

Important topics for Prelims 2023

Economy Part 2

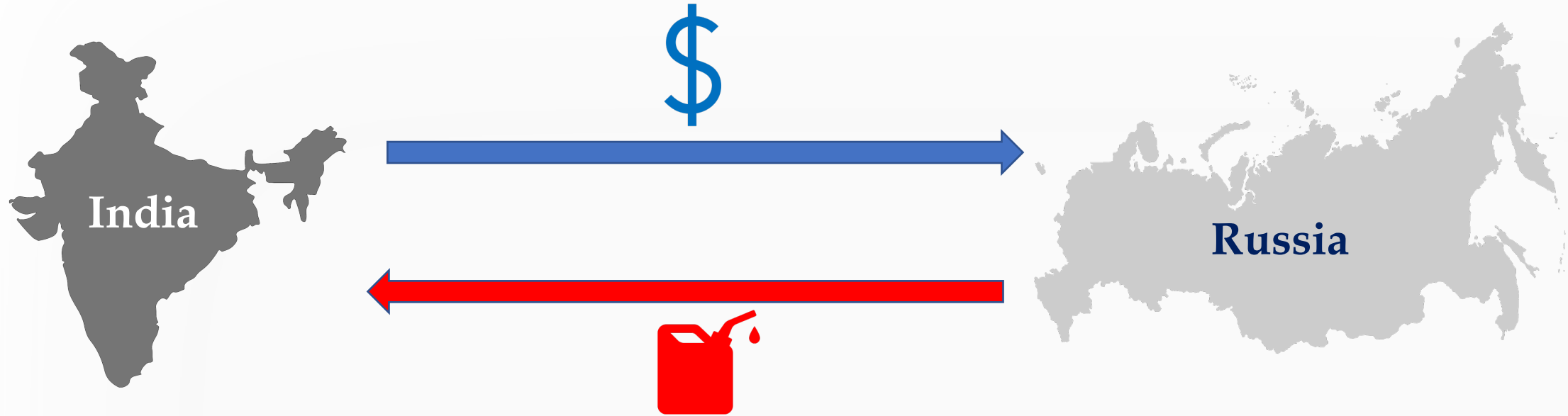
Rupee Trade Settlements

- RBI, in its circular dated 11/07/2022, has permitted international trade settlement in Indian Rupee.
- The measure relating to international trade settlement in rupee comes even as the central bank took a host of measures to augment supply of dollar to prop up the weakening rupee.
- RBI expects its latest measure to promote growth of global trade with emphasis on exports from India and “to support the increasing interest of global trading community in INR”.

Rupee Trade Settlements



Rupee Trade Settlements



Rupee Trade Settlements




Rupee Trade Settlements


A Rupee Vostro account is a foreign bank's account with an Indian bank in rupees in India. Foreign parties will be able to send and receive money from Indian exporters' and importers via these Rupee Vostro accounts.

- This move will help reduce India's dependency on US dollars.
- Since India is a net importer and the value of the Indian rupee has been declining consistently, RBI's latest decision to allow international trade in rupees is expected to reduce the pressure on India's forex reserves.




Rupee Trade Settlements

**Ministry of External Affairs**
Government of India







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Settlement of India-Malaysia Trade In Indian Rupee (INR)



 April 01, 2023

Trade between India and Malaysia can now be settled in Indian Rupee (INR) in addition to the current modes of settlement in other currencies. This follows the decision by the Reserve Bank of India in July 2022 to allow settlement of international trade in Indian Rupee (INR). This initiative by RBI is aimed at facilitating the growth of global trade and to support the interests of the global trading community in Indian Rupee (INR).

2. India International Bank of Malaysia (IIBM), based in Kuala Lumpur, has operationalised this mechanism by opening a Special Rupee Vostro Account through its Corresponding Bank in India i.e. Union Bank of India.

3. Please check the FAQ available on IIBM's website (www.Indiainternationalbank.com.my) for more details about India-Malaysia trade settlement in Indian Rupee (INR).

New Delhi
April 01, 2023



Internationalization of Rupee

- Internationalization of the Indian rupee is a process that **involves increasing the use of the local currency** in cross-border transactions.
- It involves **promoting the rupee for import and export trade**, followed by other current account transactions and its use in capital account transactions.
- As per the latest Triennial Central Bank Survey, the dollar accounts for 88.3 per cent of global foreign exchange market turnover, followed by the euro, Japanese Yen and Pound Sterling; the rupee accounts for a mere 1.7 per cent.

Internationalization of Rupee

Advantages:

- Reduces the need to hold foreign exchange reserves.
- Currency Appreciation
- Mitigates currency risk for Indian businesses.
- Making significant savings
- Circumvent sanctions

INTERNATIONALIZING ₹

Pros:

- Will ease foreign trade, aid capital flows
- Mitigate exchange rate risks
- Reduce dependence on FX reserves

Cons:

- Complicates monetary policy
- Exchange rate stability is challenging
- Could bring uncontrolled capital flows

Circular Trading in Stock Market

By Circular Trading

Hire new traders and order them to **buy and sell some specific stocks very frequently.**



When the prices are high enough, **sell the holdings**, pay the amateur traders and take a **big profit** back home.



Shoot up the volumes of the stock exponentially, making them "**hot cakes**".



Retail investors who trade on price-action strategy jump in to buy the stocks, as **greed takes over their common sense.**



Circular Trading in Stock Market

According to the **Securities Appellate Tribunal** (SAT):

- A circular trade happens when two or more persons join hands and start trading in a scrip among themselves.
- Despite multiple participants and trades, the shares return to the initial owners at the end of the trading session, completing a circle.
- To illustrate, A sells to B and B sells to C, and C sells it back to A. The circle gets completed when the shares come back to A. The process can involve multiple players.

The result is an increase in the trade volume without a change in ownership.

Circular Trading in Stock Market

- SEBI looks into any suspicious market activity in a scrip under the various provisions of the SEBI Acts and Regulations.
- And, if any broker or entity is involved in circular trading, it imposes penalties on a case-by-case basis.
- As a method to prevent circular trading and improve the safety and integrity of the market, SEBI has mandated all exchanges to fix a daily price band and an overall weekly limit for each stock.
- The exchanges have put a surveillance framework to monitor price and volume movements and potential market abuses like artificial transactions, circular trading, etc.



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Mr. Arvind Guleria

(Highest Hit-Rate of Economy Qs in Prelims 2022)

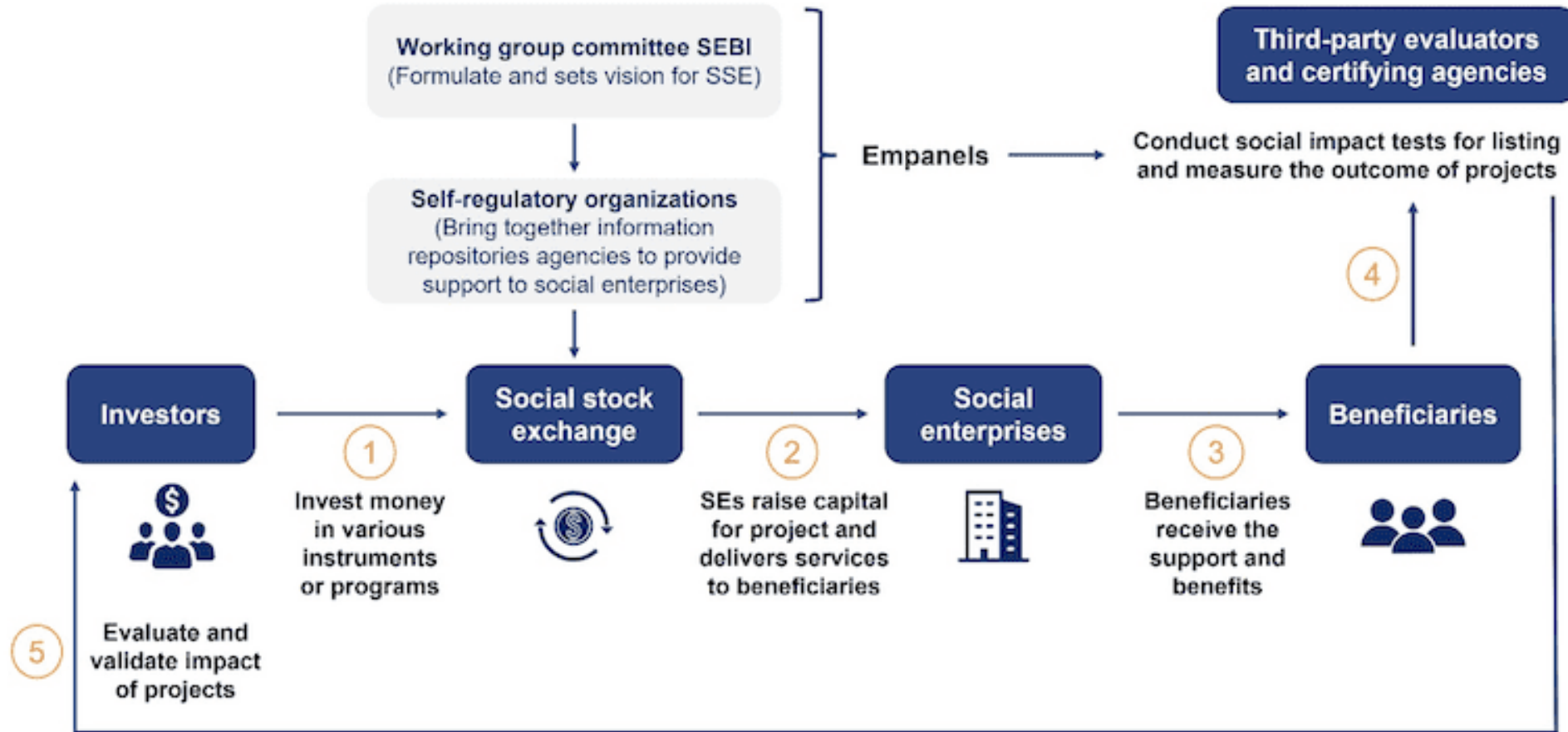
Social stock exchange

- **National Stock Exchange** (NSE) of India received the final approval from the markets regulator SEBI to set up a Social Stock Exchange (SSE).
- The SSE would function as a **separate segment within the existing stock exchange** and help social enterprises raise funds from the public through its mechanism.
- Social enterprise can be defined as a non-loss; non-dividend paying company created and designed to address a social problem.
- It has been proposed to be setup under the market regulator SEBI.

Social stock exchange

- It would serve as a medium for enterprises to seek finance for their social initiatives, acquire visibility and provide increased transparency about fund mobilisation and utilisation.
- These institutions/enterprises can be **For-Profit Social Enterprises (FPSEs) or not-for-profit organizations (NPO)**.
- At present, avenues through which the social sector (FPSE and NPO) receive funding are very limited such as CSR funding, impact investing, philanthropic/Government grants etc.
- The aim of the initiative is to **help social and voluntary organisations which work for social causes to raise capital as equity or debt or a unit of mutual fund.**

Social stock exchange



Social stock exchange

How NPOs would raise money?

- NPOs can raise money either through issuance of **Zero Coupon Zero Principal (ZCZP) Instruments** from private placement or public issue, or donations from mutual funds.
- ZCZP bonds differ from conventional bonds in the sense that it entails zero coupon and no principal payment at maturity.
- For ZCZP issuance, the **minimum issue size is presently prescribed as Rs 1 crore** and minimum application size for subscription at Rs 2 lakhs.
- Another structured finance product available for NPOs is the **Development Impact Bonds**.
- Upon the completion of a project and having delivered on pre-agreed social metrics at pre-agreed costs/rates, a grant is made to the NPO.

Social stock exchange

How FPOs would raise money?

- For-Profit Enterprises (FPEs) need not register with social stock exchanges before it raises funds through SSE.
- It can raise money through issue of equity shares or issuing equity shares to an Alternative Investment Fund including Social Impact Fund or issue of debt instruments.

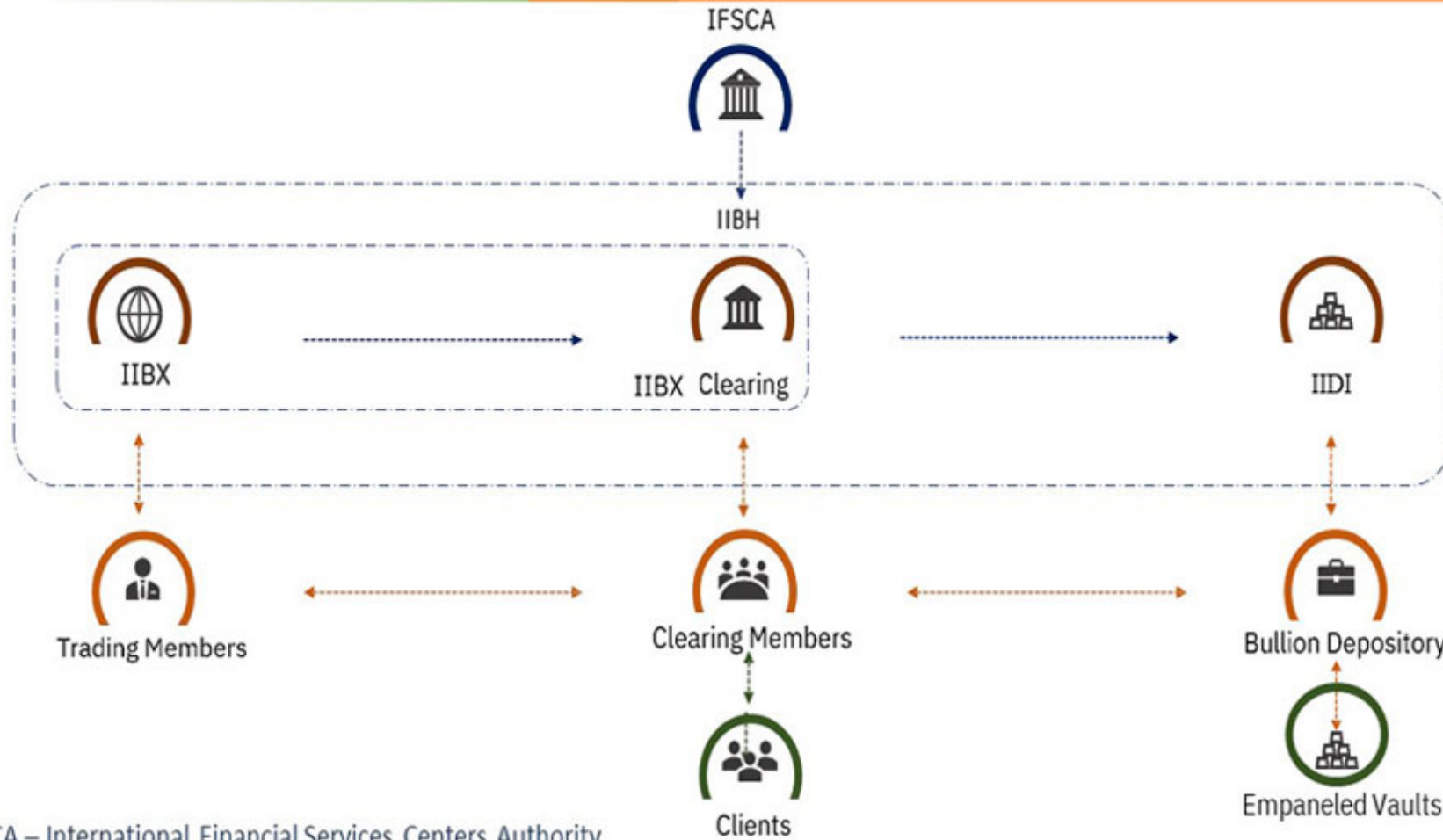
India International Bullion Exchange

- Bullion refers to **physical gold and silver of high purity** that is often kept in the form of bars, ingots, or coins.
- Bullion can sometimes be considered legal tender and is often held as reserves by central banks or held by institutional investors.
- IIBX is **India's first International Bullion Exchange** set up at the GIFT City, Gandhinagar.
- IIBX offers a **diversified portfolio of products and technology** services at a cost which is far more competitive than the Indian exchanges as well as other global exchanges in Hong Kong Singapore, Dubai, London and New York.

India International Bullion Exchange

- IIBX will facilitate efficient price discovery with the assurance of responsible sourcing and quality, apart from giving impetus to the financialisation of gold in India.
- IIBX is regulated by **International Financial Services Centres Authority (IFSCA)**.

IIBX Ecosystem



- IFSCA – International Financial Services Centers Authority
- IIBH – India International Bullion Holding IFSC Limited
- IIBX - India International Bullion Exchange IFSC Limited
- IIDI – India International Depository IFSC Limited

Note : IIBX Clearing is under the exchange for an initial period of 3 years

Windfall TAX

- **Windfall taxes** are designed to **tax the profits a company** derives from an **external, sometimes unprecedented event**— for instance, the energy price-rise as a result of the Russia-Ukraine conflict.
- These are profits that **cannot be attributed to something the firm actively did**, like an investment strategy or an expansion of business.
- The US Congressional Research Service (CRS) defines a windfall as an “**unearned, unanticipated gain** in income through **no additional effort or expense**”.
- Governments typically levy a **one-off tax retrospectively** over and above the normal rates of tax on such profits, called windfall tax.

Windfall TAX

Windfall Tax



Benefits

- Boosts government revenues
- Provide public services and other benefits to the citizens
- Windfall gains can repay interest-bearing consumer
- Invest the windfall proceeds in gold deposits

Global Minimum Tax

- EU members have agreed to implement a minimum tax rate of 15% on big businesses in accordance with Pillar 2 of the global tax agreement framed by the Organisation for Economic Cooperation and Development (OECD).

Pillar One

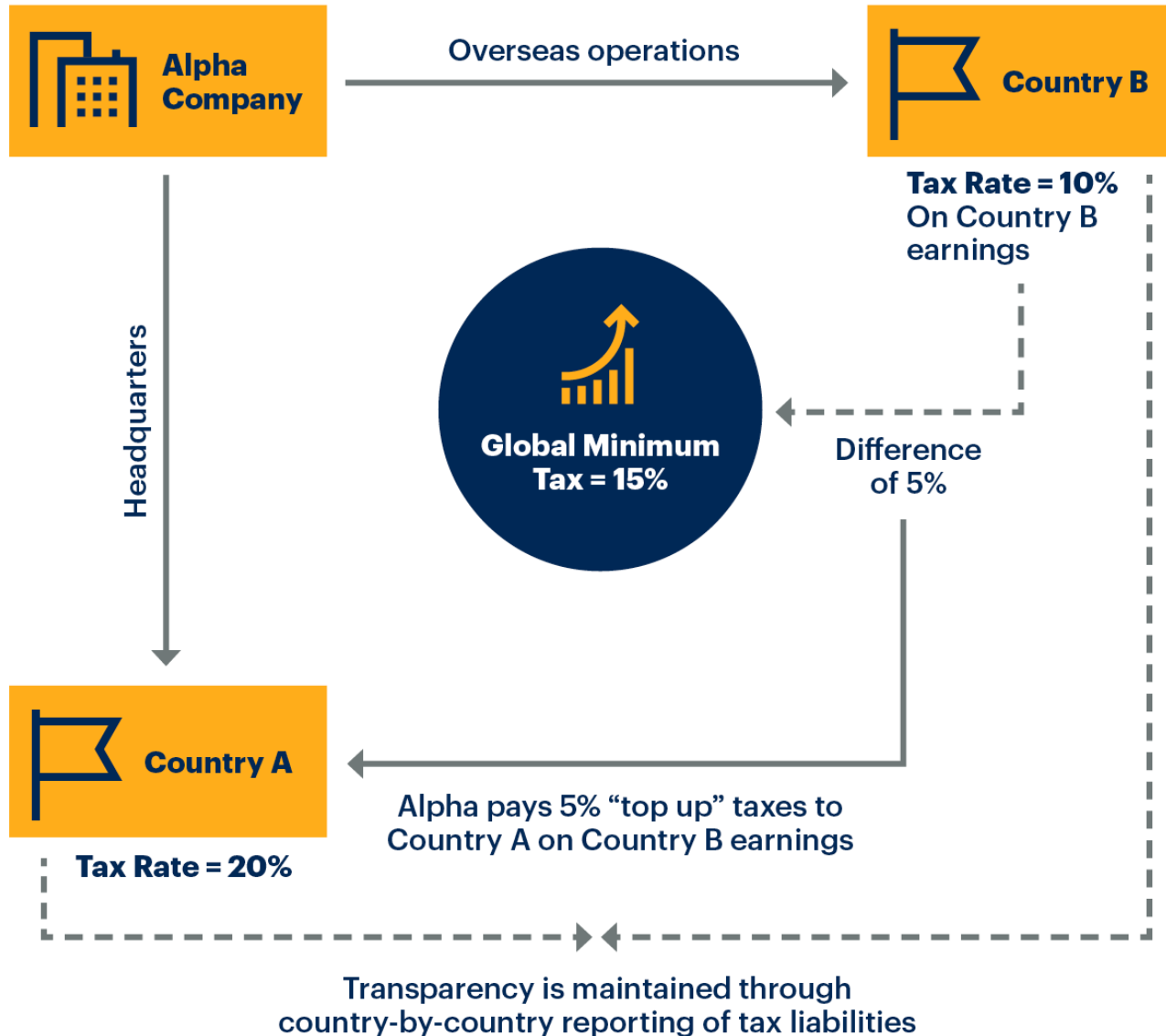
- ▶ Will cover top 100 global companies
- ▶ Re-allocation of an additional share of profit to the market jurisdictions
- ▶ 'Amount A' would apply to firms with over €20 billion in revenues and a profit margin above 10%
- ▶ A portion of their profits would be taxed in jurisdictions where they have sales
- ▶ Between 20–30% of profits above a 10% margin may be taxed
- ▶ Review of €20 billion threshold to €10 billion after 7 years
- ▶ India and other developing countries were pitching for a threshold of €1 billion

Pillar Two

- ▶ Minimum global tax of 15% and subject to tax rules
- ▶ The effective tax rate should be at least 15%, else additional taxes would be owed in a company's home jurisdiction

9 countries do not sign the deal proposal including Ireland, Estonia and Hungary

Global Minimum Tax Illustration



Global tax

Last week, the OECD finalized a landmark agreement to subject multinational enterprises (MNEs) a minimum 15% tax from 2023.

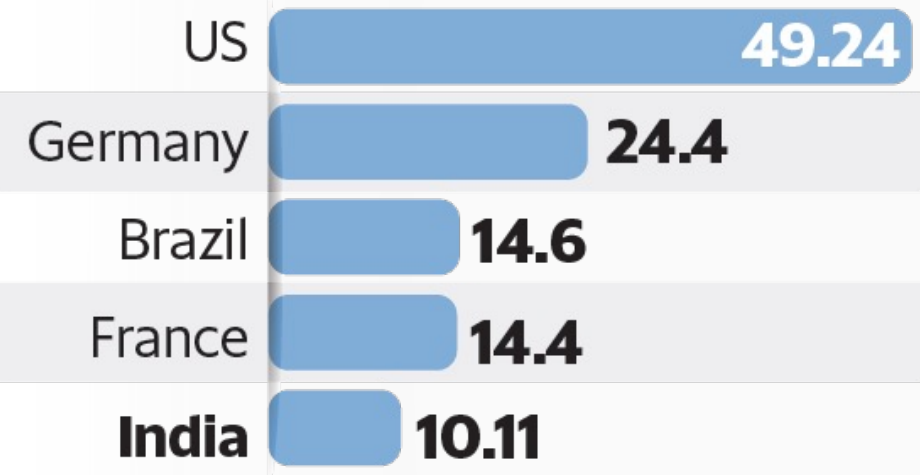
140 OECD/G20 inclusive framework on BEPS

136 Countries agreeable

4 Countries which have not joined the agreement: **Kenya, Nigeria, Pakistan, and Sri Lanka**

Biggest tax losers

Tax lost to corporate tax abuse annually (in \$ bn)



Biggest contributors to tax losses

Tax loss inflicted on other countries by enabling corporate tax abuse (in \$ bn)



Source: Tax Justice Network

Open Acreage Licensing Programme (OALP)

Parameter	HELP	NELP
Fiscal model	Revenue sharing	Profit sharing
Cost recovery	Not applicable	Yes
Cost efficiency	Encouraged	Neutral
Royalty	Low rates for offshore	Standard rates
Exploration period	Onland and shallow water- 7 years deepwater- 8 years	Onland & shallow water- 8 years Deepwater & Ultra-deepwater- 10 years
Management committee	More focus on reservoir monitoring; no micro-management	Technical & financials examination
Revenue to government	On production	After cost recovery i.e. from profit petroleum
Exploration in ML areas	Allowed	Not allowed
E&P activity for all hydrocarbons	Allowed	Not allowed

Ministry of Petroleum and Natural Gas launches Open Acreage Licensing Programme Bid Round-VIII

The Hydrocarbon Exploration and Licensing Policy (HELP) replacing the erstwhile New Exploration Licensing Policy (NELP) was approved in March 2016

Open Acreage Licensing Programme (OALP)

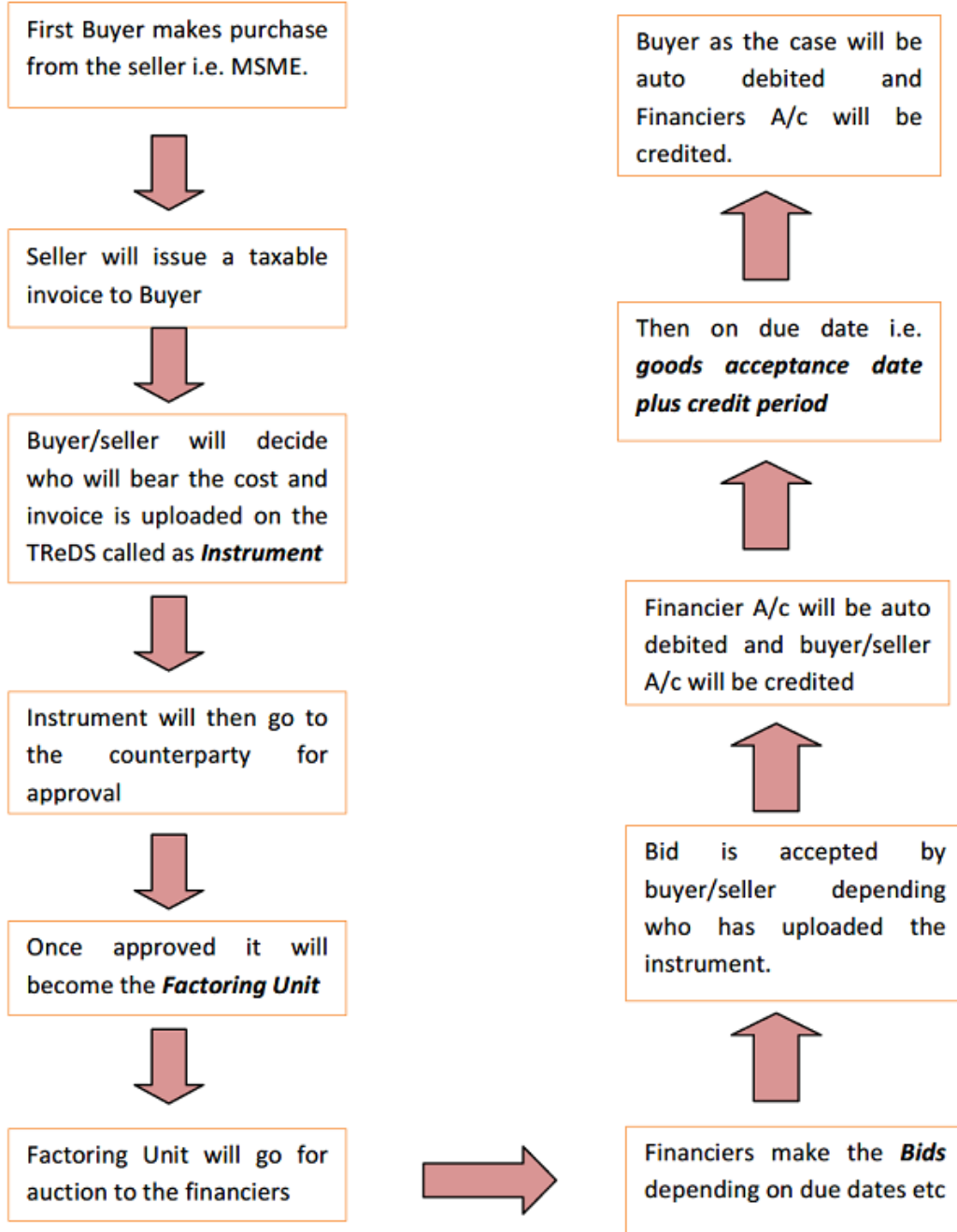
- Open Acreage Licensing Policy (OALP) along with the National Data Repository (NDR) was launched in June 2017.
- Under OALP, companies are given the freedom to carve out areas they want to explore oil and gas. The areas sought are then put on auction.
- National Data Repository: NDR is a government-sponsored data bank for future exploration and development. E.g. Seismic Data, Well & Log Data, Spatial Data, other data like Drilling, Reservoir, Production, Geological, Gravity & Magnetic etc.

Trade Receivables Discounting System

- TReDS is an electronic platform for facilitating the financing / discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers.
- Only MSMEs can participate as sellers in TReDS.
- Sellers, buyers and financiers are the participants on a TReDS platform.
- Banks, NBFC - Factors and other financial institutions as permitted by the Reserve Bank of India (RBI), can participate as financiers in TReDS.

Trade Receivables Discounting System

- Delayed payments by the CPSEs and private organizations result in a shortage of working capital for the MSMEs in their regular business operations.
- That's where TReDs come in. Through this, MSMEs get instant short-term capital but at a discounted rate based on the invoices.
- **There are currently three TReDS based portals: RXIL (Receivables Exchange of India), M1Xchange, and Invoicemart.**



AT 1 Bonds

To shore up their Tier 1 capital, banks were allowed to raise a special class of bonds known as AT1 bonds from investors.

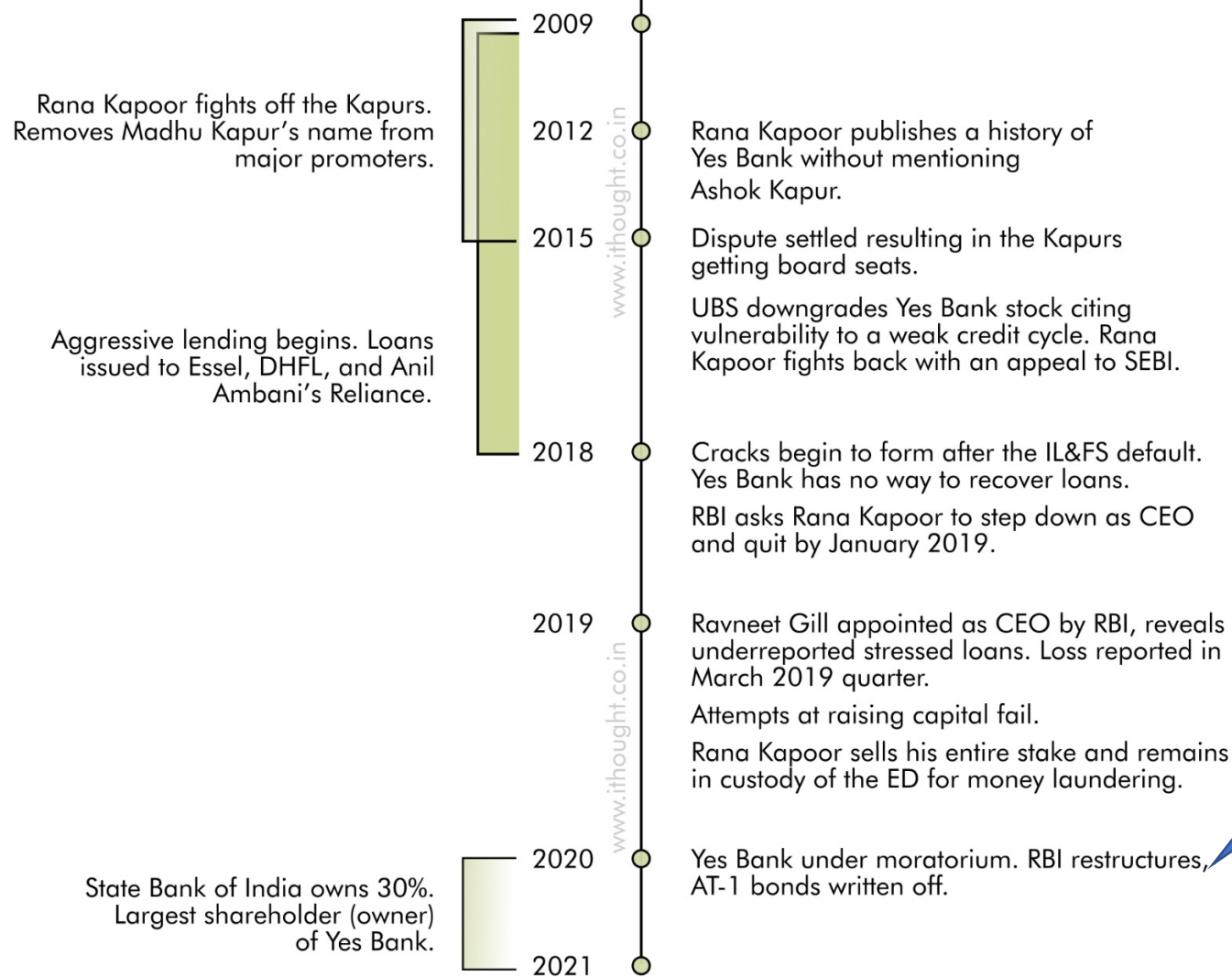
AT1 bonds, like other bonds, pay regular interest. But they do not have a maturity date, as they are a permanent part of the bank's capital, akin to equity.

In practice, however, banks do offer a call option on these bonds after five years, when they may or may not redeem them.

If the RBI believes that the bank is becoming short of capital or unviable to operate, it can direct the principal on these bonds to be written off too.



YES Bank AT1 Issue



Yes Bank officials were guilty of mis-selling these bonds to unsuitable investors such as senior citizens, with institutional investors offloading their bonds to retail clients.

New SEBI Guideline

As the RBI and banks enjoy complete discretion to skip interest payouts, defer the call option or write-off the principal on AT1 bonds, they are wholly unsuitable for retail investors.

SEBI had ruled that AT1 bonds should be sold only in minimum ticket sizes of ₹1 crore and above, to institutional investors.

But older tranches of AT1 bonds continue to trade at lower lot sizes of ₹10 lakh in the market. They are offered to individual investors by brokers, as 'high yield' FD substitutes.



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50 IMPORTANT TOPICS FOR PRELIMS 2023

SCHEDULE

27-03-2023	Monday	Polity	06-04-2023	Thursday	Geography
28-03-2023	Tuesday	Science	07-04-2023	Friday	Economy
29-03-2023	Wednesday	Environment	08-04-2023	Saturday	History
30-03-2023	Thursday	Geography	09-04-2023	Sunday	HOLIDAY
31-03-2023	Friday	Economy	10-04-2023	Monday	Polity
01-04-2023	Saturday	History	11-04-2023	Tuesday	Science
02-04-2023	Sunday	HOLIDAY	12-04-2023	Wednesday	Environment
03-04-2023	Monday	Polity	13-04-2023	Thursday	IR
04-04-2023	Tuesday	Science	14-04-2023	Friday	Economy
05-04-2023	Wednesday	Environment	15-04-2023	Saturday	Schemes

Starting from **27th March** 2023 on YouTube Channel



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