

ECONOMICS NOTES – Part I

1. RESERVE BANK OF INDIA (RBI)

The RBI was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

Established in Calcutta first but moved Mumbai in 1937

It was originally privately owned. Nationalized in 1949. now owned by GOI

2. PREAMBLE OF RBI

“to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage;

to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth.”

3. FUNCTIONS OF RBI

Issue of Bank Notes

Keeping of Reserve with a view to securing monetary stability of India

Operate currency and credit system of the country to its advantage

To have modern monetary policy framework to meet the challenge of an increasingly complex economy

To maintain price stability

To keep in mind the objective of growth while framing the monetary policies.

4. CENTRAL BOARD OF RBI

The Reserve Bank's affairs are governed by a central board of directors.

The Board is appointed by the GOI

Directors are appointed for 4 years

Official Directors are full time directors. They are Governor and not more than four Deputy Governors

Non-official Directors: Nominated by GOI: 10 directors from various fields and two government Officials

Other Non-Official: 4 one each from four local boards

5. FUNCTIONS OF RBI

Monetary: Formulates, implements and monitors the monetary policy

Maintaining price stability while keeping in mind the objective of growth

Prescribes broad parameters of banking operations

Maintain public confidence in the system, protect depositors' interest

Regulate the banking to provide cost-effective banking services to the public

Manager of Foreign Exchange

Objective of foreign exchange management: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency: to give the public adequate quantity of supplies of currency notes and coins and in good quantity

Helps in development of the country

Banker to GOI: perform merchant banking function for the central and the state governments

RBI acts as a Banker to banks: maintains banking accounts of all scheduled banks

7. RBI FULLY OWNS THE FOLLOWING

Deposit Insurance and Credit Guarantee Corporation of India (DICGC)

Bhartiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

Established on 3 February 1995 to augment the production of bank notes in the country.

Registered office in Bengaluru. The company manages two printing Presses one at Mysore, and other at Salboni in West-Bengal. Combined capacity: 16 billion note pieces per year

National Housing Bank established in 1988 under an Act of Parliament. HO: New Delhi

objective: promote housing finance

8. PRIORITY SECTOR LENDING

Priority Sector includes the following categories:

- a. Agriculture
- b. Micro, Small and Medium Enterprises
- c. Export Credit
- d. Education
- e. Housing
- f. Social Infrastructure
- g. Renewable Energy

9. REPO RATE

Repo rate is short form of Repurchase Rate. Repo Rate is the rate at which RBI lends money to commercial banks.

The RBI increased the Repo Rate on August 1st 2018 from 6.25% to 6.50%.

10. STATUTORY LIQUIDITY RATIO (SLR)

Statutory Liquidity Ratio is the reserve requirement that the commercial banks in India are required to maintain in the form of cash, gold reserves, government approved securities before providing credit to the customers.

11. REVERSE REPO RATE

Reverse repo rate is the rate of interest offered by RBI, when banks deposit their surplus funds with the RBI for short periods.

When banks have surplus funds but have no lending or investment options, they deposit such funds with RBI. Banks earn interest on such funds.

12. CASH RESERVE RATIO

CRR is a cash reserve ratio.

Under CRR a certain percentage of the total bank deposits has to be kept in the current account with RBI which means banks do not have access to that much amount for any economic activity or commercial activity.

13. MARGINAL STANDING FACILITY RATE

Marginal Standing Facility Rate is the rate at which RBI lends funds overnight to scheduled banks, against government securities. RBI introduced this borrowing scheme to regulate short-term asset liability mismatch in a more effective manner.

14. REPO RATE VS. MARGINAL STANDING FACILITY RATE

MSF is 1% more than Repo Rate

Repo rate is applied to loans given to banks who are applying to meet their short-term financial needs. While, MSF is meant for lending overnight to banks

Repo rate is the rate at which money is lent by RBI to commercial banks, while MSF is a rate at which RBI lends money to scheduled banks

Lending at repo rates involve selling of bank's securities as collateral to RBI along with a repurchase agreement. Loans given at MSF rates involve providing government securities as collateral.

Under MSF banks are allowed to use the securities that come under SLR in the process of availing loans from RBI

15. RBI HAS PURCHASED GOLD

RBI purchased 8.46 tonnes of gold for first time in nine years during 2017-18

In 2009 RBI had purchased 200 tonnes of gold from International Monetary Fund.

According to RBI's annual report for 2017-18 the bank held 566.23 tonnes of gold as on June 30, 2018.

292.30 tonnes is held as backing for notes. Rest 273.93 tonnes as an asset of the Banking Department.

RBI has Reserves: 2,751,400 Crore (US\$ 400 billion)

16. SCHEDULED BANK

Scheduled Banks refers to those Banks which have been included in the Second Schedule of RBI Act, 1934.

RBI approves and includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6)(a) of the said Act.

Banks not under this Schedule are called Non-Scheduled Banks.

Every Schedule Bank enjoys two types of principal facilities. It becomes eligible for debts/loans at the Bank Rate from RBI, and it automatically acquires the membership of clearing house.

17. COMMERCIAL BANK

A commercial bank is an institution that provides services such as accepting deposits, providing business loans, and offering basic investment products.

The main function of commercial bank is to accept deposit from the public for the purpose of lending money to the borrowers

There are three types of Commercial Banks- public sector, private sector and foreign.

Credit creation is the most important function of commercial banks.

Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting and money at call services.

18. CO OPERATIVE BANKS

Such banks are registered under the Cooperative Societies Act.

Ex. The New India Cooperative Bank, Cosmos Co-op Bank, Saraswat Co-operative Bank Ltd., Janata Sahkari Bank Ltd., Abhudyaya Cooperative Bank Ltd.

Co-operative banks main objective is to provide financial assistance to economically weaker sections of the society.

These banks are governed by regulations like Banking Regulations Act, 1949 and Banking Laws Cooperative Societies Act, 1965.

These banks operate both in urban and rural areas.

19. MONETARY POLICY

Monetary policy is the process of controlling the money supply in the system

Controlling inflation

Price stability

Foreign exchange monitoring

Keeping tab on Balance of Payment

20. FISCAL POLICY

Fiscal policy is taxation policy.

Why tax

To generate revenue, reduce inequality and distribution of resources

21. GOVERNMENT BUDGET

A government budget is an annual financial statement presenting the revenues and spending for a financial year.

Deficit financing means Government spends more than its receipt. REVENUE.

22. TRADE

Trade involves the transfer of goods or services from one person to another

Generally, in exchange of money

Ex. Handicrafts are exported from India, India importing Oil

India export value 2.6 lakh million US\$. India import value 3.56 lakh million

Over 4000 products are exported to 219 countries and over 4000 products are imported from 211 countries

Crude petroleum is single largest import for India value \$ 155 billion

Import from China \$ 60+ billion

23. EMPLOYMENT

Employment is working for somebody and getting paid for the service rendered

Full employment means all willing to work are able to get employment and get paid

The stability of economy rests on the ability to maintain a low unemployment rate and provide a safe secure work place

When employee and employer have good relationship, the society is benefitted

Working is good for our health and well being

24. DISGUISED EMPLOYMENT

When marginal productivity of labour is zero

Generally, when labour deployment is increased the productivity should go up but at one stage it will not increase.

Other way: we reduce number of labour and productivity is remaining the same indicates there were more labour than what were needed. The superfluous labour is disguised employment

25. INCLUSIVE GROWTH

Inclusive growth means growth for all

Equitable opportunities for all

Benefits for all section of society

Resources consumption for all

Economic growth that creates employment opportunities

Empowering people through education and skill development

Opposite of inclusive growth is exclusive growth where progress of a country in which a sizeable lot of population deprived of benefits of growth

26. PUBLIC REVENUE

Public revenue is government revenue

Public revenue consists of taxes, fees, sale of public goods and services, fines, donations etc.

Public expenditure is spending made by the government of a country on collective needs and wants health care, institutions, and other infrastructures.

The money that government collects pays for the services that is provided for the people.

27. PUBLIC DEBT

Government debt also known as public debt and sovereign debt is the debt owed by a government.

It is different from government deficit. Government deficit refers to the difference between government receipts and spending in a single year.

India's total public debt was Rs. 63.35 Lakh crore till June 2018

Government debt can be grouped as internal debt, owed to lenders within the country and external debt owed to foreign lenders

Government create debt by issuing securities, government bonds etc.

28. CORE BANKING SOLUTION

Core banking is when customer can access and can perform basic transactions from any of the branch of that Bank where he is maintaining the account.

Core Banking is generally associated with retail Banking

It is through ATMs, Internet Banking, mobile banking and branches

Core banking became possible with the advent of computer and telecommunication technology that allowed information to

be shared between bank branches quickly and efficiently

29. SMALL FINANCE BANKS

Small finance banks are a type of niche banks in India.

A small finance bank can provide basic banking service of acceptance of deposits and lending too.

Non-Banking Financial Companies, Microfinance Institutions and Local Area Banks can apply to become small finance banks.

75% of its net credits should be in priority sector lending

They can be owned and promoted by individuals, corporate, trusts or even societies.

The firms must have a capital of at least 100 Cr.

They are regulated by RBI

30. MICRO FINANCE

It is a provision of financial services to low income groups of a society

It is aimed to assist the self-employed who traditionally lack access to banking system

It is mainly aimed to reduce the unemployment and poverty of the country

31. SOVEREIGN BONDS

Sovereign bonds are bonds issued by Govt. They can be either local currency denominated or denominated in a foreign currency. Sovereign bonds and sovereign debt can be used interchangeably, but sovereign debt can also refer to the total outstanding stock of a country's government debt.

A government bond is a bond issued by a national govt. generally with a promise to pay periodic interest payments and to repay the face value on the maturity date.

32. DEMAND DEPOSIT WITH BANKS

A demand deposit is funds held in an account

The amount can be withdrawn at any time without prior notice

Amounts in savings and current accounts are known as demand deposits because they can be withdrawn any time.

33. NON- BANKING FINANCIAL INSTITUTION

A non- banking financial institution is a financial institution that does not have full banking license.

NBFC is not supervised by a national or international banking regulatory agency.

NBFC is registered under the Companies Act.

NBFC do the business of loans acquisition of shares, stocks bonds hire purchase insurance business etc.

NBFCs are many types: Asset Finance Company, Investment Company, Infrastructure Finance Company

NBFC cannot issue Cheques and demand drafts like banks

In India NBFCs are regulated by RBI

34. OPEN MARKET OPERATION

It is an activity by Central Bank (RBI)

This gives / takes away liquidity in/away the market

The Central Bank buys or sells government bonds in the open market

The Central Bank sells g-secs to suck out liquidity

The Central Bank buys g-secs to infuse liquidity

Liquidity in the market has bearing on both interest rates and inflation rates

35. PAYMENT BANKS

On 23rd September 2013, Committee on Comprehensive Financial Services for Small Businesses and Low-Income households, headed by Nachiket Mor was formed by the RBI
On 7th Jan 2014 ,the committee submitted final report. It recommended the formation of a new category of bank called payments bank.

New type of banks which are expected to reach customers mainly through their mobiles phones .

They cannot offer loans

Can raise deposit upto 1 lakh

36. GOVERNMENT SOVEREIGN GOLD BOND

It is government securities denominated in grams of gold

They are substitutes for holding physical gold

Investors pay the issue price in cash and the bonds are issued. Bonds are connected to price of gold. Bonds can be gifted or transferred.

Bonds will be redeemed in cash on maturity

The bond is issued by RBI on behalf of Government of India

The capital gains tax arising on redemption of SGB to an individual has been exempted

The first scheme was launched in 2015. Aim is to reduce demand for physical gold and utilization of resources effectively.

37. UNIFIED PAYMENTS INTERFACE (UPI)

United Payment Interface is an instant real-time payment system.

It is developed by National Payment Corporation of India facilitating inter-bank transactions.

The interface is regulated by the Reserve Bank of India

It is system of instant transfer of funds between two bank accounts on a mobile platform

This was introduced on 11 April 2016

The UPI transactions have crossed 300 Million in August 2018

38. PERMANENT ACCOUNT NUMBER (PAN)

PAN is a 10 digit unique alphanumeric number issued by the Income-tax Department.

PAN is issued in the form of a laminated plastic card, commonly called as PAN card.

Out of the first five characters, the first three characters represent the alphabetic series running from AAA to ZZZ

The fourth character of PAN represent the status of the PAN holder P: individual, C: Company, H: Hindu Undivided Family etc.

Fifth character of PAN represent the first character of the PAN holders last name

Next four characters are sequential numbers running from 0001 to 9999

The tenth character is an alphabetic check digit

A person cannot hold more than one PAN

39. MAGNETIC INK CHARACTER RECOGNITION CODE (MICR)

MICR code is to facilitate and make cheque processing more efficient.

MICR is a 9 digit code

The first three digits represent the city code where the bank branch is located

The next three digits give the bank code

Last three digits indicate the code of the bank branch

Every branch of a bank has a specific MICR code

IFSC is used for on line transaction and MICR is used for cheques

40. INDIAN FINANCIAL SYSTEM CODE (IFSC CODE)

IFSC is 11 digit alphanumeric code

It is allotted by the RBI to all banks and its branches

The first four characters indicate the name of the bank

5th digit is generally 0

Last six digits represent bank branch location

It helps in elimination of errors while transferring money

41. SEIGNIORAGE

It is the difference between the value of money and the cost to produce and distribute it

In monetization there has been loss to RBI

The face value of ₹ 15.28 Lakh crore of ₹ 17.10 Lakh crore has been printed.

In 2016-17 RBI post demonetization has spent ₹ 7965 crore on printing new ₹ 500 and ₹ 2000 and other denomination notes, more than double the ₹ 3421 crore spent in the previous year.

The banned notes formed 86% of the currency in circulation at that time.

RBI received back 15.28 lakh crore out of 15.44 lakh crore demonetized currency

42. JAN DHANA YOJANA

It is a financial inclusion programme of Government of India

Its aim is to expand and make affordable access to financial services such as accounts, remittances, credit, insurance and pensions

launched in 2014

It is run by Department of Financial Services, Ministry of Finance

1.5 crore bank accounts were opened on first day

By June 2018, over 31 crore bank accounts were opened and over Rs. 792 billion were deposited under the scheme

43. INSOLVENCY & BANKRUPTCY BOARD OF INDIA

Set up under the Insolvency and Bankruptcy Code, Insolvency and Bankruptcy Board of India is the regulator for insolvency professionals, insolvency agencies, insolvency proceedings and other related parties. The board is responsible for implementation of the code in India.

Set up in October 2016, IBBI came into prominence mainly because of the growing pile of non-performing assets in the banking sector, a large part of which has been referred under the code. IBBI has the powers to write and enforce rules for bankruptcy transactions involving corporates as well as individuals. Currently the board has 8 members with M S Sahoo as its chairperson

44. PM MUDRA YOJANA

MICRO UNITS DEVELOPMENT & REFINANCE AGENCY LTD.

Some facts: 5 crore 75 lakh self-employed people, they use funds of ₹ 11 lakh crore with an average per unit debt of merely ₹ 17000 to employ 12 crore Indians. These facts led to Mudra Bank creation

Mudra is aimed at funding the unfunded launched 8 April 2015

MUDRA loan is provided to non-farming and non-corporate micro and small enterprises

These enterprises can avail loans up to ₹ 10 lakh

Sanctioned more than 4 crore loans of value more than ₹ 2.5 Lakh crore

There are three products under the scheme:

Shishu upto 50,000 Kishore upto 5 Lakh and Tarun upto 10 lakhs

45. INFRA STATUS TO SHIP BUILDING

The Govt. has granted infrastructure status to the shipyard industry, a move that will help the sectoral players get long-term financing at cheaper rates. A gazette notification issued by department of economic affairs in the ministry of finance last month issued an updated Harmonized Master list of Infrastructure. The new list incorporates the following change to the notification dated October 13, 2014 Under the category of transport a new sub-sector shipyards is added, the notification said.

46. SLAVERY

Debt Bondage- Informal nature of labour economy Naxalite violence forces young one joins various groups.

Human trafficking – UP is a source transit and destination state for modern slavery. UP's 619 km stretch of open borders with Nepal, proximity to Bangladesh and New Delhi and home to tourist destinations of Varanasi and Agra facilitate the flow of vulnerable people. Debt bondage in unregulated Industries such as construction, agriculture mining, and brick manufacturing.

Borrowing money for marriages, festivals and funerals is a common practice among some tribal groups which can lead to debt bondage.

47. SLAVERY ACT AS NEGATIVE ECONOMIC MULTIPLIER

India has been ranked fourth in a global survey that lists 167 countries where modern slavery is prevalent. 14% of population that is 18 million are modern day slaves.

Modern slaves are in domestic work, construction, sex industry, agriculture, fishing, manufacturing, manual labour & forced begging.

Top five countries are North Korea, Uzbekistan, Cambodia India and Qatar.

In India the number is highest. China has 3.39M, Pakistan 2.13M Bangladesh 1.53M

Survey was conducted by Gallup & the Walk Free Foundation.

The prevalence of Slavery affects FDI .

48. SLAVERY INDEX

India has performed the worst in the recent Global Slavery Index, compiled by an Australia based human rights group. The report said there are approximately 45.8 million people globally who are still subjected to modern slavery, of which India has 18.35 million, the highest in absolute terms. India was followed by China 3.39 million and Pakistan with 2.13 million in the report.

These are victims of forced labour, ranging from prostitution and begging. -- North Korea has the highest % of its population that is 4.37%

Modern slavery refers to situations of exploitation that a person cannot leave because of threats, violence, coercion, abuse of power or deception.

49. FOURTH INDUSTRIAL REVOLUTION

The fourth Industrial revolution is characterized by a fusion of technologies that is blurring the lines between the physical digital and biological spheres, collectively referred to as cyber-physical systems.

There is technology breakthroughs in fields of robotics, artificial intelligence, nano-technology, quantum computing, biotechnology, the Internet of Things, the industrial Internet of Things, 5G, 3D Printing, fully autonomous vehicles Klaus Schwab and many more.

First revolution: 18/19th century

Second was during 1870-1914 (Telephones, Internet, computers etc.)

Third was 1980s Digital World

50. ERADICATION OF POVERTY

October 17 is the International Day for the Eradication of Poverty

In 1992, four years after Wresinski's death the United Nations Officially designated

October 17 as the International Day for Eradication of Poverty.

In 1987, Father Wresinski launched the International Day for the Eradication of Poverty on 17 October.

Internationally, an income of less than \$1.90 per day per head of purchasing power parity is defined as extreme poverty.

It is estimated about 23% of Indian Population about 276 million people are extremely poor.
