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201. **Internal trade ratio to GDP:** Large countries have a higher ratio of internal trade to GDP than small ones. India's 54% ratio (excluding agricultural products) is much less than the US' 78% or China's 74%. But it is far more than the 20% of the EU, which was formed specifically to create single market. Indonesia, another large developing country, has internal trade of only 12% of GDP. Canada, bigger in area than the US, has a 20% ratio.

202. [Model Agricultural Produce Market Committee \(APMC\) Act](#) has been created by the Union Government to make it easier for states to enact their own laws. The Act obliges farmers to sell only through local mandis and restricts movement of agricultural produce across the country. The Essential Commodities Act is a serious barrier to internal trade, especially of agricultural commodities and therefore needs to be amended in view of GST



203. [Pipavav shipbuilding facility](#): Russia's United Shipbuilding Company (USC) to build four warships for the Indian Navy at [Pipavav shipbuilding facility](#) in Gujarat. The contract, estimated to be worth about Rs 30,000 crore. Indo- Russia to finalise the joint manufacturing of 200 Kamov-226T helicopters.

204. [Personal Law and Article 13](#): A Supreme Court Constitution bench will consider whether practices such as instant triple talaq and polygamy violate the fundamental rights of women to life and dignity and whether Muslim personal law can be construed as valid customary law under Article 13 of the Constitution. The government has asked the court to examine whether 'personal law was law' under the Constitution. It has also asked whether the right to religion would prevail over a woman's right to equality and right to life and dignity

guaranteed under Articles 14 and 21 of Constitution. Article 13 maintains the validity of all customary laws in existence at the time of independence unless specifically barred.

These questions will be heard by a five judge Constitution bench in May, 2017. All stakeholders including those opposing such practices as being pernicious to women, and the several groups opposed to what they characterise as attempts to undermine Muslim personal law, have been asked by the Supreme Court to frame questions to facilitate a hearing .

What SC Said

- Wants entire bad debt amount made public since it is "a substantial figure"
- Questions role of RBI, which is meant to be a watchdog
- Wants to know if all is being done to recover the money

What RBI Said

- Info should be kept secret as it would destroy public confidence in banking system & impact economy
- Not involved in day-to-day functioning of banks

IF A BANK IS NOT DOING THINGS PRUDENTLY AND IS RECKLESSLY EXTENDING SUCH LOANS WITHOUT ADEQUATE COLLATERAL AND HOPE OF RECOVERY, ARE YOU NOT SUPPOSED TO KEEP A VIGIL ON THIS?

CHIEF JUSTICE TS THAKUR

205. **Public Sector Asset Reconstruction Agency (PARA) : also called Bad Bank** was presented in the Economic Survey to deal with Non Performing Assets of PSU Banks. Such institutions have been created in Southeast Asia and even in the US, in the form of the \$700-billion Troubled Assets Relief Programme (TARP) during the 2008 credit crisis. However, it has not been accepted by the Government in 2017, because the key issue is funding requirement.

Numerous loan restructuring programmes alphabetical soups like CDR, S4A, SDR, 525 for struggling companies to get back to life, and enactments like the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (Sarfaesi), formation of Asset Reconstruction Companies (ARCs) have all failed in the past three years to solve the problem.

The government wants to modify the ARC format and try it out again , because the stressed assets are about 16.6% of the bank loans and are concentrated in a remarkably few borrowers. 50 companies owe Rs. 20,000 crore in debt, with 10 companies owing more than Rs

40,000 crore each. The unrecognised bank debts are around 4% of gross loans and 5% at public sector banks.

The bad loans problem has been a Catch 22 situation for banks. As sellers, they were reluctant to mark down the value of the assets and potential buyers, the Asset Reconstruction Companies (ARC) created in 2003, were unwilling to pay what the banks were demanding.

206. Latest position on PARA

Bank	Mar-16	Jun-16	Sep-16	Dec-16
BOB	54,256	57,155	56,809	56,701
ICICI Bank	35,294	34,804	38,884	44,492
SBI	1,37,228	1,38,092	1,42,353	1,42,800
Axis Bank	14,160	16,916	23,081	26,576

Stressed assets in ₹ crore SOURCE: Bank websites

ARUNDHATI BHATTACHARYA Chairman, SBI (After June 16 quarter results.)
 We have an NPA trajectory in mind. The trajectory should look much better subsequent to the second quarter. The worst is behind us with the last quarter. But obviously, you know, it is not something that will just get shut off like a tap. Obviously, the denominator (loan growth) will also play a part

CHANDA KOCHHAR MD, ICICI Bank (After June 16 quarter results.)
 The focus will continue to be on resolution of accounts. Conditions continue to remain volatile because of global uncertainties, low commodity prices, high leverage (of companies) and gradual domestic recovery. We are working with our clients for resolution of these loans and will continue to monitor them

PS JAYAKUMAR MD, Bank of Baroda (After June 16 quarter results.)
 Our previous guidance was that the gross NPA number would be limited to ₹45,000-50,000 crore by the end of this year, with a strong bias to the lower end of the band. As things stand, we should be able to meet that guidance. Further deterioration can never be ruled out.

JAIRAM SRIDHARAN CFO, Axis Bank (After March 16 quarter results.)
 Our outlook with respect to asset quality continues to remain cautious, some of the asset quality (pressure) increases we have seen this year will continue to sustain



On the Back Burner

Bad Bank May be the Last Resort

GOVT NOT
keen to set up a bad bank

WANTS ALL
stakeholders to explore options

FEARS BAD BANK
may ultimately put burden on govt resources

Past experience not too convincing

GLOBALLY, NOT all bad banks have been a success story

SASF SET UP for taking over IDBI's bad loans also struggling

GOVERNMENT wants ARCs, public sector companies to take lead

BIG BLOTCH
 Level of stressed assets seen at over 20% of gross advances of banks. Bad loans are the biggest drain on PSBs

SOME SUPPORT
 Jaitley recently said the govt would consider idea of a bad bank but was not in favour of support only through Budget

207. **ISRO's world record:** The Indian National Committee for Space Research, founded in 1962, was transformed into ISRO in 1969. India became a member of the Missile Technology Control Regime (MTCR) in June 2016. India's space programme has been spectacularly low-cost. On 16th February 2017, ISRO launched 104 satellites into space in one rocket called PSLV-C37, a triumph for India's space research. While the number of satellites launched is more than three times the previous record for simultaneous launches, set by Russia in 2014, the combined weight of the satellites was a mere 1.3 tonnes.

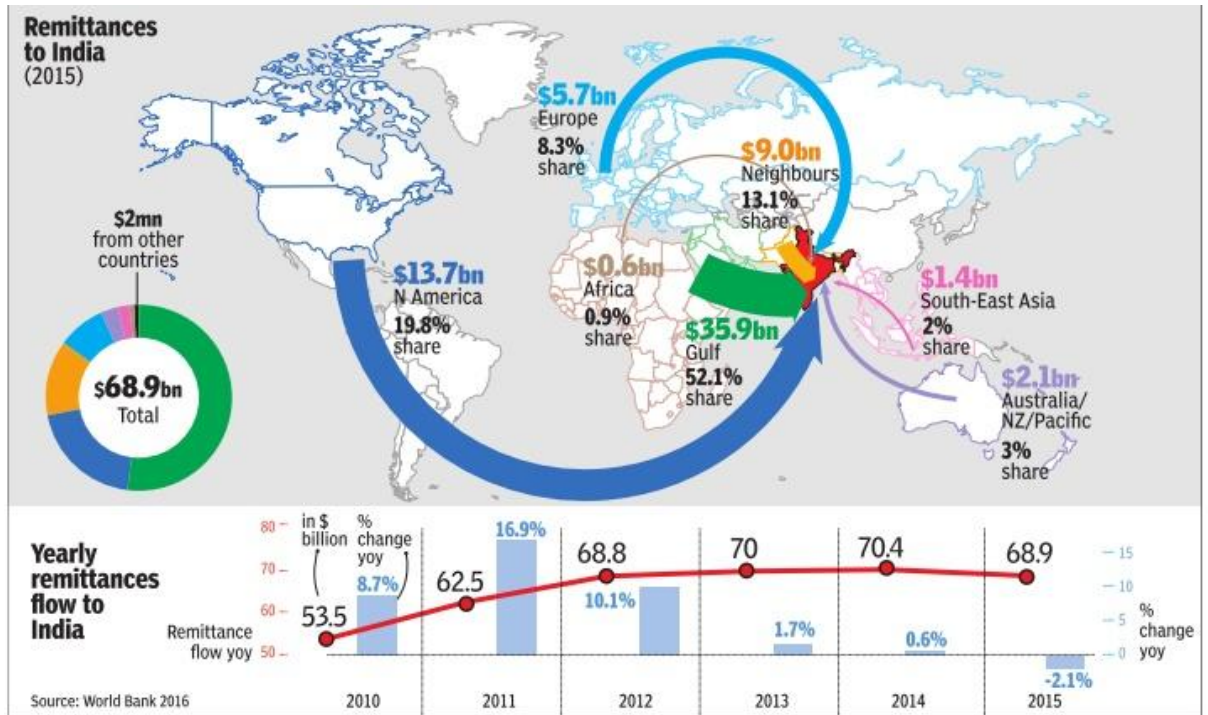
208. **The Real Estate Act, 2016**

BOOST FOR REALTY?		FOR BUILDERS		
WHAT THE BILL HOLDS FOR BUYERS		title. Will benefit buyers & sellers if the title is held invalid		
<ul style="list-style-type: none"> ➤ A model contract to make all purchases more buyer-friendly ➤ Penalty on builders for delay same as penalty on buyers for payment delays ➤ Disclosure of carpet area must for sale 	<ul style="list-style-type: none"> ➤ Consent of 2/3rd allottees must for change in project plans ➤ Bill applicable to all ongoing projects where completion certificate has not been issued 	<ul style="list-style-type: none"> ➤ Builders must disclose all project details publicly. Can be imprisoned for violation while penalty includes project de-registration ➤ Promoters liable for structural defects for 5 years ➤ Provision for insurance of land 	<ul style="list-style-type: none"> ➤ Compulsory deposit of 70% of sales income for building & land cost ➤ Real estate agents will have to register with regulator. They will be liable to 1-yr jail term if they don't comply with order of tribunal 	
76,044 REAL ESTATE FIRMS IN INDIA	17,431 Delhi	17,010 W Bengal	11,160 Maharashtra	10L PEOPLE BUY A HOUSE ANNUALLY

Builders will have to deposit a minimum of 70% collections from buyers in a separate escrow account to cover cost of construction and land. State level **Real Estate Regulatory Authorities** will be established to regulate transactions related to both residential and commercial projects and ensure their timely completion and handover.

The Act covers any project that is **more than 500 sq m** or **has more than eight apartments**. All projects will have to be registered with regulatory authorities, and developers will have to disclose project information including details of the promoter, project, layout plan, land status, status of approvals and agreements along with details of real estate agents, contractors, architects and structural engineers.

209. **Global remittances** to India fell by 2.1% in 2015 over 2014. This was the first annual fall since the global financial crisis of 2008. The biggest fall happened in inflows from the Gulf region, which accounts for 52% of total annual remittances. Falling oil prices have hurt the economies in most oil-dependent Gulf countries. Here are the seven largest sources of remittance, which together account for 99% of annual inflows.



210. Major provisions in the New Bankruptcy Code

The New Code

Stringent Laws


Cross-border treaties to confiscate overseas assets of wilful defaulters

180 days to decide fate of co that defaults

Disqualification of declared bankrupt from holding public office

Focus on Employees

Money due to employees not to be included in liquidation

Workers' dues for last 24 months to get priority 

Systemic Checks

Setting up Insolvency and Bankruptcy Board of India

ARCs to procure assets from DRTs & bankruptcy board

Information utilities to provide creditors info on borrowers

ONE LAW TO DEAL WITH BANKRUPTCY

- » 2 laws repealed
- » 11 amended



TIME-BOUND PROCESS

- » 180 days to resolve insolvency
- » 270 days in some circumstances

EVERYONE GETS THEIR DUE

Order of priority

1. Cost of insolvency process
2. Workers, secured creditors
3. Employee wages
4. Unsecured creditors
5. Government dues
6. Any remaining debt
7. Shareholders



COMPREHENSIVE COVERAGE

- » Companies » Partnerships
- » Limited liability partnerships
- » Individuals » More can be included



NO DEADLOCK

- » Bankruptcy resolved in prescribed time
- » If not resolved in time--assets to be sold to pay debtors



REGULATOR TO PROTECT EVERYONE

- » The Insolvency and Bankruptcy Board of India to keep watch
- » 10-member board to have RBI and government representation



WHY THE NEW CODE TO RESOLVE BUSINESS FAILURES

LONG TIME TAKEN TO RESOLVE BANKRUPTCY

in years

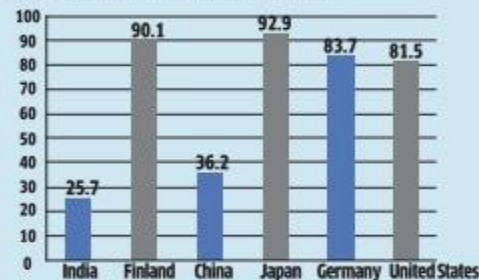
Finland	0.9
Japan	0.6
United States	1.5
India	4.3
China	1.7
Brazil	4



all figs in percentage

LENDERS GET LITTLE

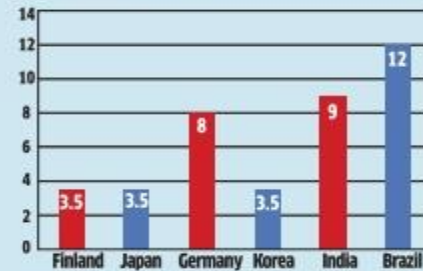
Recovery rate, cents to a dollar



Source: World Bank Doing Business, 2016

HIGH COST OF THE PROCESS

% of estate



THE BIG GAINS

- » India will improve its ease of doing business ranking
- » Banks and asset reconstruction companies immediate gainers
- » Lift lender comfort
 - This will lead to greater investments
 - Corporate bond market will develop
- » Locked-up assets will be freed

NO ASSET STRIPPING

- » Insolvency professionals to hold charge of assets during resolution



INFORMATION BACKBONE

- » The code establishes multiple information utilities
- » Collect, collate and disseminate financial information related to a debtor

NEW DEDICATED INSTITUTIONS

- » Licensed professionals to guide the insolvency process
- » Agencies to regulate these professionals

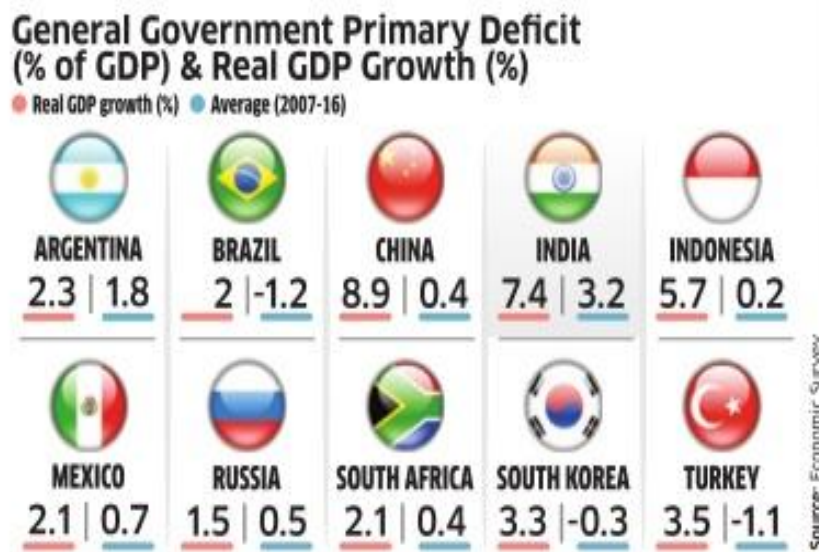
FUND FOR THE FUTURE

- » Insolvency and Bankruptcy Fund
- » Voluntary contributions from any person
- » Fund available to contributors if they face bankruptcy proceedings



211. **General Anti Avoidance Rule (GAAR)**, which will come into effect from April 1, 2017. While the draft rules may have cleared the air over retrospective taxation and treatment of Participatory Notes (P-notes), still persist around issues pertaining to the FII structure and their tax treatment in India. There is confusion over how tax authorities will determine “commercial substance“ to consider FII eligibility for claiming treaty benefit and also what “commercial substance“ will be considered sufficient for this purpose. Will the substance once established be sufficient or will it have to be justified every year? There's a belief that lack of clarity over this could lead to uncertainty.
212. World Trade Organization's Trade Facilitation Agreement for cross-border commerce in goods coming into force on February 22, India has done well to press ahead with its proposal for a similar agreement for services. When protectionist tendencies are reasserting in several advanced countries, it makes eminent sense to reinforce WTO as the multilateral trade forum.

The latest Economic Survey highlights an Indian vulnerability--the persistence of high primary deficits, especially in view of India's relatively high rate of growth. Although many large emerging markets experience primary deficits, what makes India stand out is their size over the past decade, especially when compared with the country's rate of growth. At such rates, India's primary deficit should have been much lower than others...



213. **Trai Rules Out Differential Prices For Data:** Telecom Regulatory Authority of India has ended the controversial services such as Facebook's 'Free Basics' and Airtel's zero rated platform 'Airtel Zero'. By ruling out differential prices for data. Telecom companies will no longer be able to subsidise in house content or strike deals with application providers for giving their services free or at a discount. Internet consumers across the country will continue to enjoy equal pricing for accessing all kinds of data online.

But a grey area still remains as there is still no clarity over important issues such as traffic management on the internet and areas such as data throttling and the control of internet speed in the transmission of content on the internet. These are also seen as ways to control the internet by the telecom providers and falling against the spirit of net neutrality.

214. **The sovereign gold bonds** are issued by the Reserve Bank of India on behalf of the government in denominations in grams of gold. Sale is restricted to resident Indian entities including individuals, Hindu undivided families, trusts, universities and charitable institutions. The minimum permissible investment is two grams of gold while maximum is 500 grams per person per financial year. The bonds can be traded in the financial markets.

215. **Union Labour Code on Wages bill and the Small Factories Bill, 2014.** The wage code bill aims to amalgamate four labour laws related to wages, the Small Factories Bill seeks to exempt units employing less than 40 workers from 14 labour laws. It will attempt to streamline the definition of wages by amalgamating four wage-related statutes. These include the Minimum Wages Act, 1948, the Payment of Wages Act, 1936, the Payment of Bonus Act, 1965, and the Equal Remuneration Act, 1976.

The Small Factories (Regulation of Employment and Conditions of Services) Bill, 2014, would mainly combine provisions of various labour laws applicable to small factories, facilitating ease of compliance and reporting. The bill also proposes that very small factories employing not more than five workers would be exempt from the compliance burden related to shifts, attendance and late attendance, responsibility to issue appointment letters and provisions on unfair labour practices. It provides for payment of wages through bank accounts and continuing provisions of social security without dilution.

216. **Standard Deduction for salaried income tax payee :** Standard deduction has existed from the beginning of the Income Tax Act. A lump sum amount is allowed as deduction irrespective of actual expenses incurred by the tax payer for earning that income. For example, 30% of rent received is allowed as standard deduction under the head income from house property. This standard deduction is for maintaining the property and in addition, municipal tax, interest paid on loan taken to acquire, construct or repair the property, etc. are also allowed.

The main advantage with standard deduction is its simplicity. Since a lump sum deduction is allowed, there is no need for tax payers to keep proofs of expenses (like bills) and related documents. It makes life easy for the IT department also (i.e. no need to crosscheck whether the expenses claimed are genuine or not). Using the same logic of administrative convenience, standard deduction for salaried class was introduced in 1974-75 Budget by clubbing several expenses that were

allowed for salaried class at that time. This was withdrawn in 2013-14 on the ground that there was an equivalent increase in basic exemption limit and in 80 C deductions. This logic is erroneous because the increase in basic exemption limit and in 80C deductions was applicable for all tax payers and not just for the salaried class.

217. [Annual Status of Education Report \(Aser \) 2016](#) shows that only 58% of Class 5 students can read a Class 2 textbook. We are launching more IITs and IIMs. But what about quality educators? The technical training and teacher training institutes have been failures and need privatisation route to survive. Indian traits of weak ability to execute long term, result oriented processes needs to be recognised.

National Skill Development Corporation has failed to deliver on its objective of improving the formal skill training of the population from below 5% in 2009 to anything comparable to that of developed countries (53-92%) till 2013. The 18% unemployment rate among graduates and above in 2016 is an indicator that the ecosystem of delivering appropriate and quality skills to the jobs being created has not yet happened.

218. The [Skill India mission needs](#) a better governance system. The [Balanced Execution Agenda](#), for instance, should address financial and non-financial, short and long-term, tangible and intangible objectives in a systematic manner with linked metrics, targets and a robust review mechanism.

This aims at learning and motivating the bureaucracy responsible to deliver even more. Bureaucracy is not measured for the effectiveness of policy but the elected government is. Bureaucrats are trained to ensure compliance to archaic processes. Skilling them in execution and measuring them on results, will be key in achieving the policy outcomes. Balanced Execution Agenda has the potential to go beyond mere numbers, and create an ecosystem of entrepreneurs, skill seekers and trainers, then India will succeed in driving the next wave of development. The only right solution to the unemployment crisis is the skill training institutes. But to expand the number of

institutes, we need skilled trainers. Without cleaning up our education system, we cannot move forward. Skill training centres cannot be a substitute for 20 years of classroom learning.

219. **Reforms after 2014** : Many of the ongoing schemes have been rebranded and re launched with greater commitment and visibility. These include financial and digital inclusion, nurturing skills, improving sanitation or reform of subsidy administration via direct transfer of benefits from the government to the beneficiaries' accounts uniquely tagged with Aadhaar. Road building and adoption of joint ventures by the Railways to both corporatise itself. mobilise extra-budgetary resources have laid the ground for stepping up investment. The finance ministry has successfully legislated a bankruptcy code that will bring order to the process and tidy up the banking sector, whose stressed assets have reached 14.5% of the total.
220. **SWIFT, or Single Window Interface for Facilitating Trade**, also allows for risk-based assessment at customs The SWIFT system, introduced in April by the Central Board of Excise and Customs (CBEC), allows importers and exporters to file just one form at ports for clearance from all agencies including the Food Safety and Standards Authority of India, Drug Controller General of India and Plant Quarantine and e Control Bureau. Wildlife Crime Control Bureau. The programme cuts down on paperwork procedures significantly but not the waiting period of six-seven days. The new initiative seeks to address this issue.
221. **Act East** : Despite South East Asia being our closest landmass, we have to spend considerable time and money in getting different papers from New Delhi in order to visit or do business with these countries. The world trade center will bring all these offices here. Niti Aayog has in principle consented to availing of requisite loan from Asian Development Bank for dredging the Bangladesh part of river

transport system. “We will soon start dredging of Brahmaputra from Sadiya to Brahmaputra (891 km). India has got access to the ports of Bangladesh and Myanmar.” The industry minister said: “With improved infrastructure and connectivity, industries will come to Assam and from here they can target South Asian and ASEAN markets. The population of Bangladesh is 15 crore while that of ASEAN is 6 cr.”

222. **National Master Plan for manufacturing** clusters aims to raise the share of manufacturing from 18% to 25 % by 2025. The government will also assess big projects such as the Sagarmala Project, and upcoming industrial corridors to align with it the master plan. The plan would identify infrastructure support including plug and play facilities, forward and backward linkages, provide incentives on electricity tariff, flexible labour laws, open access to power supply among other things. It would include a single window clearance to substitute the current system, where a starting a manufacturing plant requires over 20 approvals from the state and the Centre.

Support System

DIPP prepares National Master Plan for manufacturing clusters

Govt wants new capacity addition to be demand led

All future projects may have to follow the new plan

Plan to spot infrastructure support like plug-and-play facilities, forward and backward linkages

Single window clearance likely for starting manufacturing plant

“We can save lakhs of crores (of rupees) if we stop taking up unnecessary projects and first utilise existing capacity”

GOVERNMENT OFFICIAL

223. Profit-linked deductions, tax concessions and various incentives are enjoyed disproportionately by the larger companies.

- a. **Minimum Alternate Tax (MAT)** rate. To boost exports, units in the special economic zones (SEZs) will be exempted from MAT. The average effective corporate tax rate is 23%. For smaller companies (profit before tax of up to 1 crore), it amounts to almost 27%.
- b. **Dividend Distribution tax (DDT)**. Prior to 1997, dividend was taxable in the hands of the recipient at the relevant individual income tax rate. In 1997, DDT exempted dividends in the hands of shareholders from tax and began collecting it from companies, its current rate being 20%. Such a rate would be glaringly high even when the corporate tax rate is brought down to 25% as the combined rate would be 45% (20% + 25%). Note that the DDT is paid by a company, not by shareholders.

224. **Steps taken in 2017 for bringing transparency in political funding:**

- a) Cash funding is to be limited to Rs.2000 per individual. This has been reduced from the current ceiling of Rs 20,000/-
- b) RBI to issue sovereign bonds, to which a donor may subscribe from bank and take certificates against it. These bonds may be given to any political party, and the identity of the giver will not be revealed in the party's book of accounts. The party will be able to redeem the bonds only through its bank account.

These bonds may yield rates lower than the average range, which may help the government to earn some interest income.

- c) Both these new provisions involve amendments to existing laws as follows:
 - a) The Reserve Bank of India Act, to be amended for new bonds
 - b) The Representation of the Peoples Act to be amended for lowering the anonymous donation amount from Rs. 20,000 to Rs 2,000.

- d) The Election Commission had proposed a new Section 29C to be inserted in the Representation of the People Act, to ensure full disclosure of amounts received by a political party and its expenditure incurred. The Law Commission endorsed the recommendation in March 2015.
- e) On question of why the provision of anonymous cash funding should be retained at all, Election Commission proposed lowering of the cap because political parties had argued that they receive quite a few small donations in the 'hundi' like system, which are very difficult to account for.
- f) The measures are expected to force parties to put out details of the bulk of their donors in public domain. A report released by the Association of Democratic Reforms last month revealed that 69% of funds of political parties in India from 2004-05 to 2014-15 came from 'unknown' resources. As per the report, 83% of total income of Congress, 65% of BJP, 94% of SP, 100% of BSP and 86% of Akali Dal was through anonymous sources.

225. **Rupee after 11th March 2017 assembly election results** : Rising to a fresh 16-month high, the rupee, among the best performing currencies in Asia this year, rose 3.28% to 65.69. The local unit hit an intraday high of 65.41. The surging rupee defies other global trends. Traders are struggling to find out what inflows are triggering such rupee rally. While currency traders in general have been long on the dollar and short on the local currency, the contrarian movement in India seems to have caught them on the wrong foot. Short sellers are rushing to cover positions after getting caught off guard by the magnitude of BJP's victory in state elections in UP and elsewhere that's widely expected to lead to accelerated reforms. That's pulling in overseas investment and causing the rupee to strengthen.

RBI is attempting to use the currency as a cushion against inflation. RBI has no stated preference for the rupee's level or direction but its interventions, typically through PSBs, are aimed at stemming volatility that threatens to compromise market stability.

Putting a Lid on Speculation

What is RBI Intervention?
RBI intervenes in currency market to curb wild swings but does not target any level. It does so via purchase/sale of \$

How It Works?
RBI asks PSBs to buy dollars when rupee surges and vice versa

Currency	Total Returns* (in %)
Rupee	1.9816
Mexican Peso	1.2351
Czech Koruna	0.7339
Romanian Leu	0.3613
Indonesian Rupiah	0.2492

*Includes spot exchange rate & interest income; Data between Mar 1 and Mar 15 evening
SOURCE: BLOOMBERG

CLOSE WATCH RBI keeps vigil on large banks, who act on behalf of corporate clients. Idea is to curb unwarranted speculation

SBI Chief Against Farm Loan Sops

SBI chairman Arundhati Bhattacharya has spoken out against farm loan waivers, saying it was imperative to ensure credit discipline. **▶▶ PAGE 9**