CURRENT EVENTS AND ANALYSIS

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INDIAN ECONOMY

Editor

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AGRICULTURE:

Three Ordinances Issued to Promote the Interests of Farmers

On June 5, 2020, the President of India issued three ordinances

1. Essential Commodities (amendment ordinance)2020,
2. The Farming Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020',and
3. 'The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance,2020'.

Essential Commodities (Amendment ordinance) 2020

- This Ordinance amends the Essential Commodities Act,1955.
- The 1955Act gives wide powers to the Central and State Governments to regulate the essential commodities.
- The Central Government decides the list of essential commodities in consultation with the State Governments.

How the Essential Commodities are regulated?

1. Traders are regulated through licenses and permits regarding storage, transport, and disposal of essentialcommodities.
2. The Government can control the price at which a trader buys and sells essential commodities.
3. The Government can order disposal of stock or part of stock held by the trader.
4. The Government can order certain manufactures (edible oil, sugar) to increase the production when it thinks it is necessary for ensuring their availability at fair prices.
5. All the licensed traders will have to maintain records of their stocks in books and these can be periodically inspected by Government.
6. The District collector has been given powers to implement the provisions of Essential commodities act.
7. Traders who violate the orders of the Government can be imprisoned as well as fined. Minimum imprisonment is three months and maximum imprisonment is seven years.

Drawbacks of Essential Commodities Act:

1. **Excessive regulation** by Government with **focus on only consumers.**
2. It also disincentivised investments in warehousing and storage facilities by traders due to frequent and unpredictable imposition of stock limits
3. The Act also led to corrupt practices by Government officials.

Amendments made through ordinance:

1. **Agriculture food stuffs** including **cereals, pulses, edible oils, oilseeds, onions and potato would be deregulated.** The Central Government would issue a notification with list of deregulated agriculture commodities.
2. Stock limit would be imposed on deregulated commodities only under very exceptional circumstances like national calamities, famine with surge in prices.
3. Food processors will be exempt from stock limits to the extent of their installed capacity
4. Exporters also will be exempted from the stock limits.

Benefits of the amendments:

1. This removes fears of **excessive regulatory interference** in their business operations.
2. **Traders will get freedom** to produce, hold, move, and distribute.

3. **Encourages Private Investment:** As a result, private investments in cold storage, warehouses, processing and export are likely to increase. Thus, the amendments encourage entrepreneurship in agriculture sector.
4. **Better Prices for Farmers:** Farmers would benefit due to increased investment by private sector in storage, warehouses, processing which would enable better prices. Without adequate storage facilities, farmers are forced to sell at distress prices during bumper harvests.
5. **Balances Interests of both Farmers and Consumers:**

   The original Act (1955 Act) was skewed towards consumer interests and ignored farmers' interests. The present amendment deregulates the most essential commodities but also provides for their regulation in case of surge in prices. Regulation will come in whenever there is more than 100 per cent rise in case of horticulture produce (onions, potatoes, tomatoes, etc) and 50 per cent rise in case of agriculture food items (cereals, pulses, sugar, etc.).

The Farming Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020

This Ordinance ends the monopoly of the Agricultural Produce Market Committees (APMC) in the marketing of agriculture produce by farmers.

At present, Farmers have to sell agriculture produce only in Agriculture Produce Market Committees (APMCs) or deemed markets set by the state governments. They cannot sell their produce outside the notified APMC market yards.

Traders who want to purchase agriculture produce should register and obtain licenses in the Agriculture Produce Market Committees (APMCs).

Further, Barriers exist in free flow of agriculture produce between various States.

All these resulted in

1. lack of marketing freedom for farmers,
2. limited participation of traders as they have to register in each Agriculture Produce Market Committees to participate in purchase of agricultural produce,
3. barriers to free flow of agricultural produce both intra-state (with in the state) and inter-state (between the states)
4. fragmentation of markets and supply chain, and
5. low price realisation for farmers.

Provisions of the Farming Produce Trade and Commerce (Promotion and Facilitation)Ordinance, 2020:

1. Any trader who has a PAN (Permanent Account Number) can engage in purchase of agriculture produce.
2. Farmers have been given freedom to sell their produce either in the APMCs or directly to the traders. Farmers also will not be charged any cess or levy for sale of their produce.
3. Traders can develop electronic platforms to carry out purchase and sale of agriculture produce.
4. There would be no restrictions on intra-state and inter-state movement of agriculture produce.

Advantages:

1. Participation of more traders in the marketing of agriculture produce.
2. Better price discovery for farmers due to competition with the participation of more traders.

Thus, this ordinance ends the monopoly of the Agricultural Produce Market Committees (APMC) in the marketing of agriculture produce and provides freedom to both farmers and traders to engage in purchase and sale of agriculture produce outside the ambit of the APMC markets.

'The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020',

- This ordinance provides for a national framework for farming agreements.
- Farmers can enter into written farming agreements with agri-business firms, processors, wholesalers, large retailers and exporters. These entities which enter into agreements with farmers will be called sponsorers.

Under the farming agreements,

1. **guaranteed price** would be assured by the farmers for the farming produce of the farmers.
2. The guaranteed price would be mutually decided.
3. Sponsorer would provide **farming services** such as seeds, chemicals, machinery, other inputs and advisory services.
4. Acceptable quality, grade and standard of farming produce would also be mutually decided.
5. The minimum period for farming agreement is one crop season. Maximum period is five years.
6. To facilitate farmers, the Central Government would notify model farming agreement and necessary guidelines.
7. Sale, lease or mortgage of farmers' land to sponsorers is totally prohibited

Benefits:

1. Farmers will get

a) access to modern technology,

b) advise on high value agriculture produce,

c) better inputs, and

d) assured prices. Farmers need not worry about price uncertainties for their produce.

2. Private investments would flow into agriculture sector.

Need for Ordinance:

Indian Agriculture is characterized by the following problems.

a) small holding sizes,

b) dependence on weather(monsoons),

c) uncertainty in production,and

d) market unpredictability.

All the above factors make agriculture a risky and inefficient economic activity. Farming agreements would address the above problems.

MSPs:

Minimum Support Prices (MSP) for Kharif Crops Increased

On June 1, 2020, the Union Government increased the MSP of Kharif crops for marketing season 2020-21, to ensure remunerative prices to the farmers.

The highest increase in MSP is proposed for nigerseed (Rs 755 per quintal) followed by sesamum (Rs 370 per quintal), urad (Rs 300 per quintal) and cotton (long staple) (Rs 275 per quintal).

The differential remuneration is aimed at encouraging crop diversification.

MSP for all Kharif crops for marketing season 2020-21:

Sl. No	Crops	Projected Cost* KMS 2020-21	MSP for Kharif 2020-21	Increase in MSP (Absolute)	Return over Cost (in%)
1	**Paddy (Common)**	1,245	**1,868**	53	50
2	**Paddy (Grade A)^**	-	**1,888**	53	-
3	**Jowar (Hybrid)**	1,746	**2,620**	70	50
4	**Jowar (Maldandi)^**	-	**2,640**	70	-
5	**Bajra**	1,175	**2,150**	150	83
6	**Ragi**	2,194	**3,295**	145	50
7	**Maize**	1,213	**1,850**	90	53
8	**Tur (Arhar)**	3,796	**6,000**	200	58
9	**Moong**	4,797	**7,196**	146	50
10	**Urad**	3,660	**6,000**	300	64
11	**Groundnut**	3,515	**5,275**	185	50
12	**Sunflower Seed**	3,921	**5,885**	235	50
13	**Soybean (yellow)**	2,587	**3,880**	170	50
14	**Sesamum**	4,570	**6,855**	370	50
15	**Nigerseed**	4,462	**6,695**	755	50
16	**Cotton (Medium Staple)**	3,676	**5,515**	260	50
17	**Cotton (Long Staple)^**	-	**5,825**	275	

^ Cost data are not separately compiled for Paddy (Grade A), Jowar (Maldandi) and Cotton (Long staple)

MSP fixed at At Least 1.5 Times the Cost of Production:

- The increase in MSP for Kharif Crops for marketing season 2020-21 is in line with the Union Budget 2018-19 announcement of fixing the MSPs at a level of at least 1.5 times of the All-India weighted average Cost of Production (CoP), aiming at reasonably fair remuneration for the farmers.
- The expected returns to farmers over their cost of production are estimated to be highest in case of Bajra (83%) followed by urad (64%), tur (58%) and maize(53%).
- For rest of the crops, return to farmers over their cost of production is estimated to be at least 50%.

Income Centric Approach:

- With the fixing of MSPs linked to cost of production, Government's **production-centric approach** has been **replaced** by **income-centricapproach.**

Crop Diversification:

- Government also made concerted efforts over the last few years to realign the MSPs in favour of oilseeds, pulses and coarse cereals to encourage farmers shift to larger area under these crops to correct demand - supply imbalance.

Focus on Nutri-cereals:

- The Government also laid focus on nutri-rich nutri-cereals (Jowar, Bajra, Ragi and minor millets) production in the areas where rice-wheat cannot be grown without long term adverse implications for groundwater table.

Kisan Credit Cards:

Kisan Credit Cards (KCC) Campaign Launched to Cover 1.5 CroreDairy Farmers

- On June 1, 2020, the Union Government launched a special drive to provide Kisan Credit Card (KCC) to 1.5 crore dairy farmers belonging to Milk Unions and Milk producing Companies within the next two months (1st June-31st July2020).

About Kisan Credit Card:

- Under Kisan Credit cards, Banks provide short term loans up to Rs. 3 lakh to farmers at a concessional rate of 7 per cent interest as the Government provides 2 per cent interest subvention. In addition, on prompt repayment with in a year, farmer is available to another 3 per cent interest subvention which is given by the Government bringing the effective interest rate to 4 percent.
- Tenant farmers are eligible for short term credit up to Rs.1.60 lakh without any collateral.
- Till now, farmers who are engaged in agriculture activities are the major beneficiaries under Kisan Credit card scheme though diary and fish farmers are also eligible.
- Hence, the Government decided to launch a special drive.

Coverage of Dairy Farmers:

- Under the dairy cooperative movement, approximately **1.7 crore farmers are associated with 230 Milk Unions in the country.**
- In the first phase of this campaign, the target is to cover all farmers who are members of dairy cooperative societies and associated with different Milk Unions and who do not have Kisan Credit Cards (KCC)yet.
- Farmers who already have KCC based on their land ownership, can get their KCC credit limit enhanced. However, interest subvention shall be available only to the extent of Rs 3lakhs.
- The general limit for KCC credit without collateral remains Rs. 1.6 lakh (given to tenant farmers). But, the case of farmers whose milk is directly procured by Milk Unions falls under tie up arrangements between the producers and processing units without any intermediaries, and hence the credit limits without Collateral can be upto Rs.3lakh.
- This will ensure more credit availability for dairy farmers associated with Milk Unions as well as assuring repayment of loans tobanks.

Special Drive Part of AtmaNirbhar Bharat Package:

- The special drive to provide KCC to 1.5 crore dairy farmers is part of the Prime Minister's AtmaNirbhar Bharat package for Farmers.

- As, dairy is among the fastest growing sectors of the economy with a CAGR of above 6% in the last 5 years, providing short term credit to dairy farmers for meeting their requirements for working capital, marketing etc. will boost their productivity tremendously.

Animal Husbandry:

Animal Husbandry Infrastructure Development Fund Established

On June 24, 2020, the Union Government approved setting up of Animal Husbandry Infrastructure Development Fund (AHIDF) worth Rs. 15000 crore.

Need for the Fund:

- At present, Union Government is implementing several schemes for incentivizing investment in the dairy infrastructure by dairy cooperatives.
- However, there is huge potential in the diary sector which can be unlocked through investment by private sector.
- Hence, the Government launched Animal Husbandry Infrastructure Development Fund (AHIDF).
- AHIDF would incentivise private investments in
  a) establishment of infrastructure for dairy and meat processing,
  b) value addition infrastructure, and
  c) establishment of animal feed plants in the private sector **through interest subvention.**

EligibleBeneficiaries:

- Farmer Producer Organizations(FPOs),
- MSMEs,
- Private Companies and
- Individual entrepreneurs

Benefits:

- 90% would be the loan component to be made available by scheduled banks.
- Beneficiaries would have to contribute minimum 10% margin money.
- Government of India will provide **3% interest subvention to eligible beneficiaries.**
- There will be **2 years moratorium period** for principal loan amount and **6 years repayment period** thereafter.

Credit Guarantee Fund:

- Government of India would also set up Credit Guarantee Fund of Rs. 750 crore to be managed by NABARD to provide guarantee to the loans extended by banks.
- Guarantee Coverage would be up to **25% of credit facility of borrower.**

Significance of the Fund:

1. Private sector investments would be enhanced in to the animal husbandry and diary sector.
2. Their investments in processing and value addition infrastructure would also **promote export of processed and value addedcommodities.**
3. Almost **50-60% of final value of dairy output in India flows back to farmers.** Hence, growth in this sector can have significant direct impact on farmer's income.
4. This Fund further **strengthens the development of organized off-take of milk** by cooperative and private dairies.

5. With greater private investments, **farmers would also invest more on inputs to increase productivity of livestock** as they will get access to more organised markets leading to increase in farmer's income.

Employment Potential:

AHIDF would also help in direct and indirect livelihood creation for 35 lakh people.

INDUSTRY:

Commercial Coal Mining:

41 Coal Blocks Opened to the Private Sector for Commercial Mining

- On June 18, 2020, Prime Minister Narendra Modi launched the auction process for allotting 41 coal blocks to the private sector for commercial mining.
- This is a major decision as coal mining was nationalised in 1973 which led to the monopoly of Coal India Ltd, a Central Public Sector Undertaking (CPSU) over coal mining in the country.
- The Prime Minister stated that allowing private sector into commercial mining of coal is a major step towards **making India self-reliant in the energy sector.**
- By opening up coal mining to private sector, the Government of India is expecting to
  a) attract Rs.30,000 crore investment in coal mining, and
  b) become a net exporter of coal.

Reasons for Opening of Coal Sector to the Private Sector:

- India has the **fourth largest coal reserves** in the world but
- it is the **second largest coal importer in the world.**
- India imported **243 million tonnes of coal in 2019-20** (about a third of its domestic output of 729 milliontonnes)
- **Imports will only rise** further as the economy returns to its growth potential in the future.
- Due to **monopoly by Coal India Ltd,** a CPSU, there was lack of competition. As a result, it led to inefficiency in coal production besides lack of adequate investments to meet the rising domestic demands.
- Hence, the Union Government decided to open up coal mining to private sector.

Benefits of Opening Coal Mining to Private Sector:

1. Private sector participation will
   a) increase domestic production,
   b) **reduce dependence** on imports,and
   c) **achieve self sufficiency** in coal production.
2. Increasing domestic coal production also
   a) saves **foreign exchange spending** (as payments have to be made in dollars for imports),and
   b) generate new **employment opportunities** in the central and eastern India (Jharkhand, Chattisgarh, Madhya Pradesh, Orissa, West Bengal) which is major coal belt of India.
3. **Entry of private sector** will also **increase competition, bring fresh capital, and technology** in to the coal mining.

Regarding Self Sufficiency in Coal Production:

- India has the potential to achieve self sufficiency in non coking coal production as it has huge reserves. But coking coal reserves are scarce in India.

Non coking coal is used in thermal power plants, fertilizer, cement, glass, ceramic, chemical and brick manufacturing plants).

Coking coal is used in steel and metallurgical industries.

Total Coal Reserves in India

- Non cokingcoal : 282 BillionTonnes
- CokingCoal : 34 BillionTonnes

2019-20 Statistics:

- Production : 729 MillionTonnes
- Import : 243 MillionTonnes.

Out of 243 million tonnes imports, coking coal imports were 50 million tonnes, remaining 193 million tonnes are non coking coal imports which can be substituted by enhancing domestic production.

Background about Coal Nationalisation:

- At the dawn of independence, there were many small and fragmented coal mining units in the country apart from some captive units (own consumption) of Indian Iron & Steel Company (IISCO), Tata Iron and Steel Company Limited (TISCO), Damodar Valley Corporation.
- A greater need was felt to increase the domestic coal production.
- National Coal Development Corporation (NCDL) was formed in 1956 with 11 collieries with the task of exploring new coalfields and expediting development of new coalmines.
- National Coal Development Corporation entered into new technology collaborations with the USSR and Poland which gave impetus to modern mining technology in difficult mining conditions.
- New steel plants and power plants were also set up. Coal was identified as the primary source of energy for the country
- Small and fragmented coal units were not in a position to rising demand due to inadequate investments. Their methods of production were unscientific. Besides, there were also poor working conditions for labours.
- Hence, the Union Government decided to nationalise coal mines in the country in the1970s.
- Nationalisation was done in two phases, first coking coal mines (used in steel production) in 1972 and later non-coking coal in1973.
- Government of India took over the management of all **226 coking coal mines** and nationalised them on 1 May, 1972 except the captive mines of IISCO, TISCO, and DVC. Bharat Coking Coal Limited was set up to manage these nationalised coking mines.
- In 1973 the Central Government took over the management of all **711 non-coking coal mines** by promulgation of Coal Mines (Taking over of Management) Ordinance 1973. Coal Mines Authority Limited (CMAL) was formed to manage these non coking mines.
- A formal holding company in the form of **Coal India Limited was formed in November 1975 to manage both the companies.**

Problems of Nationalisation:

- Political interference, excessive trade unionism, low productivity of employees led to inefficient performance of the Coal India Ltd. Many subsidiaries of coal India were referred to Board for Industrial and Financial Reconstruction (BIFR) as they became sick units.
- In 1993, the Government of India tried to solve the problem of low production by allocating coal blocks to eligible Public Sector Undertakings and private firms for specified end-use projects, that is power, steel and cement (these are called captive mines), as well as for commercial mining byPSUs.

- Between 1993-2011, the Government of India allocated 218 coal blocks to eligible Public Sector Undertakings and private firms for specified end-use projects, i.e. power, steel and cement, as well as for commercial mining byPSUs.
- However, these allocations were challenged before the Supreme Court on the ground that the allocations were arbitrary. In August 2014, the Supreme Court cancelled the allocation of 204 blocks after finding that the procedure followed for allocations were arbitrary and illegal.
- To reallocate the cancelled blocks in a transparent and accountable manner, the Coal Mines (Special Provisions) Act, 2015 was enacted.
- But, all these efforts of the Government of India did not bring down the import dependence of the country.
- Hence, the Government decided to completely open up coal mining to private sector by removing the existing restrictions like allocating to only captive purposes and public sector undertakings.
- Prior mining experience as for participating in auctions has been removed. Now any private player even without prior experience can participate in auctions.

Apparel Industry:

Apparel Export Body Seeks Lifting of Export Ban on PPE kits

- On June 21, 2020, Apparel Export Promotion Council (AEPC) urged the government to lift the ban on exports of Personal Protective Equipment (PPE) kitsas
  a) its production has reached 8 lakh units per day in India which is more than sufficient to cater to the needs of the country,and
  b) tremendous export opportunities exist for domestic players in the global PPE kit market.

Global Market at UD $ 60 Billion:

- The global market for PPEs is estimated to be more than **USD 60 billion over the next five years.**
- Domestic exporters can tap this market if they are allowed to export
- Countries like **Bangladesh, Indonesia, Pakistan** and others have lifted the ban on PPE exports and are receiving huge orders.
- Domestic exporters will loose export markets above countries
- The Apparel industry, which was struck after the outbreak of coronavirus pandemic, had rejigged large production facilities to manufacture PPEs by re-purposing their production lines amidst a nationwide lockdown.

What is Personal Protective Equipment (PPE)?

- It is a set of protective garments used by healthcare professionals (Doctors, nurses, emergency workers in the hospitals) while treating people with infections. It covers the user from head to toe and act as a shield from getting contracted with infection.
- PPE kit consists of full body protecting suit with attached cap, safety eye glasses, face masks, surgical gloves, shoe covers.
- Due to COVID pandemic, Personal Protective Equipment (PPE) kits are in high demand.

Government Lifts Ban on Personal Protective Equipment (PPEs):

- On June 29, 2020, Government of India lifted ban on export of Personal Protective Equipments (PPEs).
- However, the Government restricted the exports 50 lakh PPE units for month. This quota may be increased gradually.
- The decision would also support the revival of the apparel industry in the country hit by COVID pandemic.

- India will be competing with countries including Bangladesh, Indonesia and Pakistan which have already lifted the ban on PPE exports and are receiving huge orders from large buyers in the **US** and **Europe.**

Productivity:

National Productivity Council (NPC) Meet

- The 49th Governing Council Meeting of National Productivity Council (NPC) was held through video conferencing on June 27, 2020 after gap of almost fifteen years.
- It was chaired by Shri Piyush Goyal, Commerce & Industry Minister and President of NPC Governing Council.
- The Meeting was attended by about 180 participants, comprising of Government Officers, Leaders of Industry Associations, Industry captains, Trade Union leaders, financial institutions, Productivity Councils of States, Subject experts, Academicians, and other eminent personalities.

Outcome of the Conference:

The participants in the meeting endorsed the view that India can reposition itself only through productivity enhancement.

Some of the suggestions made in the meeting called for

- formulation of specific action plans by NPC especially in agriculture and logistics sectors,
- identification of Champion sectors which has the potential to drive the economy,
- adoption of technology to increase the productivity,
- delivering cost-effective solutions for marginalized sector,
- interlinking of academia and industry for creation of a highly skilled labour force, and
- financing of specific products to support MSMEs and increase their productivity,

About National Productivity Council:

- National Productivity Council of India (NPC) is an autonomous organization under Department for Promotion of Industry & Internal Trade, Ministry of Commerce and Industry, Government of India.
- It was established in the year1958.
- NPC is a member of the Tokyo-based Asian Productivity Organisation (APO), an Inter-Governmental Body of which the Government of India is a founding member.

Functions:

1. Undertaking research in the area of productivity, and
2. providing consultancy and training services in areas of Industrial Engineering, Agri-Business, Economic Services, Quality Management, Human Resources Management, Information Technology, Technology Management, Energy Management, Environmental Management etc., to **the Government and Public & Private sector organizations.**

BANKING:

Banking Regulation Act, 1949 Amended Through Ordinance

- On June 26, 2020, the President of India issued 'The Banking Regulation (Amendment) Ordinance,2020'.
- The Ordinance amends the Banking Regulation Act, 1949 to bring in the following amendments.

1. **Restructuring of Stressed Banks without Imposing Moratorium:**

- At present, Reserve Bank of India (RBI) can prepare a merger and a restructuring scheme for a stressed bank only after imposing the moratorium on such Bank.

- Under Section 45 of the Banking Regulation Act, 1949, the RBI would first place a bank under a moratorium, and then prepare a scheme.

Drawbacks in Moratorium:

- But when a moratorium in imposed,
- withdrawals by depositors are restricted or stopped.
- This undermines confidence of depositors in the Bank.
- Banks also cannot lend to new customers.
- Thus, Banks under moratorium usually face a loss of confidence from both borrowers and depositors.
- There is a gradual depletion of deposits and they find it difficult to raise capital.
- The provision of Section 45 was last invoked in the YES Bank case. The RBI had placed Yes Bank under a moratorium and then worked out a scheme to secure its functioning.
- Punjab and Maharashtra Cooperative Bank was also placed under a moratorium in 2019 following afraud.

Amendment:

- Now through ordinance, the Section 45 of the Banking Regulation Act, 1949 has been amended to prepare the merger or restructuring scheme for a stressed bank without imposing moratorium.
- This amendment enables the RBI to carry out merger or restructuring without allowing any loss of public confidence and disruption in the financial system.

2. Urban and Multi-State cooperative banks under RBI Supervision:

- The Ordinance also brought 1,482 urban and 58 multi-state cooperative banks under the supervision of RBI to strengthen oversight, and protect the interests of depositors.
- The RBI's powers which apply to the scheduled banks will also apply to cooperative banks.
- The collapse of the Punjab and Maharashtra Cooperative (PMC) Bank, a multi-state co-operative bank, in 2019 prompted the Government to bring urban and multi-state cooperative banks under RBI supervision.

Dual Control:

- Cooperative banks are currently under the dual control of cooperative societies as well as RBI. While the role of the cooperative society includes incorporation, registration, management, audit, supersession of board of directors and liquidation, RBI is responsible for regulatory functions (prudential norms for capital adequacy, asset classification and provisioning, mergers and amalgamations).

Powers to the RBI through Amendment:

With the amendment through ordinance,

- Audit of such co-operative banks will be according to RBI regulations.
- Best management practices laid down by the regulator will also apply to them.
- RBI has been empowered to supersede the Board of 'Cooperative Banks' and 'Multi-State Cooperative Banks' for up to five years in case of governance failure.

Control over Appointments:

- The managements of such banks are elected through co-operative bodies at present and the RBI has limited control over their appointments.
- Now, the RBI will be allowed to set the minimum level of qualifications for the board members
- Consent of RBI is needed to appoint a chief executive officer.

3. **Enhancing Capital Base:**

- Cooperative banks fail often because of their small capital base - for example, urban cooperative banks can start with a capital base of Rs 25 lakh compared to Rs 100 crore for small finance banks.
- They also cannot raise capital through a public issue or issue shares at a premium
- To enhance the capital base of the cooperative banks, the ordinance also allows a cooperative bank to issue equity shares, preference shares, or special shares on face value or at a premium to its members or to any other person residing within its area of operation.
- Cooperative banks can also issue unsecured debentures or bonds or similar securities with maturity of ten or more years to such persons.
- Such issuance will be subject to the prior approval of the Reserve Bank of India(RBI).

Need for Ordinance:

- In March 2020, Finance Minister Nirmala Sitharaman tabled the amendments to the Banking Regulation Act, 1949, to give the central bank more power over cooperative banks.
- However, due to the outbreak of the covid-19, the Parliament could not approve the changes.
- Hence, the Government issued ordinance making necessary amendments in the Banking Regulation Act,1949.

Bank's Governance Reforms:

RBI Proposes Governance Reforms in Commercial Banks

In the discussion paper released for public consultation in June 2020, the Reserve Bank of India (RBI) proposed governance reforms for commercial banks to

- strengthen the governance in commercial banks,
- protect depositors' interest, and
- align current regulatory framework with global best practices.

1. **ProposedReforms:**

- The RBI proposed restricting promoters from holding the CEO position for more than 10years.
- The tenure of a non-promoter CEO will be capped at 15years.
- This reform will not only help in achieving the separation of ownership from management but also reinforce a culture of professional management.
- This reform is to build a robust culture of sound governance practice and for professional management of banks by separating ownership from management.

Impact:

- If this proposed reform converts into regulation, it will have a significant impact on promoter-led banks including Kotak Mahindra Bank and Bandhan Bank.

2. **Written 'Conflicts of Interest'Policy:**

- The RBI also proposed that the board shall have a formal written 'conflicts of interest' policy and an objective compliance process to ensure its implementation.
- This reform has been proposed in the light of the allegations made against former ICICI Bank CEO Chanda Kochhar. She is facing allegations of involving in 'quid pro quo deals'. Kochhar was part of the bank credit committee which sanctioned the Rs 3,250-crore loan to Videocon Group.
- In return for the loan, Videocon Group promoter Venugopal Dhoot's company made an investment Rs 64-crore NuPower Renewables set up with Deepak Kochhar, husband of Chanda Kochhar.

Digital Payments:

RBI Sets up Rs.500 Crore Payment Infrastructure Development Fund(PIDF) to Encourage Digital Payments

- In June, 2020, the Reserve Bank of India (RBI) announced setting up of Rs. 500 crore **Payments Infrastructure Development Fund (PIDF)** to
  a) deepen the digital payments in the country, and
  b) reduce the demand for cash in physical form.
- The Fund would be used for **deployment of Points of Sale (PoS) infrastructure** with the merchant establishments **in tier-3 to tier-6 centres and north eastern states.**
- The Reserve Bank will make an initial contribution of Rs.250 crores to the PIDF covering half the fund and remaining contribution will be from card issuing banks and card networks operating in the country.
- The PIDF will also receive recurring contributions to cover **operational expenses** from card issuing banks and card networks. The Reserve Bank will also contribute to yearly shortfalls, if necessary.

Fund Set up on the Recommendation of the RBI Vision Document :

- The vision document on payment and settlement systems in India 2019-2021 also proposed setting up Payments Infrastructure Development Fund.
- The Vision Document estimated that usage of debit cards at PoS transactions will be around 44 per cent of total debit card transactions by2021.
- It also estimated that by 2021, there will be around 5 million active Points of Sale (PoS)devises.

Classification of centres (tier-wise) as per Population (2011 Census)

Tier1: 1, 00,000 and above

Tier2: 50,000 to99,999

Tier3: 20,000 to49,999

Tier4: 10,000 to19,999

Tier5: 5,000 to9,999

Tier6: Less than5000

FISCAL POLICY:

Tax-to-GDP Ratio:

Tax -to-GDP Ratio Declines to 9.88 Per cent in 2019-20, Lowest in Last 10 Years

Central Government's Tax-to-GDP ratio declined to 9.88 per cent in 2019-20 financial year which is the lowest in last 10 years.

Tax-to-GDP Ratio in the Last Three Financial Years:

Financial Year	Tax-to-GDP Ratio
2017-18	11.22
2018-19	10.97
2019-20	9.88

Reasons for Decline in 2019-20:

- Economic slowdown which reduced tax collections (GDP growth in 2019-20 was 4.2 per cent, the lowest in last 11years),

- reduction in corporation tax, and
- high gold prices which shrunk gold demand and dampened customs duty collections.

Significance of Tax-to-GDP Ratio:

- A lower Tax-to-GDP ratio reflects reduced Government tax revenues.
- It also puts pressure on the fiscal deficit. The Government would have to increase borrowings to meet budgeted expenditure.

International Comparison:

- India is way behind Organisation for Economic Co-operation and Development (OECD) members in terms of the tax-GDP ratio.
- The average Tax-to-GDP ratio of OECD member countries is **34 percent.**
- OECD is an intergovernmental economic organisation with 37 member countries consisting of most of the European countries apart from United States of America, United Kingdom, Canada, Japan, South Korea, Australia, New Zealand,etc.

INFLATION:

WPI:

Wholesale Price Index Enters Deflation after 4.5 Years in India

- Wholesale Price Index (WPI) entered into deflation (decline in prices) of (-) 3.21 per cent in May 2020 as compared to 2.79 per cent inflation in the corresponding month of May 2019.
- Wholesale Price Index (WPI) entered into deflation for the first time in 4.5years.
- The last deflation was in 2015 November with (-) 3.68 percent.

What is Wholesale Price Index?

- The terms wholesale Price Index (WPI) and Consumer Price Index (CPI) are used to measure inflation in an economy. Inflation means sustained rise in the price of goods and services.
- Wholesale Price Index (WPI) measures the **prices of goods** at wholesale level
- Consumer Price Index (CPI) tracks the prices of **both goods and services at the consumer level.**
- The WPI numbers are released by the Economic Advisor in the Ministry of Commerce and Industry every month.
- The National Statistical Office (NSO), under Ministry of Statistics and Programme Implementation, releases the CPI numbers every month.

May 2020 WPI at a Glance:

Wholesale Price Index:

	Weight	Inflation in May 2020
1. Primary Articles	22.6	(-) 2.92
2. Fuel & Power	13.2	(-) 19.83
3. Manufactured Products	64.2	(-) 0.42
All commodities	**100**	**(-) 3.21**

Primary Articles include food articles like wheat, paddy, pulses, vegetables, fruits, and non food articles like minerals.

Reasons for Deflation:

- fall in global crude oil prices, and

- slowdown in economic activities.
- Fuel and Power category saw steepest deflation with (-) 19.83 percent.

Impact:

Reserve Bank of India (RBI) could opt for further rate cuts to spur demand.

INFRASTRUCTURE:

Airports:

International Airport Status to Kushinagar Airport

- On June 24, 2020, the Union Government declared Kushinagar Airport in Uttar Pradesh as an International Airport. The runway of the airport has been increased to facilitate landing of international flights.
- Kushinagar is located in the north-eastern part of Uttar Pradesh about 50 km east of Gorakhpur.
- It is one of the important Buddhist pilgrimage sites.
- Gautama Buddha attained Mahaparinirvana (final enlightenment) at Kushinagar.

Significance of International Airport:

- It will give a boost to **domestic** and **international tourism.**
- Several other Buddhist sites are present near Kushinagar like Sravasti (238 km), Kapilvastu (190 km) and Lumbini (195 km).
- Improved connectivity will be a boon to Buddhists around the world. There are 530 million practicing Buddhists worldwide.
- Itwouldalsocontributeto**economicdevelopment**oftheregionbyenablinggrowthof**tourism** and **hospitality.**

It is also located **in important strategic location close to the international border with Nepal.**

Oil & Natural Gas:

Additional Investment by OVL in Shwe Oil & Gas Project in Myanmar

- On June 24, 2020, the Union Government approved additional investment of US$ 121.27 million (about Rs.909 crore) by ONGC Videsh Ltd (OVL) towards further development of blocks A-1 and A-3 Blocks of Shwe oil & gas project in Myanmar.

Background:

- ONGC Videsh Ltd. (OVL) has been associated with exploration and development of Shwe project in Myanmar since 2002, as part of consortium of companies from South Korea, India and Myanmar.
- OVL has invested US$ 722 million till 31st March 2019 in this project.
- The first gas from the Shwe Project was received in July2013.
- The Project has been generating positive cash flows since 2014-15 financial year.
- Hence, the Government approved additional investment of US$ 121.27 million by ONGC Videsh Ltd (OVL) for further development of Shwe oil & gas project in Myanmar.

Significance of Investments:

- The investment further strengthens India's energy security needs.
- The participation of Indian PSUs in oil & gas exploration and development projects in Myanmar is also aligned with India's Act East Policy which envisages greater engagement with ASEAN (Association of South East Asian Nations) of which Myanmar is a member.

About ONGC Videsh Limited:

- It is a Central Public Sector Enterprise (CPSE) under the administrative control of the Ministry of Petroleum & Natural Gas, and is the wholly owned subsidiary and overseas arm of Oil and Natural Gas Corporation Limited (ONGC), the flagship national oil company (NOC) of India.
- The primary business of ONGC Videsh is to prospect for oil and gas acreages outside India, including exploration, development and production of oil and gas.
- ONGC Videsh has stake **in 39 oil and gas projects in 19 Countries,** viz. Azerbaijan, Bangladesh, Brazil, Colombia, Iran, Iraq, Israel, Kazakhstan, Libya, Mozambique, Myanmar, Namibia, New Zealand, Russia, South Sudan, Syria, UAE, Venezuela, andVietnam.

SOCIAL SECTOR:

Livelihood Security to Migrants:

Prime Minister Launches 'Garib Kalyan Rojgar Abhiyan'

- On June 20, 2020, Prime Minister Narendra Modi launched 'Garib Kalyan RojgarAbhiyaan', a massive **employment-cum-rural public works Campaign** to provide livelihood opportunities to migrant workers who returned to their villages.
- The Prime Minister stated that through Garib Kalyan RojgarAbhiyaan, the self-esteem of migrants will be protected while their hard work will also develop their villages

Details:

- **Employment-cum-rural public works campaign** would be undertaken in **116 districts** in the following **six states** which witnessed **maximum of return of migrants from cities** after the imposition of lockdown due to coranavirus pandemic.

  Bihar (32)

  Uttar Pradesh (31)

  Madhya Pradesh (24)

  Rajasthan (22)

  Odisha (4)

  Jharkhand (3)

  (Figures in brackets indicated the number of districts in the state.)
- Each of the above districts has **more than 25,000 returnee migrant workers.**

Implementation of Garib Kalyan RojgarAbhiyaan:

- The campaign has no fresh budgetary allocations.
- But, implementation of 25 different public infrastructure works would be expedited to provide livelihood opportunities to returnee migrants.
- Works taken up include construction of roads, housing, anganwadi centres, panchayat bhavans, community complexes, cattle sheds, poultry sheds, water conservation and harvesting works, plantation works, laying of optical fibre network,etc.
- A total of Rs.50,000 crore would be spent by 12 different Ministries/Departments, namely, Rural Development, Panchayati Raj, Road Transport & Highways, Mines, Drinking Water & Sanitation, Environment, Railways, Petroleum & Natural Gas, New & Renewable Energy, Border Roads, Telecom and Agriculture.

Monitoring Implementation:

- The **Ministry of Rural Development** is the **nodal Ministry** for this campaign and the campaign will be implemented in close coordination with the State Governments.

- Central Nodal Officers of the rank of Joint Secretary and above will be appointed to oversee the effective and timely implementation of various schemes in the identified districts.

Food Security to the Poor:

Pradhan Mantri Garib Kalyan Anna Yojana Extended Till November 2020

- On June 30, 2020, Prime Minister Narendra Modi announced the extension of Pradhan Mantri Garib Kalyan Anna Yojana till November2020.

About Pradhan Mantri Garib Kalyan Anna Yojana:

- It was launched by the Union Government to provide a safety net to the poor people after the announcement of nationwide lockdown in March 2020 due to the spread of COVID-19 Pandemic.
- Under the PM Garib Kalyan Anna Yojana, the Union government announced free of cost supply of foodgrains and pulses to the 80 crore poor people for 3 months (April, May and June 2020).
- **5 kg** rice/wheat to **each member of the family**,and
- **1 kg pulses** to **each family,** per month, was provided

Extension upto November 2020:

- On June 30, 2020, Prime Minister Narendra Modi announced extension of Pradhan Mantri Garib Kalyan Anna Yojana for another five months till November2020.
- The government will spend more than Rs 90,000 crore towards the extension of the scheme.
- If the amount spent towards it in the previous three months is added together, a total of almost Rs 1.5 lakh crore would be spent towards the scheme.

Acknowledgement of Contribution of Farmers and Taxpayers:

- The Prime Minister credited and thanked the **hard-working farmers** and **honest tax payers for making it possible for the government** to procure and distribute free food grains.

'One Nation One Card' for the benefit of Poor Migrants:

- Prime Minister also underlined that the country is moving towards the institution of 'one nation, one ration card', which will be of immense benefit to the poor migrants who travel to other states in search of work.

Internship:

TULIP, an Internship Programme for Fresh Engineering Graduates,Launched

- On June 4, 2020, the Union Government launched 'The Urban Learning Internship Program (TULIP)' to provide *internship opportunities to fresh engineers in urban local bodies and smart cities for a period up to one year.*

Why the Programme has been Launched?

- India has a substantial pool of technical graduates.
- But they lack exposure to real world project implementation and planning which is essential for professional development.
- Classroom education does not reflect the depth of productive knowledge present in society.
- Hence, the Government believes that instead of approaching education as '*doing by learning*,' there is need to reimagine education as '*learning by doing.'*

Benefits of TULIP:

- **For FreshEngineers:**
- It would create a potential talent pool in diverse fields like urban planning, transport engineering, environment, municipal finance etc.
- Those who undergo internship would become prospective city managers but also talented private/ non-government sector professionals.

For Urban Local Bodies:

- Urban local bodies will also benefit due to infusion of fresh ideas and energy with engagement of fresh engineers. Their collaboration could lead to co-creation of solutions for solving India's urban challenges.

Goal of 1 crore Internships by 2025:

- Internship programmes will help reap the benefits of India's demographic dividend.
- India is poised to have the largest working-age population in the world in the coming years.
- Hence, the Union Ministry of Human Resource Development and All India Council of Technical Education (AICTE) have set a goal of providing 1 core internships by2025.
- TULIP is also an important stepping stone for fulfillment of MHRD and AICTE's goal of 1 crore successful internships by the year2025.
- Ministry of Housing & Urban Affairs implement the programme by working in coordination with the State Governments as they have deeper understanding of challenges in urban areas.

BALANCE OF PAYMENTS:

FDI:

India's Foreign Exchange Reserves Cross US $ 500 Mark for the FirstTime

- For the first time in the history of India, foreign exchange reserves crossed US $ 500 billion on June 5,2020.
- Thisisa**remarkablejourneyforacountrywhichin1991cameclosetodefaulting**on **foreign debt** and was forced to pledge gold reserves to raise money.
- In June 1991, India had less than $ 1 billion foreign exchange reserves (forex reserves) which were enough to **meet imports for three weeks.** India had also taken substantial loan from IMF by then. As a result,
  1. India was on the **verge of default on its international debt obligations,** and
  2. was seriously **struggling to conduct its business with the rest of the world.**
- The government **struggled to finance even import of essential commodities** like **oil and fertilizers.**
- At a macroecomic level, the country faced the problems **of high fiscal deficit, current account deficit and double digitinflation.**
- By the end of 1991, the government was forced to literally sell India's gold. India airlifted 20 tonnes of confiscated gold to Zurich, Switzerland, to raise $240million.
- India pledged another 47 tonnes of gold with the Bank of England and raised $600 million emergency funds to avoid default. The Government later paid back the loan and brought back the gold.
- India came out of the crisis through reforms:
  1. **Fiscal correction** (reducing fiscal deficit),

2. **Trade policy reforms** (devaluation of rupee to encourage exports, easing of regulation and licensing controls over exports),
3. **Industrial reforms** (abolition of licensing and inspection raj system, opening up more sectors of the economy to private players),and
4. **Public sector reforms** (enhancing operation freedom)

Present Position:

- The present forex reserves of US $ 500 billion cover more than 12 months of the pre-Covid-19 level of imports.
- They are about 88% of India's external debt which stood at $564 billion as of December2019.

What are Foreign Exchange Reserves?

- Forex or foreign exchange reserves are **essentially assets held by the central bank of acountry** in **foreign currencies as a reserve.**
- Most of the reserves are usually held in US dollars due to its preference in the international trading and financial system. All international transactions are settled in USdollars.
- Some central banks also hold reserves in British pounds, euros, Chinese yuan, or the Japanese yen, in addition to their US dollar reserves.

Why Countries Should Maintain Foreign Exchange Reserves?

1. **International Settlements:**

   All international transactions are settled in US dollars. Hence, forex reserves are needed to support our imports.

2. **Assurance of Stability:**

   Large forex reserves act as an assurance to the world that the country (holding such reserves) can meet its external obligations like payment for imports. Thus, it creates an impression of stability,

3. **Exchange Rate Management:**

   They are needed **to support, and maintain confidence for central bank action,** whether **monetary policy action** or **any exchange rate intervention** to support the domestic currency.

4. **Surviving Sudden Disruptions:**

   Forex reserves also help to limit any vulnerability because of a sudden disruption in foreign capital flows, which could happen during an economic crisis.

   Countries witness significant cash outflows during an economic crisis, resulting in a reduction in dollar reserves. This causes a devaluation of domestic currencies forcing central banks to deploy reserves to support their currencies.

   Holding liquid forex thus provides a cushion against such effects and gives the confidence that there would still be enough forex to support the country's crucial imports in case of external shocks.

Reasons for the Recent Build up of Foreign Exchange Reserves in India:

Foreign exchange reserves have grown $73 billion in the last nine months. Some of the reasons for the growth are

1. Foreign investment flows into Reliance Jio which raised more than US $ 15 billion by selling part of its stake.
2. debt raised through external commercial borrowings by domestic financial institutions, and
3. decline in the import bill due to fall in crude oil prices and impact of COVID pandemic on trade.

Components of Foreign Exchange Reserves in India:

Foreign Exchange Reserves of India consist of

1. Foreign Currency Assets (capital inflows to the capital markets, FDI and external commercial borrowings)
2. Gold
3. Special Drawing Rights (SDRs) issued by IMF,and
4. Reserve Position in IMF.

Foreign Currency Assets are the biggest component of India's foreign exchange reserves. Out of 501 billion reserves,

Foreign currency assets : 463 billion,

Gold : 32.3bllion

SDR : 1.4 billion, and

Reserve position in IMF : 4.2billion.

Significance of Rising Foreign Exchange Reserves:

The rise in forex reserves

1. provides cushion to the economy to combat external shocks, and
2. leads to stability in rupee against the dollar in the exchange rate.

RBI, from time to time, intervenes in forex markets to balance the volatility in currency markets. It either buys dollars to release rupee into the market or sell dollars to support rupee.

How are India's Foreign Exchange Reserves Managed?

- The RBI Act, 1934 provides the overarching legal framework for deployment of reserves in different foreign currency assets and gold.

Foreign Currency Assets:

- Around 64 per cent of the foreign currency assets are held in securities like Treasury bills of foreign countries, mainly the US, 28 per cent is deposited in foreign central banks and 7.4 per cent is also deposited in commercial banks abroad.

Gold:

- India also held 653.01 tonnes of gold as of March 2020, with 360.71 tonnes being held overseas in safe custody with the Bank of England and the Bank for International Settlements, while the remaining gold is held domestically.
- In value terms (USD), the share of gold in the total foreign exchange reserves increased from about 6.14 per cent as at end-September 2019 to about 6.40 per cent as at end-March2020.

Returns on Reserves:

- The return on India's forex reserves kept in foreign central banks and commercial banks is negligible. While the RBI has not divulged the return on forex investment, analysts say it could be around one per cent, or even less than that, considering the fall in interest rates in the US and Euro zone.
- Hence, there was a demand from some quarters that forex reserves should be used for infrastructure development in the country. However, the RBI had opposed the plan due to fears of sudden stops in foreign capital flow.

Additional Information:

Top 5 Countries in Foreign Exchange Reserves At a Glance:

Now India is the fifth largest holder of foreign exchange reserves after China, Japan, Switzerland and Russia.

Country	Foreign Exchange Reserves: (in US $ Billion)
1. China	3101
2. Japan	1378
3. Switzerland	848
4. Russia	567
5. India	505

Two Mechanisms Set up Attract Investments into India

On June 3, 2020, the Union Government decided to set up the following two mechanisms.

1. Empowered Group of Secretaries, and
2. Project Development Cells (PDCs) in Ministries/Departments of Government ofIndia.

Objectives are to

a) make India a more investor-friendly destination, and

b) realise India's vision of becoming a US$ 5 trillion economy by 2024-25

by handholding and further smoothening investment inflows into the country.

Details:

Empowered Group of Secretaries:

Composition:

Cabinet Secretary (Chairperson)
CEO, NitiAayog (Member)
Secretary, Department for Promotion of Industry and Internal Trade (Member Convenor)
Secretary, Department of Commerce (Member)
Secretary, Department of Revenue (Member)
Secretary, Department of Economic Affairs (Member)
Secretary of Department concerned (to be co-opted).

Responsibilities are to

1. attract increased investments into India and provide investment support and facilitation to global investors.
2. facilitate investments of top investors in a targeted manner,
3. evaluate investments put forward by the departments,
4. bring synergies and ensure timely clearances from different departments and Ministries.

Project Development Cell:

- A 'Project Development Cell' (PDC) would be set up in the Ministries of Government of India.
- It would be headed by Joint Secretary of each relevant central line Ministry.

Responsibilities:

- He would coordinate with the Central Government and State Governments and prepare a pipeline of investible projects in his/her Ministry.
- The projects would have all approvals, land available for allocation and complete Detailed Project Reports for adoption and investment by investors.

External Assistance:

Government of India & AIIB Sign $750 Million Loan Agreement forCOVID-19 Support to India

- On June 19, 2020, the Government of India signed an agreement with the Asian Infrastructure Investment Bank (AIIB) for a $750 million "COVID-19 Active Response and Expenditure Support Programme".
- The programme is being financed by the Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB) in the amount of $2.250 billion, of which $750 million will be provided by AIIB and $1.5 billion will be provided by ADB.
- The Programme will provide the Government of India with budget support to mitigate the severe adverse social and economic impact ofCOVID-19.

Usage of AIIB Fund:

- The AIIB Fund is meant to assist India to strengthen its response to the adverse impacts of the COVID-19 pandemic on poor and vulnerable households.
- This is the first ever budgetary support programme from the AIIB toIndia.
- The fund would be used to provide social assistance for compensating economic loss to vulnerable sections including women and social security measures announced by the Government of India for affected workers in both organised and informal sectors.

Beneficiaries:

- The Primary Programme beneficiaries would be families below the poverty line, farmers, healthcare workers, women, women's self-help groups, widows, people with disabilities, senior citizens, low wage earners, construction workers and other vulnerable groups.
- The programme will be executed by the Department of Economic Affairs, Ministry of Finance, through various line ministries.

Asian Infrastructure Investment Bank (AIIB):

- The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank headquartered in Beizing,China.
- It began operations in January2016.
- Its objective was to provide financing for infrastructure and development projects in Asia.
- AIIB has membership of 102 members worldwide.
- Total authorised capital of the AIIB is USD 100billion.
- China is the largest shareholder with 26.6 per cent voting shares.
- India is the second largest shareholder with 7.6 per cent followed by Russia 6.0 per cent and Germany with 4.5 percent.

COVID-19 Crisis Recovery Facility:

- Though the Asian Infrastructure Investment Bank (AIIB) mainly funds infrastructure and development projects, it created a Crisis Recovery Facility as part of the coordinated international response to counter the pandemic.
- Under Crisis Recovery Facility, AIIB is extending support to members to meet their urgent economic, financial, and public health needs and thereby help in quick recovery from thecrisis.
- India also got the $750 million funding under the Crisis Recovery Facility of the AIIB.

MACROVIEW OF INDIAN ECONOMY:

Economic Growth Will Depend on Recovery from COVID Pandemic:Chief Economic Advisor

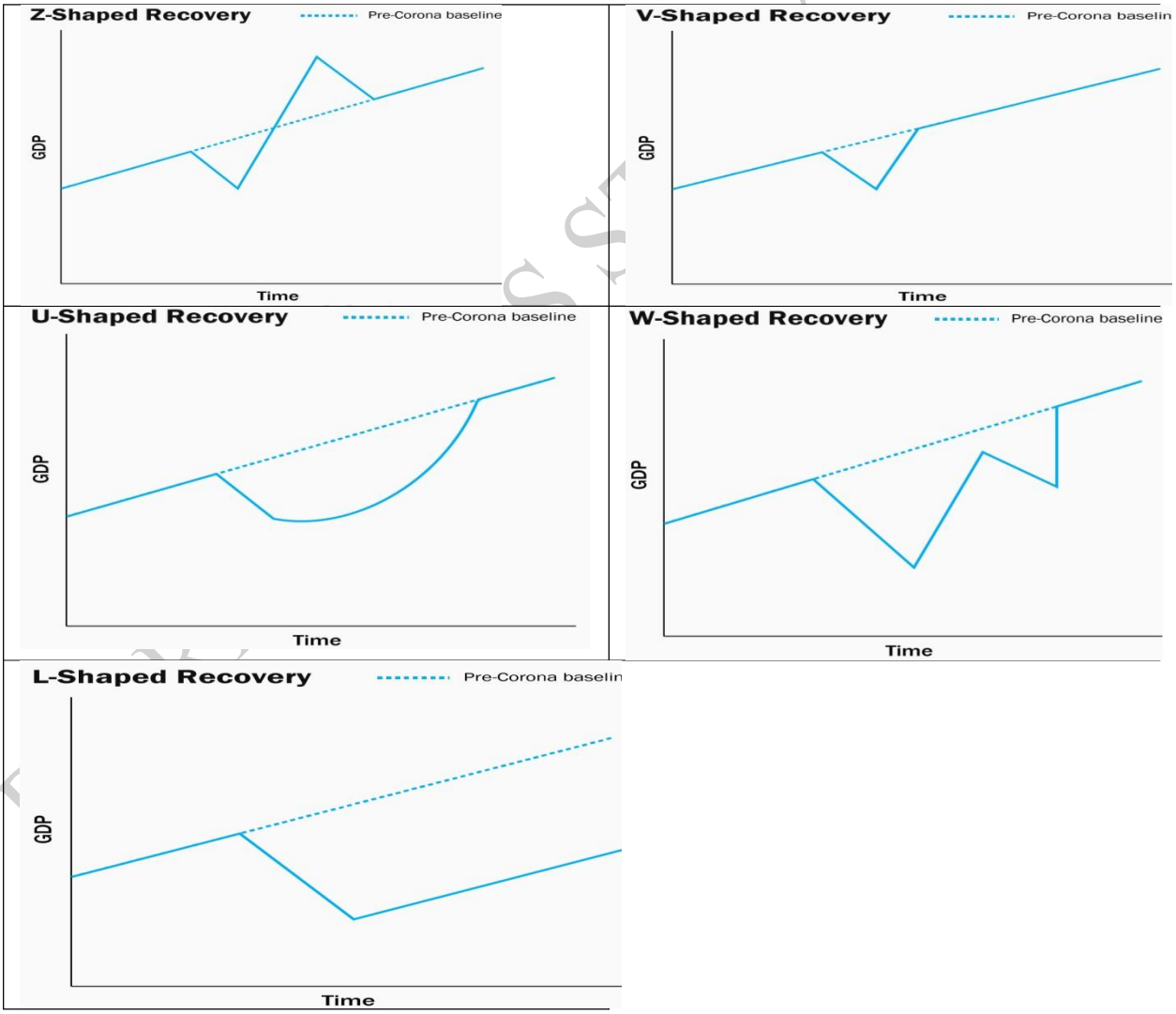
On June 10, 2020, KishnamurthySubramanyan, Chief economic advisor to the Government of India, stated that economic growth in 2020-21 will depend on when recovery begins, as it is now uncertain whether it will happen in the second half of the year or will be delayed to the next financial year.

He stated that at the beginning of this financial year, in April 2020 when we were in the first few weeks of the lockdown, growth was estimated at 1.5-2% in 2020-21, and that was conditioned on a **V-shaped recovery** in the second half of the year.

He made this comments after global ratings agencies S&P and Fitch forecast a contraction of 5% in the Indian economy this year (2020-21), and a sharp recovery to record 8.5%-9.5% growth in 2021-22.

Shapes of Economic Recovery:

Economists use the shape of the graph like Z-shaped, V-shaped, U-shaped, W-shaped, L-shaped, etc. as shorthand to describe the recovery process after a crisis like a recession, financial crisis or external shock like the coronavirus.



Z-shaped Recovery:

It is the **most-optimistic scenario** in which the economy quickly rises like a phoenix after a crash.

It more than makes up for lost ground (Example: temporary rise in buying after the lockdowns are lifted due to pent up demand) before settling back to the normal trend-line, thus forming a Z-shaped chart.

V-shaped Recovery:

The **next-best scenario** is a V-shaped recovery in which the economy looses production for sometime during the impact of the economic crisis (pandemic, recession, etc) but quickly recoups lost ground and gets back to the normal growth trend-line.

U-shaped Recovery:

A U-shaped recovery is a scenario in which the economy, after falling, struggles and muddles around a low growth rate for some time, before rising gradually to usual levels.

W-shaped Recovery:

A W-shaped recovery is a **dangerous scenario** - growth falls and rises, but falls again before recovering yet again, thus forming a W-like chart.

The double-dip depicted by a W-shaped recovery is what some economists are predicting if a second wave of Covid comes along.

L-shaped Recovery:

The L-shaped recovery is the **worst-case scenario**, in which growth after falling, stagnates at low levels and does not recover for a long time.

WORLD ECONOMY:

UNCTAD Report:

World Investment Report-2020 Released by UNCTAD

- World Investment Report-2020, an annual publication of the United Nations Conference on Trade and Development (UNCTAD), was released on June 16,2020.

Global Foreign Direct Investment (FDI) Flows:

- Global FDI flows rose by 3 per cent in2019.

Year	Global FDIFlows (In $ Billion)
2019	1540
2018	1495

- FDI flows to developed economies rose by 5 per cent, to $800 billion, from $761 billion in2018.
- FDI flows to developing economies declined marginally, by 2 per cent, to $685billion.

FDI into India:

- India received $51 billion foreign direct investment (FDI) in2019.
- India was the world's 9th largest recipient of theFDI.
- In 2018, India received $ 42 billion FDI and was world's 12th largestrecipient.

Highlights:

Top 10 FDI Recipient Countries in 2019:

	Country	FDI (2019) (in US $ Billion)
1.	UnitedStates	246
2.	China	141
3.	Singapore	92

4. Netherlands	84
5. Ireland	78
6. Brazil	72
7. Hong Kong	68
8. United Kingdom	59
9. India	51
10. Canada	50

Prospects for 2020:

- Global foreign direct investment (FDI) flows are forecast to decrease by up to 40% in 2020, from their 2019 value of $1.54trillion.
- This would bring FDI below $1 trillion for the first time since2005.
- In addition, FDI is projected to decrease by a further 5% to 10% in2021.
- Investment flows are expected to slowly recover starting2022.

Reasons for Decrease in FDI forecasted:

- The top 5,000 Multi National Enterprises (MNEs) worldwide, which account for most of global FDI, have revised their expected earnings for 2020 downwards by 40% on average. Some of these industries may report losses.
- These enterprises reinvest their earnings (profits). Lower profits will hurt reinvested earnings, which on average account for more than 50% of FDI.
- Both Greenfield (new) investment project announcements and cross-border mergers and acquisitions (M&As) dropped by more than 50% in the first months of 2020 compared with last year.

Impact of COVID-19 on FDI:

- There is slowdown in the implementation of ongoing projects
- Cross border mergers and acquisitions and starting of new projects also slowed down.
- Industrialists are shelving projects and dropping new investment decisions.
- Companies may also shift towards self reliance for supply of critical inputs through greater investments in research and development.

World Bank Report:

Global Economy to Shrink by 5.2 Per cent in 2020:World Bank

- Massive shock of the **coronavirus pandemic** and **shutdown measures to contain it** have plunged the global economy into a severe contraction.
- Global economy is estimated to shrink by 5.2% in 2020 as per the **'Global Economic Prospects 2020'** released by **World Bank** in June2020.

Advanced Economies:

- Economic activity among **advanced economies** is anticipated to **shrink by 7% in 2020** as domestic demand and supply, trade, and finance have been severely disrupted.

Developing Economies:

- **Emerging market and developing economies (EMDEs)** are expected **to shrink by 2.5%** this year, their first contraction as a group in at least sixty years.
- In 2020, **China's GDP is estimated to grow by 1 per cent**; it's lowest in the last four decades.
- On the other hand, **India's GDP** is estimated to **shrink by 3.2 percent.**

Recommendations:

The World Bank report noted that the pandemic highlights the **urgent need for health and economic policy action,** including **global cooperation,** to

- cushion consequences of the Pandemic,
- protect vulnerable populations, and
- strengthen countries' capacities to prevent and deal with similar events in the future.

Developing Countries:

It is critically important for emerging market and developing economies, which are particularly vulnerable, to

- **strengthen public healthsystems,**
- address challenges posed by **informality of their workforce** and **limited safety nets,** and
- enact reforms to generate strong and sustainable growth once the crisis passes.
- Emerging market and developing economies with available fiscal space and affordable financing conditions could consider additional stimulus if the effects of the pandemic persist.

World Bank Group COVID-19 Response:

- The World Bank will be deploying up to $160 billion in financial support over 15 months to help more than 100 countries protect the poor and vulnerable, support businesses, and bolster economic recovery.
- This includes $50 billion of new IDA resources through grants and highly concessional loans.

Additional Information:

Impact of COVID-19 on the World:

- The COVID-19 pandemic has dealt a heavy blow, with alarming speed, to an already-weak global economy, which is expected to slide into its **deepest recession** after the Second WorldWar.
- The global recession would be deeper if countries take longer to bring the pandemic under control, if financial stress triggers defaults, or if there are protracted effects on households and firms.
- Thepandemicandassociatedmitigationmeasureshave**sharplycurbedconsumption**and **investment,** as well **as restricted labour supply** and **production.**
- The pandemic also **disrupted financial and commodity markets, global trade, supply chains, travel, and tourism.**
- **Financial markets** have been extremely volatile, reflecting exceptionally high uncertainty and the worsening outlook. Flight to safety led to a sharp tightening of global and Emerging Market and Developing Economies's (EMDE) financial conditions.
- **Equity markets** around the world plunged.
- **Commodity prices** have declined sharply as a result of falling global demand, with oil particularly affected.

Further Impact on Developing Economies and Global Economy:

- **Economic disruptions** are **likely to be more severe and protracted in emerging market and developing economies** with weaker medical care systems.
- Beyond the current steep economic contraction, the pandemic **is likely to leave lasting scars** on the **global economy by undermining consumer and investor confidence.**

Response of Countries:

- Central banks in advanced economies have cut policy rates and took steps **to provide liquidity andtomaintaininvestorconfidence.**Centralbankspurchasedgovernmentsdebttosupport

stimulus packages of Governments. The US Federal Reserve also announced purchase $ 250 billion corporate debt bonds to provide liquidity support.

- In many Emerging Market and Developing Economies (EMDEs), central banks have also eased monetary policy by reducing interest rates. The Reserve Bank of India also launched long term repos programme for commercial banks under which they can borrow money from RBI at repo rate and invest in corporate bonds. A partial credit guarantee scheme was also launched for Non-Banking Financial Companies(NBFCs).

Purchasing Power Parity:

India Retains Its Position as the Third Largest Economy in Purchasing Power Parity

- The World Bank released the new Purchasing Power Parity (PPP) data for the reference year 2017.

Highlights:

- India has retained its position as the third largest economy in purchasing power parity after China and UnitedStates.
- **Top 3 Economies in Purchasing Power Parity(PPP):**

Country	Share in Global GDP in PPP
China	16.4
USA	16.3
India	6.7

About Purchasing Power Parity (PPP):

- The World Bank periodically reviews Purchasing Power Parity (PPP) under its International Comparison Programme (ICP) under the guidance of the United Nations Statistical Commission.
- PPPs are calculated based on the price of a common quantity of goods and services in each participating economy at a common price.

Why Purchasing Power Parity (PPP) Comparisons?

- **Prior to the use of PPP**, market exchange rate of a country's currency into dollars was used to make international comparisons of GDP which did not give a realistic picture because of the conversion of the value of the goods and services in local currency into dollars based on the prevailing exchange rate of local currency into dollars. Majority of local currencies of countries had lower values because of higher demand for dollars.

Other Details:

- Globally, 176 economies participated in the 2017 cycle of International Comparison Programme (ICP).
- The next cycle of International Comparison Programme (ICP) will be conducted for the reference year 2021.
- The International Comparison Programme (ICP) was started in 1970.
- India participated in ICP since its inception.

Mains Practice Questions

Agriculture:

1. The amendments to the Essential Commodities Act, 1955 balance the interests of farmers and consumers.Substantiate.
2. What are the limitations of Agricultural Produce Market Committees (APMC) Acts in our country? To what extent 'Farming Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020, addresses the limitations of the APMC Acts of StateGovernments.
3. Discuss the need for and benefits of farming agreements in the context of Indianagriculture.

Dairy Sector:

1. In what way Animal Husbandry Infrastructure Development Fund (AHIDF) contributes to the growth of animal husbandry and dairy sector in the country.

Kisan Credit Cards:

1. What are the benefits of Kisan Credit Cards (KCC) for the farmers?

Commercial Coal Mining:

1. Explain the reasons for and benefits of opening up of coal mining to private players.

Foreign Exchange Reserves:

1. What are Foreign Exchange Reserves? Explain the significance of foreign exchange reserves for India.

Employment:

1. Pandemics impose huge costs on the poor and the vulnerable in terms of their livelihoods. What measures were taken by the Government to protest the poor and migrants from COVID-19 Pandemic?

Internships:

1. India can reap the benefits of demographic dividend by launching large scale internships programmes. Such programmes have the potential to create huge self employment opportunities apart from addressing various problems in our country. Examine.

Energy Security:

1. How is ONGC Videsh contributing to the energy security of India?

External Assistance:

1. Explain the role of external assistance in tackling COVID Pandemic in India.

COVID-19 Impact on Global Economy:

1. How did the COVID-19 Pandemic impact the global economy? Why is its impact more severe on developing economies?

Prelims Practice Questions

1. Consider the following statements.

   1) India is a net exporter of coal.

   2) India imports only cooking coal.

   Which of the above statements is/or correct

   a) 1Only

   b) 2 Only

   c) Both 1 and 2

   d) Neither 1 nor 2

2. National Productivity Council (NPC) is an autonomous organisation under the following Ministries.

   a) Ministry of Finance

   b) Ministry of Small, Micro and Medium Industries

   c) Ministry Commerce and Industry

   d) NITIAayog

3. Which of the following statements is ***correct***?

   a) India has the second largest foreign exchange reserves in the world.

   b) India's Forex exchange reserves consist of only foreign currency assets and gold.

   c) Foreign Currency Assets are the biggest component of India's foreign exchange reserves.

   d) India's foreign exchange reserves are maintained with International Monetary Fund(IMF)

4. Consider the following models of economic recovery regarding economic growth of a country hit by an economic crisis like a pandemic:

Shape ofEconomicRecovery	***Impact on EconomicGrowth***
1. V-shaped Recovery	Gradual recovery
2. U-shaped Recovery	Quick recovery
3. W-shaped Recovery	Double dip recovery
4. L-shapedRecovery	Recovery over a long period of time

   Which of the above is **correctly** matched?

   a) 1, 2, 3, and 4
   b) 2, and 3
   c) 2, 3 and 4
   d) 3 and 4

5. Consider the following statements:

   1. Wholesale Price Index (WPI) measures price movement in both goods and services.
   2. Consumer Price Index (CPI) measures price movement in only goods.

   Which of the above statements is/or correct?

   a) 1Only

   b) 2Only

   c) Both 1 and2

   d) Neither 1 nor2

6. Consider the following statements:

   1. Wholesale Price Index (WPI) is released by Economic Advisor in the Ministry of Commerce and Industry.
   2. Consumer Price Index (CPI) is released by National Statistical Office (NSO), under Ministry of Statistics and ProgrammeImplementation

   Which of the above statements is/or correct?

   a) 1Only

   b) 2 Only

   c) Both 1 and 2

   d) Neither 1 nor 2

7. Consider the following statements regarding Payments Infrastructure Development Fund (PIDF) which was setup recently:

   1. It has been set up by the Ministry of Finance.
   2. The objective of the fund is to encourage digital payments in metro cities with population of more than 10lakhs.

   Which of the above statements is/or correct?

   a) 1Only

   b) 2Only

   c) Both 1 and2

   d) Neither 1 nor2

8. Consider the following statements regarding Animal Husbandry Infrastructure Development Fund(AHIDF):

   1. It is meant to promote participation of private sector in meat and dairy industry.
   2. It aims to strengthen cooperatives in the dairy sector.
   3. Farmer Producer Organizations (FPOs) are also eligible to access funding under AHIDF.

   Which of the above statements is/or correct?

   a) 1Only

   b) 1 and3

   c) 2 and3

   d) 1, 2, and3

9. The Kushinagar international airport is located in which of the following states:

   a) Uttarakhand
   b) Uttar Pradesh
   c) Bihar.
   d) Haryana.

10. Consider the following statements regarding Kisan Credit Card (KCC)Scheme:

    1. It provides short term loan up to Rs. 3 lakhs to farmers.
    2. Tenant farmers are not eligible for short term loans.
    3. Dairy farmers and fisheries farmers are not eligible for short term loans under the KCC scheme.

    Which of the above statements is/or correct?

    a) 1Only

    b) 1 and3

    c) 2 and3

    d) 1, 2, and3

11. Consider the following statements.

    1. India is the second largest economy in the world in Purchasing Power Parity (PPP)terms.
    2. China is the largest economy in the world in Purchasing Power Parity (PPP)terms.
    3. Purchasing Power Parity (PPP) is released by International Monetary Fund (IMF)annually.

Choose the correct answer using code(s) given below.

a) 1Only

b) 2Only

c) 1 and3

d) 2 and3