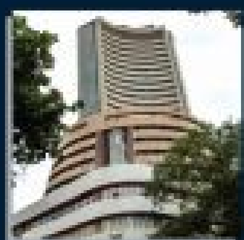
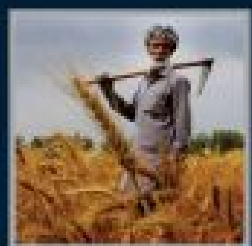
38th Revised & Updated Edition

INDIAN ECONOMY INDIAN ECONOMY INDIAN ECONOMY INDIAN ECONOMY INDIAN ECONOMY

INDIAN ECONOMY

V.K. Puri
S.K. Misra

Corona and Indian Economy Chapter Included

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INDIAN ECONOMY

— ITS DEVELOPMENT EXPERIENCE

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PREFACE TO THE THIRTY EIGHTH EDITION

The Indian economy has been hit hard by the Corona pandemic. As a result of this pandemic, the rate of growth of Indian economy is likely to be significantly negative –5 to –7 per cent, i.e., GDP in 2020-21 is likely to be less than the GDP of 2019-20 by as much as 5% to 7%. As a result of Covid-19, there was also a massive loss of employment as millions of workers lost their jobs, lakhs of business establishments were shut down, industrial activity suffered a setback, and there was massive reverse migration as millions of workers left from their places of work back to villages. We examine all these issues in a new chapter (Chapter 64) which is the last chapter of the book.

The organisation, structure and contents of the present edition are as follows:

Part I of the book 'Economic Development: A Theoretical Background' is divided into three chapters. It discusses the concepts of economic growth and development, common characteristics of underdeveloped countries, the role of economic and non-economic factors in economic development, the concept of human development, human development index, gender inequality index, multidimensional poverty index, etc., and issues concerning the relationship between environment and development.

Part II discusses the 'Structure of the Indian Economy' and consists of thirteen chapters. It is devoted to the discussion of various issues relating to the nature of the Indian economy including the natural resources and ecological issues, infrastructural development, population problem, unemployment and poverty (including a discussion on universal basic income), income growth and inequalities, etc.

Part III of the book 'Basic Issues in Agriculture' consists of nine chapters. It starts with a discussion of the role, nature and cropping pattern of Indian agriculture and then takes up for discussion the issues in Indian agricultural policy (including a review of the new global opportunities and challenges facing Indian agriculture in the wake of the various agreements concluded under WTO). We then proceed to a discussion of agricultural production and productivity trends, progress and failures in the field of land reform, green revolution and its impact on the rural economy of the country, agricultural finance and marketing, agricultural prices and agricultural price policy, the food security system in India, and agricultural labour.

Part IV on 'The Industrial Sector and Services in Indian Economy' consists of ten chapters. It starts with a discussion of industrial development during the period of planning and then proceeds to discuss some major industries of India. This is followed by a discussion of small-scale industries, industrial policy, role and performance of public sector enterprises, the issue of privatisation in public sector enterprises, role of private sector in the Indian economy, CSR (corporate social responsibility), the problem of industrial sickness, and various issues relating to industrial labour. The last chapter in this part (Chapter 35) discusses the growth of the services sector and related issues.

Part V of the book concerns 'Foreign Trade and Foreign Capital.' Consisting of eight chapters, it starts with a discussion of the changes in the composition and direction of India's foreign trade, and then proceeds to a discussion of India's balance of payments, trade policy, policy relating to foreign capital, exchange rate and capital account convertibility, MNCs (including a discussion on FERA and FEMA), etc. The last two chapters of this part discuss in detail the opportunities and challenges that the Indian economy faces in the new global environment and also examines critically the working of the WTO.

Part VI on 'Money and Banking' consists of six chapters. It starts with a discussion of the problem of inflation in India and then takes up the discussion of Indian money market, expansion and progress of commercial banking in India, Reserve Bank of India and a critical appraisal of its monetary policy, development of capital market in India and steps taken to strengthen this market in recent years (including steps taken by SEBI) and institutional financing.

Part VII on 'Public Finance' contains five chapters. In this part, we start with a discussion of the Indian tax structure (including a discussion on GST). This is followed by a discussion of public expenditure and public debt in India. The chapter on 'India's Fiscal Policy' in addition to discussing the various aspects of fiscal policy as is being implemented in India, examines the issue of fiscal responsibility in detail. The last chapter of this part focuses on the issues related to federal finance in India. It also discusses the report of the Fourteenth Finance Commission and the First Report of the Fifteenth Finance Commission for the year 2020-21. The Second Report of the Fifteenth Finance Commission covering the period 2021-26 is to be submitted by October 30, 2020.

Part VIII which is the last part of the book is on 'Economic Planning and Policy.' It contains ten chapters. Starting from a discussion of the rationale, features and objectives of planning, we proceed to discuss the strategy of development as envisaged in the various five year plans. This is followed by a discussion of the financing pattern of India's five year plans, sectoral allocation of resources, regional planning in India, the problem of black money (including a discussion on demonetisation), assessment of planning in India (including a detailed discussion of the post-economic reform period) and Twelfth Five year plan. The last chapter (Chapter 64), which is a new chapter, discusses the impact of Corona pandemic on the Indian Economy.

We take this opportunity to thank the large body of students, candidates appearing in different competitive examinations, researchers and teachers in various universities and colleges spread all over the country for continuously patronising our book all through these years and making it a standard textbook in its field. We are overwhelmed by the tremendous response to our efforts which has been an incentive for us to work hard to constantly revise and update our analysis and incorporate all new issues on Indian Economy in all their dimensions over the years. We also thank Dr. Divya Misra of Lady Shri Ram College, Delhi University, and Mrs. Kiran Puri for their help and support in preparing this edition. We also place on record our deep sense of gratitude to our publishers M/s. Himalaya Publishing House Pvt. Ltd. for their wholehearted cooperation all through the process of production of this new edition.

V.K. Puri

PREFACE TO THE FIRST EDITION

The present book discusses the development issues facing the Indian economy. It is the experience of the authors that the traditional textbooks carry ample description and heaps of data but little analytical framework. The study of Indian economy is, therefore, reduced to a study of 'descriptions' and cramming of data. The student feels bored and loses interest in the subject. From a long-term point of view, this tendency is harmful for the development of the subject itself. Undoubtedly, some brilliant studies have been conducted by different scholars on some specific issues facing the economy but these studies are spread over a number of journals and research papers. The student has neither the time nor the patience to go through all of them. Their treatment is also highly technical and they are not easily accessible to the students. The authors have for long felt the need of a book that *integrates* the main results of these studies in the main text and supplies the 'missing links of information' to the student while strictly maintaining the overall textbook structure.

Out of this conviction the present book is born. It is divided into 46 chapters dealing practically with all issues confronting the Indian economy. The treatment is exhaustive like other competing books but it differs from them in that particular attention has been paid to 'analysis' rather than mere 'description' of facts. This should enhance the utility of the book from the point of view of the students and teachers. Within the framework of a textbook, the chapters on 'population problem', 'strategy of development', 'capital, technology and institutions', and a number of other chapters raise a number of issues that are generally glossed over in the traditional textbooks on Indian economy.

Some issues have emerged recently as serious issues of debate. These include the question of inter-sectoral terms of trade between agriculture and industry, farm size and productivity, underutilisation of capacity in Indian industries, the paradox of rising saving and investment rate but slow economic growth, etc. These questions are not even raised, let alone discussed, in traditional textbooks. The authors of the present book have given the respect that is due to these topics by discussing them in detail.

Conceived thus, the present book should be of immense value to the students of Indian Economics appearing in various University examinations and competitive examinations. It fills an important gap in the area.

In writing this book, we have benefited immensely from the studies of a number of scholars spread over various journals and magazines. We are grateful to all of them. We also express our deep sense of gratitude to Miss Divya Misra, Lecturer in Economics, Lady Shri Ram College, Delhi and Shri Shashi Prakash Sharma, Lecturer in Economics, Shyam Lal College (Evening), Delhi, for rendering assistance in various forms in preparing the manuscript of this book. Thanks are also due to Vijay Batra for typing the manuscript with patience and efficiency. We are deeply indebted to the publisher for bringing out this book in a record time. Suggestions for improving the book are welcome from all quarters and will be gratefully acknowledged.

V.K. Puri and S.K. Misra

FIGURES/UNITS USED IN THE BOOK

One lakh	1,00,000
One million	10 lakh
One crore	10 million
One billion	1,000 million/100 crore
One trillion	1,000 billion/1,00,000 crore

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THE INDUSTRIAL SECTOR AND SERVICES IN INDIAN ECONOMY **331 – 436**

PART - VII

TABLES

BOXES

ACRONYMS

A

AAY	Antyodaya Anna Yojana
ACRC	Agricultural Credit Review Committee
ADLG	Agricultural Development-Led Growth
ADLI	Agricultural Development-Led Industrialisation
ADRs	American Depository Receipts
AEZ	Agri-Export Zones
AGMARK	Agricultural Marketing
AGMARKNET	Agricultural Marketing Information Network
AIBP	Accelerated Irrigation Benefit Programme
AICTE	All-India Council of Technical Education
AIM	Atal Innovation Mission
AMC	Asset Management Company
AMS	Aggregate Measure of Support
ANBC	Adjusted Net Bank Credit
AoA	Agreement on Agriculture
APL	Above Poverty Line
APMC	Agricultural Produce Marketing Committee Act
ASHA	Accredited Social Health Activist
ASPIRE	A Scheme for Promoting Innovation and Rural Entrepreneurs
AYUSH	Ayurveda, Yoga and naturopathy, Unani, Siddha and Homoeopathy

B

BASIC	Brazil, South Africa, India and China
BC	Business Correspondent
BCR	Balance from Current Revenues
BIFR	Board for Industrial and Financial Reconstruction
BOT	Build-Operate-Transfer
BPL	Below Poverty Line
BPLR	Benchmark Prime Lending Rate
BPM	Business Process Management
BPO	Business Process Outsourcing
BRGF	Backward Regions Grant Fund
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BRPSE	Bureau for Reconstruction of Public Sector Enterprises
BSBDAs	Basic Savings Bank Deposit Accounts
BSE	Bombay Stock Exchange

C

CABE	Central Advisory Board of Education
CAC	Capital Account Convertibility
CACP	Commission for Agricultural Costs and Prices
CAD	Command Area Development (also Current Account Deficit)
CAG	Comptroller and Auditor General
CAGR	Compound Annual Growth Rate
CARE	Credit Analysis and Research Limited
CASA	Current Accounts and Savings Accounts
CBDR	Common But Differentiated Responsibilities
CCI	Competition Commission of India
CCS	Cash Compensatory Support
CD	Certificate of Deposit
CDL	Central Depository Services (India) Ltd.
CDS	‘Current Daily Status’ basis
CENVAT	Central Value Added Tax
CGST	Central Goods and Services Tax
CL	Compulsory Licensing
CLB	Company Law Board
CMP	Common Minimum Programme (of UPA Government)
COMPAT	Competition Appellate Tribunal
CP	Commercial Paper
CPI-AL	Consumer Price Index (Agriculture Labourers)
CPI-IW	Consumer Price Index (Industrial Workers)
CPI-RL	Consumer Price Index (Rural Labour)
CPI-UNME	Consumer Price Index (Urban Non-Manual Employees)
CRAR	Capital to Risk-Weighted Asset Ratio
CRF	Calamity Relief Fund
CRR	Cash Reserve Ratio
CRISIL	Credit Rating Information Services of India Limited
CSO	Central Statistical Organisation
CSR	Child Sex Ratio (also Corporate Social Responsibility)
CSRE	Crash Scheme for Rural Employment
CWS	‘Current Weekly Status’ basis

D

DCRF	Debt Consolidation and Relief Facility
DDU – GKY	Deen Dayal Upadhyaya – Grameen Kaushalya Yojana
DEPB	Duty Entitlement Pass Book
DER	Debt-Equity Ratio
DFHI	Discount and Finance House of India
DFIs	Development Finance Institutions
DGFT	Director General of Foreign Trade
DGTD	Directorate General of Technical Development
DMIC	Delhi Mumbai Industrial Corridor
DPAP	Drought Prone Areas Programme
DTA	Domestic Tariff Area
DvP	Delivery *versus* Payment

E

EAS	Employment Assurance Scheme
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECB	External Commercial Borrowing
ECGC	Export Credit and Guarantee Corporation
EEFC	Exchange Earners' Foreign Currency Account
EFF	Extended Fund Facility
ELG Strategy	Export-Led Growth Strategy

EMRs	Exclusive Marketing Rights
EOU	Export-Oriented Unit
EPC	Export Promotion Council
EPIP	Export Promotion Industrial Parks
EPZ	Export Processing Zones
ERM	Extension, Renovation and Modernization
ESI Act	Employees' State Insurance Act
EU	European Union
EXIM Bank	Export-Import Bank

F

FC (B&O) D	Foreign Currency (Bank and Other) Deposits
FCDs	Fully Convertible Debentures
FCNRA (B)	Foreign Currency Non-Resident (Banks) Accounts
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FERA	Foreign Exchange Regulation Act
FIIs	Foreign Institutional Investors
FMR	Female-Male Ratio
FPI	Foreign Portfolio Investment
FRBM	Fiscal Responsibility and Budget Management
FWP	Food for Work Programme

G

GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GBS	Gross Budgetary Support
GCF	Gross Capital Formation
GCFA	Gross Capital Formation in Agriculture
GDCF	Gross Domestic Capital Formation
GDI	Gender-Related Development Index
GDP	Gross Domestic Product
GDPD	Gross Domestic Product Deflator
GDRs	Global Depository Receipts
GEM	Gender Empowerment Measure
GER	Gross Enrolment Ratio
GHG	Greenhouse Gases
GNP	Gross National Product
GQ	Golden Quadrilateral
GRT	Gross Registered Tonnage
GSP	Generalised System of Preferences
GST	Goods and Service Tax
GT	Gross Tonnage
GVA	Gross Value Added

H

HDI	Human Development Index
HPI	Human Poverty Index
HDR	Human Development Report
HYVP	High-Yielding Varieties Programme

I

IADP	Intensive Area Development Programme
ICAR	Indian Council of Agricultural Research
ICDS	Integrated Child Development Services
ICICI	Industrial Credit and Investment Corporation of India
ICOR	Incremental Capital-Output Ratio
ICRA	Investment and Credit Rating Agency
ICT	Information and Communication Technology
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development and Finance Corporation
IEBR	Internal and External Budgetary Resources
IIBI	Industrial Investment Bank of India
IIP	Index of Industrial Production
IMF	International Monetary Fund
INDCs	Intended Nationally Determined Contributions
IPO	Initial Public Offering
IPRs	Intellectual Property Rights
IRCI	Industrial Reconstruction Corporation of India
IRDP	Integrated Rural Development Programme
ISP	Internet Service Providers
IT	Information Technology
ITES	Information Technology Enabled Services
IWAI	Inland Waterways Authority of India
IWT	Inland Water Transport

J

JAM	Jan Dhan, Aadhar, Mobile
JGSY	Jawahar Gram Samridhi Yojana
JRY	Jawahar Rozgar Yojana
JSY	Janani Suraksha Yojana

K

KCC	Kisan Credit Cards
KGBV	Kasturba Gandhi Balika Vidyalaya
KYC	Know Your Customer

L

LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LDCs	Less Developed Countries
LERMS	Liberalised Exchange Rate Management System
LOI	Letters of Intent
LTCG	Long-Term Capital Gains
LTFP	Long-Term Fiscal Policy

M

MAT	Minimum Alternate Tax
MCLR	Marginal Cost of Fund-based Lending Rate
MDM	Mid-day Meal
MEIS	Merchandise Exports from India Scheme
MFs	Mutual Funds
MFA	Multi-Fibre Arrangement
MFAL	Marginal Farmers and Agricultural Labourers
MFIs	Microfinance Institutions
MFN	Most Favoured Nation
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MIDH	Mission for Integrated Development of Horticulture

MMMFs	Money Market Mutual Funds
MMPs	Mission Mode Projects
MNCs	Multinational Corporations
MODVAT	Modified Value Added Tax
MOFAs	Majority Owned Foreign Affiliates
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
MRTP	Monopolies and Restrictive Trade Practices
MSDE	Ministry of Skill Development and Entrepreneurship
MSE	Medium and Small Enterprises
MSF	Marginal Standing Facility
MSME	Micro, Small and Medium Enterprises
MSP	Minimum Support Price
MSS	Market Stabilisation Scheme
MTNs	Multilateral Trade Negotiations
MUDRA	Micro Units Development Refinance Agency
N	
NABARD	National Bank for Agriculture and Rural Development
NACIL	National Aviation Company of India Limited
NAFB	National Afforestation and Eco-Development Board
NAFED	National Agricultural Cooperative Marketing Federation of India Ltd.
NAMA	Non-Agricultural Market Access
NAS	New Agricultural Strategy
NAV	Net Asset Value
NBFC	Non-Banking Finance Companies
NCAER	National Council of Applied Economic Research
NCDs	Non-Convertible Debentures
NCLT	National Company Law Tribunal
NCMP	National Common Minimum Programme
NDC	National Development Council
NDP	Net Domestic Product
NDS	Negotiated Dealing System
NDTL	Net Demand and Time Liabilities
NEF	National Equity Fund
NELP	New Exploration Licensing Policy
NEP	New Economic Policy
NER	North-Eastern Region
NFLMW	National Floor-Level Minimum Wage
NFSA	National Food Security Act
NFSM	National Food Security Mission
NGO	Non-Government Organisation
NHB	National Housing Bank
NHM	National Health Mission
NHDP	National Highways Development Project
NHPM	National Health Protection Mission
NHPS	National Health Protection Scheme
NIAM	National Institute of Agriculture Marketing
NIMZ	National Investment and Manufacturing Zones
NITI	National Institution for Transforming India
NMP	National Manufacturing Policy
NNP	Net National Product
NPAs	Non-Performing Assets
NPEGEL	National Programme for Education of Girls at Elementary Level
NPRE	Non-Plan Revenue Expenditure
NREGA	National Rural Employment Guarantee Act
NREGS	National Rural Employment Guarantee Scheme
NREP	National Rural Employment Programme
NR(E) RA	Non-Resident (External) Rupee Accounts
NRF	National Renewal Fund
NRHM	National Rural Health Mission
NRI	Non-Resident Indian
NR (NR) RD	Non-Resident (Non-Repatriable) Rupee Deposits
NRY	Nehru Rozgar Yojana
NSCC	National Securities Clearing Corporation
NSDA	National Skill Development Agency
NSDC	National Skill Development Council
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
NSQF	National Skills Qualifying Framework
NSSO	National Sample Survey Organisation
NTBs	Non-Tariff Barriers
NTP	National Telecom Policy
NUHM	National Urban Health Mission
O	
OBCs	Other Backward Castes
OCB	Overseas Corporate Bodies
OECD	Organisation for Economic Co-operation and Development
OGL	Open General Licence
OMO	Open Market Operations
ONGC	Oil and Natural Gas Corporation
OPEC	Oil and Petroleum Exporting Countries
OPP	Oilseeds Production Programme
OTDS	Overall Trade Distorting Support
P	
PACS	Primary Agricultural Co-operative Societies
PCA	Prompt Corrective Action
PCARDBs	Primary Co-operative Agricultural and Rural Development Banks
PCDs	Partly Convertible Debentures
PCO	Public Call Office
PDS	Public Distribution System
PIN	Postal Index Number
PMBJP	Pradhan Mantri Bharat Jodo Pariyojana
PMFBY	Prime Minister Fasal Bima Yojana
PMGSY	Pradhan Mantri Gram Sadak Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMRY	Prime Minister Rozgar Yojana
PMKVY	Pradhan Mantri Kaushal Vikas Yojana
PMSSY	Pradhan Mantri Swasthya Suraksha Yojana
PNDT	Pre-Natal Diagnostic Techniques
POL	Petroleum Oil and Lubricants
PPP	Purchasing Power Parity (also Public-Private Partnership)
PQLI	Physical Quality of Life Index

PSB	Public Sector Bank
PSE	Public Sector Enterprise
PSU	Public Sector Undertaking
Q	
QFI	Qualified Financial Investors
QIP	Qualified Institutional Placement
QMS	Quick Mail Services
QRs	Quantitative Restrictions
R	
RBI	Reserve Bank of India
RIDF	Rural Infrastructure Development Fund
RKVY	Rashtriya Krishi Vikas Yojana
RLEGP	Rural Landless Employment Guarantee Programme
RM	Reserve Money
RMSA	Rashtriya Madhyamik Shiksha Abhiyan
ROCE	Return on Capital Employed
RPS	Retention Price Scheme
RRBs	Regional Rural Banks
RTAs	Regional Trade Agreements
RTE	Right to Education
RTI	Right to Information
RWP	Rural Works Programme
S	
SCARDBs	State Co-operative Agricultural and Rural Development Banks
S&DT provisions	Special and Differential Treatment Provisions
SDP	State Domestic Product
SDRs	Special Drawing Rights
SEBI	Securities and Exchange Board of India
SEIS	Services Exports from India Scheme
SEZ	Special Economic Zones
SETU	Self-Employment and Talent Utilization
SFBs	Small Finance Banks
SFC	State Financial Corporation
SFDA	Small Farmers' Development Agency
SGL	Subsidiary General Ledger
SGRY	Sampoorna Grameen Rozgar Yojana
SGST	State Goods and Services Tax
SGSY	Swarnajayanti Gram Swarojgar Yojana
SHG	Self-Help Group
SICA	Sick Industrial Companies (Special Provisions) Act
SIDBI	Small Industries Development Bank of India
SIDO	Small Industries Development Organisation
SIL	Special Import Licence
SJSRY	Swarna Jayanti Shahri Rozgar Yojana
SLR	Statutory Liquidity Ratio
SME	Small and Medium Scale Enterprise
SPM	Suspended Particulate Matter
SSA	Sarva Shiksha Abhiyan
SSCs	Sector Skill Councils
SSM	Special Safeguard Mechanism (WTO)
StCBs	State Co-operative Banks
STT	Securities Transactions Tax
T	
TFP	Total Factor Productivity
TFPG	Total Factor Productivity Growth
TNC	Transnational Corporation
TPDS	Targeted Public Distribution System
TRAI	Telecom Regulatory Authority of India
TRIMs	Trade Related Investment Measures
TRIPs	Trade Related Intellectual Property Rights
TRYSEM	Training Rural Youth for Self-Employment
U	
UA	Urban Agglomeration
UAM	Udyog Aadhaar Memorandum
UBI	Universal Basic Income
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UPSS	Usual Principal and Subsidiary Status
V	
VAT	Value Added Tax
VDA	Variable Dearness Allowance
VGF	Viability Gap Funding
VRS	Voluntary Retirement Scheme
W	
WADR	Weighted Average Discount Rate
WPI	Wholesale Price Index
WTO	World Trade Organisation
WMA	Ways and Means Advances

UNION BUDGET 2020-21

Union Budget for the financial year 2020-21 was presented by the Finance Minister, Nirmala Sitharaman to the Parliament on February 1, 2020. This is the second budget presented by Nirmala Sitharaman as Finance Minister. Table 1 provides information regarding receipts and expenditure in the Budget.

Table 1: Union Budget 2020-21 at a Glance

(in ₹ billion)

		2018-19 (Actuals)	*2019-20 Budget Estimates (BE)*	*2019-20 Revised Estimates (RE)*	*2020-21 Budget Estimates (BE)*
1.	**Revenue Receipts**	**15,52,916**	**19,62,761**	**18,50,101**	**20,20,926**
	2. Tax Revenue (Net to Centre)	13,17,211	16,49,582	15,04,587	16,35,909
	3. Non-tax Revenue	2,35,705	3,13,179	3,45,514	3,85,017
4.	**Capital Receipts**	**7,62,197**	**8,23,588**	**8,48,451**	**10,21,304**
	5. Recoveries of Loans	18,052	14,828	16,605	14,967
	6. Other Receipts	94,727	1,05,000	65,000	2,10,000
	7. Borrowings and Other Liabilities	6,49,418	7,03,760	7,66,846	7,96,337
8.	**Total Receipts (1 + 4)**	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**
9.	**Total Expenditure**	**23,15,113**	**27,86,349**	**26,98,552**	**30,42,230**
	10. On revenue Account *of which*	20,07,299	24,47,780	23,49,645	26,30,145
	11. Interest Payments	5,82,648	6,60,471	6,25,105	7,08,203
	12. Grants in Aid for Creation of Capital Assets	1,91,781	2,07,333	1,91,737	2,06,500
	13. On Capital Account	3,07,714	3,38,569	3,48,907	4,12,085
	14. Revenue Deficit (10 – 1)	4,54,483	4,85,019	4,99,544	6,09,219
	as % of GDP	2.4	2.3	2.4	2.7
	15. Effective Revenue Deficit (14 – 12)	2,62,702	2,77,686	3,07,807	4,02,719
	as % of GDP	1.4	1.3	1.5	1.8
	16. Fiscal Deficit [9 – (1 + 5 + 6)]	6,49,418	7,03,760	7,66,846	7,96,337
	as % of GDP	3.4	3.3	3.8	3.5
	17. Primary Deficit (16 – 11)	66,770	43,289	1,41,741	88,134
	as % of GDP	0.4	0.2	(0.7)	0.4

Notes: (i) GDP for 2020-21 has been projected at ₹ 22,489,420 crore, assuming 10% growth over the estimated GDP of ₹ 20,4422,233 crore for 2019-20 (Revised estimate).

(*ii*) Individual items in the table may not add up to the totals due to rounding off.

(*iii*) Figures in parentheses are as a percentage of GDP.

Receipts: As is clear from Table 1, the tax receipts in 2019-20 stood at ₹ 15,04,587 billion according to the revised estimates and thus fell short of the budget estimates of that year of ₹ 16,49,582 billion by ₹ 1,44,995 million. On the other hand, non-tax revenue exceeded the budget estimates. Total revenue receipts at ₹ 18,50,101 billion were less than the budget estimates of ₹ 19,62,761 billion by as much as ₹ 1,12,660 billion. Revenue receipts in 2020-21 are estimated at ₹ 20,20,926 billion of which tax revenues are expected to contribute ₹ 16,35,909 billion.

Expenditure: Expenditure on revenue account in 2019-20 was ₹ 23,49,645 billion according to revised estimates and was thus less than the budget estimate of ₹ 24,47,780 billion by ₹ 98,135 billion. Expenditure on capital account was ₹ 3,48,907 billion as against the budget estimate of ₹ 3,38,569 billion. Expenditure on revenue account in 2020-21 is budgeted at ₹ 26,30,145 billion while expenditure on capital account is budgeted at ₹ 4,12,085 billion.

Deficit: Fiscal deficit in 2019-20 was budgeted at ₹ 7,03,760 billion while the revised estimates for this year put the fiscal deficit at ₹ 7,66,846 billion. In percentage terms, while the fiscal deficit was targeted at 3.3 per cent of GDP, the actual deficit was as high as 3.8 per cent of GDP. Fiscal deficit in 2020-21 is targeted at 7,96,337 billion, i.e., 3.5 per cent of GDP. Revenue deficit in 2019-20 was 2.4 per cent of GDP and is expected to be much more at 2.7 per cent of GDP in 2020-21. Primary deficit in 2019-20 was budgeted at ₹ 43,259 billion, i.e., 0.2 per cent of GDP. However, it was as high as ₹ 1,41,741 billion which was as high as 0.7 per cent of GDP. The 2020-21 budget targets to bring it down to ₹ 88,134 billion which would be 0.4 per cent of GDP.

Gross Tax Revenue

Table 1 presents information on tax revenue (net to Centre), *i.e.*, after payment of States' share. As far as gross tax revenue is concerned, it was ₹ 21,63,423 crore in 2019-20 according to revised estimates as against the budget estimate of ₹ 24,61,195 crore indicating a shortfall of as much as ₹ 2,97,772 crore. Gross tax revenue is budgeted at ₹ 24,23,020 crore in 2020-21. Details of gross tax revenue and its break-up is presented in Table 2.

Table 2: Gross Tax Revenue *(₹ in Crore)*

	2018-19 (Actuals)	*2019-20 Budget Estimates*	*2019-20 Revised Estimates*	*2020-21 Budget Estimates*
1. Income Tax	**4,73,003**	**5,69,000**	**5,59,500**	**6,38,000**
2. Corporation Tax	6,63,572	7,66,000	6,10,500	6,81,000
3. Wealth Tax	41	–	–	–
4. Union Excise Duties	**2,31,982**	**3,00,000**	**2,48,012**	**2,67,000**
5. Service Tax	6,904	–	1,200	1,020
6. Customs	1,17,813	1,55,904	1,25,000	1,38,000
7. GST	5,81,560	6,63,343	6,12,327	6,90,500
– CGST	4,57,534	5,26,000	5,14,000	–
– IGST	28,945	28,000	–	–
– GST Compensation Cess	95,051	–	–	–
8. Taxes of Union Territories	5,592	6,948	–	–
Gross Tax Revenue	20,80,467	24,61,195	21,63,423	24,23,020

As is clear from Table 2, the revised estimates of income tax in 2019-20 were ₹ 5,59,500 crore as against the budget estimate of ₹ 5,69,000 crore – a shortfall of ₹ 9,500 crore. Income tax is budgeted to contribute ₹ 6,38,000 crore in 2020-21. As far as corporation tax is concerned, they were budgeted to contribute ₹ 7,66,000 crore in 2019-20 while the they contributed only ₹ 6,10,500 crore – a shortfall of as much as ₹ 1,55,500 crore. Receipts from corporation tax are budgeted at ₹ 6,81,000 crore in 2020-21. As far as indirect taxes are concerned, the most important tax is now GST (goods and services tax) introduced in the country on July 1, 2017. Revenue from this tax was budgeted at ₹ 6,63,343 crore in 2019-20 while revised estimates for this year put revenue from this tax at ₹ 6,12,327 crore – a shortfall of as much as ₹ 51,016 crore. Revenue from GST is budgeted to increase to ₹ 6,90,500 crore in 2020-21 – an increase of 12.8 per cent *vis-à-vis* revised estimates of 2019-20. Revenue from Union excise duties in 2019-20 was ₹ 2,48,012 crore according to revised estimates for this year as against the budget estimate of ₹ 3,00,000 crore – a shortfall of ₹ 51,988 crore. Union excise duties are budgeted to provide ₹ 2,67,007 crore in 2020-21. Customs duties provided ₹ 1,25,000 crore in 2019-20 according to revised estimates for this year while budget estimate for this year was ₹ 1,55,904 crore – a shortfall of ₹ 30,904 crore. Budget estimate for customs duties is placed at ₹ 1,38,000 crore for the year 2020-21.

SECTORAL INITIATIVES IN UNION BUDGET, 2020-21

Agriculture, Irrigation and Rural Development

1. The Central government proposes to encourage those State governments who undertake implementation of following model laws already issued by the Central government:

(a) Model Agricultural Land Leasing Act, 2016;

(b) Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017); and

(c) Model Agricultural Produce and Livestock Contract Farming and Services (Promotion and Facilitation) Act, 2018.

2. Water stressed issues are now a serious concern across the country. The Budget proposed comprehensive measures for 100 water stressed districts.

3. The MPM-KUSUM proposed in the 2019-20 Budget removed farmers' dependence on diesel and kerosene, and linked pump sets to solar energy. The 2020-21 Budget proposes to expand the scheme to provide 20 lakh farmers for setting up stand-alone solar pumps. In addition, it was decided to help another 15 lakh farmers solarise their grid connected pump sets. It was also decided to operationalise a scheme to help the farmers to set up solar power generation capacity on their fallow/barren lands and to sell it to the grid.

4. It was proposed to encourage balanced use of all kinds of fertilisers including the traditional organic and other innovative fertilisers. This has been deemed necessary to change the prevailing incentive regime, which encourages excessive use of chemical fertilisers.

5. India has an estimated capacity of 162 million tonnes (163 mt) of agri-warehousing, cold storage, reefer van facilities, etc. NABARD will undertake an exercise to map and geotag them. In addition, the Budget proposes the creation of warehousing, in line with Warehouse Development and Regulatory Authority (WDRA) norms. The Finance Minister said that the government will provide viability gap funding for setting up such efficient warehouses at the block/taluk level.

6. As a backward linkage, the Budget proposes a village storage scheme to be run by the SHGs. This will provide farmers a good holding capacity and reduce their logistics cost.

7. To build a seamless national cold supply chain for perishables inclusive of milk, meat and fish, the Indian Railways will set up a Kisan Rail – through PPP arrangement. There will be refrigerated coaches in express and freight trains as well.

8. Horticulture sector with its current produce of 311 million tonnes exceeds the production of foodgrains. For better marketing and export, the Budget proposes supporting States which adopting a cluster basis, will focus on 'one product one district'.

9. Integrated farming systems in rainfed areas shall be expanded. Multi-tier cropping, bee-keeping, solar pumps and solar energy production in non-cropping season will be added.

10. Non-banking finance companies (NBFCs) and cooperatives are active in the agriculture credit space. The NABARD refinance scheme will be further expanded. Agriculture credit target for the year 2020-21 has been set at ₹ 15 lakh crore. All eligible beneficiaries of PM Kisan will be covered under the KCC scheme.

11. The government intends to eliminate foot and mouth disease, brucellosis in cattle and also peste des petits ruminants (PPR) in sheep and goat by 2025. Coverage of artificial insemination shall be increased from the present 30 per cent to 70 per cent. MGNREGS would be dovetailed to develop fodder farms. Further, the government shall facilitate doubling of milk processing capacity from 53.5 mt to 108 mt by 2025.

12. The government proposes to put in place a framework for development, management and conservation of marine fishery resources. It is proposed to raise fish production to 200 lakh tonnes by 2022-23.

13. Under Deen Dayal Antyodaya Yojana for alleviation of poverty, 58 lakh SHGs have been mobilised. The Finance Minister promised further expansion of SHGs.

Fund allocation. For the sector comprising of agriculture and allied activities, irrigation and rural development, an allocation of about ₹ 2.83 lakh crore has been made for the year 2020-21. The division is as follows:

(i) For agriculture, irrigation and allied activities – ₹ 1.60 lakh crore

(ii) For rural development and panchayat raj – ₹ 1.23 lakh crore.

Wellness, Water and Sanitation

1. The Finance Minister said that the government have a holistic vision of health care that translates into wellness of the citizens. Mission Indradhanush has been expanded to cover 12 such diseases, including five new vaccines. FII India Movement is a vital part of fight against non-communicable diseases coming out of lifestyle issues. A very focused safe water (Jal Jeevan Mission) and comprehensive sanitation programme (Swachh Bharat Mission) have been launched to support the health vision.

2. Presently, under PM Jan Arogya Yojana (PMJAY), there are more than 20,000 empanelled hospitals. The Finance Minister noted that more hospitals in Tier-2 and Tier-3 cities for poorer people are needed under this scheme.

The Budget proposes to set up viability gap funding window for setting up hospitals in the PPP mode. In the first phase, those aspirational districts will be covered, where presently there are no Ayushman empanelled hospitals.

3. TB Harega Desh Jeetega Campaign has been launched. The Finance Minister has proposed to strengthen these efforts to realise the commitment to end tuberculosis by 2025.

Total allocation for Swachh Bharat Mission in 2020-21 is about ₹ 12,200 crore.

4. Aiming to provide piped water supply to all households, Prime Minister announced from the Red Fort the Tal Jeevan Mission. The government has approved ₹ 3.60 lakh crore for this Mission. During the year 2020-21, the scheme would be provided budget of ₹ 11,500 crore.

Education and Skills

1. Steps would be taken to enable sourcing external commercial borrowings and FDI so as to enable the delivery of higher quality education.
2. To improve the employability of students in the general stream (*vis-à-vis* services or technology streams), about 150 higher educational institutions will start apprenticeship embedded degree/diploma courses by March 2021.
3. In order to provide quality education to students of deprived sections of the society as well as those who do not have access to higher education, it is proposed to start degree level full-fledged online education programme.
4. Steps are proposed to meet the shortage of qualified medical doctors, both general practitioners as well as specialists.
5. To meet the huge demand for teachers, nurses, paramedical staff and caregivers abroad, special bridge courses will be designed to improve the skill sets of Indian aspirants seeking employment in these fields abroad so that they can meet the standards of employers abroad.

The 2020-21 budget proposes to provide about ₹ 99,300 crore for education sector and about ₹ 3,000 crore for skill development in 2020-21.

Industry, Commerce and Investment

1. The Finance Minister has proposed to set up an Investment Clearance Cell that will provide 'end-to-end' facilitation and support, including pre-investment advisory, information related to land banks and facilitate clearances at Centre and State levels. It will work through a portal.

2. There is a case for maximising the benefits of three separately developing economic activities: (*i*) the upcoming economic corridors, (*ii*) revitalisation of manufacturing activities, and (*iii*) technology and the demands of aspirational classes. For this purpose, five new smart cities are proposed to be developed in collaboration with States in PPP mode.

3. To boost domestic manufacturing in electronics manufacturing industry and attract large investments in the electronics value chain, the 2020-21 Budget has proposed a scheme focused on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging.

4. India imports significant quantity of technical textiles worth $ 16 billion every year. To reverse this trend and to position India as a global leader in technical textiles, a National Technical Textiles Mission is proposed with a four-year implementation period from 2020-21 to 2023-24 at an estimated cost outlay of ₹ 1,480 crore.

5. To achieve higher export credit disbursement, a new scheme, NIRVIK is being launched, which provides for higher insurance coverage, reduction in premium for small exporters and simplified procedure for claim settlements.

6. It is proposed to digitally refund to exporters, duties and taxes levied at the Central, State and local levels, such as electricity duties and VAT on fuel used for transportation, which are not getting exempted under any other existing mechanism.

7. The Finance Minister has proposed a number of measures to give further impetus to micro, small and medium enterprises (MSMEs) that are struggling to meet stringent compliance norms and secure payments. Lowering the threshold for availing of invoice credit, extending easier compliance norms to majority of the micro and small norms, and waiving dividend distribution tax will help the entities from the next fiscal year.

Outlay for development and promotion of Industry and Commerce for the year 2020-21 has been kept at ₹ 27,300 crore.

Disinvestment. The target for disinvestment in the 2019-20 Budget was ₹ 1.05 trillion while estimated receipts were only ₹ 65,000 crore. The target for disinvestment for the year 2020-21 has been kept as high as ₹ 2.1 trillion which is more than three times the estimated receipts in 2019-20. The disinvestment target of ₹ 2.1 trillion for 2020-21 includes ₹ 90,000 crore from financial sector disinvestment which was to come from LIC and IDBI Bank (the government proposed to sell its remaining stake in IDBI Bank).

Infrastructure

1. The 2020-21 Budget proposes to set up a project preparation facility for infrastructure projects. This programme would actively involve young engineers, management graduates and economists from our universities.
2. Accelerated development of highways will be undertaken. This will include development of 2,500 km access control highways, 3000 km of economic corridors, 2,000 km of coastal and land port roads, and 2,000 km of strategic highways.
3. As far as railways are concerned, the main focus areas are:
   (*i*) Achieving electrification of 27,000 km of tracks;
   (*ii*) Setting up a large solar power capacity alongside the rail tracks on the land owned by the railways;

(*iii*) Starting more Tejas type trains to connect iconic tourist destinations;

(*iv*) Active pursual of high-speed train between Mumbai to Ahmedabad.

4. As far as water transport is concerned, use of technology has been advocated to improve the efficiency of seaports. In the field of Inland Waterways, it is said that the Jal Vikas Marg on National Waterway - I will be completed.

5. In the field of air transport, the Finance Minister said that by 2024, one hundred more airports would be developed to support Udaan Scheme.

   2020-21 Budget proposes an outlay of about ₹ 1.70 lakh crore for the transport infrastructure in 2020-21.

6. In the case of electricity, the Finance Minister noted that the distribution sector, particularly the discoms are under financial stress. She said that the focus, therefore, will be on smart metering and the goal will be to replace conventional energy meters by prepaid smart meters in the next three years.

   Budget for the power and renewable energy sector for the year 2020-21 has been kept at ₹ 22,000 crore.

7. In the upstream sector of oil and gas, the open Acreage Licensing Policy (OALP) is a success having awarded 1,37,000 square km for exploration to private sector and to the CPSEs. City gas distribution rights are also awarded.

   Further, it is proposed to expand the national gas grid from the present 16,200 km to 27,000 km.

8. In the IT sector and IDR, the main initiatives are:

   (*i*) During 2020-21, fibre-to-the-home (FTTH) connections through Bharatnet will connect 100,000 gram panchayats.

   (*ii*) Since intellectual property creation and protection will play an important role in expanding the base for knowledge-driven enterprises, the 2020-21 Budget states that a digital platform would be promoted to facilitate seamless application and capture of IPRs. Also, an Institute would be established that would work on the complexity and innovation in the field of intellectual properly.

   (*iii*) Knowledge translation clusters would be set up across different technology and sectors including new and emerging areas.

   (*iv*) Quantum technology is opening up new frontiers in computing, communications, cyber security, with widespread applications. The 2020-21 Budget proposes an outlay of ₹ 80,000 crore over a period of five years for the National Mission on Quantum Technologies and Applications.

Banking and the Financial Sector

1. A clean, reliable and robust financial sector is critical to the economy. As stated by the Finance Minister, in our efforts to achieve the $5 trillion economy, the financial architecture should keep evolving and move from strength to strength.

2. In the last few years, Government of India has infused about ₹ 35,000 crore by way of capital into public sector banks for regulatory and growth purposes. Governance reforms would be carried out in these banks, so that they become more competitive.

   A few among them will be encouraged to approach the capital market to raise additional capital.

3. The Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase deposit insurance coverage for a depositer, which is ₹ 1 lakh to ₹ 5 lakh per depositor.

4. The limit for NBFCs to be eligible for debt recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is proposed to be reduced from ₹ 500 crore to asset size of ₹ 100 crore or loan size, from existing ₹ 1 crore to ₹ 50 lakh.

5. It is proposed to sell the balance holding of Government of India in IDBI Bank to private, retail and institutional investors through the stock exchange.

6. As stated earlier, a number of steps have been announced in the 2020-21 Budget to promote the development of Micro, Small and Medium enterprises.

Financial Markets

1. To improve the flow of capital in our financial system, certain specified categories of government securities would be opened fully for non-resident investors, apart from being available to domestic investors as well.

2. The limit for FDI in corporate bonds, currently at 9 per cent of outstanding stock will be increased to 15 per cent of the outstanding stock of corporate bonds.

3. According to the Finance Minister, the debt-based exchange traded fund (ETF) floated earlier by the government was a big success. The 2020-21 Budget proposes to expand this by floating a new Debt-ETF consisting primarily of government securities. This will give retail investors access to government securities as much as giving an attractive investment opportunity.

4. To address the liquidity constraints of the NBFCs/HFCs, post the Union Budget 2019-20, the Government formulated a Partial Credit Guarantee Scheme for the

NBFCs. To further this support of providing liquidity, the Finance Minister stated in the Union Budget 2020-21 that a mechanism would be devised. Government will offer support by guaranteeing securities so floated.

Some Other Important Measures

1. Stating that nutrition is the critical component of health, the Finance Minister has provided ₹ 35,600 crore for nutrition-related programmes for the financial year 2020-21.
2. The 2020-21 Budget provides for about ₹ 28,000 crore for programmes that are specific to women.
3. A Budget provision of about ₹ 85,000 crore has been made for the welfare of Scheduled Castes and other backward classes.
4. In furthering development and welfare of Scheduled Tribes, an amount of ₹ 53,700 crore has been provided in Union Budget 2020-21.
5. The Finance Minister reiterated her government's commitment to support the all-round development of the newly formed Union Territories of J&K and the Union Territory of Ladakh. Accordingly, an amount of ₹ 30,757 crore has been provided for the Union Territory of J&K and ₹ 5,958 crore for the Union Territory of Ladakh for the financial year 2020-21.

Tax Proposals

1. The most important tax proposal that has elicited considerable discussion is the change in the income tax regime. However, the old income tax regime has also been continued and the tax payer has been given the choice to opt for the new tax regime or continue with the old one. In the old income tax regime, tax rates were higher (at several levels of income) but a host of exemptions and deductions are available. In the new income tax regime announced by the Finance Minister, tax rates are lower but exemptions and deductions have been reduced substantially.

Income Tax Rates under the New Regime

1. Tax rate on income of less than ₹ 5 lakh under the new scheme is nil as under the old scheme.
2. Tax rate on income between ₹ 5 lakh to 7.5 lakh reduced from 20 per cent earlier to 10 per cent under the new regime.
3. Income in the range of ₹ 7.5 lakh to ₹10 lakh will attract 15 per cent tax in the new regime (down from 20 per cent in the old regime).
4. The income between ₹ 10 lakh to ₹ 12.5 lakh will attract 20 per cent tax in the new regime (down from 30 per cent in the old regime).
5. The income between ₹ 12.5 lakh to ₹ 15 lakh will be taxed at 25 per cent in the new regime (down from 30 per cent in the old regime).
6. Income above ₹ 15 lakh will continue to be taxed at 30 per cent but there will be no exemption.

Old Tax Slab (in ₹lakh)	*Tax (in %)*	*New Tax Slab (in ₹lakh)*	*Tax (in %)*
Upto ₹ 2.5 lakh	Nil	Upto 2.5	Nil
2.5 to 5.5	10	2.5 to 5	Nil
5 to 10	20	5 to 7.5	10
Above 10	30	7.5 to 10.0	15
		10 to 12.5	20
		12.5 to 15.0	25
		15 and above	30

Surcharge and education cess would apply as per earlier rules.

As per Finance Ministry's calculations, a person earning ₹ 15 lakh a year and not availing of any deductions whatsoever, would get a benefit of ₹ 78,000 tax cut under the new regime. However, tax experts opine that ₹ 78,000 is the maximum savings for an individual shifting to the new regime. However, an individual may actually end up paying more tax on shifting to the new regime if the deductions and exemptions foregone are more than the savings under the new regime.

2. NRIs brought under Tax Net

Union Budget 2020-21 might have put some smile on the faces of some tax payers by introducing the new income tax regime but for NRIs (non-resident Indians), the Budget brings bad news. This is due to the reason that the Budget says that "Any citizen who is not liable to pay tax in any other country or territory will be deemed to be a resident in India". This means that if an Indian is not a resident of any other country, he will now be deemed an Indian resident and his income will be taxed here. Also, while earlier a person was considered to be an NRI if he spends 182 days out of India, from now on, he will have to spend at least 240 days out of India to be considered an NRI. Thus,

(*i*) A person has to spend at least 240 days in a year out of India to be considered an NRI, from 182 earlier.

(*ii*) Even with the NRI status, he will still have to pay tax in India if he is not taxed in a foreign country.

(*iii*) This amendment is to take effect from April 1 (Assessment year 2021-22).

3. Dividends to be taxed in the hands of recipients. Dividend Distribution Tax (DDT) levied on companies on dividends paid to their shareholders has been removed. Such dividends will now be taxed only in the hands of the recipients.

4. Taxation of benefits under Stock Benefit Plans. Securities issued under Employee Stock Benefit Plans by employers at the time of their exercise (*i.e.*, allotment). In case of eligible start-ups, the payment of tax on such benefit is proposed to be deferred to within 14 days after (*i*) 5 years from the end of financial year in which options are exercised, or (*ii*) the date of the employee ceasing employment with the company, whichever is earlier.

5. Certain contributions to be taxed as perquisite. Contributions exceeding ₹ 7,50,000 made by employer to an employee's account in a recognized provident fund, notified pension fund or approved superannuation fund would be taxable perquisite in the hands of the employees. The annual accretions to such contributions exceeding ₹ 7,50,000 would also be considered as taxable perquisite.

6. Tax withholding. The budget proposes to impose a withholding tax at the rate of 1 per cent on the gross amount of sales or service by an e-commerce operator on payments made to a resident e-commerce participant (*i.e.*, person selling goods and/or services on electronic or digital platform). Further, payments made to an individual or HUF (Hindu undivided family) e-commerce participant are exempt from withholding tax if the gross amount does not exceed ₹ 500,000 subject to furnishing of PAN/Aadhaar. In the absence of PAN/Aadhaar of the e-commerce participant, withholding tax rate at the rate of 5 per cent shall be levied.

7. Enhanced timeline to take loan to buy home under affordable housing scheme. An addition/deduction of ₹ 1,50,000 was made available in the Finance Act 2019 in relation to interest on loan taken for acquisition of house property for which the stamp duty value does not exceed ₹ 45,00,000. Such deduction was available subject to satisfaction of specified conditions including that the loan is required to be sanctioned between April 1, 2010 to March 31, 2020. The present budget proposes to extend the timeline for sanction of such loan to March 31, 2021.

8. Remittances under IRS. The government has proposed to levy tax collected at source (TCS) at the rate of 5 per cent (10 per cent in the case of PAN/Aadhaar not furnished,) on remittances of ₹ 7 lakh or more in a financial year under the liberalized remittance scheme (LRS) through an authorized dealer and on purchased overseas tour package.

9. Excise duty hike. Excise duty on cigarettes has been hiked in a big way. For non-filter cigarettes below 65 mm, excise duty will go up from ₹ 90 per thousand to ₹ 200 per thousand, on filter cigarettes over 65 mm and up to 70 mm, duty has been hiked from ₹ 145 per thousand to ₹ 250 per thousand. Excise duty has also been increased on chewing tobacco, scented zarda, hookahs and snuff.

10. Hike in customs duties. Addressing multiple objectives for supporting domestic industry, curbing non-essential imports, and raising revenue, the Finance Minister in 2020-21 Budget announced customs duty hikes on a range of commonly used goods by households, including toys, furniture, electronic goods and footwear. For example, import duty on footwear has been hiked from 20 per cent to 35 per cent, while toys have seen an increase from 20 per cent to 60 per cent. Besides, import duty on auto and auto parts has been raised by upto 10 per cent. Other household items that saw an increase include fans, food grinders, hair dryers, coffee and tea makers, water coolers and vending machines. According to the Finance Minister, the domestic micro, small and medium sector, labour-intensive units are well suited to manufacture these goods at competitive prices and a hike in their import duty will give a boost to domestic production.

The Finance Minister has also introduced health cess on medical equipment to create infrastructure for health services.

The Budget has also proposed changes in Customs law to empower the government to prohibit imports of goods that harm the economy. Earlier, this prohibition was limited to gold and silver. The Budget has also proposed changes in administration of rules of origin under trade agreements. The Finance Minister said that the government will trim Customs duty exemptions by September (2020-21), besides reviewing Customs law and procedures in line with ease of doing business.

11. Improving trust and mutual cooperation. With a view to enhance the trust between the tax payer and the tax collectors and to nurture an atmosphere of mutual cooperation, the Finance Minister has announced the introduction of a tax payer's charter in the statute. The government has proposed to set up an 'Investment Clearance Cell' that will provide end-to-end facilitation and support, including pre-investment advisory' information related to land banks and facilitate clearances at Centre and State levels.

The government had introduced a faceless e-assessment scheme in 2019 in order to ease the tax litigation process. Taking the process further, the 2020-21 Budget has proposed to introduce a faceless e-appeal process.

It has been proposed to bring a scheme 'Vivad se Vishwas' for reducing litigations. Under the scheme, a tax payer would be required to pay only the amount of the disputed taxes and will get complete waiver of interest and penalty provided the taxes are paid by March 31, 2020. Those who avail the scheme after March 31, 2020 will have to pay some additional amount. The scheme shall remain open till June 30, 2020.

As one of the steps towards easing the tax compliance, the Budget proposes to increase the turnover threshold from ₹ 1 crore to ₹ 5 crore for mandatory tax audit of persons carrying on business. This is based on the condition that cash receipts and payments do not exceed 5 per cent of the total receipts and payments, respectively.

DEFINITION OF TERMS USED IN THE BOOK

AAA, AA, A and BBB rated bonds: The highest credit rating that a corporate bond can receive is **AAA,** which signifies a very strong financial position and ability to pay interest obligations on all its outstanding loans. Next in the hierarchy is **AA**, followed by **A** and then **BBB** rated bonds.

Globally, corporate bonds upto **BBB** grade are considered as investment grade. This does not mean that there can be no default in payments from issuers. Rather, it signifies a low probability of default.

Agreement on Agriculture (AoA): AoA adopted by WTO provides framework for the long-term reform of agricultural trade and domestic policies with the objective of introducing increased market orientation in agricultural trade. AoA deals specifically with: (1) providing market access, (2) regulating domestic support, and (3) containing export subsidies.

Agricultural cost of production A2, A2 + FL and C2: A2 implies actual paid-out cost and includes the following: value of agricultural inputs such as seeds and fertilisers; hired human, animal and machine labour; land revenue and irrigation charges; depreciation of farm implements and buildings; interest on working capital; and rent paid for leased land. **A2 + FL** means **A2** plus imputed value of family labour. If we add to this cost, the interest on value of owned fixed capital assets and rental value of owned land, we get **C2**. Roughly speaking, **A2 + FL** cost measure accounts for only variable costs of farming, while **C2** also accounts for fixed cost. This shows that C2 is the most comprehensive measure and approximates full production costs, including all expenses in cash and kind, plus rent paid for leased land, imputed value of family labour, and the interest on the value of owned capital.

Amber box subsidies (WTO): AoA divides domestic support into two categories: (1) trade distorting, and (2) non-trade distorting (or minimal trade distorting). All trade distorting domestic support falls under the category 'amber box subsidies'.

Badla (stock trading): *Badla* was invented on the Bombay Stock Exchange as a carry forward system to serve as a solution to the perpetual lack of liquidity in the secondary market. It was banned in 2001.

Badla trading involved buying stocks with borrowed money with the stock exchange acting as an intermediary at an interest rate determined by the demand for the underlying stock. The mechanism of *badla* finance can be explained with the help of the following example: Suppose *A* wants to buy shares of a company but does not have enough money now. If *A* values the shares more than their current price, *A* can do a *badla* transaction. Suppose there is a *badla* financier *B* who has enough money to purchase the shares, so on *A*'s request, *B* purchases the shares and gives the money to his broker. The broker gives the money to the exchange and the shares are transferred to *B*. But the exchange keeps the shares with itself on behalf of *B*. Now, say one month later, when *A* has enough money, he gives this money to *B* and takes the shares. The money that *A* gives to *B* is slightly higher than the total value of the shares. The difference between the two values is the interest as *badla* finance is treated as a loan from *B* to *A*. The rate of interest is decided by the exchange and it changes from time to time.

Balance of Payments: Balance of payments is a double-entry system of record of all economic transactions between the 'residents' of a country and the rest of the world carried out in a specific period of time (mostly, one year).

The balance of payments statement is divided into two major accounts, *viz*., current account and capital account. Transactions relating to goods, services and income constitute the *current account*, while those relating to claims and liabilities of a financial nature, which go to finance the deficit on current account or to absorb its surplus, form the *capital account*.

Balance of Trade: Balance of trade refers to merchandise imports and exports (i.e., imports and exports of goods only). Thus, balance of trade is a part of balance of payments. If merchandise exports are greater than merchandise imports in a specified period of time, the balance of trade is said to be favourable for the country over that period of time. On the other hand, if merchandise imports are greater than merchandise exports, balance of trade is unfavourable.

Base rate: Base rate is the minimum rate set by the Reserve Bank of India below which banks are not allowed to lend to their customers.

Benchmark Prime Lending Rate (BPLR): BPLR system was introduced in 2003 by the Reserve Bank of India. The system allowed the banks to fix the benchmark prime lending rate with the approval of their Boards. The rate thus fixed was expected to serve as a benchmark rate for banks' pricing of their loan products so as to ensure that it truly reflected the actual cost. However, the BPLR system fell short of its original objective of bringing transparency to lending rates. This was mainly because the banks could lend below the BPLR. Accordingly, the Base Rate system was introduced in 2010 to ensure that banks do not lend below a certain benchmark.

Blue box subsidies (WTO): In terms of Agreement on Agriculture (AoA) under WTO, subsidies under Blue Box include direct payments given to farmers in the form of *deficiency payment* (i.e., the difference in the government's minimum support price and market price is paid directly to the farmers, as is the practice in USA), direct payments to farmers under production limitation programmes, as in European Union, etc. Support under Blue Box is exempted from any reduction commitment but it has an upper limit.

Bonds: A bond is a debt security, similar to an IOU. Borrowers issue bonds to raise money from investors willing to lend them money for a certain period of time. When you buy a bond, you are lending to the issuer, which may be a government, municipality or corporation. Bond is a less risky investment than stocks and raises capital within a fixed period of time.

Broad money: Broad money includes narrow money (M_1) and time deposits with banks. (M_1 includes: *(i)* currency with the public, *(ii)* demand deposits with banks, and *(iii)* other deposit with the RBI). The symbol for broad money is M_3.

Business Process Outstanding (BPO): BPO involves the contracting out of a particular business function to an outside company in order to reduce costs. An example of BPO would be a manufacturing company outsourcing its accounting work to an outside accounting firm, or a telecommunications firm using an outside company to handle customer service. Thus, BPO involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider.

Buyback: A buyback (also known as a repurchase) is a company's buying back its shares from the marketplace. One can think of a buyback as a company investing in itself, or using its cash to buy its own shares.

Call money: When one bank faces a temporary shortage of cash, it borrows from another bank that has surplus cash. Money that is thus lent for a day, or on overnight basis, is known as call money.

Canalisation: Canalisation of exports and imports means exports and imports can be carried out only through the agencies designated by the Central government.

Capital account convertibility (CAC): Capital account convertibility means the freedom to convert local financial assets into foreign financial assets and *vice versa* at market determined rates of exchange. This implies that capital account convertibility allows anyone to freely move from local currency into foreign currency and back.

Capital adequacy ratio: See 'Capital to Risk Weighted Assets Ratio (CRAR)'.

Capital market: Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions.

Capital markets help channelise surplus funds from savers to institutions which then invest them into productive use. This market deals in the lending and borrowing of medium-term and long-term credit.

Capital to Risk-weighted Assets Ratio (CRAR): Capital to Risk-weighted Assets Ratio (also known as Capital Adequacy Ratio) is the ratio of a bank's capital to its risk. It determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk, etc. Banking regulators in most countries define and monitor CRAR to protect depositors, thereby maintaining confidence in the banking system.

Cash Reserve Ratio (CRR): The cash reserve ratio (CRR) is a portion of the bank's NDTL (net demand and time liabilities) or deposits that they are required to maintain with the Reserve Bank in their specified current accounts. When a bank's deposits increase by ₹ 100 and if the CRR is 8 per cent, the bank will have to hold ₹ 8 with the Reserve Bank and it will be able to use only ₹ 92 for lending purposes. A high CRR means that banks have less to lend, which curbs liquidity; a low CRR does the opposite.

Certificate of Deposit (CD): A Certificate of Deposit (CD) is a certificate issued by a bank to depositors of funds that remain on deposit at the bank for a specified period. Thus, CDs are similar to the traditional term deposits but are negotiable and tradeable in the short-term money markets.

Child Sex Ratio: Child sex ratio (CSR) indicates the number of girls per 100 boys is the 0-6 age group.

Chit Funds: The chit funds are saving institutions. A chit fund has regular members who make periodical subscriptions to the fund. The periodic collection is given to some member of the chit fund selected on the basis of previously agreed criterion. Normally, the selection of the beneficiary is made either on the basis of bids or by draw of lots.

Collective Investment Schemes (CIS): CIS includes any scheme or arrangement with respect to property of any description, which enables investors to participate in the scheme by way of subscriptions and to receive profits or income or produce arising from the management of such property.

Commercial Bill: The commercial bills are issued by the seller (drawer) on the buyer (drawee) for the value of goods delivered by him. These bills can be of 30 days, 60 days or 90 days maturity. If the seller is in need of funds, he may draw a bill and send it to the buyer for acceptance. The buyer accepts the bill and promises to make payment on the due date. He may also approach his bank to accept the bill. The bank charges a commission for the acceptance of the bill and promises to make the payment if the buyer defaults. Once this process is accomplished, the seller can sell it in the market. This way a commercial bill becomes a marketable investment (the market for commercial bills is known as the commercial bill market). Usually, the seller will go to the bank for discounting the bill. The bank will pay him after deducting the interest for the remaining period of the bill and service charges from the face value of the bill. The interest rate is called the discount rate on the bills.

Common but Differentiated Responsibilities (CBDR): Common but Differentiated Responsibilities (CBDR) was formalised in United Nations Framework of Convention on Climate Change (UNFCCC) of Earth Summit in Rio de Janeiro, Brazil, 1992. It was the first international legal instrument to address climate change and the most comprehensive international attempt to address negative impacts to global environment. CBDR aknowledges that all countries have shared obligations to address environmental destruction but takes into account the disparity between the developed and the developing countries. Industrialisation proceeded in developed countries much earlier than it did in the developing countries. CBDR is based on the relationship between industrialisation and climate change. The more industrialised a country is, more likely that it has contributed to climate change. The members came to an agreement that developed countries contributed more to environmental degradation and should have greater responsibility than developing countries. CBDR principle could therefore be said to be based on polluter-pays principle where historical contribution to climate change and respective ability become measures of responsibility for environmental protection.

Consumer Price Index (CPI): Consumer price index (CPI) reflects the cost of living for a homogeneous group of consumers. The commodity basket for the CPI is derived from group-specific consumer expenditure surveys and weights for different commodities proportionate to expenditure on these commodities. Since the focus is on cost of living in CPI, it is the retail prices that are taken into account.

Cooperative Federalism: Cooperative federalism refers to a concept in which the State governments, local governments, and the federal (Central) government share responsibility in the governance of the people. They cooperate in working out details concerning which level of government takes responsibility for particular areas and creating policy in that area. The concept of cooperative federalism puts forward the view that the National and State governments are partners in the exercise of governmental authority.

Core inflation: Core inflation represents the long-run trend in the price level. In measuring long-run inflation, transitory price changes are excluded. One way of accomplishing this is by excluding items frequently subject to volatile prices, like food and energy.

Corporate bonds: Corporate bonds are debt securities issued by private and public corporations. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business. When one buys a corporate bond, one lends money to the 'issuer', the company that issued the bond. In exchange, the company promises to return the money, also known as 'principal', on a specified maturity date. Until that date, the company usually pays a stated rate of interest, generally semi-annually. While a corporate bond gives an IOU from the company, it does not confer an ownership interest in the issuing company, unlike when one purchases the company's equity stock.

Corporate securities: Corporations create two kinds of securities: bonds, representing debt, and stocks, representing ownership of equity interest in their operations.

Corporate Social Responsibility (CSR): Corporate Social Responsibility (CSR) is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. Simply put, CSR spending by a company is a way of giving back to the society in which it is doing business and making profits for its shareholders.

As per Section 135 of Companies Act, 2013, all profit making corporates in India (including public sector enterprises) exceeding threshold limits prescribed in the Act, are mandated to spend at least 2 per cent of the average net profits (Profit Before Tax) of the company, made during the three immediately preceding years on CSR activities (as defined under the Act).

Corporation tax: Corporation tax is a direct tax levied on the incomes of registered companies and corporations.

Counterparty risk: Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered while evaluating a contract. In most financial contracts, counterparty risk is also known as 'default risk'.

Couple protection rate: Couple protection rate is the percentage of eligible couples effectively protected against childbirth by one or the other approved methods of family planning.

Credit rating agency: A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default.

Culturable wasteland: This includes land available for cultivation, whether taken up or not taken up for cultivation once, but not cultivated during the last five years or more in succession including the current year for some reason or the other. Such land may either be fallow or covered with shrubs and jungles which are not put to any use. They may be accessible or inaccessible and may lie in isolated blocks or within cultivated holdings.

Currency-deposit ratio: The currency-deposit ratio shows the amount of currency that people hold as a proportion of aggregate deposits.

Current account deficit (CAD): Current account deficit in balance of payments occurs when the payments made by a country exceed its receipts from trade of goods and services, transfers and net income. In other words, a CAD occurs when a country imports more goods, services and capital than it exports.

Current daily status unemployment: See 'Unemployment'.

Current weekly status unemployment: See 'Unemployment'.

Customs duty: Customs duty is an indirect tax levied on the imports and exports of goods of a country.

Debentures: A debenture is a long-term security yielding a fixed rate of interest, issued by a company and secured against assets.

Debt finance: When a company borrows money to be paid back at a future date with interest, it is known as debt financing.

It could be in the form of a secured as well as an unsecured loan. A firm takes up a loan to either finance a working capital or an acquisition.

Debt market: The debt market is the market where debt instruments are traded. Debt instruments are assets that require a fixed payment to the holder, usually with interest. Examples of debt instruments include bonds (government or corporate) and mortgages.

Decanalisation: Basically, decanalisation means to deregulate the supply of any commodity which implies that a number of intermediaries can stock and supply the commodity.

Default risk: See 'Counterparty risk'.

Deficit financing: Deficit financing in India implies a method of financing government deficits through the creation of new money. The deficit is the gap caused by the excess of government expenditure over its receipts. The expenditure includes disbursement on revenue as well as on capital account.

Deflation: Deflation is a decrease in the general price level of goods and services. It occurs when the inflation rate falls below zero per cent (a negative inflation rate).

Dematerialisation (DEMAT): Dematerialisation (DEMAT) is the move from physical certificates to electronic book keeping. It occurs when actual stock certificates are removed and retired from circulation in exchange for electronic recording.

De minimis subsidies: Under Agreement on Agriculture (AoA) of WTO, there is no requirement to reduce trade-distorting domestic support in any year in which the aggregate value of the product-specific support does not exceed 5 per cent of the total value of production of the agricultural product in question. In addition, non-product specific support which is less than 5 per cent of the value of total agricultural production is also exempt from reduction. The 5 per cent threshold applies to developed countries whereas in the case of developing countries, the *de minimis* ceiling is 10 per cent.

Demographic burden: See 'Dependency burden'.

Demographic dividend: The demographic dividend is defined as a rise in the rate of economic growth due to a rising share of working age people in a population. This phenomenon occurs with a falling birth rate and the consequent shift in the age structure of the population towards the adult working ages.

Demonetisation: Demonetisation refers to an economic policy where a certain currency unit ceases to be recognised or used as a form of legal tender. The currency unit that has been demonetised is withdrawn from circulation.

Demonstration effect: When people acquire certain consumption habits in their desire to imitate living standards of the people whom they consider superior, it is called demonstration effect.

Dependency burden: Dependency burden is the ratio of dependent young and old to the population of working age. 'Dependent young' refers to children in the age-group 0-14; 'old' refers to the people over the age of 65; and 'working age' constitutes of people in the age-group 15 to 64.

Devaluation: Devaluation is a deliberate downward adjustment in the value of country's currency relative to another currency, group of currencies or standard.

Direct tax: A direct tax is paid directly by an individual or organisation to the government. In the case of direct tax, the burden cannot be shifted by the tax payer to someone else (in other words, the impact and incidence are on the same person). Income tax, corporation tax, property tax, inheritance tax and gift tax are examples of direct tax.

Disguised unemployment: Disguised unemployment means that a part of the labour force is working in a redundant manner where worker productivity is essentially zero. It is unemployment that does not affect aggregate output.

Disinflation: Disinflation is a slowing in the rate of inflation over time. It means that the inflation rate declines over time, but remains positive. If the inflation rate in India was 5 per cent in January but decreases to 4 per cent in March, it is said to be experiencing disinflation in the first quarter of the year.

Disinvestment: In Indian context, disinvestment means the sale of the public sector equity to the private sector and the public at large.

Double Taxation Avoidance Agreement (DTAA): Double Taxation Avoidance Agreement (DTAA) is a bilateral economic agreement between two nations that aims to avoid or eliminate double taxation of the same income in two countries.

Drain of wealth: In 1867, Dadabhai Naoroji put forward the 'drain of wealth' theory in which he stated that Britain was completing *draining* India. He mentioned this theory in his book *Poverty and Un-British Rule in India*.

Dualism: Dualism refers to the coexistence of developed and underdeveloped sectors in a country's economy side-by-side. In such an economy, one sector or sub-sector experiences perceptible growth, while the rest of the economy does not.

Duty Drawback System: The object of the duty drawback system is to reimburse exporters for tariff paid on the imported materials and intermediates and Central excise duties paid on domestically produced inputs which enter into export production.

Economic growth and development: Economic growth refers to increases over time in a country's real output of goods and services – or more appropriately product per capita. Output is generally measured by gross or net national product. The term *economic development*, in contrast, is more comprehensive. It implies progressive changes in the socio-economic structure of a country. Viewed in this way, economic development involves a steady decline in agriculture's share in GNP and a corresponding increase in the share of industries, trade, banking, construction and services. This transformation in economic structure is invariably accompanied by a shift in the occupational structure of the labour force and an improvement in its skill and productivity.

Effective Rate of Protection (ERP): In economics, the effective rate of protection (ERP) is a measure of the total effect of the entire tariff structure on the value added per unit of output in each industry, when both intermediate and final goods are imported.

Emerging Market Economies (EMEs): An emerging market economy describes a nation's economy that is progressing towards becoming more advanced, usually by means of rapid growth and industrialisation. EMEs experience an expanding role both in the world economy and on the political frontier.

Employment elasticity: Employment elasticity is a measure of the percentage change in employment associated with a 1 percentage point change in economic growth. The employment elasticity indicates the ability of the economy to generate employment opportunities for its population as per cent of its growth (development) process.

The formula for calculating employment elasticity is given by:

$$e = \frac{L/L}{Y/Y} \text{ or } e = \frac{dL/L}{dY/Y}$$

when L denotes employment and Y denotes GDP for the economy.

Estate duty: Estate duty is a tax paid on the property left by a dead person.

Exchange rate: An exchange rate of two currencies is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another country's currency.

Excise duty: Excise duty is an indirect tax levied on those goods which are manufactured in India and are meant for home consumption. The taxable event is 'manufacture' and the liability of Central excise duty arises as soon as the goods are manufactured. It is a tax on manufacturing, which is paid by a manufacturer, who passes its incidence on to the customers.

Export-Led Growth (ELG) Strategy: Export-Led Growth (ELG) strategy is a development strategy aimed at growing productive capacity of an economy by focusing on foreign markets. It assumes that foreign trade is an engine of growth implying that the performance on the export front will determine the overall growth performance of the economy.

Fallow land: A land left uncultivated for a time after successive crops is a fallow land. It is divided into two parts: (1) current fallows and (2) fallow lands other than current fallows. The former represents cropped area which is kept fallow during the current year. The latter includes all land which was taken up for cultivation but is temporarily out of cultivation for a period of not less than one year and not more than five years.

Financial inclusion: Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost.

Fiscal deficit: Fiscal deficit is measured by the difference between total government expenditure over government revenue and grants and thus reflects the total resource gap.

Fiscal policy: Fiscal policy is the use of government revenue collection (mainly taxation) and expenditure (spending) to influence the economy.

Fixed exchange rate: A fixed exchange rate (sometimes called a pegged exchange rate), is a type of exchange rate regime where a currency's value is fixed against either the value of another single currency, to a basket of other currencies, or to another measure of value, such as gold.

Floating exchange rate: A floating exchange rate is a regime where the currency price is set by the foreign exchange market based on supply and demand compared with other currencies.

Food security: Food security implies access by all people at all times to sufficient quantities of food to lead an active and healthy life.

Formal sector: Formal sector has an organised system of employment with clear rules of recruitment, agreement and job responsibilities. The employee is expected to work for fixed hours and receives fixed salary in addition to incentives and perks. There is a standardised relationship between the employer and the employee maintained through a formal contract.

Gender Empowerment Measure (GEM): The Gender Empowerment Measure (GEM) is an index designed to measure gender equality. It was introduced by United Nations Development Programme in *Human Development Report* 1995. GEM indicated whether women are able to actively participate in economic and political life. It focused on political participation (measured by women's shares of parliamentary seats), economic participation (shares of high-level and professional positions), and power over economic resources (income gaps).

Gender Inequality Index (GII): The Gender Inequality Index (GII) is an index for measurement of gender disparity that was introduced by the United Nations Development Programme in the *Human Development Report* 2010. GII includes three critical dimensions for women – reproductive health, empowerment and labour market participation.

Gender-related Development Index (GDI): Gender-related Development Index (GDI) was introduced in *Human Development Report* 1995. It attempted to capture achievements of a country through the same set of basic capabilities as included in Human Development Index (HDI), i.e., life expectancy, educational attainment and income, but adjusted for gender inequality. Thus, GDI constituted a 'gender-sensitive extension of the HDI'.

General Agreement on Tariffs and Trade (GATT): The General Agreement on Tariffs and Trade (GATT) was the first worldwide multilateral free trade agreement. It came into effect in 1948 and was in force till January 1, 1995 (it was replaced by WTO on that date). GATT was all along concerned with the promotion of international trade through tariff reduction, doing away with non-discriminatory practices among trading partners, and evolving rules to counter protectionism.

Gilt-edged market: The gilt-edged market is the market in government securities or the securities guaranteed (as to both principal and interest) by the government. Since the government cannot default on its payments obligations, the government securities are risk free and hence are known as gilt-edged (which means 'of the best quality').

Global warming: Global warming is the observed century-scale rise in the average temperature of the Earth's climate system and its related effects. Multiple lines of scientific evidence show that the climate system is warming. Anticipated effects include increasing global temperatures, rising sea levels, changing precipitation, and expansion of deserts in the subtropics.

Goods and services tax (GST): Goods and services tax (GST) is a tax levied when a consumer buys a good or service. It is meant to be a single, comprehensive tax that subsumes all the other indirect taxes on consumption like service tax, etc. Introduced with effect from July 1, 2017, GST is a single national uniform tax levied across India on all goods and services. The objective is to end the regime of multiple taxes on goods and services and bring them under one rate.

Green box subsidies (WTO): In terms of Agreement on Agriculture (AoA) under WTO, subsidies that do not distort trade are known as green box subsidies. The Green Box measures include assistance given through environmental assistance programmes, services such as research training and extension, marketing information, certain types of rural infrastructure, etc. The support under Green Box is excluded from any reduction commitments and is not subject to any upper limit.

Green Climate Fund (GCF): The Green Climate Fund (GCF) is a fund established within the framework of the UNFCCC (United Nations Framework Convention on Climate Change) to assist developing countries in adaptation and mitigation practices to counter climate change.

Greenhouse effect: The greenhouse effect is a natural process that warms the Earth's surface. When the Sun's energy reaches the Earth's atmosphere, some of it is reflected back to space and the rest is absorbed and re-radiated by greenhouse gases (which include water vapour, carbon dioxide, methane, nitrous oxide, ozone and some artificial chemicals such as chlorofluorocarbons or CFCs). The absorbed energy warms the atmosphere and the surface of the earth. This process maintains the Earth's temperature at around 33 degrees Celsius warmer than it would otherwise be, allowing life on Earth to exist. The problem that we now face is that human activities – particularly burning fossil fuels (coal, oil and natural gas), agriculture and land clearing – are increasing the amount of greenhouse gases released into the atmosphere. This is trapping extra heat, and causing Earth's temperature to rise.

Gross cropped area: This represents the total area sown once and/or more than once in a particular year, i.e., the area is counted as many times as there are sowings in a year. This total area is also known as total cropped area or total area sown.

Gross Domestic Product (GDP): Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specified period of time (usually one year).

GDP Deflator: Gross Domestic Product Deflator (GDPD) is statistically derived from national income data released by the CSO. It is obtained from the national accounts as a ratio of GDP at current prices to GDP at constant prices. Thus, GDP deflator is a measure of price inflation.

Gross irrigated area: It is the total area under crops, irrigated once and/or more than once in a year. It is counted as many times as the number of times the areas are cropped and irrigated in a year.

Gross National Product (GNP): Gross national product (GNP) is the monetary value of all the finished goods and services produced by the country's factors of production irrespective of their location in a specified period of time (usually one year).

Gross Domestic Product (GDP) *plus* net factor income from abroad yields Gross National Product (GNP).

Gross Value Added (GVA): Gross Value Added (GVA) is defined as the value of output less the value of intermediate consumption. Value added represents the contribution of labour and capital to the production process. When the value of taxes on products (less subsidies on products) is added, the sum of value added for all resident units gives the value of GDP. Thus, GDP of any nation represents the sum total of gross value added (i.e., without discounting for capital consumption or depreciation) in all the sectors of the economy during the said year after adjusting for taxes and subsidies.

While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective. Both measures need not match because of the difference in the treatment of net taxes.

A sector-wise breakdown provided by the GVA measure can better help the policymakers to decide which sectors need incentives/stimulus or *vice versa*. Some consider GVA as a better gauge of the economy because a sharp increase in the output, only due to higher tax collections which could be on account of better compliance or coverage, may distort the real output situation.

Headline inflation: Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices, which tend to be much more volatile and prone to inflationary spikes. Headline inflation is thus different from core inflation which does not take into account commodities that have volatile prices like food and energy.

Horizontal devolution: The Finance Commission is required to recommend the distribution of the net proceeds of taxes of the Union between the Union and the States (commonly referred to as vertical devolution); and the allocation between the States of the respective shares of such proceeds (commonly known as horizontal devolution).

Hot money: In Economics, hot money is the flow of funds (or capital) from one country to another in order to earn a short-term profit on interest rate differences and/or anticipated exchange rate shifts. These speculative capital flows are called 'hot money' because they can move very quickly in and out of the country, leading to instability in balance of payments.

Human Development Index (HDI): Human Development Index (HDI) is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development – a long and healthy life, access to knowledge and a decent standard of living.

Import substitution industrialisation strategy: Import substitution industrialisation strategy is a trade and economic policy which advocates replacing foreign imports with domestic production. This strategy is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialised products.

Thus, import substitution strategy is one in which various exemptions and concessions are granted to promote domestic industrial production and restrictions or controls are imposed on imports to reduce their consumption.

Incremental Capital-Output Ratio (ICOR): Incremental capital-output ratio (ICOR) basically refers to the additional capital required to generate one additional unit of output. For example, if an 8 per cent additional capital is required to push the overall output by one per cent, the ICOR will be 8. Lower the ICOR, the better it is. ICOR reflects how efficiently capital is being used to generate additional output. Accordingly, a country with ICOR of 3 is better than a country with ICOR of 5.

Indirect tax: An indirect tax is a tax that is paid to the government by one entity in the supply chain, but it is passed on to the consumer as part of the price of a good and service. Thus, it is ultimately the consumer who bears the burden of an indirect tax. This shows that in the case of an indirect tax, the impact and incidence fall on different persons – impact on the producer or supplier and incidence on the consumer. Examples of indirect tax are central excise duty, customs duty, service tax and value added tax.

Industrial deceleration: This implies a state of affairs where the rate of growth of the industrial sector registers a decline. This occurred in Indian economy during the period 1965 to 1980.

Infant mortality rate (IMR): Infant mortality rate (IMR) is the number of deaths of infants under one year old per 1000 live births. IMR for a given region is the number of children dying under one year of age, divided by the number of births during the year, multiplied by 1000.

Inflation: Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time.

Inflation targeting: Inflation targeting is a monetary policy used by Central Banks for maintaining the price level at a certain level or within a specified range. In India, the inflation target for the period from August 5, 2016 to March 31, 2021 has been kept at 4 per cent in terms of CPI (consumer price index) with the upper tolerance limit of 6 per cent and the lower tolerance limit of 2 per cent.

Informal sector: The term 'informal sector' is used to denote tiny units, engaged in the production of goods and services but whose activities are not recognised, recorded, protected or regulated by the public authorities.

Insider trading: Insider trading is defined as a malpractice wherein trade in a company's securities is undertaken by people who by virtue of their work have access to the otherwise non-public information which can be crucial for making investment decisions.

Intended Nationally Determined Contributions (INDCs): Countries across the globe adopted an historic international climate agreement at the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP 21) in Paris in December 2015. In anticipation of this moment, countries publicly outlined what post-2020 climate actions they intended to take under the new international agreement, known as their Intended Nationally Determined Contributions (INDCs). Thus, INDCs are the primary means for governments to communicate internationally the steps they will take to address climate change in their own countries. INDCs reflect each country's ambition for reducing emissions, taking into account its domestic circumstances and capabilities. Some countries also address how they will adapt to climate change impacts, and what support they need from, or will provide to, other countries to adopt low-carbon pathways and to build climate resilience. The word 'intended' was used because countries were communicating proposed climate actions ahead of the Paris Agreement being finalised. However, as countries formally join the Paris Agreement and look forward to implementation of these climate actions – the 'intended' is dropped and an INDC is converted into a Nationally Determined Contribution (NDC).

Interest subvention: Interest subvention simply means a subsidy offered on interest rates. For example, farmers and small-scale industries in India are provided credit on subsidised interest rates (during the year 2017-18, short-term crop loans upto ₹ 3 lakh were provided a subvention of 5 per cent, effectively reducing the rate of interest for farmers to 4 per cent).

Intellectual Property Rights (IPRs): Intellectual Property Rights (IPRs) are the rights granted to the creators of Intellectual Property (which means creations of the mind – in the field of art, literature, commerce, industry, etc.) and include trademarks, copyright, patents, industrial design rights, and in some jurisdictions, trade secrets.

Intermediate exchange rate regimes: The entire spectrum of exchange rate regimes lying between the totally fixed and fully freely floating exchange rate systems, is known as intermediate exchange rate regimes.

Inverted duty structure: Inverted duty structure is a situation where import duty on finished goods is low compared to the import duty on raw materials that are used in the production of such finished goods.

Invisibles: Invisibles on current account comprise costs of services, income and transfer payments (i.e., payments and remittances unrequited or without *quid pro quo* or without repayment obligations). In India, 'invisibles' account data are provided under the following eight heads: (1) travel, (2) transportation, (3) insurance, (4) investment income, (5) government, not included elsewhere, (6) miscellaneous (receipts/payments for patents and royalties), (7) transfer payments – official, and (8) transfer payments – private.

Inward Oriented strategy: See 'import substitution strategy'.

Kyoto Protocol: In December 1997, the Climate Change Convention was held in Kyoto, Japan, to decide the targets and time-schedules for reducing greenhouse gas emissions. The Kyoto Protocol provides a multilateral framework that sets limits on greenhouse gas emissions. It required industrialised countries to bring down their emission to 5 per cent less than the 1990 levels by 2012 and assist the developing countries in avoiding the negative effects of climate change. Legally binding targets for 37 industrialised countries and the European Community (called the Annex I countries) for reducing greenhouse gas emissions were set. The Kyoto Protocol came into effect in 2005 and the first period of commitment under this Protocol expired at the end of 2012. Kyoto Protocol has been extended by eight years and the 'extended period' of this protocol ends in 2020. Thus, the Kyoto Protocol shall continue upto 2020. USA did not ratify the Protocol and has stayed out of it.

Labour force and workforce: Labour force of a country consists of those people who are seeking work. Of these, those people who find employment constitute the 'workforce'. These who are unable to find employment are designated as 'unemployed'.

Labour market dualism: Because of the excessive pressure of population on land in the developing countries, wages in the agricultural sector tend to be considerably lower as compared to the modern (industrial) sector. This leads to a labour market dualism. This dualism is explained by the fact that a large number of workers remain sticking to traditional agriculture despite low wages due either to ignorance of better opportunities outside agriculture, or to their inability to obtain a modern sector job despite wishing to do so, or to the cost of moving being unacceptably high (including the cost of giving up the relative security of remaining at home) in relation to the expected wage premium.

Laissez faire: Laissez faire is the belief that economies and businesses function best when there is no interference by the government. It comes from the French, meaning to leave alone or to allow to do. It is one of the guiding principles of capitalism and a free market economy.

Liberalised exchange rate management system: The Finance Minister announced the liberalised exchange rate management system (LERMS) in the Budget for 1992-93. This system introduced partial convertibility of rupee. Under this system, a dual exchange rate was fixed under which 40 per cent of foreign exchange earnings were to be surrendered at the official exchange rate while the remaining 60 per cent were to be converted at a market-determined rate.

Liquidity Adjustment Facility (LAF): The difference between the repo and reverse repo rate is the liquidity corridor or the liquidity adjustment facility (LAF). LAF was introduced by the Reserve Bank of India in June 2000. The LAF operates through reverse repo auctions (i.e., the sale of government securities from the RBI portfolio for absorption of liquidity) and repo auctions (i.e., buying of government securities for injection of liquidity) on a daily basis, thereby creating a corridor for the call money rates and other short-term interest rates.

M_1, M_3 and M_0: M_1 is money supply in the narrow sense. It includes (*i*) currency with the public, (*ii*) demand deposits with banks, and (*iii*) other deposits with the Reserve Bank of India. **M_3** is broad money and includes **M_1** and time deposits with banks. **M_0** is reserve money and its components are (*i*) currency in circulation, (*ii*) bankers' deposits with the Reserve Bank of India and (*iii*) other deposits with the Reserve Bank of India.

Macroeconomic stabilisation: Macroeconomic stabilisation (often called just stabilisation) involves returning to low and stable inflation and a sustainable fiscal and balance of payments position. Macroeconomic stabilisation was introduced by the Government of India in 1991 as a part of economic reforms.

Mahalonobis strategy of development: At the time of the formulation of the Second Five Year Plan, Prof. P.C. Mahalanobis presented a growth model with which he showed that to achieve a rapid long-term rate of growth, it would be essential to devote a major part of the investment outlay to building up of capital goods industries. Thus, Mahalanobis strategy focused on capital goods industries and left the growth of consumer goods industries and agriculture mostly to the market forces.

Mahalwari system: In this system, the whole village was treated as a unit as far as payment of land revenue is concerned. The responsibility for collecting the land revenue and depositing it in the treasury was of the village headman (or a co-sharer appointed for the purpose).

Malnutrition: Malnutrition is a physical state of unbalanced nutrition. It can mean undernutrition or overnutrition. When most people think of malnutrition, they usually picture undernutrition, which is a condition which occurs when there is a deficiency of certain vital nutrients in a person's diet. The deficiency fails to meet the demands of the body leading to adverse effects on the growth, physical health, and other functions of the body.

Managed floating: A managed floating exchange rate is an exchange rate that is basically floating in the foreign exchange market but is subject to intervention from time to time by the monetary authorities, in order to resist fluctuations that they consider to be undesirable. India has been following managed floating exchange rate system since 1994.

Market capitalisation: Market capitalisation is the aggregate valuation of the company based on its current share price and the total number of outstanding shares. It is calculated by multiplying a company's shares outstanding by the current market price of one share.

Market determined exchange rate regime: This is a floating exchange rate system where exchange rate of a currency is determined by the foreign exchange market based on the supply and demand compared with other currencies.

Marginal cost of funds based lending rate (MCLR): MCLR refers to the minimum interest rate of a bank below which it cannot lend, except in some cases as allowed by the Reserve Bank of India. It is an internal benchmark or reference rate for the bank.

Market Stabilisation Scheme (MSS): The market stabilisation scheme (MSS) is an arrangement between the Government of India and the Reserve Bank to mop up the excess liquidity generated on account of the accretion to the foreign exchange assets of the Bank to neutralise the monetary impact of capital flows. Under the scheme, the Reserve Bank issues treasury bills/dated Government securities by way of auctions and the cost of sterilisation is borne by the government. The sale of government securities helps in absorbing liquidity and in maintaining stability in the foreign exchange market.

Market stabilisation scheme was initiated in India in 2004. To control the surge of US dollars in the Indian market, RBI started buying US dollars while pumping in rupees. This eventually led to over-supply of the domestic currency raising inflationary expectations. MSS was introduced to mop up this excess liquidity.

Marginal Standing Facility (MSF): Marginal Standing Facility (MSF) is a new Liquidity Adjustment Facility (LAF) window created by Reserve Bank of India in its credit policy of May 2011. The objective of the MSF is to 'contain volatility in the overnight inter-bank rates'. Under this facility, all scheduled commercial banks can borrow overnight from RBI upto 1 per cent of their net demand and time liabilities. The interest rate is fixed at 25 basis points (bps) above the repo rate.

Masala bond: Masala bond is a term used to refer to financial instrument through which Indian entities can raise money from overseas markets in the rupee, not foreign currency. These are Indian rupee denominated bonds issued in offshore capital markets.

Masala bonds will help to internationalise the Indian rupee and also deepen the Indian financial system. By issuing bonds in rupees, an Indian company is shielded against the risk of currency fluctuation, typically associated with borrowing in foreign currency. Besides helping diversify funding sources, the cost of borrowing could also turn out to be lower than domestic markets. In 2013, the first masala bonds were issued by the International Finance Corporation (IFC), an arm of the World Bank. IFC then named them Masala Bonds to give a local flavour by calling to mind Indian culture and cuisine. This is not the first time that a bond has been named after the food or culture of a country. Chinese bonds, for example, are called Dim sum bonds, and Japanese ones as Samurai bonds.

Maternal Mortality Ratio (MMR): The maternal mortality ratio (MRR) is the ratio of the number of maternal deaths during a given time period per 1,00,000 live births during the same time-period.

Minimum Alternative Tax (MAT): Minimum Alternative Tax (MAT) is a tax payable under Income Tax Act. The concept of MAT was introduced to target those companies that make huge profits and pay dividend to their shareholders but pay no/minimal tax by taking advantage of the various deductions, and exemptions allowed under Income Tax Act. MAT was introduced in 1997-98. All companies having book profits under the Companies Act were required to pay a MAT at 18.5 per cent.

Minimum support price: Minimum support prices are in the nature of a long-term guarantee to the farmers so that in the event of a glut, prices are not allowed to fall below these announced minimum prices. To ensure this, government indulges in large-scale purchase of foodgrains at the declared minimum prices.

Money market: Money market refers to a mechanism whereby on the one hand borrowers manage to obtain short-term loanable funds, and on the other, lenders succeed in getting creditworthy borrowers for their money. Money market in India is not an integrated unit. It is broadly divided into two parts, *viz.*, the unorganised and the organised.

Monetary policy: The monetary policy refers to a regulatory policy whereby the central bank maintains its control over the supply of money for the realisation of general economic goals.

Monetary Policy Committee (MPC): The Monetary Policy Committee (MPC) of India is a Committee of the Reserve Bank of India that is responsible for fixing the benchmark interest rate in India. The meetings of the MPC are held at least four times in a year and it publishes its decisions after each such meeting. The Committee comprises of six members – three officials of the Reserve Bank of India and three external members nominated by the Government of India. The Governor of the RBI is the chairperson ex-officio of the Committee. Decisions are taken by majority with the Governor having the casting vote in case of a tie. The current mandate of the Committee is to maintain 4 per cent annual inflation (in terms of consumer price index) until March 31, 2021 with an upper tolerance of 6 per cent and a lower tolerance of 2 per cent. MPC was created in 2016 to bring transparency and accountability in fixing India's monetary policy.

Monetary policy transmission: Monetary policy transmission is the way in which a monetary policy signal (like a repo rate cut) is passed into the economy in producing the set objectives.

Money Laundering: Money laundering is a term to describe the process whereby cash from illegal activities is converted to an alternate form in a manner that conceals its origin, ownership, or other potentially embarrassing factors.

Traditionally, money laundering has been described as a process which takes place in three distinct stages: *(i) Placement*, the stage at which criminally derived funds are introduced in the financial system; *(ii) Layering*, the substantive stage of the process in which the property is 'washed' and its ownership and source is disguised; and *(iii) Integration,* the final stage at which the 'laundered' property is re-introduced into the legitimate economy.

Money multiplier: Money multiplier is defined as $M_3 \div M_0$ where M_3 is broad money and M_0 is reserve money.

For definitions of broad money and reserve money, see their respective places.

Most favoured nation (MFN): The meaning of most favoured nation (MFN) clause in international trade agreements means that 'any advantage, favour, privilege or immunity granted by a contracting party to any product originating in or destined for any country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all contracting parties'.

Multidimensional Poverty Index (MPI): This concept was introduced by United Nations Development Programme (UNDP) in its *Human Development Report* for the year 2010. MPI is the product of the multidimensional poverty head-count (the share of people who are multidimensionally poor) and the average number of deprivations each multidimensionally poor household experiences (the intensity of poverty). It has three dimensions mirroring the HDI (human development index) – health, education and living standards – which are reflected in 10 indicators.

Multi-Fibre Arrangement (MFA): The Multi-Fibre Arrangement governed the world trade in textiles and garments from 1974 through 2004, imposing quotas on the amount developing countries could export to developed countries. It expired on January 1, 2005.

Multinational Corporations (MNCs): Multinational Corporations (MNCs) are huge industrial organisations which extend their industrial and marketing operations through a network of their branches or their Majority Owned Foreign Affiliates (MOFAs). MNCs are also known as Transnational Corporations (TNCs). Instead of aiming for maximisation of their profits from one to two products, the MNCs operate in a number of fields, and from this point of view, their business strategy extends over a number of products and over a number of countries.

Mutual Funds: A mutual fund is a special type of investment institution. It pools the savings of people (particularly small investors) and invests them in a widely diversified portfolio. Mutual funds issue securities (known as units) to the investors (known as unit-holders). These units are issued in accordance with the money invested by the unit-holders. The profits and losses are shared by the investors in proportion of their investments.

Narrow money: Narrow money includes: (1) currency with the public; (2) demand deposits with banks; and (3) other deposits with the Reserve Bank of India. The symbol for narrow money is M_1.

National Institution for Transforming India (NITI) Aayog: The Government of India established NITI Aayog as replacement for the Planning Commission on January 1, 2015. NITI Aayog is a policy think-tank of the Government of India and aims to involve the States in policy making in India. It will be providing strategic and technical advice to the Central and State governments by adopting bottom-up approach rather than the traditional top-down approach of the Planning Commission.

Nationally Determined Contributions (NDCs): See Intended Nationally Determined Contributions (INDCs).

Net area sown: This represents the total area sown with crops and orchards. Area sown more than once in the same year is counted only once.

Net irrigated area: It is the area irrigated through any source once in a year for a particular crop.

New Issues Market: The new issues market is that part of the capital market which is concerned with the issue of new securities, i.e., bonds, debentures, shares, and so on. The new issues market is also known as the primary market.

Non-Banking Financial Company (NBFC): A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act engaged in the business of loans and advances, acquisition of shares/stocks/bonds debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

NBFCs lend and make investments and hence their activities are akin to that of banks; however, there a few differences as is clear from the following: *(i)* NBFCs cannot accept demand deposits; *(ii)* NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on themselves; and *(iii)* deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Non-Performing Assets (NPAs): A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of at least 90 days.

Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets. (1) *Substandard assets:* Assets which have remained NPA for a period less than or equal to 12 months, (2) *Doubtful assets:* An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months, (3) *Loss asset:* As per RBI, "loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

Non-tariff barriers (NTBs): A non-tariff barrier is a form of restrictive trade where barriers to trade are set up and take a form other than a tariff. Non-tariff barriers (NTBs) include quotas, embargoes, sanctions, levies and other restrictions and are frequently used by large and developed economies.

Occupational structure: Occupational structure of a country refers to the division of its workforce engaged in different economic activities. Generally, it provides information on the distribution of working population into agriculture and allied activities (the primary sector), industry (the secondary sector) and services (the tertiary sector).

Open market operations: Open market operations (OMOs) refer to the buying and selling of government securities in the open market by the Reserve Bank of India in order to expand or contract the amount of money in the banking system.

When there is excess liquidity in the system, RBI resorts to the sale of government securities (also written a G-secs) to suck out rupees from the system. Similarly, when there is a liquidity crunch in the economy, RBI buys securities from the market, thereby releasing liquidity into the system.

Organised and unorganised sectors: In the Indian National Accounting System (NAS), the organised sector includes all establishments in the public sector and all non-agricultural establishments in the private sector employing 10 or more workers. All units complementary to the above coverage of organised sector, comprise the unorganised sector.

Outward oriented strategy: See 'Export-Led Growth (ELG) strategy'.

Ozone layer and ozone layer depletion: The earth's atmosphere is composed of many layers, each playing a significant role. The first layer stretching approximately 10 kilometers upwards from the earth's surface is known as the trophosphere. The stratosphere is the next layer above the trophosphere stretching approximately 15 to 60 kilometers. The ozone layer sits in the lower region of the stratosphere from about 20-30 kilometers above the surface of the earth. The thickness of the ozone layer fluctuates depending on the season and geography. Ozone layer blocks solar radiations and absorbs ultraviolet (UV) radiations that are dangerous for most living beings. UV radiation could injure or kill life on Earth.

The wearing out (reduction) of the amount of ozone in the stratosphere is known as ozone layer depletion (or simply ozone depletion). This depletion is caused mainly by human activity. Ozone depletion is one of the most serious problems faced by our planet Earth. It is also one of the prime reasons of global warming.

Par value system: It was the agreement reached at Bretton Woods in 1944 that governed the international monetary relations since the end of Second World War. Under this agreement, each member country undertook to maintain the par value of its currency in terms of gold or the US dollar so that until the par value of currency was changed, its exchange rates with other currencies remained fixed. Only variations upto 1 per cent on either side were allowed. It was also under this system that the IMF (International Monetary Fund) was set up with a view to overseeing the par value system. The par value system collapsed in 1971 with the suspension of convertibility of the dollar by the USA.

Partial convertibility of rupee: See 'liberalised exchange rate management system' (LERMS).

Participatory Notes: Participatory Notes commonly known as P-Notes are instruments issued by registered foreign institutional investors (FIIs) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India (SEBI). Thus, P-Notes are used by FIIs to enable foreign investors to trade in Indian stock markets without disclosing their identity.

Payment banks: Payment banks is a new model of banks conceptualised by the Reserve Bank of India, with the aim of expanding financial inclusion by providing :*(i)* small savings accounts, and *(ii)* payments/remittance services using the digital medium to migrant labour, small businesses, low-income households and other entities in the unorganised sector. These banks can accept a restricted deposit, which is currently limited to ₹ 1 lakh per customer. These banks cannot issue loans and credit cards.

Pegged exchange rate: See 'fixed exchange rate'.

Permanent settlement: Permanent settlement was introduced in 1793 by Lord Cornwallis. Under this settlement, it was agreed that the zamindars or landlords would have perpetual and hereditary rights over the land, so long as they paid the fixed revenue to the British Government.

Poverty line: Poverty line is defined as the minimum level of income needed to secure the necessities of life. In India, the Planning Commission defined the poverty line for the year 2011-12 as ₹ 27.20 per capita per day in rural areas and ₹ 33.33 per capita per day in urban areas. This translates to ₹ 816 per capita per month in rural areas and ₹ 1,000 per capita per month in urban areas for the year 2011-12.

International poverty line is defined by World Bank as $ 1.90 per capita per day (at 2011 prices on purchasing power parity basis).

Press Note 18: Press Note 18, issued in 1998, made it obligatory on the part of foreign companies having joint ventures in India to obtain government approval before setting up new ventures in the same or allied fields. This stipulation was seen as restrictive by foreign investors. In January 2005, the Government of India announced the withdrawal of the restrictive provisions of Press Note 18 for all future joint ventures between Indian and foreign partners. However, the foreign investor cannot enter the same business as an existing joint venture without the consent of the local partner.

Primary dealers: Primary dealers (PDs) are entities who buy government securities directly from the RBI (the RBI issues government securities on behalf of the government), aiming to resell them to other buyers. In this way, the Primary Dealers create a market for government securities.

Private remittances: Private remittances are funds transferred from migrants to their home country.

Privatisation: Privatisation is a process by which the government transfers the productive activity from the public sector to the private sector. The main route adopted by the Government of India for privatisation is of disinvestment.

Procurement prices: Procurement prices are the prices at which the government purchases foodgrains from the farmers for maintaining the public distribution system and for building up buffer stocks by the FCI (Food Corporation of India).

Producer price index: Producer price index is a weighted index of prices measured at the wholesale or producer level. It is different from wholesale price index (WPI). While WPI captures the price changes at the point of bulk transactions and may include some taxes levied and distribution costs upto the stage of wholesale transactions, PPI measures the average change in prices received by the producer and excludes indirect taxes.

Progressive tax: A progressive tax is a tax that takes a larger percentage from high-income earners than it takes from low-income individuals. Thus, a progressive tax implies a tax in which the tax rate increases as the taxable amount increases. To make a tax progressive, tax rate on higher income slabs is fixed higher *vis-a-vis* lower income slabs.

Prospectus: A prospectus is a legal document issued by companies that are offering securities for sale. It is an invitation to the general public for subscribing to the capital of the company. The prospectus must contain various details regarding particulars of the company, its financial position, etc.

Public works programme (PWP): A public works programme (PWP) or a public employment programme (PEP) is the provision of employment by the creation of predominantly public goods at a prescribed wage for those unable to find alternative employment. This functions as a sort of social safety net. India's rural employment guarantee programme MNREGS has been regarded as the world's largest public works programme.

Purchasing power parity (PPP) and PPP exchange rates: Purchasing power parity (PPP) is an economic theory that states that the exchange rate between two currencies is equal to the ratio of the currencies' purchasing power. The concept of purchasing power parity allows one to estimate what the exchange rate between two currencies would have to be in order for the exchange to be at par with the purchasing power of the two countries' currencies. Using that PPP rate for hypothetical currency conversions, a given amount of one currency thus has the same purchasing power whether used directly to purchase a market basket of goods or used to convert at the PPP rate to the other currency and then purchase the market basket using that currency.

PPP exchange rates help costing but exclude profits. So, it is reckoned as a more efficient methodology than the use of market exchange rates. For example, suppose that two countries produce the same physical amount of goods as each other in each of two different years. Since market exchange rates fluctuate substantially, when the GDP of one country measured in terms of its own currency is converted to the other country's currency using market exchange rates, one country might be inferred to have higher real GDP than the other country in one year but lower in the other; both of these inferences would fail to reflect the reality of their relative levels of production. But if one country's GDP is converted into the other country's currency using the PPP exchange rates instead of observed market-exchange rates, the false inference with not occur. Essentially, GDP PPP controls for the different costs of living and price levels, usually relatively to the US dollar, thus enabling a more accurate depiction of a given nation's level of production.

Quantitative restrictions (QRs): Quantitative restrictions (QRs) refer to explicit limits, or quotas, on the physical amounts of particular commodities that can be imported or exported during a specified time period. QRs are considered to have a greater protective effect than tariff measures and are more likely to distort trade. When a country uses tariffs to restrict imports, the foreign competitor can still succeed in exporting goods to this country if it can make its products so much price competitive as to overcome the barriers created by tariffs. However, when a country uses quantitative restrictions, it becomes impossible for the foreign competitor to export goods to this country in excess of the quota.

It is on account of the trade distorting nature of QRs that GATT and WTO called for their elimination.

Regressive tax: This is the opposite of a progressive tax, i.e., in the case of a regressive tax, tax rate is higher on lower income slabs and lower on higher income slabs.

Repo and reverse repo rates: Repo rate is the rate at which Reserve Bank lends to the banks while reverse repo rate is the rate at which it borrows from the banks. In other words, repo rate is the price at which the Reserve Bank injects liquidity into the system while the reverse repo rate is the price at which it absorbs liquidity from the system.

Reserve money: The reserve money is often referred to in monetary economics as high powered money, basic money, primary money or monetary base. In India, the components of the reserve money are: (1) currency in circulation, (2) bankers' deposits with the RBI, and (3) other deposits with the RBI. The symbol for reserve money is M_0.

Retention Price Scheme (RPS): The Retention Price Scheme (RPS) was introduced for the fertiliser industry from November 1, 1977 and remained in force till March, 31, 2003. Under RPS, 'retention price' was fixed for each fertiliser unit by the government. The retention price for urea thus fixed by the government was usually much higher than the selling price of urea to the farmer. The difference between the higher retention price for the producer and the lower selling price was paid to the producer by the government and was, thus, a subsidy.

Rights issue: Rights issue is an issue of shares offered at a special price by a company to its existing shareholders in proportion to their holding of old shares.

Round tripping: Round tripping refers to routing of investments by a resident of one country or a firm through the other country back to the home country.

Ryotwari system: Under this system, the responsibility of paying the land revenue to the government was of the cultivator (or individual ryot) himself and there was no intermediary between him and the State.

Secondary market: See 'Stock Exchange'.

Sex ratio: Sex ratio gives the number of females per 1000 males. It is also known as Female-Male Ratio (FMR).

Singapore issues: In the first Ministerial Conference of WTO held in Singapore in 1996, Working Groups were set up to discuss four issues: *(i)* trade and investment, *(ii)* trade and competition policy, *(iii)* transparency in government procurement, and *(iv)* trade facilitation (customs issues). These four issues have come to be known as Singapore issues.

Shares: The capital of a company is divided into shares. Each share forms a unit of ownership of a company and is offered for sale so as to raise capital for the company.

Shares can be broadly divided into two categories – equity and preference shares. *Equity shares* give their holders the power to share the earnings/profits in the company as well as a vote in the AGMs (annual general meetings) of the company. Such a shareholder is entitled to a share in profits but has also to bear the losses incurred by the company. On the other hand, *preference shares* earn their holders only dividends, which are fixed, giving no voting rights. Equity shareholders are regarded as the real owners of the company. When the shares are offered for sale directly by the company for the first time, they are offered in the primary market, whereas the trading of shares takes place in the secondary market (stock exchange).

Shelf prospectus: Shelf prospectus is a type of public offering where certain issuers are allowed to offer and sell securities to the public without a separate prospectus for each act of offering.

Small finance banks: Small finance banks are a type of niche banks in India. Banks with a small bank licence can provide basic banking service of acceptance of deposits and lending – deposits can be of any amount but focus of lending is to be on small lending. The aim behind these is to provide financial inclusion to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries, and unorganised sector entities.

Soft States: The 'soft state' is a term introduced by Gunnar Myrdal in his classic book *Asian Drama* to describe a general social and societal 'indiscipline' prevalent in South Asian countries. The legal system in these countries is also defective and various legislative measures are scuttled at implementation level.

Splintering: It is argued that as an economy matures, increasing specialisation takes place. Industrial units tend to outsource some activities which were previously undertaken by themselves. For example, they may use greater services of specialist subcontractors to provide accounting, research and development, legal and security services, etc., which were earlier undertaken by themselves. This process of specialisation is called splintering.

Statutory liquidity ratio (SLR): Banks in India are required to maintain a minimum percentage of their deposits with them at the end of every business day, in the form of gold, cash, government bonds, or other approved securities. This minimum percentage is called the statutory liquidity ratio (SLR). In monetary jargon, SLR is the percentage of net demand and time liabilities (in other words, bank deposits) that must be used to buy specified assets.

Increase in SLR reduces the money supply in the economy and is thus, used to control inflation. Decrease in SLR, on the other hand, increases the money supply in the economy.

Stock exchange: Stock exchanges are secondary markets where existing securities can be regularly purchased and sold. These markets are an important element in mobilisation of resources. They enhance the efficiency of the flow of savings. The existence of these markets fulfils a basic need of the investors namely the liquidity. In these markets, holders of securities can easily dipose off their securities and obtain cash. Thus, viable secondary markets by providing marketability to securities encourage savers to take risk and make investments in the existing securities. In this process, savings of the households become available to private and public corporates which, in turn, greatly stimulates productive activity.

Strategic sale: This is a method of disinvestment in which the government sells its share in a public sector undertaking to a strategic partner. As a result, the management passes over to the buyer.

Structural reforms: In addition to the macroeconomic stabilisation programme introduced in 1991, the Government of India also introduced a programme of structural reforms. The major structural reform programmes were: (1) trade and capital flows reforms, (2) industrial deregulation, (3) disinvestment and public sector reforms, and (4) financial sector reforms.

Structural retrogression: According to S.L. Shetty and some other observers of Indian industrial development scenario, industrial development in India during the period 1965 to 1980 faced the phenomenon of structural retrogression. The most important industries from the point of view of long-run development are the capital goods industries and basic industries. These industries witnessed an increasing rate of growth during the period of the first three plans (1951 to 1965) but their rate of growth fell substantially over the period 1965-1980. This represents the phenomenon of structural retrogression. Shetty also pointed out a second aspect of structural retrogression. He showed that where growth was moderately high, a majority of the industries belonged either directly or indirectly to elite-oriented consumption goods sector.

Sui generis: This means 'unique'. If you describe a person or thing as *sui generis*, you mean that there is no one else or nothing else of the same kind and so you cannot make judgements about them based on other things.

Sustainable development: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development can be achieved only if the environment is conserved and improved. Moreover, a development path is sustainable, "if and only if the stock of overall capital assets remains constant or rises over time." This implies keeping the stock of natural capital at least constant.

Targeted Public Distribution System (TPDS): Targeted public distribution system (TPDS) was introduced by the Government of India in 1997. It aimed at providing foodgrains to people below the poverty line at highly subsidised prices from the public distribution system (PDS) and foodgrains to people above the poverty line at much higher prices. Thus, the TPDS maintained the universal character of the PDS but added a special focus on the people below the poverty line (known as BPL).

Tax buoyancy: Tax buoyancy is a measure of the responsiveness of tax receipts with respect to GDP or National Income. A tax is buoyant when revenues increase by more than 1 per cent for a 1 per cent increase in GDP.

Tax-GDP ratio: The tax-GDP ratio is the ratio of tax collected compared to national gross domestic product (GDP).

Tax haven: While there is no precise technical definition of a 'tax haven', they are typically characterised by low or zero taxation, a lack of transparency, and a refusal to provide information to foreign tax authorities. Thus, they become a preferred route of investment by MNCs in other countries. Important tax havens are Mauritius, Cyprus, British Virgin Islands, Caymen Islands, Bahamas, etc.

Telecom scam: Comptroller and Auditor General (CAG) of India in its Report on auction of 2G spectrum in 2007-08 noted widespread irregularities in the process followed by the Department of Telecommunications (DoT) for the verification of licences, and total lack of diligence, fairness and transparency. As a result, it was alleged that the government exchequer incurred a heavy loss in 2G spectrum auction.

A special CBI court acquitted all 18 accused (including the then Telecom Minister A. Raja) in the 2G spectrum case in December 2017.

Teledensity: Telephone density or teledensity is the number of telephone connections for every hundred individuals living within an area.

Tied aid: Foreign aid provided by the donor country could be 'tied' in any of the following ways: (1) the recipient country can use it only for purchase of goods and materials, etc. from the donor country (or other countries specified by the donor country) or (2) the recipient country can use it only for specific project (or projects). The former is known as 'country-tied aid' and the latter as 'project-tied aid'. The foreign aid could also be both country-tied and project-tied.

Total cropped area: See 'gross cropped area'.

Total fertility rate (TFR): The total fertility rate (TFR) of a population is the average number of children that would be born to a woman over her lifetime if: (1) she were to experience the exact current age-specific fertility rates through her lifetime, and (2) she were to survive from birth through the end of her reproductive life. It is obtained by summing up the single-year age-specific birth rates at a given time.

Trade Related Investment Measures (TRIMs): The Agreement on Trade Related Investment Measures (TRIMs) recognises that certain investment measures can restrict and distort trade. It states that WTO members may not apply any measure that discriminates against foreign products or that leads to quantitative restrictions, both of which violate WTO principles.

Trade Related Intellectual Property Rights (TRIPs): As per the TRIPs provisions, the member countries of WTO are required to prepare the necessary legal framework spelling out the scope and standards of protection for rights in regard to intellectual property. WTO lists many areas of intellectual property like patents, copyrights, trademarks, industrial design, etc. Signing of TRIPs means that countries are required to design and/or amend domestic intellectual property legislations on the basis of the TRIPs provisions.

Transnational Corporations (TNCs): See 'Multinational Corporations (MNCs)'.

Treasury bill: When the government is going to the financial market to raise money, it can do so by issuing two types of debt instruments – treasury bills and government bonds. Treasury bills are issued when the government needs money for a shorter period while bonds are issued when it needs debt for a longer period (say, five years).

Treasury bills are presently issued in three maturities, namely 91 day, 182 day and 364 day. Thus, they have a maximum maturity of 364 days. Hence, they are categorised as money market instruments (money market deals with funds with a maturity of less than one year).

Twin balance sheet problem: Government of India's *Economic Survey* 2016-17 pointed out that the Indian economy faces two balance sheet problems: one with Indian companies and the other with Indian banks. As far as the former is concerned, debt accumulation of companies is very high and thus they are unable to pay interest payments on loans (overleveraged companies). According to the *Survey*, 40 per cent of corporate debt is owed by companies who are not earning enough to pay back their interest payments (in technical terms, this means that they have an interest coverage ratio less than 1). As far as the latter is concerned, non-performing assets (NPAs) of the banks is 9.3 per cent (NPAs for the public sector banks is as high as 11.7 per cent). As companies fail to pay back principal or interest, banks are also in trouble.

Underemployment: Underemployment is the under-use of a worker due to a job that does not use the worker's skills, or is part time, or leaves the worker idle. Examples include holding a part-time job despite desiring full-time work, and overqualification, where the employee has education, experience, or skills beyond the requirements of the job.

On account of the above reasons, underemployed workers are generally divided into the following categories: (1) skilled workers in low paying jobs; (2) skilled workers in low skill jobs; and (3) part-time workers preferring full-time jobs.

Undernutrition: Undernutrition is a condition which occurs when there is a deficiency of certain vital nutrients in a person's diet. The deficiency fails to meet the demands of the body leading to adverse effects on the growth, physical health, and other functions of the body. This occurs frequently in areas of the world without adequate access to food and clean drinking water.

Unemployment: The National Sample Survey Organisation (NSSO) has developed three concepts of unemployment: (1) usual status unemployment, (2) current weekly status unemployment, and (3) current daily status unemployment.

1. Usual status unemployment: The activity status in this case is determined with a reference period of 365 days preceding the survey. If a person fails to get employment for a major part of this period, he is classified as usually unemployed. As is clear, this indicates a situation of chronic unemployment.

2. Current weekly status unemployment: This approach has a reference period of seven days preceding the date of survey. If in this period a person seeking employment fails to get work for even one hour on any day, he is deemed to be unemployed.

3. Current daily status unemployment: This approach considers the activity status of a person for each day of the preceding seven days. If a person works for more than 1 hour but less than 4 hours, he is classified as employed for half day and unemployed for the other half day (in case he is seeking work but does not get it). If a person is not engaged in any work even for 1 hour during the day but was seeking/available for work for more than 4 hours a day, then he is classified as unemployed for the 'full day'. However, if the person is seeking/ available for work for more than 1 hour but less than 4 hours, he is classified as 'unemployed' for 'half day' and 'not in labour force' for other half of the day.

Unemployment rate: Unemployment rate is defined as the number of unemployed people divided by the labour force. The resulting figure is multiplied by 100. For example, labour force in India in 2011-12 was 483.75 million while the number of unemployed people was 10.84 million. Therefore, unemployment rate for the year 2011-12 is

$$\frac{10.84}{483.75} \times 100 = 2.2 \text{ per cent.}$$

Universal basic income (UBI): Universal basic income (UBI) is a form of social security in which all citizens or residents of a country regularly receive an unconditional sum of money from the government.

Unorganised sector: See 'organised and unorganised sectors'.

Untied aid: Foreign aid which is not tied to any country/ project and can be utilised by the recipient country in the manner it deems fit is called untied aid.

Usual status unemployment: See 'unemployment'.

Usurious capital (Usury): Usury is the act of lending money at an interest rate that is considered unreasonably high or that is higher than the rate permitted by law.

Value added tax (VAT): Value added tax (VAT) is an indirect tax which is imposed on goods and services at each stage of production, starting from raw materials to final product. VAT is levied on the value additions at different stages of production.

Vertical devolution: See 'horizontal devolution'.

Vicious circle of poverty: According to Prof. Ragnar Nurkse, vicious circle of poverty "implies circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty". Vicious circle of poverty operates on both the supply side and demand side in underdeveloped countries. As far as the supply side is concerned, low income in these countries leads to low saving which, in turn, leads to low investment (or capital formation). This leads to low production which, in turn, results in low income. Thus, the vicious circle on the supply side is complete.

On the demand side, low income leads to low demand which, in turn, results in low investment (or capital formation). This leads to low production and low income. The main reason of the poverty in underdeveloped countries is the low level of demand. Consequently, the size of the market remains low. The small size of the market becomes a hurdle in the path of inducement to invest.

Warabandi system: Warabandi is a rotational method for equitable distribution of the available water in an irrigation system by turns fixed according to a predetermined schedule specifying year, day, time and duration of supply to each irrigator in proportion to the size of his landholding in the outlet command.

The term 'warabandi' means turns (wahr) which are fixed (bandi).

Ways and means advances: The Reserve Bank of India gives temporary loan facilities to the Centre and State governments as a banker to the government. This temporary loan facility is called Ways and Means Advances (WMA).

Wholesale price index (WPI): Wholesale price index (WPI) measures the average change in the prices of commodities for bulk sale at the level of early stage of transactions. The index basket of the WPI covers commodities falling under three major groups namely Primary Articles, Fuel and Power, and Manufactured Products. (The index basket of the present 2011-12 series has a total of 697 items including 117 items for Primary Articles, 16 items for Fuel and Power, and 564 items for Manufactured Products). The prices tracked are ex-factory prices for manufactured products, mandi prices for agricultural commodities and ex-mines prices for minerals. Weights given to each commodity covered in the WPI basket is based on the value of production adjusted for net imports. WPI basket does not cover services.

Workforce: See 'labour force'.

Zamindari system: This system was created by the East India Company when in 1973, Lord Cornwallis entered into 'permanent settlement' with landlords with a view to increasing the revenue of the company. Under the settlement, the landlords (known as zamindars) were declared full proprietors of large areas of land. In return, the task of collecting rent from the farmers was entrusted to them. Thus, the zamindars were to function as intermediaries between the cultivators and the State.

Zero tax companies: A zero tax company is a business that shows a book profit and pays dividends to investors but does not pay taxes.