India's Economic Interaction with world

1. Govt raises investment limit in G-secs, bonds by $5 bn

- The Finance Ministry increased the investment limit for foreign institutional investors in government and corporate bonds by **USD 5 billion each**, a move that will **enhance capital flows** and **increase the availability of resources** for Indian corporates.
- The FIIs can now invest up to USD **15 billion in government securities** (G-secs) and USD **20 billion in corporate bonds**. The investment limit in **long-term infrastructure bonds**, however, has been kept **unchanged at USD 25 billion.**
- A notification giving effect to the new FII investment ceilings will be issued by market regulator Securities and Exchange Board of India (SEBI) soon.

Reason for this change and effects in Economy:

- The present enhancement will increase investment in debt securities and help in further development of the government securities and corporate bond markets in the country.
- The decision, which was taken after a review of the macro-economic situation, would enhance **capital flows and make additional financial resources** available to the Indian corporate sector.
- The increase in investment limits became necessary as "...little space was available for further FII investment in G-secs and corporate bonds".
- As against the FII investment ceiling of Rs 43,650 crore in G-secs, foreign institutions had invested Rs 41,253 crore as of October 31, 2011.
- Similarly, in the case of corporate bonds, FIIs have invested Rs 68,289 crore (as of October 31, 2011) as against the ceiling of Rs 74,416 crore.

2. Cabinet nod for 26% FDI in pension sector

- The Cabinet approved changes in the Pension Fund Regulatory and Development Authority (PFRDA) Bill, which will also pave the way for 26% foreign investment in pension fund management companies.
- The PFRDA bill, which has been pending for long, is now expected to be taken up for approval in the Winter Session of Parliament ,the Cabinet decided **there would be no guarantee of assured returns** on pension fund schemes.
- The Parlimentary standing committee headed by former finance minister Yashwant Sinha had asked the government to set the FDI cap in the legislation and had suggested providing minimum returns to pension fund subscribers.

- Earlier, the government had released contours of the bill but had side-stepped the issue of foreign investment limit in the sector to avoid any controversy. Even now, the FDI limit will not form part of the bill but will be included in the revised regulations.
- Several policymakers and experts had backed the idea of allowing 26% FDI in pension fund management companies, similar to the foreign investment norms in the insurance sector.
- The government is of the view that FDI cap in the pension (sector) should be at 26%, at par with the insurance sector. However, it **would like to retain the flexibility of changing the cap of FDI** as and when required and that is why it has not been kept as part of the bill.
- The government has also **rejected the suggestion for providing greater flexibility to subscribers to withdraw funds from their accounts.** "The flexibility of withdrawals from funds under the pension scheme, however, would be tightened. It would be allowed only in case of genuine needs... It would be considered when the need is critical. It will not be allowed for frivolous reasons,".
- The government upheld the panel's suggestion for **greater participation of employees and stakeholders in the Pension Advisory Committee.**
- The PFRDA Bill, if approved, will also pave the way for **conferring statutory backing to the authority** for promotional, developmental and regulatory functions in the pension fund sector.
- The National Pension Scheme, launched in January 2004, has nearly 24 lakh subscribers, mostly those employed by the federal government. Employees Provident Fund Organisation subscribers get 9.5% return on their savings.
- The UPA government has also been trying to raise FDI limit in the insurance sector to 49% from the existing 26% but has met with resistance from Opposition parties. The move has been pending in Parliament for several years now.
- At present, besides the government-run New Pension Scheme, only life insurance companies can offer a pension fund. And 26 per cent FDI is already allowed in life insurance.
- Rolled out in 2004, there are **seven fund managers** (LIC Pension Fund, SBI Pension Fund, UTI Retirement Fund, IDFC Pension Fund, ICICI Pension Fund, Kotak Mahindra Pension Fund and Reliance Capital Pension Fund) managing the Rs 10,773 crore corpus under NPS. These fund managers generated an annual compounded return of between 4.91 per cent and 17.85 per cent till March 2011.
- The government's decision would **allow the seven funds managers to induct foreign partners.** However, the parents of the seven pension fund

managers already have mutual fund businesses where they have foreign partners.

- The decision by the Cabinet, therefore, only lays the ground rule and nothing material beyond that.
- Even, **NPS subscribers will have to compulsorily buy annuity** or the pension income from one of the life insurance companies with the accumulated money under the government scheme. Only life insurers in India can sell annuities.

3. Foreigners allowed to invest in mutual funds

- In an attempt to manage the volatile capital flows, the finance ministry today allowed foreign individuals to invest up to $10 billion in domestic mutual funds.
- The Securities and Exchange Board of India (SEBI) & Reserve Bank of India (RBI) will issue separate notifications to set the investment norms as market regulators.
- At present, besides resident Indians, only foreign institutional investors (FIIs), sub-accounts registered with Sebi and non-resident Indians can invest in mutual funds in India.
- The move will give mutual funds access to more foreign money. The fund industry, however, reacted with caution and said it would wait for the final guidelines.
- The move comes at a time the government is finding it difficult to fund its current account deficit due to volatile capital flows and higher imports. **Foreign retail participation in mutual funds** may address the balance of payments problem by bringing in more stable funds and reducing the dependence on FII inflows, which are volatile.
- The entry of foreign investors may add another Rs 45,000 crore ($10 billion) to mutual funds' assets under management of Rs 7,31,448 crore. Out of this, Rs 1,92,087 crore is invested in equity.
- The new class of investors, called **qualified foreign investors (QFIs),** will be able to invest through the **depository participant (DP)** route as well as the **unit confirmation receipt (UCR)** system, which will involve custodians.
- In the first option, a QFI will open a demat account with a depository in India and buy units.
- In the second option, an investor will place an order with an overseas depository, which will then transfer it to a custodian bank in India for buying the units.

- QFIs can be individuals and bodies, including pension funds. Fund houses will be responsible for deducting tax at source.
- A section of fund managers said the decision to put a cap was premature. "It is not possible for domestic fund managers to sell products overseas given the regulatory hurdles in other countries," said the chief investment officer of one of the top ten fund houses in the country.
- "It will not give a major boost to domestic fund houses. I suspect this route will be used by Indians to bring black money into the country," said an industry veteran.
- The chief executive of a mid-sized fund house said the industry was likely to see a lot of volatility in fund flows, leading to underperformance of mutual funds. He added the decision could impact other investors too.

FRAMEWORK OF THE DIRECT ROUTE FOR INVESTING
* A foreign investor opens a demat account in India
* Places an order to buy MF units directly on the depository participant (DP)
* Remits money directly to DP, which is mandated to report to the custodian on a daily basis
* MF deposits the units according to the investor's instructions in the demat account
* MF units can be sold and foreign exchange remitted by the MF to the DP
FRAMEWORK OF UNIT CONFIRMATION RECEIPT (UCR) SYSTEM
* A foreign investor goes to an overseas depository and hands over foreign currency
* Places an order with the depository to buy units of Indian MFs
* The depository receives cash and remits it to the custodian bank in India, which buys MF units according to the investor's instructions
* The depository issues UCRs against underlying units to foreign non-institutional investors
* UCRs can be surrendered for cash with the depository

4. New FDI Norms

The Government of India has released an updated foreign direct investment (FDI) policy, which will provide greater flexibility to Indian firms to raise overseas capital.

Highlights of the policy are as follows: .

- It simplifies joint venture norms. Now overseas companies will not require an approval of their existing Indian partner before forming an alliance in the same field.
- Indian companies have been allowed to issue equity against import of capital goods and liberalise conditions for seeking foreign investment for production and development of seeds.

- The government has removed the restrictive condition of obtaining prior approval of Indian companies for making investments in the 'same field'.

- Payments made through third parties citing the absence of a bank account or similar such reasons will not be eligible for issuance of shares towards FDI.

- Giving a a boost to biotechnology, pharmaceuticals and life sciences, research and development in these sectors would be covered under the **'industrial parks'** scheme, where 100 per cent FDI is permitted under the automatic route.

- FDI in respect of construction of old-age homes and educational institutions have been eased.

- FDI limit on **FM radio** raised to 26 per cent as against 20 percent earlier.

- FDI has been allowed upto 100 per cent under the automatic route in **apiculture** (bee keeping). The government is bringing more farm areas under the 100 per cent FDI route to encourage investment in the sector.

- The government has already permitted 100 per cent FDI in agricultural areas such as plantation, horticulture, seeds and cultivation of seed cultivation and Mushrooms.

- These measures will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country.

- **Foreign Investment** : Foreign investment is an investment in an enterprise by a non-resident irrespective of whether this involves new capital or re-investment of earnings.

- **Foreign Direct Investment** (FDI): According to the International Monetary Fund (IMF) and Organisation for Economic Cooperation and Development (OECD), the FDI is a category of crass border investment made by a resident in one economy (the direct investor) with the objective of establishing a 'lasting interest' in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long term relationship with the direct investment enterprise to ensure the significant degree of influence by the direct investor in the management of the direct investment enterprise. Direct investment allows the direct investor to gain access to the direct investment enterprise which it might otherwise be unable to do.

5. RBI Limits Banks Equity Investments in Companies

- The Reserve Bank of India has issued draft guidelines to limit banks' equity investments in non-financial subsidiaries and companies in order to ensure that banks do not indirectly engage in activities which are not permissible to them.
- Equity investments in companies engaged in non-financial activities would be subject to a limit of 10 per cent of the investee company's paid-up capital or 10 per cent of the bank's paid-up capital and reserves, whichever is lower.
- A bank's equity investments in subsidiaries and other entities that are engaged in financial services together with equity investments in entities engaged in non-financial services activities should not exceed 20 per cent of the bank's paid-up share capital and reserves.
- The cap of 20 per cent would not apply for investments classified under the 'held for trading' category and are not held beyond 90 days.
- The capping in investments of banks is because RBI fears that banks, through their majority holding in such companies, can exercise control or influence these companies.
- As of now, the Banking Regulation Act allows banks to hold 30 per cent of the paid-up share capital of the investee company or 30 per cent of their own paid-up capital and reserves.
- Also, investment in financial services companies and subsidiary is currently capped at 20 per cent

6.Chaturvedi committee : clearing of Stranded Coal Projects on Merit

- The committee set up the Group of Ministers (GoM) to examine the go and no-go system for coal mining and chaired by Planning Commission Member B K Chaturvedi submitted to report on 12 July 2011.
- The committee recommended that all projects stranded due to the classification must be treated on their merits and cleared sans restrictions if located at the fringes of the forests.
- The committee asked the union environment ministry **to amend its directive mandating developers** compulsorily secure Stage-I clearance as well as facilitate green clearance in a time-bound manner. The committee highlighted that the system of go and no go has no legal sanction.
- The committee questioned the **methodology adopted,** of relying on satellite imagery alone, to determine the go and no go areas. It suggested following the usual procedure that requires Central and State governments to assess the importance of forests through a variety of means.
- The report suggested that the **Forest Advisory Committee** should evaluate coal projects on their individual merits alone irrespective of which side of the classification

they fall. Blocks falling in the marginal forests are to be cleared in the normal way without any restrictions.

- It also suggested **emulating international practices** of permitting mining around dense forest areas with full safeguards. The committee asked the government to explore the possibility of underground mining in such areas.
- The committee also asked the environment ministry to work out measures to allow uninterrupted coal mining operations as a result of the moratorium imposed under the Comprehensive Environment Pollution Index (CEPI). It suggested levying penalties on developers failing to comply with the conditions.
- The committee suggested that the ministries of **coal and environment work** jointly and evolve a strategy to ensure that genuine cases are cleared and also the interests of the tribals be protected.

7. CRISIL launched the First Gold Index in India

- CRISIL launched the first gold index in India on 20th August 2011.The index with a base date of 2 January 2007 will indicate returns given by gold ETFs(Exchange Traded Funds and fund of Funds).**The index is based on the landed price of10g gold in Mumbai.**
- **The gold index was launched to establish a uniform benchmark for instruments (like Exchange Traded Funds and fund of funds),** with gold as an underlying investment. The index will track the performance of gold prices in the domestic market. Currently, there are 11 gold ETFs and three gold FoFs, for which fund house calculate values on their own.
- Also, the gold Index will address a lot of inconsistencies in the market and will give an opportunity to use it as the benchmark for evaluating the performance of various gold products.
- The index value will represent the rupee denominated landed price of 10 grams of gold in Mumbai and the index value for a particular day will be updated on the Crisil website at 8PM in the evening.
- According to CRISIL, the average assets under management (AUM) grew from around RS 1 billion in March 2007 to Rs 60 billion as on June 2011. Globally, AUM of Gold ETFs grew to $100 billion as on June 2011 as against $14 billion in April 2007.

8. Usha Thorat panel presented guidelines on NBFC

Highlights of RBI panel's guidelines on NBFCs

- A minimum asset size of more than Rs.50 crore for registering any new non-banking finance company (NBFC).
- Transfer for shareholding, direct or indirect, for 25 percent and above, change in control, merger or acquisition of any registered NBFC will require prior approval of the Reserve Bank.
- Twin-criterion of assets and income for determining the principal business of an NBFC to be increased to 75 percent of the total asset and 75 per cent of the total income.
- Tier-1 capital for capital to risk weighted assets ratio (CRAR) purpose would be specified at 12 per cent to be achieved in three years.

- NBFCs would be subject to regulations similar to banks while lending to stock brokers and merchant banks and similar to stock brokers, as specified by.
- Risk weights for NBFCs that are not sponsored by banks or that do not have any bank as part of the group would be raised to 150 percent for capital market exposures &? 125 percent for CRE exposures.
- NBFCs would be given benefit under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

9.Economics –Terms to understand

1. **PURCHASING POWER PARITY** is an economic technique used when attempting to determine the relative values of two currencies. It is useful because often the amount of goods a currency can purchase within two nations varies drastically, based on availability of goods, demands for the goods, and a number of other, difficult to determine factors. purchasing power parity solves this problem by taking some international measure and determining the cost for that measure in each of the two currencies, then comparing that amount.

2. The **HYDROGEN ECONOMY** describes a system in which our energy needs are predominantly met by hydrogen, rather than fossil fuels. This type of economy would rely on renewable resources in the form of hydrogen gas and water, drastically changing pollution, electricity sources, infrastructure, engines, and international trade, without impacting our quality of life. In a hydrogen economy, vehicles like cars and airplanes use hydrogen fuel cells for power, rather than petroleum distillates. By conceiving of a hydrogen economy, we are referencing or increasing demand for clean-burning fuels that do not cause air and water pollution nor make us dependent on dwindling energy sources. Its important to see the hydrogen economy as simultaneously addressing several problems with the current state of petroleum reliance. It is motivated by a combination of economics and environmentalism.

   "FOSSIL" FUEL is so named precisely because the fuel, such as coal and crude oil, was created by decaying organic matter millions of years ago. Therefore, it is only renewable on a very long time scale, and can be considers in limited supply. A hydrogen economy uses hydrogen gas, synthesized out of water and electricity, to power motors in cars. It is truly renewable. While the technology of hydrogen fuel cells is still evolving, it addressees the possibility that we will run out of available fuel, one day , we may be filling our tanks at a hydrogen station instead of a gas station
   A second reason the hydrogen economy is so appealing in that it burns fuel cleanly, releasing no pollutants. Our current fossil fuels leave behind many damaging chemicals, such as the greenhouse gas carbon dioxide, and the pollutant carbon monoxide. These raise the global temperature, as well as pose health hazards. If buses, trains, plains and cars ran on hydrogen, they

would never need to pass a smog test, because by products of burning hydrogen are harmless.

Others argue, that the conversion to a hydrogen economy is a way to ensure that control of the U.S economy remains in U.S hands. OPEC, the largest oil cartel, for example has a surprising amount of control over the U.S economy; when they decide to lower oil production, most of the economy is affected. Switching to a hydrogen economy would help to minimize much of this external control. Theoretically, a change in how we produce electricity. Currently, most electricity originates from generators powered by fossil fuels. Transportation machines need electricity to release hydrogen gas from liquid water, therefore the united States would need to double the amount of electricity it generates. Ideally , our electricity plants could also rely on renewable resources, such as nuclear power, solar panels, wind turbines, water dams, and geothermal devices. therefore the hydrogen economy describes drastically different infrastructures, automobiles, electricity plants, and modes of thinking.

3. **PROJECT PORTFOLIO MANAGEMENT (PPM)** is a business tool used to effectively manage a number of portfolios or projects towards an overall objective. Each individual project is created in order to achieve a specific business objective or advantage. They should all benefit the overall project portfolio. The PPM is an umbrella for all of the individual projects.

4. **EIN stands for Employer Identification Number**. Employer Identification Numbers can also be referred to as Federal Employer Identification numbers, tax identification Numbers, ands Federal Tax identification Numbers. An EIN is issued to all corporation established in the US. The EIN is analogous to a Social Security Number (SSN). It is a way for the federal government to examine the status of any cooperation operating inside the US. Any legal document sent to any branch of the federal, and sometimes a state, government requires one to list an Employer Identification Number.

5. **EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION or, EBITDA,** is a measure of a company's cash flow before certain deductions. It allows investors to see how much money a company is making before taxes, depreciation and amortization have been deducted. Basically, when investors place money in a company, they will want to know how much money the company has been making since their money was invested. EBITDA gives the investor on idea of how much money the company has made before its deductions. it is especially useful for a new company who has just started business and has not yet been hit with taxes, payments to creditors, and so no.

   The process of paying off a loan through specifically structured periodic payments is known as **AMORTIZATION.** Amortized loans are different from other loans due to the way the amount and the structure of each payment is determined.

6. An **EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)** is a way in which employees of a company can own a share of the company they work for. There are different ways in which employee can receive stocks and shares of their company. Employees can receive them as a bonus, buy them directly from the company, or receive them through an ESOP.

7. A **MERGER** occurs when two combine to form a single company. A merger is very similar to an acquisition or takeover, except that in the case of merger existing stockholders of both companies involved retain a shred interest in the new corporation. By contrast, in an acquisition one company purchases a bulk of a second company's stock, creation and uneven balance of ownership in the new combined company.

8. **A JOINT VENTURE** takes place when two parties come together to take on one project. In a joint venture, both parties are equally invested in the project in terms of money, time, and effort to build on the original concept. While joint ventures are generally small projects, major corporations also use this method in order to diversify. A joint venture can ensure the success of smaller projects of those that are just starting in the business world or for established corporations. Since the cost of starting now projects is generally high, a joint venture allows both parties to share the burden of the project, as well as the resulting profits.

9. **Special Bonus Benefit Scheme:** It has been decided to introduce a new scheme to provide special assistance to specified sectors for 6 months as special assistance. The support is given to Engineering,Pharmaceutical and Chemical sectors. The scheme would cover 50 products. Some of the major items under Engineering are cast article of alloys steel and stainless steel, hand tools, gas compressors, motorcycles and goods vehicle. The list under chemicals and pharrna include carbon black, potassium iodide, niacin amide. ervthromycin and its derivatives, ciprofloxacine etc.This scheme will be available on exports made on or after 1.10.2011. The scheme would autornaticallv sunset on 31.3.2012.The rate of duty credit is 1 per cent of FOB value of exports.

10. **'Niryat Bandhu' - A Scheme for International Business Mentoring:** 'Niryat Bandhu' scheme for mentoring **first generation entrepreneurs**. The officer (Niryat Bandhu) would function in the 'Mentoring' arena and would be a 'Handholding' experiment for the Young Turks in International Business enterprises. Under the scheme, officers of DGFT will be investing Time and Knowledge primarily to mentor the interested individuals who want to conduct the business in a legal way. Over time, it would be expected to develop a class of businessmen who carry out the international business in an ethical manner.