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132. **Gujarat International Finance Tec-City (GIFT):** India's first international finance city opened for business in 2016, with transaction worth \$1 billion in first three months by the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Talks with the London Metal Exchange and the Hong Kong Stock Exchange, are on. GIFT allows companies to raise international money (dollars or euros) without having to leave India. They provide an alternative to the financial districts of London and Tokyo. To encourage GIFT and to demonstrate ease of business, a massive 54 provisions of the Companies Act are not applicable there.



133. Measure taken to encourage digital payments by small traders and businesses with a turnover of up to Rs 2 crore :

- Reduction in existing rate of deemed profit of 8% under section 44AD of the I T Act, to 6% for total turnover or gross receipts received through banking or digital channel for the financial year 2016-17.
- This means that portion of sales for which payment is received in digital means, the profit will be considered at 6% for purposes of tax during 2016-17. The portion for which cash is used, will continue to be at 8% in section 44AD.
- Legislative amendment in this regard would be carried out through the Finance Bill, 2017.

d) Under the current tax law, profit is deemed to be 8% of turnover for assesses such as individuals.

134. **Indian Railways' `mission beyond bookkeeping`:** from December 2016, involves the reform of switching from cash to accrual based accounting coupled with variable marginal costing techniques. This will be able to identify 'money makers and money losers' through outcome budgeting, to analyse step wise costing of every asset created and service delivered. It will yield train, section and rail route costing and profitability numbers.

In accrual-based accounting, revenue is reported in the fiscal when it is earned, irrespective of when it is actually received, and expenses are deducted when they are incurred, regardless of when they are paid. In cash-based accounting, books are prepared when cash is paid or received.

The adoption of the 'accrual system' that is followed widely in large business is part of Railways' `mission beyond bookkeeping'. It will give a more accurate financial status by tracking the cost of asset and delivery of service. It also ascertains the return on investment for every rupee spent. The Constitutional requirement of preparing cash based accounts as part of the main budget, will continue.

The Railways' has 16 divisions across the country. They under take all asset creation, operational and management work with no centralised cost tracking system. An internal audit branch at each of the 16 divisional headquarters is being established.

Every Rupee Counts

Accrual system tracks cost of asset, delivery of service and measures RoI

New process will allow railways to report segment-wise revenue

ICAI to prepare MIS for the new system

It'll help investors and lenders better assess railway's financial health

Railways will also continue with cash-based accounts

With accrual accounting coupled with variable marginal costing techniques, we would be able to identify money makers and money losers

SURESH PRABHU
Railway Minister

135. **Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016**, After the period of exchange is over, the liabilities of the Reserve Bank and the guarantee of the central government towards the specified bank notes, will stand extinguished. The ordinance also provides time for deposit of old currency with the RBI to residents by 31st March 2017, for resident Indians, and up to 30th June 2017 for Non Resident Indians. This facility for NRI is subject to the Foreign Exchange Management (Export and Import of Currency) Regulations, 2015, which places a Rs. 25,000 per person limit on bringing money into India.

136. **Financial markets and Money Markets:**

Financial Markets are the channels for movement of funds from savers to borrowers on the long term of five years or more. They serve the **basic functions** of (a) **Borrowing and Lending**: as they permit the transfer of funds from one agent to another for investment or consumption purposes. (b) **Risk Sharing**: through transfer of risk from those who undertake investments to those who provide funds for those investment. (c) **Liquidity**: Financial markets provide a chance to the holders of financial assets to sell off the assets at a profit. (d) **Efficiency**: Financial markets reduce transaction costs and information costs. Loans against gold and mortgages, Equity, Infrastructure Bonds, Government Bonds, Bonds issued by private companies are examples of instruments used in financial markets.

Money Markets: Money market is a place for borrowers and lenders to exchange **short term funds** to solve their liquidity needs. They provide short term debt financing and investment. Its instruments, in general, have low default risk and maturities under one year. They also have high marketability. National Saving Certificates, Kisan Vikas Patra are examples of such instruments.

137. **Financial Inclusion reforms 2014-2016**: direct benefit transfer, Atal Pension Yojana , widening insurance coverage for farmers , increased reach of LPG, insurance and direct benefit transfers through Jan Dhan Accounts are widening the base of financial inclusion.

Schemes linked with Jan Dhan have done well.“ The government's life insurance scheme Jeevan Jyoti Bima Yojana a term life insurance covering a life for `2 lakh for a premium of `330 a year is also fast catching up. In the last two years, three crore people have bought life insurance policies. Personal accident for `12 a year for a cover of Rs. 2 lakh .

One of the reasons for high savings and poor financial investments in the country is attributed to the lack of safety net . With the changes that are coming with increased insurance reach, attitudes may change. The reach of Aadhaar, the unique identification scheme which is estimated to have enrolled more than 92% of the population, is enabling speedier financial inclusion by linking them to Jan Dhan accounts.

The number of accounts opened under Jan Dhan scheme has now reached 257 million as in November 2016. In January 2015, these were 125 million. Also, the number of zero balance accounts has fallen significantly to 23%, from 67.3% in January 2016.

138. **US Enhancing defence and security cooperation with India:** US Congress has formalised the growing defence partnership with India, following the Obama administration's decision to declare India a major defence partner. Section 1292 of the 2017, National Defence Authorisation Act titled `Enhancing defence and security cooperation with India' is a significant building block, a good incremental step, and a pointer in the right direction.

139. **A case of perjury in Supreme Court of India:** the president and the secretary of the Board of Control for Cricket in India (BCCI) were sacked by the Supreme Court for perjury. Perjury is wilfully making false statements under oath. Three things emerged here : (a) that institutional reforms such as term limits, age limits, etc, are needed for accountability and transparency in BCCI (b) that the administration of Cricket is not based on any rules or regulations, for which decisive corrective action is needed, and (c) that no one can get away with open defiance of the Supreme Court.

140. **Interface between religion and politics in a democracy**: A seven-member Constitution bench of the Supreme Court split 4-3 to deliver the verdict that seeks a neat separation of religion and politics. The dissenting minority held that discussion of caste and creed is protected free speech, and therefore, appeal to religion for asking for votes cannot make an election invalid. Dialogue alone can address social concerns.

In most cultures, morality and ethics are embedded in the social code via religion. Ideally, politicians should not seek votes based on religion or caste. Regulation of this area should be enacted by the Legislature, and not by the Judiciary. Fixing the problems of democracy cannot be achieved through court rulings.

141. **Bitcoin** is a web-based “crypto currency” that has no central authority controlling it. It relies on thousands of computers across the world, that validate transactions and add new bitcoins to the system. Bitcoin jumped 2.5% to \$1,022 on the Europe-based Bitstamp exchange. Bitcoin is used to move money across the globe quickly and anonymously. As it is not any state authority controlled, it is attractive to those wanting to get around capital controls.

142. **Election Commission’s steps to conduct fair and free elections** : The Election Commission has introduced electronic voting machines, it videotapes campaigns, monitors polling booths real time, issues photo IDs to each voter and distributes voting slips to each registered voter. It cracks down on ‘paid news’. From 2017 it has begun to monitor local TV stations to check for objectionable content, and to monitor social media as well.

143. **The Direct Tax Dispute Resolution Scheme**, announced in the budget for 2016-17, seeks to settle disputes (a) arising out of retrospective change in income tax law dealing with indirect transfers (b) and close nearly 2.6 lakh pending tax cases where Rs. 5.16 lakh crore are locked in. The scheme, opened on June 1, 2016 providing for waiving interest and penalties **if the principal** amount involved in retrospective tax cases **is paid**. For disputes other than the retrospective tax cases, taxpayers whose appeal is pending as on February 29, 2016 before the CIT (Appeals) can settle cases by paying the disputed tax and interest up to the date of

assessment. For a disputed tax amount of up to `10 lakh, the penalty will be forgone. In cases where the disputed tax amount is above `10 lakh, a penalty of 25% will be levied. The offer was to end on December 31, but it has been extended till January 31, 2017.

144. **About RuPay Card:** RuPay is a domestic plastic card launched by National Payment Corporation of India (NPCI), for integration of payment systems. It has a lower transaction cost and faster processing cost, as processing is done within the country. RuPay cards are similar to any other card that facilitate electronic payment at banks, ATMs, POS terminals and many e-commerce websites. All major public sector banks, are issuing RuPay Debit Cards to all customers including those who have accounts opened under the Pradhan Mantri Jan Dhan Yojna. The card also has a high end technology chip named EMV (Europay, Master Card and Visa) especially for high-end transactions and has an embedded micro processor circuit with information about the cardholder. (Based on article in ET (Delhi) 09.01.2017: courtesy Centre for Investment Education and Learning).

145. **About Agni V missile:** please see graphic on next page

THE MISSILE

The Agni-V is India's newest nuclear capable missile that can hit targets at over 5,000 km, bringing almost all of China within range. The 17-m long, 50-ton missile can be fired from mobile launchers – mounted either on rail or on a truck, making it hard to track and locate

THE INDIAN ARSENAL

India relies on a range of missiles for nuclear deterrence, besides holding the capability to deliver nuclear weapons from specially rigged fighter aircraft. The Agni-I (700 km), II (2,000 km) and III (3,500 km) have already been inducted

MISSILES IN THE REGION

Pakistan: The under-development Shaheen-III has a reported range of Over 2,500 km

China: Beijing has a range of land and sea-based missiles, with the DF 41 under development with a reported range of over 12,000 km

THE STORY TILL NOW

After its first test flight in April 2012, the Agni-V was tested once each in 2013 and 2015. The fourth test on Monday has completed the developmental stage. This means that the technical capability of the missile has been proven and it would now be handed over to the user – India's strategic forces command – for evaluation.

WHAT NEXT?

The missile will now undergo three more trials – all of them by the armed forces and overlooked by DRDO scientists. These user trials are needed to prove the capability of the missile in a simulated war-like situation, demonstrating the process to be followed, the time required to activate it and other details

INDUCTION

The missile will be sent for serial production and for induction into the strategic forces command once the forces are satisfied with the performance. Once inducted, the Agni-V will be India's primary nuclear deterrence against China and Pakistan







President of India @RashtrapatiBhvn

Congratulations DRDO for successfully test firing Agni V. It will enhance our strategic and deterrence capabilities



Narendra Modi @narendramodi

The successful test firing of Agni V is the result of the hardwork of DRDO & its scientists. I congratulate them @DRDO_India

Successful test firing of Agni V makes every Indian very proud. It will add tremendous strength to our strategic defence

146. **Election Commission's 70 recommendations for cleaner elections :**
 For ushering in electoral transparency, the Election Commission has made over 70 recommendations to the Central government to remove 'glaring lacunae in the law' and ensure that the 'integrity of the election process' is maintained.

DE-CRIMINALISATION OF POLITICS

Persons charged with cognisable offences be barred from contesting polls once charges are framed and the offence is punishable by imprisonment of at least 5 years and case is filed at least six months before elections

Incorporate recommendations made in 2010 by the Liberhans Ayodhya commission report against parties which misuse religious sentiments

Make bribery in elections a cognisable offence with minimum 2 years of imprisonment

REFORMS RELATED TO POLITICAL PARTIES

De-registration of political parties: The EC should be given powers to deregister a political party and regulate registration and de-registration

Tax relief should only be there for political parties that contest election and win seats in Parliament or legislative assemblies

Form 24A under Rules 85B of The Conduct of Elections Rules, 1961: Ensure that political parties disclose contributions less than ₹20,000 as well

Compulsory maintenance of audited accounts by political parties

Maintenance of mandatory separate bank accounts by each contesting candidate for poll expenses to ensure accountability

Cap on expenditure by political party on a candidate for the election campaign

Place a ceiling on campaign expenditure by political parties

ELECTION CAMPAIGN AND ADVERTISEMENTS

Ban on exit polls and opinion polls from day of election notification till result declaration

Ban on govt sponsored advertisements six months before elections (expiry of term of House)

Paid news in connection with elections be punished with two years imprisonment

ELECTION MANAGEMENT ISSUES

Include a provision that makes giving any false statement or declaration before authorities punishable

Enhance sentence for filing false affidavit from 6 months to 2 years

ILLUSTRATION: ANIRBAN BORA

TEXT BY ANUBHUTI VISHNOI

147. China's foreign exchange reserves as in December 2016



148. **India's Expatriate Evacuation Operations'** : About 20 million Indians travel abroad annually and another 11 million Indians reside overseas. For protecting this diverse and geo graphically diverse and geographically dispersed population, the Indian government needs to: (a) institutionalise best practices, (b) bolster its diplomatic and military capabilities, and (c) improve coordination, (d) impart preparatory training diplomatic corps and military personnel, (e) establish a permanent coordinating mechanism among various government

departments at national and international level, for a smooth evacuation of expats. 'India's Expatriate Evacuation Operations' have been released before the Bharatiya Pravasi Divas 2017. Since 1990, successive Indian governments have conducted more than 30 evacuation operations across West Asia, Africa and Europe, including the largest ever civilian airlift of 110,000 people from Kuwait in 1990.

149. **Steps to encourage non cash transactions:** in association with the National Bank for Agriculture and Rural Development (NABARD) the government has launched a scheme under which any merchant in the country who is accepting payments through Aadhaar will get a 0.5% rebate for each transaction capped at Rs.10. In a major fillip for Aadhaar based payments, the government may subsidise the cost of biometric readers, that cost Rs.2000 to Rs 3000 each and are attached to smart phones to validate such transactions. India has over 5.35 lakh fair price or ration shops, which are supposed to serve the 400-million citizens. As in March 2016, only 91,000 shops had electronic points of sale (ePOS). The reimbursement of cost of biometric readers to merchants by the Unique Identification Authority of India (UIDAI) was being considered.

150. **Merchant discount rate (MDR)** The transaction cost of a credit or debit card has three elements: (a) the fees charged by the card issuing bank, which charges it to the card holder's account, (b) the card acquiring bank, which deploys the card swiping machine, receives the payment from the card issuing bank and remits it to the merchant's account, and (c) by Visa MasterCard RuPay, which processes the transaction securely

After demonetisation and government's efforts for e payment, all three elements of Merchant discount rate can come down, due to increase in volume of transactions and the low-cost of interchange offered by the National Payments Corporation of India. For bringing the MDR down to 0.1%, such that it becomes acceptable to all, the remaining gap can be bridged by outlays from the RBI. Issuing, managing, renewing, transporting and guarding currency has a high costs, and this cost is borne by the RBI and the banks. The cost reduction on this head should be transferred to make up the MDR deficit.

151. **How is GDP growth data calculated?** : For micro economy, the economic activity in different sectors is benchmarked to particular high-frequency data points. Trends in these are then extrapolated to arrive at the final figures. For the macro economy, aggregate processes tend to have a considerable amount of stability and there is unlikely to be a major reversal of trends. The exercise of estimating GDP via this method has its merits. It provides with the counterfactual and a good estimate of what the country's growth rate would be in a given environment.

India's total tax-to-GDP ratio is the lowest amongst its peers at ~16.6%. But India's intent is to bring millions out of poverty to realise its full growth potential. The nominal growth figure assumes a lot of importance, which has been estimated to be 11.9% for 2016-17 against 8.7% last year. Changing economic behaviour is not an easy task. Improvement in tax efficiency on account of better administration and a broadening of the tax base due to digitisation is the way forward.

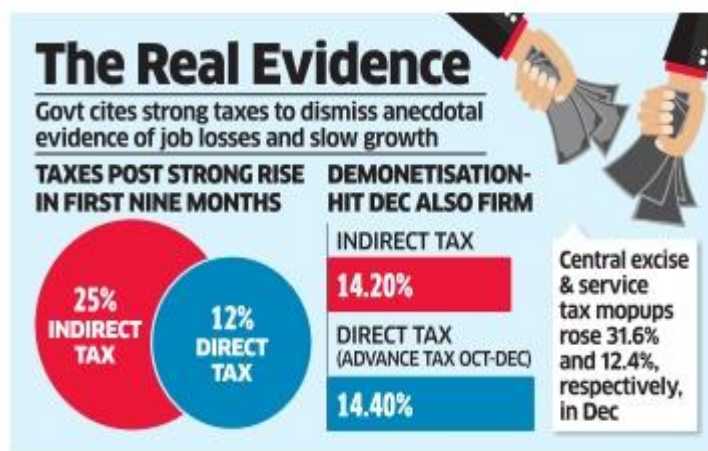
152. **Factors impacting India's growth in 2017-18:** Growth in 2017-18, will depend on two major factors. One, how quickly does the rural economy recover from the disruption in liquidity caused by demonetisation. This is for normalisation of demand. Second, is the implementation of Goods and Services Tax. This is because GST is expected to cause some disruption in economic activity due to new taxation slabs.

153. **USA's landmark shift in world policy in 2017:** With the rightwing nationalist ideologies gaining prominence globally, concerns on the recent political events that might "shape a world of exclusion, conflict and suspicion" is ahead. US corporate activity has been disadvantaged due to the current unfavourable tax treatment of offshore profits.

The Americans who had created, nurtured, enabled, maintained and protected the post-WWII global order are losing interest in continuing this role to maintain the system that economically beneficial to everyone. For 70 years America's energy needs required that the US should guard its oil supply zones and in turn run current account deficits. In the last three decades, America has become independent in its energy needs, and is therefore, looking inwards. Very few players have any inkling of how

to operate in a world where markets are not open, transport is not safe, and energy is not easy to secure.

154. **Status of central tax collection post demonetisation** Central taxes are mostly paid by digital mode (over 99%.) In December, 2016 central excise and service rose 31.6% and 12.4%, respectively, from the previous year. Central excise rose 43% to Rs. 2.79 lakh crore in the April-December period from Rs.1.95 lakh crore in the previous year. Service tax rose 23.9% to Rs. 1.83 lakh crore from Rs.1.48 lakh. Customs collections rose 4.1% to Rs 1.67 lakh crore from Rs. 1.60 lakh crore.



155. Allocation of party symbol by the Election Commission : Paragraph 15 of **Election Symbols (Reservation and Allotment) Order, 1968** lays down the following steps for decision of Election Commission to allocate the party symbol, between splinter group and ‘real’ party:

- The splinter group has to apply to the Election Commission for the party symbol, along with proof of its claim on having the backing of the majority members.
- The Election Commission hears the reasons of both the groups
- It considers the circumstances of the split and the provisions in the party constitutions
- The Election Commission may freeze the original symbol and allocate new symbols to each of the two groups.

156. **Monetary Policy Committee (MPC)** is a new institution to decide on interest rates and liquidity issues under the Monetary Policy. Before 2016, these decisions were taken by the Reserve Bank of India alone.

The Committee comprises of six members. Three members are from the Reserve Bank of India nominated by the Governor of RB , and three from outside the Reserve Bank, nominated by the Government of India. The three external members include Ketan Ghate, an economics professor from the Indian Statistical Institute, Pami Dua from Delhi School of Economics, and Ravindra Dholakia from the Indian Institute of Management, Ahmedabad.

In 2016 the MPC has decided on two monetary policy reviews , namely, cutting the rate by a quarter point, when inflationary pressures were high, and maintaining the status quo when economic growth slowed down due to demonetisation.