyer of a variety of goods. With a view to increase the share of purchases from the small-scale sector, the Government Stores Purchase Programme was launched in 1955-56. NSIC registers Micro & Small Enterprises (MSEs) under Single Point Registration scheme (SPRS) for participation in Government Purchases.

2. Financial Assistance for Start-Ups

There are numerous schemes launched by Government of India for financing startups.

(a) The Venture Capital Assistance Scheme:

This scheme is run by Ministry of Agriculture and Farmers welfare. Venture Capital Assistance is financial support in the form of an interest free loan provided by SFAC to qualifying projects to meet shortfall in the capital requirement for implementation of the project.

The **benefits** of the Venture Capital Assistance Scheme are as under:

(i) Help in assisting agripreneurs to make investments in setting up agribusiness projects through financial participation.
(ii) Provides financial support for preparation of bankable Detailed Project Reports (DPRs) through Project Development Facility (PDF).

Eligibility Criteria (Who can apply)-

- Farmers
- Producer Groups
- Partnership/Proprietary Firms
- Self Help Groups
- Companies
- Agripreneurs
- Units in agriexport zones
- Agriculture graduates Individually or in groups for setting up agribusiness projects.

(b) Support for International Patent Protection in Electronics & Information Technology (SIP-EIT):

This scheme is managed by Ministry of Electronics & Information Technology. SIP-EIT is a scheme to provide financial support to MSMEs and Technology Start-up units for international patent filing to encourage innovation and recognize the value and capabilities of global IP along with capturing growth opportunities in ICTE sector.

Eligibility Criteria :

1. The Applicant should be registered under the MSME Development Act 2006.

2. The applicant should be a registered company under the Companies Act, 2013/1956 and should fulfil the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006

3. The applicant should be a registered STP Unit and should fulfill the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006

4. The applicant should be a technology incubation enterprise or a startup located in an incubation centre/ park and registered as a company (a certification from the incubation centre/ park in this case is mandatory).

(c) Stand-Up India for Financing SC/ST and/or Women Entrepreneurs :

This scheme is managed by Small Industries Development Bank of India (SIDBI). Stand Up India Scheme facilitate bank loans between 10 lakh and 1 crore to atleast one scheduled caste (SC) or Scehduled Tribe, borrower and atleast one women per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

Eligibility :

1. SC/ST and/or women entrepreneurs; above 18 years of age.
2. Loans under the scheme is available for only greenfield project. GreenField signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.
3. In case of non-individual enterprises,51% of the shareholding and controlling stakes should be held by either SC/ST and/or Women Entrepreneur.
5. Borrower should not be in default to any bank or financial institution.

Chapter 05

INDIAN ECONOMY

Primary (Agriculture And Allied Activities)

The primary sector is that which is involved in obtaining raw materials or natural resources from the planet. The kind of economic activities that can exist in a location depend on its characteristics. This industry produces goods that are offered or sold to the general population. Utilising the Earth's natural resources, like water, minerals, vegetation, etc., it is able to carry out its economic activities. There are two categories of primary industries:

Genetic Industry

This industry involved the extraction or gathering of raw materials, which can then be enhanced through labour-intensive manufacture. Agriculture, forestry, fisheries, and livestock management are a few examples of the primary sector's genetic industry. These industries are susceptible to advances in renewable resource technology and science.

Extractive Industry

This category includes the extraction or manufacture of finite raw materials that cannot be replaced or replenished by agriculture. In the extractive industries, stone is quarried, mineral fuels are extracted, and mineral ores are mined.

Primary Sector Classifications

Primary industries include the following: Farming:

Farmers cultivate plants and raise animals that may be utilised to produce food or other items on their property. Agriculture is a primary-sector industry. It is the ability to make raw food using agricultural methods. Rough materials and textiles are separated from food and fuel to form four distinct product groups. The food category includes egg yolks, milk, vegetables, meats, and oils. Cotton is a raw material used in agriculture to produce clothes.

Mining

The extraction of raw materials from the ground, such as rock, sand, metals, clay, gemstones, and minerals, is known as mining. A mining company's most valuable assets are its reserves and resources. Ore resources are located, the profit potential is assessed, and precious metals are extracted.

Mining is also a significant source of raw materials for the secondary sector, used to manufacture and create various imported goods. Natural gas, petrol, and water are examples of non-renewable resources included in the concept of mining. Fishing: Fishing is one of the world's most critical primary businesses.

You'll be responsible for everything from shipping and promoting fish goods to preserving them and processing them. Industrial fish farming is the fastest-growing food production technology globally, and fish farms presently provide about half of the world's seafood. Forestry: The forest products business makes a substantial contribution to world economies. For various sectors, forestry is a crucial supplier of raw materials. All forms of forest sector goods help address some of the needs of contemporary civilization while also improving worldwide human well-being.

Agriculture is the primary source of livelihood for about 58% of India's population. Gross Value Added by agriculture, forestry, and fishing was estimated at Rs. 19.48 lakh crore (US$ 276.37 billion) in FY20. Share of agriculture and allied sectors in gross value added (GVA) of India at current prices stood at 17.8 % in FY20. The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year due to its immense potential for value addition, particularly within the food processing industry.

The Indian food and grocery market is the world's sixth largest, with retail contributing 70 per cent of the sales. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (GVA) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment. According to Inc42, the Indian agricultural sector is predicted to increase to US$ 24 billion by 2025. The private sector's share in seed production increased from 57.28% in 2017 to 64.46% in FY21. India is the world's second-largest producer of rice, wheat, sugarcane, cotton, groundnuts and fruits & vegetables. It also produced 25% of the world's pulses, as of last decade, until 2019.

Major Investments

According to the Department for Promotion of Industry and Internal Trade (DPIIT), the Indian food processing industry has cumulatively attracted Foreign Direct Investment (FDI) equity inflow of about **US$ 9.08 billion between April 2000 and March 2019.**

Some major investments and developments in agriculture are as follows:

- Investments worth Rs 8,500 crore (US$ 1.19 billion) have been announced in India for ethanol production.
- The first mega food park in Rajasthan was inaugurated in March 2018.
- Agrifood start-ups in India received funding of US$ 1.66 billion between 2013-17 in 558 deals.
- In 2017, the agriculture sector in India witnessed 18 M&A deals worth US$ 251 million.
- From 2017 to 2020, India received ~US$ 1 billion in agritech funding. With significant interest from the investors, India ranks third in terms of agritech funding and number of agritech start-ups by 2025, Indian agritech companies are likely to witness investments worth US$ 30-35 billion.
- In March 2020, Fact, the oldest large scale fertiliser manufacturer in the country, crossed one million production and sales mark.
- Investment worth Rs. 8,500 crore (US$ 1.19 billion) have been announced in India for ethanol production.

Major Government Initiatives

Some of the recent major government initiatives in the sector are as follows:

- Prime Minister of India, launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM Kisan) and transferred Rs 2,021 crore (US$ 284.48 million) to the bank accounts of more than 10 million beneficiaries on February 24, 2019.
- The Government of India has come out with the Transport and Marketing Assistance (TMA) scheme to provide financial assistance for transport and marketing of agriculture products in order to boost agriculture exports.

- The Agriculture Export Policy, 2018 was approved by Government of India in December 2018. The new policy aims to increase India's agricultural exports to US$ 60 billion by 2022 and US$ 100 billion in the next few years with a stable trade policy regime.
- In September 2018, the Government of India announced Rs 15,053 crore (US$ 2.25 billion) procurement policy named 'Pradhan Mantri Annadata Aay SanraksHan Abhiyan' (PM-AASHA), under which states can decide the compensation scheme and can also partner with private agencies to ensure fair prices for farmers in the country.
- In September 2018, the Cabinet Committee on Economic Affairs (CCEA) approved a Rs 5,500 crore (US$ 820.41 million) assistance package for the sugar industry in India.
- The Government of India is going to provide Rs 2,000 crore (US$ 306.29 million) for computerisation of Primary Agricultural Credit Society (PACS) to ensure cooperatives are benefitted through digital technology.
- With an aim to boost innovation and entrepreneurship in agriculture, the Government of India is introducing a new AGRI-UDAAN programme to mentor start-ups and to enable them to connect with potential investors.
- The Government of India has launched the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) with an investment of Rs 50,000 crore (US$ 7.7 billion) aimed at the development of irrigation sources for providing a permanent solution from drought.
- The Government of India plans to triple the capacity of food processing sector in India from the current 10 per cent of agriculture produce and has also committed Rs 6,000 crore (US$ 936.38 billion) as investments for mega food parks in the country, as a part of the Scheme for Agro- Marine Processing and Development of Agro-Processing Clusters (SAMPADA).
- The Government of India has allowed 100 per cent FDI in marketing of food products and in food product e-commerce under the automatic route.
- In October 2021, the Union Minister of Home Affairs and Co-operation launched the 'Dairy Sahakar' scheme in Anand, Gujarat.
- Ministry of Civil Aviation launched the Krishi UDAN 2.0 scheme in October 2021. The scheme proposes assistance and incentive for movement of agri-produce by air transport. The Krishi UDAN 2.0 will be implemented at 53 airports across the country, largel

focusing on Northeast and tribal regions, and is expected to benefit farmers, freight forwarders and airlines.

- In October 2021, Agricultural and Processed Food Products Export Development Authority (APEDA) signed a Memorandum of Understanding (MoU) with ICAR-Central Citrus Research Institute (ICAR-CCRI), Nagpur, for boosting exports of citrus and its value-added products.
- In October 2021, the Union Ministry of Agriculture and Farmers Welfare announced that 820,600 seed mini-kits will be distributed free of cost in 343 identified districts across 15 major producing states under a special programme. This programme is likely to boost production and productivity by speeding up the seed replacement rate and subsequently, help in increasing farmer's income.
- In September 2021, Prime Minister Mr. Narendra Modi launched 35 crop varieties with special traits such as climate resilience and higher nutrient content.
- Prime Minister of India launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) and transferred Rs. 2,021 crore (US$ 284.48 million) to bank accounts of more than 10 million beneficiaries on February 24, 2019. As per the Union Budget 2021-22, Rs. 65,000 crore (US$ 8.9 billion) was allocated to Pradhan Mantri Kisan Samman Nidhi (PM-Kisan).
- In September 2021, the Union Ministry of Agriculture and Farmers' Welfare signed five MoUs with CISCO, Ninjacart, Jio Platforms Limited, ITC Limited and NCDEX e-Markets Limited. This MoU will have five pilot projects, which will help farmers make decisions on the kind of crops to grow, variety of seeds to use and the best practices to adopt to maximise yield.
- With a budget of US$ 1.46 billion, the 'Production-Linked Incentive Scheme for Food Processing Industry (PLISFPI)' has been approved to develop global food manufacturing champions commensurate with India's natural resource endowment and to support Indian food brands in international markets.

The key highlights of Union Budget 2023 for Agriculture Sector

- Agri-startups by young entrepreneurs will be supported by the launch of an Agriculture Accelerator Fund.
- The agricultural credit will be raised to Rs.20 trillion, with an emphasis on dairy, fisheries, and animal husbandry.
- A new sub-scheme of the PM Matsya Sampada Yojana will be introduced with a targeted investment of Rs.6,000 crore to further enable the activities of fish vendors, fishermen, and micro and small businesses, increase the efficiency of the value chain, and broaden the market.
- The Center will empower 10 million farmers to switch to natural farming.
- To assist farmers in storing their produce and obtaining fair prices through timely sales, a sizable, decentralised storage capacity will be set up.
- A Digital Public Infrastructure for Agriculture will be created as an open source, open standard, and interconnected general welfare. It will make it possible for solutions that are inclusive of farmers and help to increase access to farm inputs, market intelligence, and support for startups in the agriculture sector.
- To encourage states and Union Territories to use alternative fertilisers, PM PRANAM will also be introduced.
- A Rs.2,516 crore investment was made to start computerising 63,000 Primary Agricultural Credit Societies (PACS).
- The Indian Institute of Millet Research, Hyderabad, will be supported as the Center of Excellence for Sharing Best Practices, Research, and Technologies at the International Level in order to make India a global hub for "Shree Anna".

The key highlights of Union Budget 2022 for Agriculture Sector

- Rs. 2.37 lakh crore direct payment to 1.63 crore farmers for procurement of wheat and paddy.
- Chemical free Natural farming to be promoted throughout the county. Initial focus is on farmer's lands in 5 Km wide corridors along the river Ganga.
- NABARD to facilitate fund with blended capital to finance startups for agriculture & rural enterprise.

- 'Kisan Drones' for crop assessment, digitization of land records, spraying of insecticides and nutrients.
- 9.08 lakh hectares of farmers' lands to receive irrigation benefits by Ken-Betwa link project.

The key highlights of Union Budget 2020-21 for Agriculture Sector

- The government has reduced the excise duty component to compensate for the additional cess.
- The target for agricultural credit has been increased to Rs.16.5 lakh crores in order to ensure availability of higher credit to farmers and for sectors like animal husbandry, diary, and fisheries.
- Allocation towards rural infrastructure development fund is proposed to be increased to Rs.40,000 crore by 2021-22.
- Water conservation commitment stands further enhanced since the Micro Irrigation Fund corpus has been increased to Rs.10,000 crore via NABARD.
- SWAMITVA scheme will be extended to all states and union territories.
- 2 perishable products to be included under 'Operation Green Scheme' and will ensure strengthening these crops' production clusters.
- 1,000 more mandis to be integrated with e-NAM to help boost transparency in the Agri markets.
- Setting up a multi-purpose seaweed park in Tamil Nadu proposed to help leverage country's vast ocean resources and R&D capabilities.

Secondary (Manufacturing)

Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, had launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. India is expected to become the fifth largest manufacturing country in the world by the end of the year 2020.

Major Investments

India has become one of the most attractive destinations for investments in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- As of December 2018, premium smartphone maker OnePlus is anticipating that India will become its largest Research and Development (R&D) base within the next three years.
- India's manufacturing PMI stood at 51.7 in May 2019. Also companies start to spend more on hiring and anticipate good growth in future prospects.
- As of October 2018, Filatex India, a polymer manufacturer, is planning to undertake forward integration by setting up a fabric manufacturing and processing unit.
- As of August 2018, IISC's Society of Innovation and Development (SID) and WIPRO 3D are collaborating to produce India's first industrial scale 3D printing machine.
- For its Commercial Vehicles, Ashok Leyland is utilising machine learning algorithms and its newly created telematics unit to improve the performance of the vehicle, driver and so on.
- The overall index stood at 134.0, as of July 2021. This rise in the index was supported by growth in the production of natural gas, steel, cement, fertilisers, coal, refinery products and electricity.
- The IHS Markit India Manufacturing Purchasing Managers' Index (PMI) stood at 55.9 in October 2021.
- As per the survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI), capacity utilization in India's manufacturing sector stood at 72.0% in the second quarter of FY22, indicating a significant recovery in the sector.
- Merchandise exports from select industries (including engineering, petroleum products, gems & jewellery, drugs & pharmaceuticals and chemicals) stood at US$ 151.96 billion between April 2021 and October 2021.

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Major Government Initiatives

The Government of India has taken several initiatives to promote a healthy environment for the growth of the manufacturing sector in the country. Some of the notable initiatives and developments are:

- In October 2018, the Government of India released the draft National Policy on Electronics (NPE) which has envisaged the creation of a US$ 400 billion electronics manufacturing industry in the country by 2025.
- In September 2018, the Government of India exempted 35 machine parts from basic custom duty in order to boost mobile handset production in the country.
- Government of India is in the process of coming up with a new industrial policy which envisions the development of a globally competitive Indian industry. As of December 2018, the policy has been sent to the Union Cabinet for approval.
- In Union Budget 2018-19, the Government of India reduced the income tax rate to 25 per cent for all companies having a turnover of up to Rs 250 crore (US$ 38.75 million).
- Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Government of India increased export incentives available to labour intensive MSME sectors by 2 per cent.
- The Government of India has launched a phased manufacturing programme (PMP) aimed at adding more smartphone components under the Make in India initiative thereby giving a push to the domestic manufacturing of mobile handsets.
- The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.
- In May 2020, the Government of India increased FDI in defence manufacturing under the automatic route from 49% to 74%.
- The Ministry of Defence, Government of India, approved the "Strategic Partnership" model which will enable private companies to tie up with foreign players for manufacturing submarines, fighter jets, helicopters and armoured vehicles

- The Union Cabinet has approved the Modified Special Incentive Package Scheme (M-SIPS) in which, proposals will be accepted till December 2018 or up to an incentive commitment limit of Rs 10,000 crore (US$ 1.5 billion).
- With the help of Make in India drive, India is on a path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and an increasing purchasing power.
- On November 19, 2021, Prime Minister, Mr. Narendra Modi, laid the foundation stone for the Uttar Pradesh Defence Industrial Corridor project worth Rs. 400 crore (US$ 53.73 million) in Jhansi.
- In November 2021, the Experts' Advisory Committee (EAC) of the Department for Promotion of Industry and Internal Trade approved Rs. 3 crore (US$ 403,293.54) for the Atal Incubation Centre (AIC), Pondicherry Engineering College Foundation (PECF), under the Start-up India Seed Fund scheme.
- In September 2021, Prime Minister Mr. Narendra Modi approved the production-linked incentive (PLI) scheme in the textiles sector—for man-made fibre (MMF) apparel, MMF fabrics and 10 segments/products of technical textiles—at an estimated outlay of Rs. 10,683 crore (US$ 1.45 billion).
- India outlines a plan in August 2021 to reach its goal of US$ 1 trillion in manufactured goods exports.
- In July 2021, the government launched six technology innovation platforms to develop technologies and thereby, boost the manufacturing sector in India to compete globally.
- To propagate Make in India, in July 2021, the Defence Ministry issued a tender of Rs. 50,000 crore (US$ 6.7 billion) for building six conventional submarines under Project-75 India.
- In July 2021, the Ministry of Commerce and Industry announced that 104 start-ups from sectors, including food-tech, green energy, defence, education-tech, and health-tech, have joined 'Startup India Showcase', an online discovery platform for the country's most promising start-ups that provides various social and digital connect opportunities.
- In May 2021, the government approved a PLI scheme worth Rs. 18,000 crore (US$ 2.47 billion) for the production of advanced chemical cell (ACC) batteries; this is expected to

attract investments worth Rs. 45,000 crore (US$ 6.18 billion) in the country, and further boost capacity in core component technology and make India a clean energy global hub.

- To facilitate manufacturing and investment in sectors such as ICT and telecom, in May 2021, TEMA (Telecom Equipment Manufacturers Association of India) signed a collaboration deal with ICCC (Indo-Canada Chamber of Commerce) to promote 'Make in India' and 'Self-reliant India' initiatives.
- India's display panel market is estimated to grow from ~US$ 7 billion in 2021 to US$ 15 billion in 2025.
- The Mega Investment Textiles Parks (MITRA) scheme to build world-class infrastructure will enable global industry champions to be created, benefiting from economies of scale and agglomeration.
- Seven Textile Parks will be established over three years.
- The government proposed to make significant investments in the construction of modern fishing harbours and fish landing centres, covering five major fishing harbours in Kochi, Chennai, Visakhapatnam, Paradip, and Petuaghat, along with a multipurpose Seaweed Park in Tamil Nadu.
- The 'Operation Green' scheme of the Ministry of the Food Processing Industry, which was limited to onions, potatoes and tomatoes, has been expanded to 22 perishable products to encourage exports from the agricultural sector. This will facilitate infrastructure projects for horticulture products.
- India is emerging as an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

Major Investments

- In October 2021, information technology major Zoho, announced that it will invest Rs. 50-100 crore (US$ 6.7-13.4 million) and form a new company, that will focus on research and development (R&D) in the manufacturing sector.

- In August 2021, Wistron Corp. collaborated with India's Optiemus Electronics to manufacture products such as laptops and smartphones, giving a major boost to the 'Make in India' initiative and electronics manufacturing in the country.
- In FY21, India received a total foreign direct investment (FDI) inflow of US$ 81.72 billion, a 10% increase YoY.
- On February 16, 2021, Amazon India announced to start manufacturing electronic products in India, starting first with Amazon Fire TV stick manufacturing. The company plans to start manufacturing with contract manufacturer Cloud Network Technology, a subsidiary of Foxconn in Chennai by the end-2021.
- In April 2021, Samsung started manufacturing mobile display panels at its Noida plant and plans to ramp up manufacturing IT display panels soon.

Union Budget 2023-24 for The Manufacturing Sector

The budget highlighted the importance of manufacturing in the country. A total of 18,73,323 crore rupees have been allocated for the manufacturing sector which is 35.4 percent higher than the previous year's allocation.

Additionally, measures have been taken to boost India's exports, such as the introduction of the Trade Infrastructure For Export Scheme (TIES) which aims to promote Indian exports and the setting up of the National Traders Welfare Board which will provide assistance to small and medium scale enterprises. Additionally, measures have been taken to promote the Make in India campaign through the introduction of the National Action Plan for Promotion of Manufacturing.

Tertiary (Services)

India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Key Developments

- In October 2021, India's service exports increased by 23.52% to reach US$ 20.86 billion, while imports stood at US$ 12.71 billion.
- In June 2021, India's exports increased by 48.34% to US$ 32.5 billion, marking the seventh consecutive month of growth.
- The Indian services sector was the largest recipient of FDI inflows worth US$ 88.95 billion between April 2000 and June 2021. The services category ranked 1st in FDI inflow as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT).
- In August 2021, the Department of Telecommunications (DoT) issued a letter of intent (LoI) to OneWeb (backed by Bharti Group) for satellite communication services licence.
- In July 2021, Tata Teleservices collaborated with Zoom Video Communications to offer bundled communication services.
- In April 2021, the Ministry of Education (MoE) and University Grants Commission (UGC) started a series of online interactions with stakeholders to streamline forms and processes to reduce compliance burden in the higher education sector, as a follow-up to the government's focus on ease of doing business to enable ease of living for stakeholders.
- By October 2021, the Health Ministry's eSanjeevani telemedicine service, crossed 14 million (1.4 crore) teleconsultations since its launch, enabling patient-to-doctor consultations, from the confines of their home, and doctor-to-doctor consultations.
- In April 2021, Elon Musk's SpaceX has started accepting pre-orders for the beta version of its Starlink satellite internet service in India for a fully refundable deposit of US$ 99.
- In December 2020, a cohort of six health-tech start-ups—AarogyaAI, BrainSightAI, Fluid AI, InMed Prognostics, Wellthy Therapeutics, and Onward Assist—have been selected by the IndiaEdison Accelerator, fuelled by GE Healthcare. India Edison Accelerator, the company's first startup partnership programme focused on Indian mentors, creates strategic partners to co-develop healthcare solutions.
- The Indian healthcare industry is expected to shift digitally enabled remote consultations via teleconsultation. The telemedicine market in India is expected to increase at a CAGR of 31% from 2020 to 2025.

- In December 2020, Gamma Skills Automation Training introduced a unique robotics & automation career launch programme for engineers, an 'Industry 4.0 Hands-on Skill Learning Centre' located at IMT Manesar, Gurgaon in Haryana.
- In December 2020, the 'IGnITE' programme was initiated by Siemens, BMZ and MSDE to encourage high-quality training and technical education. 'IGnITE' aims to develop highly trained technicians, with an emphasis on getting them ready for the industry and future, based on the German Dual Vocational Educational Training (DVET) model. By 2024, this programme aims to upskill ~40,000 employees.
- In October 2020, Bharti Airtel entered the cloud communications market with the launch of business-centric 'Airtel IQ'.

Major Government Initiatives

Services Exports from India Scheme (SEIS)

(a) SEIS is aimed at promoting export of services from India by providing duty scrip credit for eligible export.

(b) Under this scheme, a reward of 3 to 5 per cent of net foreign exchange earned is given for Mode 1 and Mode 2 services.

(c) In the Mid-term review of FTP 2015-20, SEIS incentives to notified services were increased by 2 per cent.

National Digital Communications Policy 2018

The National Digital Communications Policy 2018 envisages three missions:

(a) Connect India: Creating Robust Digital Communications Infrastructure.

(b) Propel India: Enabling Next Generation Technologies and Services through Investments, Innovation and IPR generation.

(c) Secure India: Ensuring Sovereignty, Safety and Security of Digital Communications.

National Tourism Policy 2015

(a) Formulation of National Tourism Policy 2015 that would encourage the citizens of India to explore their own country as well as position the country as a 'Must See' destination for global travellers.

National Health Policy 2017

(a) The Union Cabinet, Government of India, has approved the National Health Policy 2017, which will provide the policy framework for achieving universal health coverage and delivering quality health care services to all at an affordable cost.

National Education Policy, 2020

The key highlights of the National Education Policy, 2020 are as under:

- Ensuring Universal Access at All Levels of schooling from pre-primary school to Grade 12;
- Ensuring quality early childhood care and education for all children between 3-6 years;
- New Curricular and Pedagogical Structure (5+3+3+4);
- No hard separations between arts and sciences, between curricular and extra-curricular activities, between vocational and academic streams;
- Establishing National Mission on Foundational Literacy and Numeracy;
- Emphasis on promoting multilingualism and Indian languages; The medium of instruction until at least Grade 5, but preferably till Grade 8 and beyond, will be the home language/ mother tongue/local language/regional language;
- Assessment reforms - Board Exams on up to two occasions during any given school year, one main examination and one for improvement, if desired;
- Setting up of a new National Assessment Centre, PARAKH (Performance Assessment, Review, and Analysis of Knowledge for Holistic Development);
- Equitable and inclusive education - Special emphasis given to Socially and Economically Disadvantaged Groups(SEDGs);
- A separate Gender Inclusion fund and Special Education Zones for disadvantaged regions and groups;
- Robust and transparent processes for recruitment of teachers and merit based performance;
- Ensuring availability of all resources through school complexes and clusters;

- Setting up of State School Standards Authority (SSSA);
- Exposure to vocational education in school and higher education system;
- Increasing GER in higher education to 50%;
- Holistic Multidisciplinary Education with multiple entry/exit options;
- NTA to offer Common Entrance Exam for Admission to HEIs;
- Establishment of Academic Bank of Credit;
- Setting up of Multidisciplinary Education and Research Universities(MERUs);
- Setting up of National Research Foundation(NRF);
- 'Light but Tight' regulation;
- Single overarching umbrella body for promotion of the higher education sector including teacher education and excluding medical and legal education- the Higher Education Commission of India (HECI)-with independent bodies for standard setting- the General
- Education Council; funding-Higher Education Grants Council (HEGC); accreditation- National Accreditation Council (NAC); and regulation- National Higher Education Regulatory Council (NHERC);
- Expansion of open and distance learning to increase GER;
- Internationalization of Education;
- Professional Education will be an integral part of the higher education system. Stand-alone technical universities, health science universities, legal and agricultural universities, or institutions in these or other fields, will aim to become multi-disciplinary institutions;
- Teacher Education - 4-year integrated stage-specific, subject- specific Bachelor of Education;
- Establishing a National Mission for Mentoring;
- Creation of an autonomous body, the National Educational Technology Forum (NETF) to provide a platform for the free exchange of ideas on the use of technology to enhance learning, assessment, planning, administration. Appropriate integration of technology into all levels of education;
- Achieving 100% youth and adult literacy;
- Multiple mechanisms with checks and balances will combat and stop the commercialization of higher education;

- All education institutions will be held to similar standards of audit and disclosure as a 'not forprofit' entity;
- The Centre and the States will work together to increase the public investment in Education sector to reach 6% of GDP at the earliest;
- Strengthening of the Central Advisory Board of Education to ensure coordination to bring overall focus on quality education;
- Ministry of Education: In order to bring the focus back on education and learning, it may be desirable to re-designate MHRD as the Ministry of Education (MoE).

FDI Policy

- 100 per cent FDI is allowed under automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline.
- Approval of 100 per cent FDI in aviation for foreign carriers.
- 100 per cent FDI is allowed under the automatic route in tourism and hospitality, subject to applicable regulations and laws.
- The Government of India allowed 100 per cent FDI in the education sector through the automatic route since 2002.
- For the healthcare sector, 100 per cent FDI is allowed under the automatic route for Greenfield projects and for brownfield project investments, up to 100 per cent FDI is permitted under the government route.
- FDI cap in the telecom sector has been increased to 100 per cent from 74 per cent; out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done through the FIPB approval route.
- Government has allowed 100 per cent FDI in the railway sector for approved list of projects.
- FDI limit for insurance companies has been raised from 26 per cent to 49 per cent and 100 per cent for insurance intermediates.

Further initiatives

- In October 2021, Prime Minister, Mr. Narendra Modi, approved the establishment of 157 new medical colleges to boost the accessibility of affordable health treatments among citizens.
- In October 2021, the government launched a production linked incentive (PLI) scheme to boost the manufacturing of telecom and networking products in India. The scheme is expected to attract an investment of Rs. 3,345 crore (US$ 446.22 million) over the next four years and generate additional employment for >40,000 individuals.
- In October 2021, the government launched phase-II of the Mahatma Gandhi National Fellowship to empower students and boost skill development.
- In October 2021, the PM Ayushman Bharat Health Infrastructure Mission was launched by the government, to strengthen the critical healthcare network across India in the next four to five years.
- In September 2021, India and the UK joined the 11th Economic and Financial Dialogue (EFD) to discuss the FTA (Free Trade Agreement) opportunities in services.
- Credit to non-food industries stood at Rs. 110.86 trillion (US$ 1.49 trillion), as of November 5, 2021.
- The Indian government is planning to introduce a credit incentive programme worth Rs. 50,000 crore (US$ 6.8 billion) to boost healthcare infrastructure in the country. The programme will allow companies to access funds to ramp up hospital capacity or medical supplies with the government acting as a guarantor.
- In June 2021, India and Australia announced its collaboration in cyber-enabled critical technologies, highlighting the requirement to boost the critical information security infrastructure such as 5G telecom networks.
- Under Union Budget 2021-22, the government allocated Rs. 7,000 crore (US$ 963.97 million) to the BharatNet programme to boost digital connectivity across India.
- FDI limit for insurance companies has been raised from 49% to 74% and 100% for insurance intermediates.
- In May 2021, the Ministry of Commerce and Industry announced that India received an FDI inflow of US$ 81.72 billion, the highest FDI during FY 2020-21.

- In March 2021, the central government infused Rs. 14,500 crore (US$ 1.99 billion) capital in Central Bank of India, Indian Overseas Bank, Bank of India and UCO Bank through non-interest bearing bonds.
- On January 15, 2021, the third phase of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was launched in 600 districts with 300+ skill courses. Spearheaded by the Ministry of Skill Development and Entrepreneurship, the third phase will focus on new-age and COVID-related skills. PMKVY 3.0 aims to train eight lakh candidates.
- In January 2021, the Department of Telecom, Government of India, signed an MoU with the Ministry of Communications, Government of Japan, to strengthen cooperation in the areas of 5G technologies, telecom security and submarine optical fibre cable system.
- On November 4, 2020, the Union Cabinet, chaired by the Prime Minister, Mr. Narendra Modi, approved to sign a memorandum of understanding (MoU) between the Ministry of Communication and Information Technology and the Department of Digital, Culture, Media and Sports (DCMS) of United Kingdom Government to cooperate in the field of telecommunications/ information and communication technologies (ICTs).
- In October 2020, the government selected Hughes Communications India to connect 5,000 village panchayats in border and naxal-affected states and island territories with satellite broadband under BharatNet project by March 2021.
- In September 2020, the government announced that it may infuse Rs. 200 billion (US$ 2.72 billion) in public sector banks through recapitalisation of bonds
- In the next five years, the Ministry of Electronics and Information Technology is working to increase the contribution of the digital economy to 20% of GDP. The government is working to build a cloud-based infrastructure for collaborative networks that can be used for the creation of innovative solutions by AI entrepreneurs and startups.
- On Independence Day 2020, Prime Minister Mr. Narendra Modi announced the National Digital Health Mission (NDHM) to provide a unique health ID to every Indian and revolutionise the healthcare industry by making it easily accessible to everyone in the country. The policy draft is under 'public consultation' until September 21, 2020.
- In September 2020, the Government of Tamil Nadu announced a new electronics & hardware manufacturing policy aligned with the old policy to increase the state's electronics output to US$ 100 billion by 2025. Under the policy, it aims to meet the

requirement for incremental human resource by upskilling and training >100,000 people by 2024.

- Government of India has launched the National Broadband Mission with an aim to provide Broadband access to all villages by 2022.

Agricultural And Industrial Policies Of India

(A) Agricultural Polices

The agricultural development policies during five year plans are as under:

(1) Five-year plan (1951-56) : The highest priority was accorded to increase of agricultural production. Nearly one third or 31 per cent of total plan funds were allocated to the agriculture sector. River valley projects were taken up. Irrigational facilities and fertilizer plants were established. Consequently, production of food-grains increased by 36 per cent in a short span of five years.

(2) Second five-year plan (1956-61) : It focused on industrial growth and only 20 per cent of plan allocation was devoted to agriculture. Still food-grains production exceeded the target due to extension of irrigation facilities and use of chemical fertilizers.

(3) Third Five Years Plan (1961-66) : The priorities were on self-sufficiency in food grains, meeting the raw material needs of industries and increase in exports. During this period, Green Revolution programme was started on a small scale. But this plan failed to meet the target due to Chinese aggression (1962), Indo-Pak war (1965) and severe and prolonged drought during 1965-66. There was a great crisis of food that forced Prime Minister L. B. Shatri to appeal to people to observe fast once a week. During the next three annual plans (1966-69) agriculture recorded 6- 9 per cent annual growth under the impact of Green Revolution. The production of food grain touched 94 million tonnes.

(4) Fourth Five Years Plan (1969-74) : It aimed at a 5 per cent annual growth in food grains. High Yielding Variety (HYV) of seeds, fertilizer use, new agriculture techniques and irrigation facilities provided to expand the area of Green Revolution. The production of wheat increased sharply but growth in rice, oilseeds and coarse grains were nominal resulting in only 3 per cent annual growth against the target of 5 per cent.

(5) Fifth Five Years Plan (1974-79) : It emphasised on self-sufficiency in food production and poverty eradication. Stress was laid on the extension of irrigation, expansion in cultivated area under HYV seeds and grant of loans and subsidies to farmers. Dry farming was propagated. This plan achieved its target successfully with 4.6 per cent growth. Almost all food grains except pulses witnessed an increase in production.

(6) Sixth Five Years Plan (1980-85) : It emphasised on land reforms, use of HYV seeds, chemical fertilisers and groundwater resources and improving post harvest technology as well as marketing and storage facilities. The annual growth rate was 6 per cent, highest ever during plan periods. The food-grain production reached 152 million tonnes.

(7) Seventh Five Year Plan (1985-90) : During this period, the highest growth in foodgrain, pulses and coarse cereals was recorded showing overall annual growth rate of 4 per cent. The areas of Green Revolution were expanded during the period.

(8) Eight Five Year Plan (1992-97) : This witnessed a tendency of stagnation in foodgrain production while oilseed registered a rapid growth.

(9) Ninth Five Year Plan (1997-02) : The ninth five year plan witnessed a mixed success. There were fluctuations in the foodgrain production. During this plan period National Agricultural Policy, 2000, was framed and several measures were announced including, watershed management, development of horticulture, agricultural credits and an insurance scheme for crops.

(10) Tenth Five Year Plan (2002-07) : In the Tenth Plan (2002-2007) focus was placed on (i) sustainable management of water and land resources, (ii) development of rural infrastructure to support agriculture, (iii) dissemination of agriculture technology, (iv) credit flow to agriculture sector, and (v) agricultural marketing reforms. The New Agricultural Policy The Government of India has announced (28th July 2000) a new National Agricultural policy, 2000, in the light of changes arising out of economic liberalization and globalization.

The main aims of the policy were:

(i) achieving more than 4 per cent per annum growth rate in the agriculture sector,

(ii) growth based on efficient use of resources and conservation of soil, water and biodiversity,

(iii) growth with equity in region and among the farmers,

(iv) growth that caters to the domestic market and maximizes benefits from exports of agricultural products and

(v) technologically, environmentally and economically sustainable growth.

(11) Eleventh Five Year Plan (2007-12) : The 11th Five Year Plan (2007–12) emphasised 'Inclusive growth' to achieve target growth of 4 per cent per annum in GDP from agriculture and allied services. Globally, studies indicate that a higher GDP in agriculture is more effective in alleviating poverty in comparison with higher GDP in other sectors.

To achieve 'Inclusive growth', the 11th plan aimed at the following:

(i) Improving accessibility of technology to farmers to increase production and ensure optimum use of natural resources.

(ii) Attracting higher public investments and ensuring the efficacy of such investments.

(iii) Promoting diversification for higher value crops and livestock.

(iv) Addressing issues pertaining to food security.

(v) Decentralising decision making to come up with customised solutions to specific local problems and to improve the accessibility of land, credit, skills and scale to the poor.

One of the major accomplishment of Eleventh Five Year Plan was launching of National Food Security Mission (NFSM) launched in 2007 and introduction of Rashtriya Krishi Vikas Yojana (RKVY) in the financial year 2008.

National Food Security Mission (NFSM) : In 2007, the Government of India launched the National Food Security Mission (NFSM) initiative to improve the country's overall crop production, especially that of rice, wheat and pulses. The primary objective of NFSM is to introduce technological components that include farm machines/implements as well as improved variants of seeds, soil ameliorants, plant nutrients and plant protection measures.

The government aimed to increase the production of rice, wheat and pulses by 10 million tons, eight million tons and two million tons, respectively, by the end of 2012. It had allocated Rs 4,883 crore (US$ 915.7 million) to NFSM, of which Rs 3,381 crore (US$ 634 million) was spent until 31 March 2011. Through NFSM, 25 million tonnes of additional food grain were produced in the 11th Five Year Plan.

The following are the major achievements of the initiative:
(i) Implemented in about 312 districts, spread across 17 states.
(ii) Wheat production increased from 71.3 million tons in FY07 (terminal year of 10th plan) to 80.3 million tons in FY10.
(iii) Rice production increased from 89.4 million tons in FY07 to 99.2 million tons in FY09; however, it declined to 87.6 million tons in FY10.
(iv) Pulse production increased from 13.6 million tons in FY07 to 14.7 million tons in FY10.
(v) Different districts were able to increase the food basket of the country. Rashtriya Krishi Vikas Yojana (RKVY): In FY08, the government introduced Rashtriya Krishi Vikas Yojana (RKVY), with an outlay of Rs 25,000 crore (US$ 4.7 billion), to encourage states to increase public investment in agriculture and allied services. The programme enables adoption of national priorities as sub-schemes, thereby providing flexibility in project selection and implementation to state governments. Various sub-schemes under RKVY are as follows:
(a) Green revolution in the Eastern region.

(b) Combining development of 60,000 pulses villages in rainfed areas.

(c) Encouraging the use of palm oil.

(d) Initiative on vegetable clusters.

(e) Nutri cereals.

(f) National Mission for Protein Supplements initiative.

(g) Accelerated Fodder Development Programme.

(h) Rainfed Area Development Programme.

(i) Saffron Mission.

(12) Twelfth Five Year Plan (2012-17) : Agriculture sector grew by an average 1.6 percent per annum in first four years as against the targeted 4 percent annual growth due to lower production. However, Government of India took several steps for increasing investment in the agriculture sector such as enhanced institutional credit to farmers, promotion of scientific warehousing infrastructure for increasing the shelf life of agriculture produce, setting up of agri-tech infrastructure fund for making farming competitive and profitable, developing commercial organic farming.

However, it was realized that action is required on numerous fronts including the provision of basic support services such as technology and irrigation infrastructure, access to credit, good and reliable seeds and improved post-harvest technology. The latter is particularly important since the bulk of the acceleration in growth will come from diversification towards horticulture, animal husbandry and fisheries.

The greatest potential for improving productivity was identified in the rain-fed areas, which accounted for 55 per cent of net sown area and where most of the poor life. Land productivity was low in these areas, but a combination of effective water management combined with better seeds, promotion of soil health and critical on farm investments combined with public sector efforts to improve infrastructure was expected to make a big difference.

Latest Developments – Union Budget 2022

- Rs. 2.37 lakh crore direct payment to 1.63 crore farmers for procurement of wheat and paddy.
- Chemical free Natural farming to be promoted throughout the county. Initial focus is on farmer's lands in 5 Km wide corridors along the river Ganga.
- NABARD to facilitate fund with blended capital to finance startups for agriculture & rural enterprise.
- 'Kisan Drones' for crop assessment, digitization of land records, spraying of insecticides and nutrients.

Ken Betwa project

- 1400 crore outlay for implementation of the Ken – Betwa link project.
- 9.08 lakh hectares of farmers' lands to receive irrigation benefits by Ken-Betwa link project.

Drawbacks of agricultural planning in India

Self-Complacency:

The First 5-Year Plan wisely gave top priority to agriculture. But the Second 5-Year Plan failed to give agriculture a proper place. It appears that the success of the First 5-year Plan, which was primarily due to a series of favourable Monsoons created a sense of self-complacency.

Quick-Yielding Projects not given sufficient importance:

Projects having a long gestation period were given undue importance and those with a short fruition lag were not given sufficient importance. Minor irrigation works did not receive the attention they deserved. More attention was given to the expansion of irrigation potential and less to maintenance of existing works so that increase in irrigation potential was neutralized by loss of irrigation potential.

Unproductive Expenditure

Unnecessarily large sums were provided for unproductive expenditure.

Inadequate Provision for Rural Credit :

The annual credit requirements of the Indian farmers have been estimated at Rs. 10, 000-12,000 mn. whereas the provision is not even for Rs. 3500 mn. Without adequate credit facilities agriculture cannot progress.

No Provision for Agricultural Inputs:

There has been co-ordinated provision for the simultaneous production of agricultural inputs like fertilizers, pesticides, cement, etc.

New Farming Techniques Not Enforced:

In agricultural planning in India, no concrete steps were taken for the adoption of new agricultural technique and for standardizing farming practices.

Lack of Suitable Price Policy:

Unless farm output programmes are backed by a suitable agricultural price policy providing price support and incentives to the growers, things might go wrong and they have actually gone wrong in India.

Morale Neglected:

India is passing through a crisis of confidence. The planners did not provide any concrete measures to keep up the morale of the people.

Unrealistic Planning :

The failure to achieve targets indicates the unrealistic element in agricultural planning in India. The physical targets have proved ,to be "paper targets" treating irrigated area from all sources alike and to put all types of food grains superior and inferior together and above all to split up minutely the total allotment: under, different headings assigned to different authorities, are a few, instances of unrealistic planning.

Delay in Land Reforms :

Land reforms have not been implemented and whichever implemented have been delayed much.

Industrial Policies

Industrial policy is a statement of objectives to be achieved in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy thus formally indicates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity.

(I) Industrial Policy Resolution 1948

After having attained independence, the Government of India declared its first Industrial Policy on 6th April, 1948.

Salient Features of Industrial Policy, 1948

Under this policy, the large industries were classified in four categories viz. Strategic Industries, Basic / Key industries, Important Industries and other industries which respectively referred to Public Sector; Public-cum-Private Sector; Controlled Private Sector and Private & Cooperative sector.

(i) Strategic Industries (Public Sector) : This category included three industries in which Central Government had a monopoly. These included Arms and ammunitions; Atomic energy and Rail transport.

(ii) Basic / Key Industries (Public-cum-Private Sector) : Six industries viz. coal, Iron and Steel, Aircraft manufacturing, Ship-building, Manufacture of telephone, telegraph and wireless apparatus, and Mineral oil were designated as "Key Industries" or "Basic Industries". It was decided that the new industries in this category will henceforth only beset-up by the Central Government. However, the existing private sector enterprises were allowed to continue.

(iii) Important Industries (Controlled Private Sector) : Eighteen industries were kept in the "Important Industries" category. Such important industries included heavy chemicals, sugar, cotton textile and woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc. These industries will continue to remain under private sector however, the central government, in consultation with the state government, will have general control over them.

(iv) Other Industries (Private and Co-operative Sector) : All other industries which were not included in the above mentioned three categories were left open for the private sector. However, government could impose controls on these industries also if any of them was not working satisfactorily.

2. The Industries (Development and Regulation) Act, 1951

Industries (Development and Regulation) Act, 1951 was passed by parliament in Oct, 1991 to control and regulate industrial development in the country. Its objectives were:

- The regulation of industrial investment and production according to planned priorities and targets
- The protection of small entrepreneurs against the competition from larger industries
- Prevention of monopoly and concentration of ownership industries
- Balanced regional development with the view to reduce the disparity level of development of different regions of the country.

Provisions of the Act

The act laid down two provisions:

- **Restrictive provisions :**

Under this category, all the measures were designed to curb the unfair practices adopted by industries

o Registration and licensing of industrial undertakings o Enquiry of listed industries

o Cancelation of registration license.

• **Reformative provisions**

o Direct regulation and control by government

o Control on price, distribution and supply

o Constructive measures.

3. Industry Policy Resolution (IPR), 1956

Industrial Policy Resolution, 1956 replaced the IPR, 1948. It stressed on:

- Speeding up the pace of industrialization, particularly heavy industries.
- Expansion of public sector and growth of co-operative sector.
- State to take up the responsibility of setting up new industrial set up and development of transport facilities.
- Prevent private monopolies and concentration of economic process in hands of few number of individuals.

4. New Industrial Policy of India, 1991

The new Industrial Policy was announced in July, 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy

1. Strengthening of Private Sector

• Abolition of licensing system for large number of industries

• Greater role of private sector envisaged

• Contraction in field of operations for public sector.

2. Dismantling of controls

3. Dispersing Industries

- Policy to shift industries away from big congested cities to rural and backward areas
- Incentives were brought to attract industries to village and backward regions
- Favoured agro-based industries near the farming areas.

Limiting role of public sector

- Policy pointed out the grey area which were not fit for PSUs and needs to be vacated by them

Liberalization of foreign investments

- Foreign investment in the form of FDI allowed up to 50% with automatic approval
- Foreign investment in export promotion activities.

Foreign technology had been made easy by allowing automatic approvals for technology related agreements

Promotion of Small Scale Industries (SSI)

- It ensured adequate supply of credit these industries based on their needs
- To enable modernization and technical up gradation, the policy allows equity participation by other non-SSI undertakings in SSI sector
- Limited partnership was allowed to enhance the supply of risk capital to the SSI sector
- It ensured the speedy payment towards the sale of products by SSI sector.

Domestic Regulatory Reforms

- Reduced the number of reserve industries
- Security and Industries of strategic concern were reserved for public sector.

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Abolition of Industrial Licensing : It abolished industrial licensing system for all industries except few such as security and strategic concerns, social concerns, related to safety and manufacture of hazardous industries.

Balance Of Payments

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.

Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming. A country's trade balance equals the value of its exports minus its imports.
The formula is X - M = TB, where:
X = Exports
M = Imports
TB = Trade Balance
With reference to India, the components of Balance of Payments (BOP) are as under:

Why is Balance of Payment (BOP) vital for a country?

A country's BOP is vital for the following reasons:
- The BOP of a country reveals its financial and economic status.
- A BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.
- The BOP statement helps the Government to decide on fiscal and trade policies.

- It provides important information to analyze and understand the economic dealings of a country with other countries.

Structure of Balance of Payments

Current Account

The current account is useful for monitoring inflow and outflow of goods and services. Thus, this account covers all the payments and receipts that are made with respect to manufactured goods and raw materials. Furthermore, it also includes receipts from tourism, engineering, business services, transportation, etc.

Capital Account

The capital transactions that occur between the countries are monitored under the capital account. Thus, capital transactions include the sale and purchase of assets like properties. Furthermore, the capital account also includes the flow of taxes, sales and purchases of fixed assets for a migrant moving in or out of the country. The three major elements of the capital account are investments, foreign exchange reserves, and loans and borrowings.

Financial Account

The flow of funds to and from foreign countries via various investments in real estate, FDI, business ventures, etc are monitored through the financial account. Also, this account measures the variation in foreign ownership. When you analyze this, you can understand whether a country us acquiring more or selling more.

Key Features of India's BoP in Q3:2022-23

- India's current account deficit declined to US$ 18.2 billion (2.2 per cent of GDP) in Q3:2022-23 from US$ 30.9 billion (3.7 per cent of GDP) in Q2:2022-23 and US$ 22.2 billion (2.7 per cent of GDP) a year ago [i.e., Q3:2021 -22].
- Underlying the lower current account deficit in Q3:2022-23 was a narrowing of merchandise trade deficit to US$ 72.7 billion from US$ 78.3 billion in Q2:2022-23, coupled with robust services and private transfer receipts.

- Services exports reported a growth of 24.5 per cent on a year-on-year (y-o-y) basis on the back of rising exports of software, business, and travel services. Net services receipts increased both sequentially and, on a y-o-y basis.
- Net outgo from the primary income account, mainly reflecting investment income payments,
- increased to US$ 12.7 billion from US$ 11.5 billion a year ago.
- Private transfer receipts, mainly representing remittances by Indians employed overseas,
- amounted to US$ 30.8 billion, an increase of 31.7 per cent from their level a year ago.
- In the financial account, net foreign direct investment decreased to US$ 2.1 billion from US$ 4.6 billion a year ago.
- Net foreign portfolio investment recorded inflows of US$ 4.6 billion, as against an outflow of US$ 5.8 billion in 03:2021-22.
- Net external commercial borrowings to India recorded an outflow of US$ 2.6 billion in 03:2022-23 as compared with an outflow of US$ 0.4 billion a year ago.
- Non-resident deposits recorded net inflows of US$ 2.6 billion as compared with net inflows of US$ 1.3 billion in 03:2021-22.

Significance of Balance of Payments in India

The importance of the balance of payment in India can be determined from the following points:

- It monitors the transaction of all the imports and exports of services and goods for a given period.
- It helps the government analyse a particular industry export growth potential and formulate policy to sustain it.
- It gives the government a comprehensive perspective on a different range of import and export tariffs. The government then increases and decreases the tax to discourage import and encourage export, individually, and be self-sufficient.

Favourable And Unfavourable Balance Of Trade

The balance of trade or Net Exports is the difference between the monetary value of exports and imports of output in an economy over a certain period of time. It is the relationship between a nation's imports and exports. A favorable balance of trade is known as a trade surplus and consists of exporting more than is imported; an unfavorable balance of trade is known as a trade deficit or, informally, a trade gap.

BoP during April-December 2022

- India recorded a current account deficit of 2.7 per cent of GDP during AprilDecember 2022 as compared with a deficit of 1.1 per cent during April-December 2021, mainly on account of a sharp increase in the merchandise trade deficit.
- Net invisible receipts were higher during April-December 2022 on a y-o-y basis on account of higher net receipts from services trade and private transfers.
- Net FDI inflows at US$ 21.7 billion during April-December 2022 were lower in comparison with US$ 24.8 billion during April-December 2021. Portfolio investment recorded a net outflow of US$ 3.5 billion during April-December 2022 as compared with a net outflow of US$ 1.6 billion a year ago.
- During April-December 2022, there was a depletion of US$ 14.7 billion from the foreign exchange reserves (on a BoP basis).

Favourable Balance of Trade

When there is an excess of exports over imports, it is called favourable balance of trade. In 1976- 77 in India, the imports were of the value of the INR 5073 crore while exports were of value of the INR 5142 crore. Thus, balance of trade was +INR 69 crore. Further, it assists in strengthening the economy of a country.

Unfavourable Balance of Trade

When there is excess of imports over exports, it is called an unfavourable balance of trade. In India in 1982-83 imports were of the value INR 14,047 crore while exports were of value of INR 8,637 crore. Balance of trade was INR -5410 crore. Further, it create problems for the economy.

Foreign Investments In India - Types And Flows

Any investment that is made in India with the source of funding that is from outside of India is a foreign investment. By this definition, the investments that are made by Foreign Corporates, Foreign Nationals, as well as Non-Resident Indians would fall into the category of Foreign Investment.

Types of Foreign Investments

Funds from foreign country could be invested in shares, properties, ownership / management or collaboration. Based on this, Foreign Investments are classified as below.

Details on each of the foreign investment type can be found below:

Foreign Direct Investment (FDI)

A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders.

Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to a new region. It is not usually used to describe a stock investment in a foreign company.

In other words, foreign direct investment (FDI) is an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country. A foreign direct investment can be made by obtaining a lasting interest or by expanding one's business into a foreign country.

Foreign Portfolio Investment (FPI)

Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country. It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.

Key takeaways:

- 1.Foreign portfolio investment (FPI) involves holding financial assets from a country outside of the investor's own.
- 2.FPI holdings can include stocks, ADRs, GDRs, bonds, mutual funds, and exchange traded funds.
- 3.Along with foreign direct investment (FDI), FPI is one of the common ways for investors to participate in an overseas economy, especially retail investors.
- Unlike FDI, FPI consists of passive ownership; investors have no control over ventures or direct ownership of property or a stake in a company.

Foreign Institutional Investment (FII)

FIIs can include hedge funds, insurance companies, pension funds, investment banks, and mutual funds. FIIs can be important sources of capital in developing economies, yet many developing nations, such as India, have placed limits on the total value of assets an FII can purchase and the number of equity shares it can buy, particularly in a single company. This helps limit the influence of FIIs on individual companies and the nation's financial markets, and the potential damage that might occur if FIIs move out of an economy during a crisis.

Key takeways:

- A foreign institutional investor is an investor in a financial market outside its official home country.
- Foreign institutional investors can include pension funds, investment banks, hedge funds, and mutual funds.
- Some countries place restrictions on the size of investments by foreign investors.

Differences between FDI and FII

BASIS FOR COMPARISON	FDI	FII
Meaning	When a company situated in one country makes an investment in a company situated abroad, it is known as FDI.	FII is when foreign companies make investments in the stock market of a country.
Entry and Exit	Difficult	Easy
What it brings? Transfer of	Long term capital Funds, resources, technology, strategies, know-how etc.	Long/Short term capital Funds only
Economic Growth	Yes	No
Consequences	Increase in country's Gross Domestic Product (GDP)	Increase in capital of the country
Target	Specific Company	No such target, investment flows into the financial market
Control over a company	Yes	No

Difference between FDI and FPI

BASIS FOR COMPARISON	FDI	FPI
Meaning	FDI refers to the investment made by the foreign investors to obtain a substantial interest in the enterprise located in a different country.	When an international investor, invests in the passive holdings of an enterprise of another country, i.e. investment in the financial asset, it is known as FPI.
Role of investors	Active	Passive
Degree of control	High	Very less
Term	Long term	Short term
Management of Projects	Efficient	Comparatively less efficient
Investment in	Physical assets	Financial assets
Entry and exit	Difficult	Relatively easy
Results in	Transfer of funds, technology and other resources	Capital inflows

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OVERVIEW OF MSME SECTOR

- The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports.
- The MSMEs are further categorized based on investment in equipment and annual turnover as per the below criteria:

Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1cr. and Turnover < Rs.5 cr.	Investment <Rs.10 cr. and Turnover < Rs.50 cr.	Investment <Rs.20 cr. and Turnover < Rs. 100 cr.
Services Enterprise	Investment <Rs.10 lac	Investment <Rs.2 cr.	Investment <Rs.5 cr.

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