



pravahini

## **Monthly Compendium (ECONOMIC AFFAIR)**

of Current Affairs by **SUCCESS MANTRA** (GTB Nagar)

# ECONOMIC AFFAIRS

**JULY 2022**

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# IMPORTANT ECONOMIC AFFAIRS

## #AGREEMENT ON FISHERIES SECTOR IN WTO MC

Recently, **Agreement on Fisheries Subsidies** was concluded at the **World Trade Organization (WTO) Ministerial meeting**.

### What is the WTO Ministerial Conference?

- It came into being in **1995**.
- The WTO is the successor to the **General Agreement on Tariffs and Trade (GATT)** established in the wake of the Second World War.
- Its objective is to **help trade flow smoothly, freely and predictably**.
- It has **164 members**



### WTO Ministerial Conference:

- It is the WTO's **top decision-making body** and usually **meets every two years**.
- All members of the WTO are involved in the MC and they can take decisions on all matters covered under any multilateral trade agreements.

### What do we know about the Agreement?

It will **prohibit subsidies** from being provided for **Illegal, Unreported and Unregulated (IUU)** fishing and overfished stocks. The agreement also **prohibits** providing subsidies for **fishing** on high seas, which are **outside the jurisdiction of coastal countries and Regional Fisheries Management Organizations/Arrangements**.

- **Transition Period Allowance:** Under the **Special and Differential Treatment (S&DT)**, Developing Countries and Least Developed Countries (LDCs) have been allowed a **transition period of two years** from the date of entry into force of this Agreement. They will have **no obligation** to implement disciplines for the specified period.
- **Exempted Areas:** **No prohibition** has been imposed on a WTO Member regarding granting or maintaining subsidy to its vessel or operator **as long as it is not carrying out IUU**. **No prohibition** on providing subsidies has been imposed for fishing regarding **overfished stocks as long as such subsidies are implemented to rebuild the stock** to a biologically sustainable level.

### What is India's Stand?

- India is one of the **lowest fisheries subsidisers** despite such a large population and one of the **disciplined nations in sustainably harnessing the fisheries resources**.
- India **does not exploit the resources** indiscriminately like other advanced fishing nations and India's fisheries sector primarily depends on several millions of small-scale and traditional fishers.
- Therefore, those WTO Members who have **provided huge subsidies in the past**, and engaged in large-scale industrial fishing, which is responsible for the depletion of fish stocks, should take more obligations to prohibit subsidies based on the '**polluter pay principle**' and '**common but differentiated responsibilities**'.

### What do we know about India's Fisheries Sector?

- Fishing is the **capture of aquatic organisms in marine, coastal and inland areas**.

- Marine and inland fisheries, together with aquaculture, provide food, nutrition and a source of income to **millions of people around the world, from harvesting, processing, marketing and distribution.**
- For many it also forms part of their traditional cultural identity.
- One of the greatest threats to the sustainability of global fishery resources is **illegal, unreported and unregulated fishing.**
- **Indian Scenario:** India is the **second largest fish producing country in the world** accounting for 7.56% of global production and contributing about 1.24% to the country's **Gross Value Added (GVA)** and over 7.28% to the agricultural GVA. Fisheries and aquaculture continue to be an **important source of food, nutrition, income and livelihood to millions of people** India aims to achieve a target of producing 22 million metric tonnes of fish by 2024-25.

### Related Government Initiatives:

**Fishing Harbours:** The development of five major **Fishing Harbours** (Kochi, Chennai, Visakhapatnam, Paradip, Petuaghat) as hubs of economic activity.

**Seaweed Park: Multipurpose seaweed park in Tamil Nadu** would be the center of production for quality **seaweed**-based products, developed on a hub and spoke model.

**Pradhan Mantri Matsya Sampada Yojana:** It strives to create direct **employment** to 15 lakh fishers, fish farmers, etc. and about thrice this number as indirect employment opportunities. It also aims to double the incomes of fishers, fish farmers and fish workers by 2024.

**Palk Bay Scheme:** The Scheme, "**Diversification of Trawl Fishing Boats from Palk Straits into Deep Sea Fishing Boats**" was launched in 2017 as a **Centrally Sponsored Scheme**. It was launched as part of the umbrella **Blue Revolution Scheme**.

**Marine Fisheries Bill, 2021:** The Bill proposes to only grant licenses to vessels registered under the Merchant Shipping Act, 1958, to fish in the **Exclusive Economic Zone (EEZ)**.

## #FINANCIAL SERVICES INSTITUTIONS BUREAU (FSIB)

- The **Cabinet Appointments Committee (ACC)** has passed a government resolution to establish the **Financial Services Institutions Bureau (FSIB)** in place of the **Banks Board Bureau (BBB)**.
- The new framework was proposed by the **Department of Financial Service, Ministry of Finance**.

### What is the Financial Services Institutions Bureau?

- The **Financial Services Institutions Bureau** will **select the chiefs of public sector banks and insurance companies**. The FSIB will have the clear mandate to issue guidelines and select general managers and directors of state-run

### *What is the Banks Board Bureau (BBB)?*

- **Background:** The Banks Board Bureau (BBB) has its genesis in the recommendations of '**The Committee to Review Governance of Boards of Banks in India, May 2014 (Chairman - P. J. Nayak)**'.
- **Formation:** The government, in 2016, approved the constitution of the BBB to make recommendations for appointment of **whole-time directors** as well as **non-executive chairpersons of Public Sector Banks (PSBs) and state-owned financial institutions**.
- It was an **autonomous recommendation body**.
- The Banks Board Bureau was a public authority as defined in the **Right to Information Act, 2005**.
- The **Ministry of Finance** has the final decision-making authority on the appointments in consultation with the **Prime Minister's Office**.
- **Functions:** Apart from recommending personnel for the PSBs, the Bureau had also been assigned with the task of **recommending personnel for appointment as directors in government-owned insurance companies**.

non-life insurers, general insurers and Financial Institutions.

- The ACC has approved the **appointment of Bhanu Pratap Sharma as Initial chairperson of FSIB for two years**. He was the former Chairman of BBB.

### What is Public Sector Banks (PSB)?

- It is a bank in which the **government holds a major portion of the shares**.
- Example, **State Bank of India** is a public sector bank, the government holding in this bank is around 60%.

### Examples:

- **National Bank for Financing Infrastructure and Development (NaBFID)**
- **Export-Import Bank of India (EXIM Bank)**
- **National Bank for Agriculture and Rural Development (NABARD)**
- **National Housing Bank (NHB)**
- **Small Industries Development Bank of India (SIDBI)**

## #EASE OF DOING BUSINESS RANKINGS 2020

- Recently, the Ministry of Commerce and Industry has released a **Ease of Doing Business (EoDB) Ranking**, which is based on **Business Reforms Action Plan (BRAP)** report 2020.

### What is the Ranking all about?

- **To boost investor confidence, foster a business-friendly climate and augment the ease of doing business across the country** by introducing an element of healthy competition through a system of assessing states based on **their performance in the BRAP**.
- **Parameters:** The parameters include various areas, such as construction permit, labour regulation, and environmental registration, access to information, land availability and single window system.



### What are the Findings of the EoDB?

- **Top Achievers:** Seven states - Andhra Pradesh, Gujarat, Haryana, Karnataka, Punjab, Telangana and Tamil Nadu - were **categorised as 'top achievers' in the Ease of Doing Business ranking** of states and union territories.
- **Achievers:** Himachal Pradesh, Uttar Pradesh, Odisha, and Madhya Pradesh are the other states categorised as achievers in the ranking.
- **Emerging Business Ecosystems:** Six states - Manipur, Meghalaya, Nagaland, Tripura, Puducherry and Jammu and Kashmir - were '**emerging business ecosystems**'.
- **Aspirers:** Seven states - Goa, Assam, Kerala, Rajasthan, Jharkhand, Chhattisgarh and Bengal - were categorised as 'Aspirers'.

### What is BRAP?

- **About:** It was launched in 2015. The Ease of Doing Business Index is based on BRAP.
- It was introduced **to encourage a healthy competition between states**. This would help in attracting investments and increasing Ease of Doing Business in each State.
- The **Department for Promotion of Industry and Internal Trade (DPIIT)**, since 2014, has been assessing states/UTs based on their performance in the implementation of prescribed reforms in the BRAP exercise.
- So far, assessments of states/UTs have been released **for the years 2015, 2016, 2017-18, 2019 and 2022**.



## #EXIT OF FOREIGN PORTFOLIO INVESTORS

- June 2022 witnessed the **worst Foreign Portfolio Investor (FPI)** selloff since March 2020 when India announced a **nationwide lockdown** at Rs. 50,000 crore.
- June was also the ninth on the trot that FPIs had sold net of their assets i.e. sold more than they had purchased.



### What Do We Mean by Foreign Portfolio Investors?

- Foreign portfolio investors are those that invest funds in markets outside of their home turf.
- Examples of FPIs include stocks, **bonds, mutual funds, exchange traded funds**, American Depositary Receipts (ADRs), and Global Depositary Receipts (GDRs).
- FPI is part of a country's **capital account** and is shown on its **Balance of Payments (BOP)**.
- The BOP measures the amount of money flowing from one country to other countries over one monetary year.
- They are generally not active shareholders and do not exert any control over the companies whose shares they hold.
- **The Securities and Exchange Board of India (SEBI)** brought new **FPI Regulations, 2019**, replacing the erstwhile FPI Regulations of 2014.
- FPI is often referred to as "**hot money**" because of its tendency to flee at the first signs of trouble in an economy. FPI is more liquid, volatile and therefore riskier than FDI.

### How big are FPI in India?

- FPIs are the largest non-promoter shareholders in the Indian market and their investment decisions have a huge bearing on the stock prices and overall direction of the market.
- Holding of FPIs (in value terms) in companies listed on **National Stock Exchange** stood at Rs. 51.99 lakh crore as on 31st March 2022, a decrease of 3.36% from Rs. 53.80 lakh crore as on 31st December 2021 due to the sustained sell-off since October 2021.

### US Federal Reserve:

- Rate hikes by the **Federal Reserve** affects not only the US economy, but also shapes the macroeconomic outlook and exerts a certain degree of influence on the **monetary policies** in other emerging economies.
- **Correlation of Federal Reserve & Indian Markets:**
- **Emerging economies such as India tend to have higher inflation** and higher interest rates than those in developed countries such as the US and many of the (primarily Western) European nations.
- As a result, financial institutions, particularly **Foreign Institutional Investors (FIIs)** would want to borrow money in the US at low interest rates in dollar terms and then invest that money in **government bonds** of emerging countries such as India in local currency terms to earn a higher rate of interest.
- When the US Federal raises its domestic interest rates, the difference between the interest rates of the two countries decreases.
- This makes India less attractive for the currency carry trade, consequently, some of the money may be expected to move out of the Indian markets and flow back to the US.

## #WHAT IS RUPEE PAYMENT MECHANISM?

- Recently, the **Reserve Bank of India (RBI)** has put in place a mechanism to facilitate International Trade in Rupees (INR), with immediate effect.
- However, banks acting as authorised dealers for such transactions **would have to take prior approval from the regulator to facilitate this.**
- As per the broad framework for cross-border trade transactions in INR under **Foreign Exchange Management Act, 1999 (FEMA)**, all exports and imports under this arrangement may be **denominated and invoiced in rupee (INR)** and the exchange rate between the currencies of the two trading partner countries may be **market determined.**



### What is Rupee Payment Mechanism?

- **About:** Authorised Dealer Banks in India had been **permitted to open Rupee Vostro Accounts (an account that a correspondent bank holds on behalf of another bank).**
- **Indian importers undertaking imports** via this mechanism will make payment in **INR** which will be **credited into the Special Vostro account** of the correspondent bank of the partner country, against the invoices for the supply of goods or services from the overseas seller.
- Indian exporters **may receive advance payment** against exports from overseas importers in Indian rupees through the above Rupee Payment Mechanism.
- Before allowing any such receipt of advance payment against exports, **Indian banks need to ensure that available funds in these accounts are first used towards payment obligations** arising out of already executed export orders/export payments in the pipeline.
- Balance in Special Vostro Accounts can be used for: payments for projects and investments, export/ import advance flow management, and investment in Government Treasury Bills, **Government securities**, etc.

### Free Trade Agreements:

- India has recently signed a **Free Trade Agreement with Australia & UAE.**
- FTA is a **pact between two or more nations to reduce barriers to imports and exports** among them.
- Under a free trade policy, **goods and services can be bought and sold** across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.
- The concept of free trade is the **opposite of trade protectionism or economic isolationism.**

### Indo-Pacific Economic Framework:

- India has joined a **US-led initiative to set up an Indo-Pacific Economic Framework (IPEF)** and this move would help boost economic ties further.
- The US has consistently been India's largest market for services exports, but the recent overseas sales of merchandise goods to that **country overtook China**, making it the **largest bilateral trading nation of India.**

## #WHAT IS BUILD OPERATE TRANSFER MODEL?

- **National Highway Authority of India (NHAI)** plans to offer at least two highway upgradation projects to private players using the **build-operate-transfer (BOT)** model under **Public-Private Partnership**, during the third quarter of 2022.

### Build-Operate-Transfer (BOT) Model

- Under the BOT model, a **private player is granted a concession** to finance, build and operate a project for a **specified period of time** (20 or 30 year concession period), with the **developer recouping the investments by way of user charges or tolls charged** from customers using the facility, and thereby taking on a certain amount of financial risk.
- It is a conventional **Public-Private Partnership** model in which a private partner is responsible to **design, build, operate** (during the contracted period) and **transfer back** the facility to the public sector.
- Private sector partner has to **bring the finance for the project and take the responsibility** to construct and maintain it.
- The government has decided to assess the revenue potential of a project **every five years during the concession period as against every 10 years earlier**.
- This would mean that the concession period (or period till which road developers can collect toll) is extended early in the tenure of the contract, **ensuring surety of revenue for the private company**.



### What do we mean by Public-Private Partnership?

- PPP is an **arrangement between government and private sector** for the provision of **public assets and/or public services**.
- Public-private partnerships allow **large-scale government projects**, such as roads, bridges, or hospitals, to be completed with private funding.
- In this type of partnership, **investments are undertaken by the private sector entity**, for a specified period of time.
- These partnerships **work well when private sector technology and innovation combine with public sector incentives** to complete work on time and within budget.
- As PPP involves **full retention of responsibility by the government for providing the services**, it doesn't amount to privatization.
- There is a well defined **allocation of risk between the private sector and the public entity**.

## #MEASURES TO BOOST FOREX INFLOWS

- Recently, RBI has undertaken measures to **enhance forex inflows**, amid **Depreciation** of Indian rupee.

### Why has the RBI taken Measures to Boost Forex?

- The rupee has depreciated by 4.1 % against the US dollar during the **current financial year (2022-23)** so far amid the **ongoing geopolitical tensions**.
- Indian Rupee has depreciated 4.1 % to 79.30 **against the US dollar** in the current financial year (FY 2022-23).
- Foreign Portfolio Investors (FPIs) have pulled out **Rs 2.32 lakh crore in six months**.
- India's **forex reserves**, over the last **9 months**, have decreased by USD 50 billion to USD 593.3 billion.

### What is a Forex Reserve?

- Foreign exchange reserves are **assets held on reserve by a central bank in foreign currencies**, which



can include bonds, treasury bills and other government securities.

- Most foreign exchange reserves are held in US dollars.

### What are the Measures?

- **FPI Investment in Debt: Foreign Portfolio Investors (FPIs)** can invest in government securities and corporate bonds. It has also sought to boost debt portfolio inflows by widening the basket of securities available to FPIs.
- FPI is a route for foreign investment in India. It includes investments in shares of listed Indian Company, Non-Convertible Debentures, units of domestic MF (Mutual Fund), Government Securities, Security Receipts, etc.
- **Relaxation Under ECBs:** Rules governing External Commercial Borrowing (ECB) for corporates have been relaxed, with the automatic route being doubled to USD 1.5 billion and the cap on borrowing costs raised by 1% point.
- ECBs are loans in India made by non-resident lenders in foreign currency to Indian borrowers. Used to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings).

## #RBI SEEKS BAN ON CRYPTOCURRENCY

- The (RBI) has recommended a ban on cryptocurrencies citing 'destabilising effects' for the country's monetary and fiscal health.
- China has declared all cryptocurrency transactions illegal, effectively imposing a complete ban, whereas El Salvador has permitted Bitcoin as legal tender.



### What is the Current Status of Crypto?

- At the moment, there is no legislature that covers cryptocurrencies in India. In India, owning cryptocurrencies is still not illegal. In 2020, the Supreme Court had struck down a ban on trading of crypto currency in India, which was imposed by the Reserve Bank of India (RBI).
- Central bank has been cautioning people against the use of virtual currencies since as far back as 2013.
- In April 2018, the RBI had prohibited regulated entities from dealing in virtual currencies or providing services for facilitating any person or entity in dealing with or settling them. The directive was set aside by the Supreme Court in March 2020.
- Subsequently, in May 2021, the central bank advised its regulated entities to continue to carry out customer due diligence processes for transactions in such currencies, in line with regulations governing standards for Know Your Customer (KYC), Anti-Money Laundering, Combating of Financing of Terrorism, obligations under Prevention of Money Laundering Act, 2002, etc. and Foreign Exchange Management Act (FEMA) Norms for overseas remittances.
- The Union Budget 2022-2023 also proposed to introduce a digital currency in the coming financial year.

### What is Crypto currency?

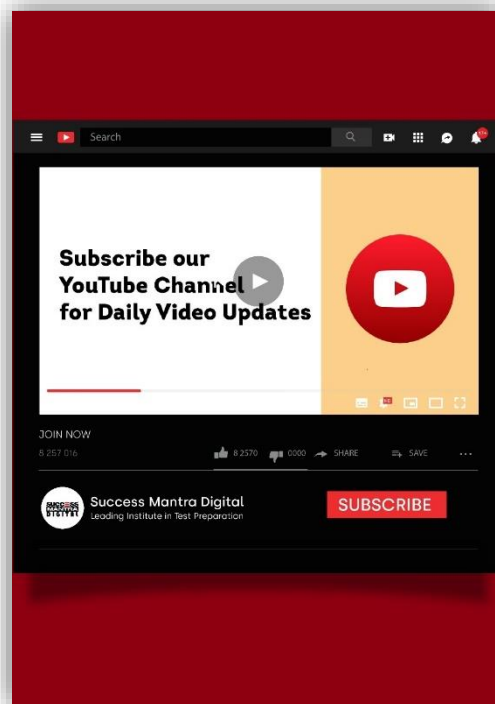
- **About: Cryptocurrency**, sometimes called crypto-currency or crypto, is any form of currency that exists digitally or virtually and uses cryptography to secure transactions.
- Cryptocurrencies don't have a central issuing or regulating authority, instead use a decentralized system to record transactions and issue new units.
- It is supported by a decentralized peer-to-peer network called the blockchain.

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