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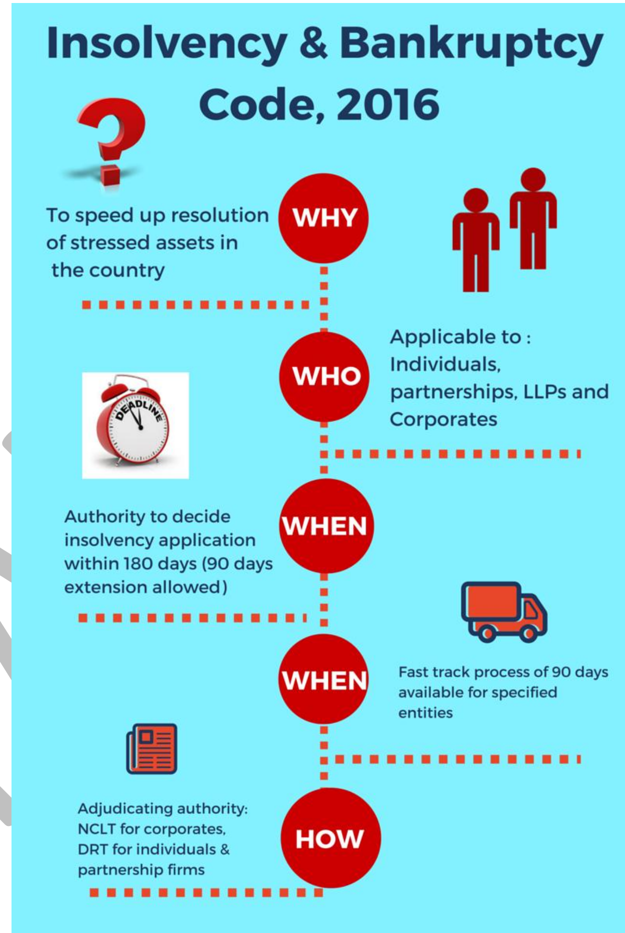
ECONOMY RELATED CURRENT AFFFAIRS FOR JUNE & JULY

1. INSOLVENCY & BANKRUPTCY AMENDMENT ORDINANCE 2018



Highlights:

The Ordinance amends the Insolvency and Bankruptcy Code, 2016 to clarify that allottees under a real estate project should be treated as financial creditors.

The voting threshold for routine decisions taken by the committee of creditors has been reduced from 75% to 51%. For certain key decisions, this threshold has been reduced to 66%.

The Ordinance allows the withdrawal of a resolution application submitted to the NCLT under the Code. This decision can be taken with the approval of 90% of the committee of creditors.

Key Issues and Analysis

The rationale for classifying allottees under a real estate project as financial creditors may be questioned. Further, the Ordinance does not clarify whether allottees are secured or unsecured financial creditors. In the absence of allottees having a clear status, there may be uncertainty about their priority when receiving dues from the insolvency proceedings.

2. AMALGAMATION OF RRB'S

Regional Rural Banks (RRB)

Regional Rural Banks (RRBs) are financial institutions which ensure adequate credit for agriculture and other rural sectors. It was set up on the basis of the recommendations of the Narasimham Working Group (1975), and after the legislations of the Regional Rural Banks Act, 1976.

The equity of a regional rural bank is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35 The RRB's have also been brought under the ambit of priority sector lending on par with the commercial bank.

Why in news?

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Union government, in consultation with the NABARD, had decided to go ahead **with phase III of the amalgamation of regional rural banks (RRBs)**, bringing down the number of such entities to 38 from 56 now.

Background:

The first round was in 2005 in which RRBs of the same sponsor bank within a State were consolidated. In the second phase of consolidation in 2012, RRBs, which were near each other (even if they belonged to different sponsor banks), were brought together.

Merits

• The consolidation process would enable RRBs to minimise their overhead costs, optimise use of technology, enhance capital base and area of operation.

• This will bring about better scale efficiency, higher productivity and robust financial health of RRBs Improved financial inclusion and greater credit flow to rural areas.

Role of Regional Rural Banking for Rural Development:

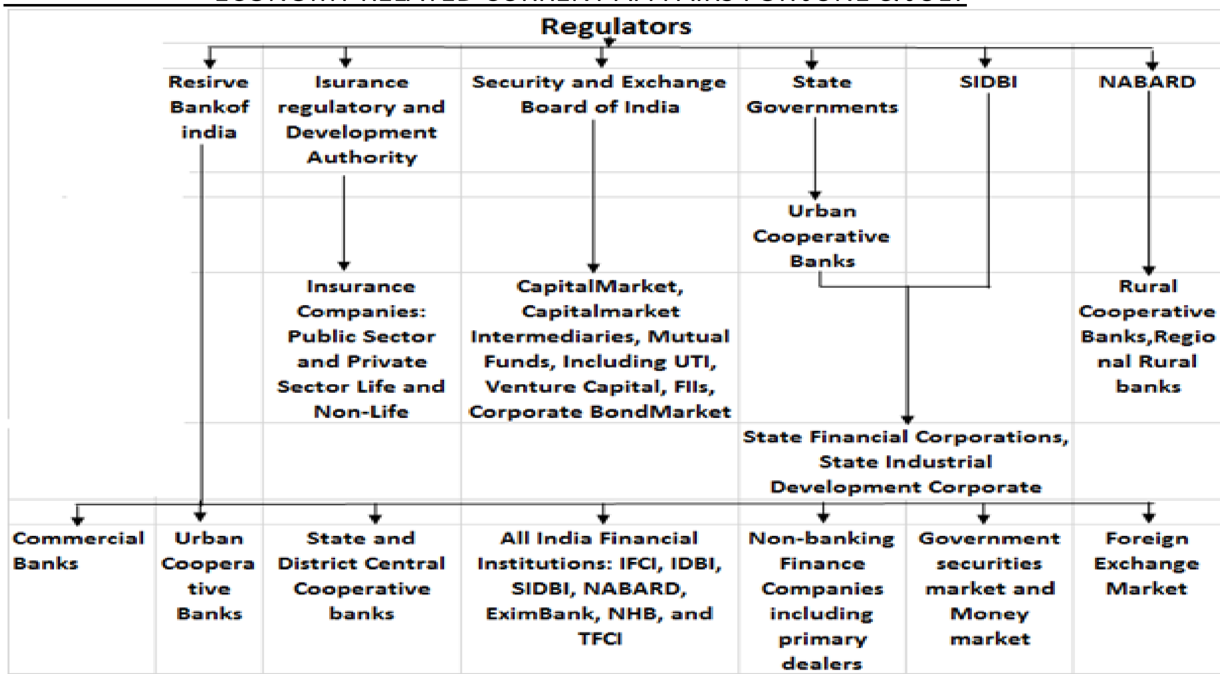
• Taking the banking services to the doorstep of rural masses, particularly in hitherto unbanked rural areas.

• Making available institutional credit to the weaker section of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money lenders.

• Mobilize rural savings and channelize them for supporting productive activities in rural areas.

• Provide finance to co-operative societies, Primary Credit societies, Agricultural marketing societies.

• Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.



3. GOVERNMENT OWNED NBFC'S TO FOLLOW CRAR

Reserve Bank of India (RBI) recently ended the special dispensations granted earlier for non-banking financial corporations (NBFCs) owned by the government.

The Capital Adequacy Ratio (CAR) also known as capital-to-risk weighted assets ratio is a measure of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. It is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Two types of capital are measured-

Tier one capital It absorbs losses without a bank being required to cease trading

Tier two capital it absorbs losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Background

The Reserve Bank has been given the powers under the RBI Act 1934 to register, lay down policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs. The Reserve Bank can regulate and penalize NBFCs for violating the provisions of the RBI Act or the directions or orders issued by RBI under the RBI Act. Earlier, only privately owned NBFCs had to maintain a minimum Capital to Risk Assets Ratio (CRAR) of 15 percent if Tier-1 capital is 10 percent.

Now, the CRAR requirements same as that of private NBFCs have been made applicable to government NBFCs . Government NBFCs have to achieve this by 2022. Some of the other changes that government

NBFCs would now have to comply with include the treatment of income recognition, besides full provisioning for all non-performing assets. RBI has specified a roadmap, stretching till 2021-22, for these lenders to meet the norms on capital adequacy, provisioning, and corporate governance. The recent ruling by the RBI will ensure both types of NBFCs stand on an equal footing on compliance with specific RBI rules and will also help in keeping a check on NPAs and bankruptcy.

4. URBAN COOPERATIVE BANKS TO SMALL FINANCE BANKS:

The Reserve Bank of India (RBI) allowed voluntary transition of the Urban Co-Operative Banks (UCB) into Small Finance Banks (SFB).

Small Finance Banks

They provide basic banking services like accepting deposits and lending to the unbanked sections such as small farmers, micro business enterprises, micro and small industries and unorganised sector entities. They were created with an aim to encourage financial inclusion by provision of savings vehicles and supply of credit to small business units. The minimum paid-up equity capital for small finance banks shall be Rs. 100 crore. The promoter's minimum initial contribution to the paid-up equity capital of such small finance bank shall at least be 40 per cent (can be brought down to 26 per cent within 12 years from the date of commencement of business of the bank. They are required to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) They are required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.

Urban Cooperative Banks (UCBs)

It refers to primary cooperative banks located in urban and semi-urban areas. The Urban Cooperative Banks (UCBs) are registered as cooperative societies under the provisions of, either the State Cooperative Societies Act of the concerned State or the Multi State Cooperative Societies Act, 2002. The Reserve Bank regulates and supervises the banking functions of UCBs under the provisions of Banking regulation Act, 1949(AACS).

5. SEBI TO INTEGRATE DEPARTMENTS:

The Securities and Exchange Board of India (SEBI) is planning to integrate its surveillance and investigation departments. SEBI lacks coordination between the two departments. The merged department could take over all investigations, which will reduce overlapping and increase SEBI's efficiency. Currently, it takes around three months to check if the matter deserves further probe. Merger will reduce this time frame to 2 weeks. It will improve coordination and monitoring in a more efficient manner.

Securities and Exchange Board of India (SEBI)

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SEBI was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

Role of SEBI

• To increase the efficiency of the financial system and securities market so that larger saving could be channelled for productive use in the public sector.

• The Preamble of SEBI Act lays down that protection of the interest of investor is its basic and foremost aim which is to be achieved through its functions of regulation.

• SEBI as the Capital Market Regulator has twin objectives of regulating as well as developing the market.

• It creates discipline in the market and ensure high degree of fairness and market integrity.

• It identifies and prohibits certain types of conduct in the markets and provides the Commission with **disciplinary powers over regulated entities and persons** associated with them.

6. **GLOBAL PEACE INDEX:**

India is ranked 136/163 countries. Last year India was ranked 137. This Index is released by Sydney-based think tank Institute for Economics and Peace (IEP). Iceland was ranked most peaceful country in the world and it managed to retain its position since 2008.

7. **HAWALA TRANSACTIONS:**

Investigating agencies have unearthed huge transactions as part of a probe into an international "hawala" syndicate.

Background:

The word "Hawala" means trust. It is an alternative or parallel remittance system, which works outside the circle of banks and formal financial systems. It is also sometimes referred to as "Underground Banking". In a hawala transaction, no physical movement of cash is there. This network is being used extensively across the globe to circulate black money and to provide funds for terrorism, drug trafficking and other illegal activities.

Status of Hawala in India :

Hawala has been made illegal in India, as it is seen to be a form of money laundering and can be used to move wealth anonymously. The hawala transactions are uncounted since they are not routed through banks.

In India, FEMA (Foreign Exchange Management Act) 2000 and PMLA (Prevention of Money Laundering Act) 2002 are the two major legislations which make such transactions illegal and are enforced by Enforcement Directorate.

8. AIR INDIA PRIVITISATION PLAN SHELVED:

Why in news:

After it failed to get any buyers for the debt-ridden national carrier, the government has shelved its plan to privatise Air India exactly a year after the Union Cabinet gave its nod for the disinvestment process.

Reason:

Lack of interest in the disinvestment process due to rising fuel prices

Huge size of the debt, the government's refusal to exit completely from the airline as well as obligations towards more than 15,000 permanent and contractual employees.

However, the government had said that continuing to hold some stake in Air India would help it to service the share of the debt of approximately Rs.25,000 crore it was not passing on to the new buyer.

Concerns:

Continuing government ownership and the lack of a clear roadmap may lead Air India to extreme

insignificance and possibly closure. Measures such as cutting down costs as well as monetisation of Air India's assets would be adopted in order to run the airline.

9. IRDAI PANEL TO REVIEW INSURANCE MARKETING FIRM:

Why in news:

Insurance regulator IRDAI has formed a 10-member Suresh Mathur Committee to review regulations governing the Insurance Marketing Firms (IMF).

Terms of Reference:

• The committee would revisit IRDAI (Registration of Insurance Marketing Firms) Regulations, 2015.

• It will recommend guidelines on areas on which regulations of IMFs are silent.

• It will also recommend measures for strengthening distribution channel of IMFs by taking up products which fall under jurisdiction of other financial sector regulators.

Background:

• The Insurance Regulatory and Development Authority of India (IRDAI) had approved IMF in 2015 as a measure to increase insurance penetration in the country through an area wise registration approach.

• The channel has now been in operation for three years. The committee was constituted to review existing regulations essential for distribution channel to evolve and fulfil the objective of spreading insurance coverage to all layers of the society.

10. SEBI & SAT

The Securities and Exchange Board of India (SEBI) is responsible for protecting the interests of investors in securities and to promote the development of, and to regulate the securities market and for all other connected matters. To protect and be responsive to the needs of three groups of people (issuer of securities, investors and market intermediaries), SEBI has been invested with three necessary functions rolled-in to enable it to carry out its mandate:


SAT refuses to revoke rap against SEBI

Tribunal says duty-bound to bring 'serious anomalies' to SEBI's notice, ensure such lapses don't recur

- Quasi-legislative function = drafts regulations
- Quasi-judicial = passes rulings and judgments; prosecute and judge directly certain violations
- Quasi-executive = investigation and enforcement actions.

Since these powers make SEBI a very powerful body, an appeal process has been created to ensure accountability. For the quasi judicial functions, there is a **Securities Appellate Tribunal**, which is a **three-member tribunal**. A second appeal lies directly to the Supreme Court.

The first SAT was formed in 1995, through a notification issued by the Central Government and therefore, is a statutory body established under the provisions of Section 15K of the Securities and Exchange Board of India Act, 1992

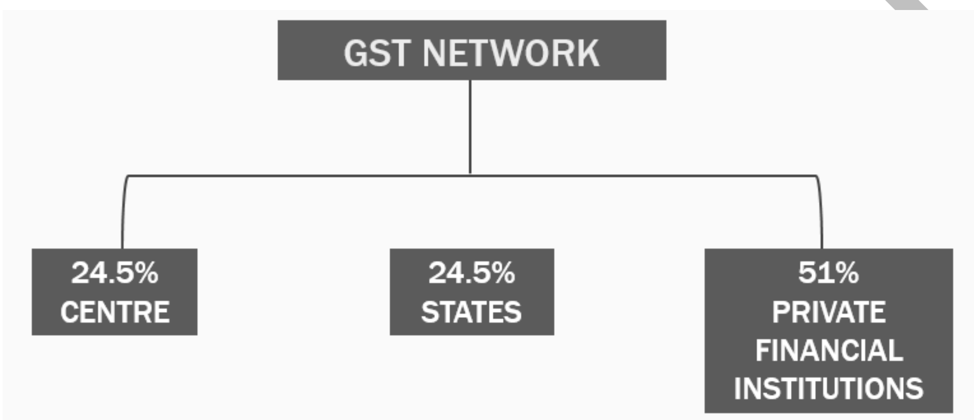
11. GST RATES CHANGED:

GST COUNCIL

- It represents both Centre and States for devising the mechanism.
- Headed by the Finance Minister.

- As per Article 279 A of the Constitution.
- Centre will have one-third weightage.
- States will have two-third weightage.
- Half of the strength constitutes quorum.
- Three-fourth of the weighted votes of the members present and voting is required for any changes in GST structure.

GST NETWORK:



- GSTN is a National Information Utility.
- It is registered as non-government, not for profit, private limited company.
- The Centre and States put together have 49% equity.
- Financial Institutions including HDFC, HDFC Bank, ICICI Bank and NSE Strategic Investment Company hold 10% each.
- LIC Housing Finance holds 11%.
- Now, **Government is thinking of making it a Government Company, because of security of the data and control over the Company.**
- GSTN provides the IT infrastructure for GST and runs the portal, on which businesses register themselves as tax payers and file returns and pay taxes.

Why inNews?

The Goods and Services Tax Council, at its 28th meeting , reduced the rates on more than 50 products, including sanitary pads, small televisions, washing machines, and refrigerators. The council also simplified the return filing process for small businesses.

While GST on sanitary pads was cut from 12% to zero, rakhis were exempted from the tax. Small televisions, washing machines, fridges and kitchen appliances such as mixers and juicers have their tax rates slashed from 28% to 18%.

Consumer-durable makers welcomed the government's move, saying it will help domestic manufacturing and create more employment opportunities.

The council also approved a simplified return filing mechanism wherein all taxpayers, excluding small taxpayers, will now file one monthly return with two main tables — one for reporting outward supplies and one for availing input tax credit based on invoices uploaded by the supplier.

Tax filers with an annual turnover of less than Rs. 5 crore a year need to file returns on a quarterly basis while paying tax on a monthly basis.

This quarterly filing provision would exclude small traders making only a B2C supply, and those making a "B2B + B2C" supply. For such taxpayers, simplified returns have been designed, called Sahaj and Sugam.

"Segregation of the returns for B2B and B2C categories together with the need to file returns once in a quarter for smaller businesses will improve compliance and expand the tax base.

12. AN INDEX TO DETERMINE VALUE OF COAL BLOCKS:

Major changes in the coal block auction system have been suggested by the high-powered committee set up last year to review the current process.

The recommendations, submitted this month, rest on four tenets — ensuring transparency and fairness, equity, early development of coal blocks and simplicity of implementation of the recommendations. These suggestions coincide with the opening up of the coal sector for commercial mining.

The proposed changes aim at introducing flexibility in the number of bidders, penalties for defaulting on milestones (and revoking bank guarantees), project execution, and relaxation to captive miners to sell some of the coal in the market. The panel has recommended developing a Coal Index for determining the value of blocks and a revenue-sharing model with the States. Currently, the valuation is on the basis of the notified price of Coal India Ltd.

The committee has suggested scrapping the current practice of cancelling an auction if the number of bidders drop below three, saying that a single-bid should be accepted if biddings failed to find eligible bidders, provided the offered price was benchmarked to the reserve price. In the previous auctions, majority of the blocks could not be allocated as the number of eligible bidders was less than three.

If accepted, the changes would mark a major shift in the current system which was put in place after the cancellation of 204 coal-block allocations and introducing a system of auctioning the mineral blocks. Triggering euphoria and intense competition since their introduction, the e-auctions failed to sustain interest after several blocks were taken at high prices. Even companies which bought the blocks found it cheaper to import coal to meet their requirements rather than developing the mines.

There were no takers for subsequent blocks, forcing the Centre to do a rethink. The Expert Committee to 'report on the challenges faced by the current auction system and recommend changes' was headed by PratyushSinha with bureaucrats, ex-bureaucrats and one ex-chairperson each from the SBI and the Union Bank.

Jayanta Roy, senior VP and group head — corporate sector ratings, ICRA, said production from the captive mines which were auctioned had remained lower than their pre-auction output. "Aggressive bids by some of the bidders during auctions, subsequent decline in coal prices in international markets as well as in e-auctions, and weak financial health of some of the coal-block winning companies are other reasons for slower ramp-up of production from these mines.

Absence of end-use condition in the guidelines is a significant positive for commercial miners, who were not eligible to participate in the coal-mine auctions conducted in 2015, he said. However, given the issues related to land acquisition and regulatory clearances, production levels from private commercial miners are not expected to rise significantly in the short- to medium term.

An index to determine the value of coal blocks

With the coal sector opening up for commercial mining, changes are round the corner, including a revenue-sharing model with States

INDRANI DUTTA
KOLKATA

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The number of milestones are now eight versus 20 earlier, with the panel suggesting that only a default in achieving critical milestones should attract penalty against the earlier penalty for each default.

> **Production from captive mines that had been auctioned, remained lower than pre-auction output**
> JAYANTA ROY
> Senior VP, corporate sector ratings, ICRA

Shift from current system

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NEWS ANALYSIS

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13. KARNATAKA RECEIVES HIGHER FDI INFLOWS:

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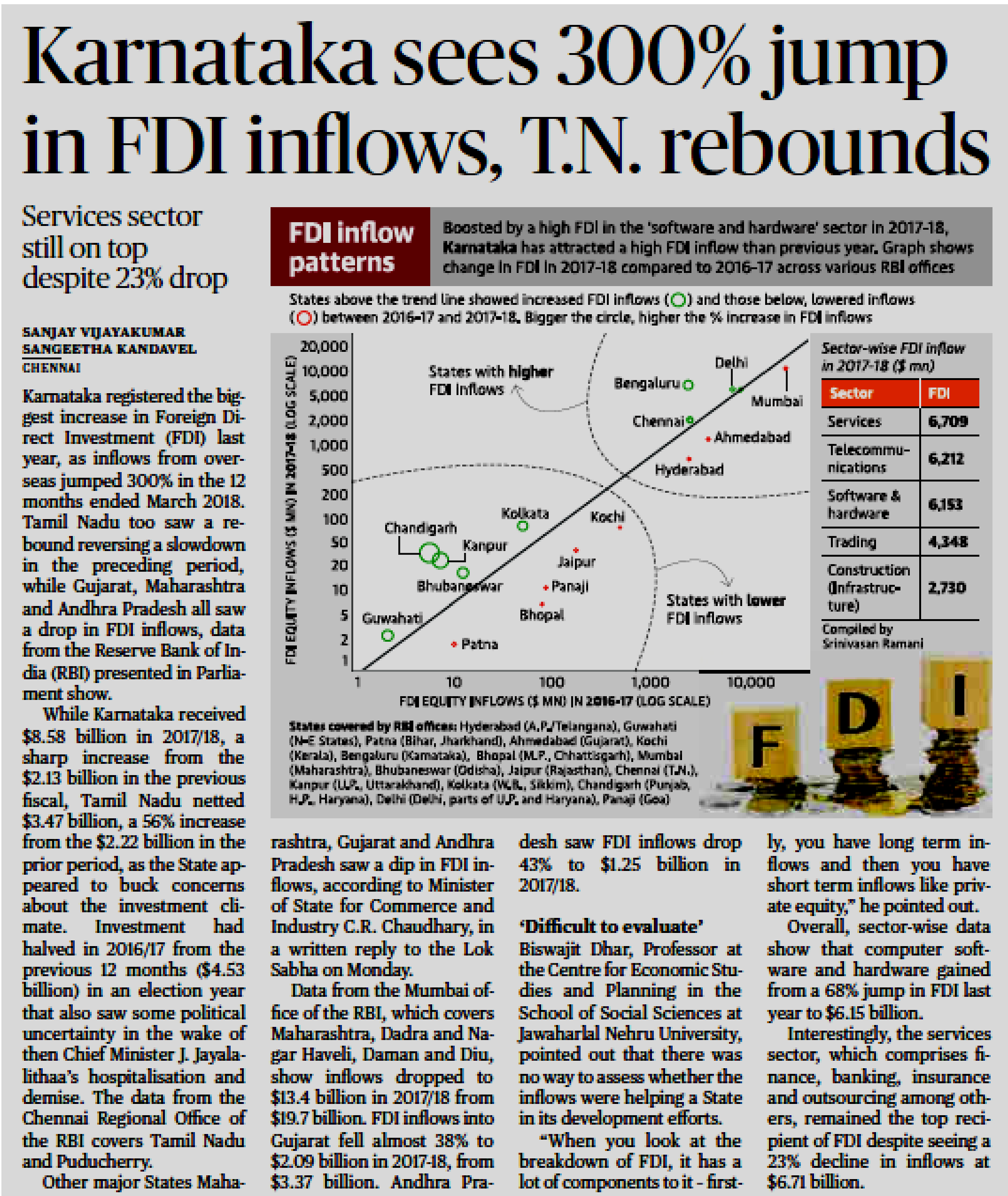
Karnataka registered the biggest increase in Foreign Direct Investment (FDI) last year, as inflows from overseas jumped 300% in the 12 months ended March 2018. Tamil Nadu too saw a rebound reversing a slowdown in the preceding period, while Gujarat, Maharashtra and Andhra Pradesh all saw a drop in FDI inflows, data from the Reserve Bank of India (RBI) presented in Parliament show.



Karnataka sees 300% jump in FDI inflows, T.N. rebounds

Services sector still on top despite 23% drop

SANJAY VIJAYAKUMAR
SANGEETHA KANDAVEL
CHENNAI

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While Karnataka received $8.58 billion in 2017/18, a sharp increase from the $2.13 billion in the previous fiscal, Tamil Nadu netted $3.47 billion, a 56% increase from the $2.22 billion in the prior period, as the State appeared to buck concerns about the investment climate. Investment had halved in 2016/17 from the previous 12 months ($4.53 billion) in an election year that also saw some political uncertainty in the wake of then Chief Minister J. Jayalalithaa's hospitalisation and demise. The data from the Chennai Regional Office of the RBI covers Tamil Nadu and Puducherry.

Other major States Maharashtra, Gujarat and Andhra Pradesh saw a dip in FDI inflows, according to Minister of State for Commerce and Industry C.R. Chaudhary, in a written reply to the Lok Sabha on Monday.

Data from the Mumbai office of the RBI, which covers Maharashtra, Dadra and Nagar Haveli, Daman and Diu, show inflows dropped to $13.4 billion in 2017/18 from $19.7 billion. FDI inflows into Gujarat fell almost 38% to $2.09 billion in 2017-18, from $3.37 billion. Andhra Pradesh saw FDI inflows drop 43% to $1.25 billion in 2017/18.

'Difficult to evaluate'

Biswajit Dhar, Professor at the Centre for Economic Studies and Planning in the School of Social Sciences at Jawaharlal Nehru University, pointed out that there was no way to assess whether the inflows were helping a State in its development efforts.

"When you look at the breakdown of FDI, it has a lot of components to it - firstly, you have long term inflows and then you have short term inflows like private equity," he pointed out.

Overall, sector-wise data show that computer software and hardware gained from a 68% jump in FDI last year to $6.15 billion.

Interestingly, the services sector, which comprises finance, banking, insurance and outsourcing among others, remained the top recipient of FDI despite seeing a 23% decline in inflows at $6.71 billion.

FDI inflow patterns

Boosted by a high FDI in the 'software and hardware' sector in 2017-18, **Karnataka** has attracted a high FDI inflow than previous year. Graph shows change in FDI in 2017-18 compared to 2016-17 across various RBI offices

States above the trend line showed increased FDI inflows (○) and those below, lowered inflows (○) between 2016-17 and 2017-18. Bigger the circle, higher the % increase in FDI inflows

Sector-wise FDI inflow in 2017-18 ($ mn)

Sector	FDI
Services	6,709
Telecommunications	6,212
Software & hardware	6,153
Trading	4,348
Construction (Infrastructure)	2,730

Compiled by Srinivasan Ramani

States covered by RBI offices: Hyderabad (A.P./Telangana), Guwahati (N-E States), Patna (Bihar, Jharkhand), Ahmedabad (Gujarat), Kochi (Kerala), Bengaluru (Karnataka), Bhopal (M.P., Chhattisgarh), Mumbai (Maharashtra), Bhubaneswar (Odisha), Jaipur (Rajasthan), Chennai (T.N.), Kanpur (U.P., Uttarakhand), Kolkata (W.B., Sikkim), Chandigarh (Punjab, H.P., Haryana), Delhi (Delhi, parts of U.P. and Haryana), Panaji (Goa)

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14. INDIA IS OUT OF TOP 10 FDI DESTINATIONS:

India in 2018 has fallen out of the top 10 destinations for FDI in terms of its attractiveness, according to an AT Kearney report, which says this could be due to teething troubles in the implementation of the goods and services tax and the government's demonetisation decision in 2016.

India ranks 11 in the 2018 AT Kearney FDI Confidence Index, down from 8 in 2017 and 9 in 2016. The 2017 nationwide goods and services tax, for example, has faced implementation challenges, and the 2016 demonetisation initiative disrupted business activity and weighed on economic growth.

Report highlighted several of the reforms — such as removing the Foreign Investment Promotion Board and liberalising FDI limits in key sectors — that have maintained India's high rankings in terms of FDI attractiveness.

Potential investors are likely to be cautious as they are monitoring political risks such as China abolishing presidential term limits and the upcoming general election in India.The sheer size of the Chinese and Indian markets, however, will continue to be a draw for investors, and they remain the highest-ranking emerging markets on the index.