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ECONOMIC DEVELOPMENT

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1. RBI Monetary Policy

Why in News?

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept the interest rate unchanged in its fifth bi-monthly policy review, citing inflation concerns.

- The current rates:
    - Policy Repo Rate: 5.15%
    - Reverse Repo Rate: 4.90%
    - Bank Rate: 5.40%

Monetary Policy

- Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.
- The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.
- The primary objective of monetary policy is to maintain price stability, a necessary precondition to sustainable growth.
- In May 2016, the RBI Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.
    - Inflation target is set by the Government of India, in consultation with the Reserve Bank, once in every five years.

Monetary Policy Committee (MPC)

- Central Government in September 2016 constituted the six-member MPC under the RBI Act, 1934.
- The MPC determines the policy interest rate required to achieve the inflation target set by the Central government.
    - Government of India notified a medium-term inflation target of 4%, with a band of +/- 2% for the period from August 2016 to March 2021.
    - The inflation target has been fixed in terms of all-India Consumer Price Index (CPI) - Combined, published by the Central Statistics Office (CSO).
- Composition:
    - Governor of RBI (ex-officio).
    - Deputy Governor of RBI (ex-officio).
    - One officer of the Reserve Bank of India to be nominated by the Central Board (ex officio).
    - Three members will be nominated by the Central government. These members hold office for a period of four years.

2. Exchange Traded Fund (ETF)

Why in News?

The Union Cabinet approved the government's plan to create and launch India's first corporate bond exchange traded fund- Bharat Bond ETF.

- This fund will track the index comprising debt securities of Public Sector Undertakings with the highest credit rating.
- Unlike existing ETFs in India, the Bharat Bond ETF will have a defined maturity date just like bonds and fixed maturity plans of mutual funds.
- It is aimed at helping speed up the government's disinvestment programme.

Exchange Traded Fund

- An ETF is a fund that comprises a group of stocks that are listed on an exchange and can be traded like any other listed security.
- The ETFs trading value is based on the net asset value of the underlying stocks that it represents.
- ETFs are essentially index funds that are listed and traded on stock exchanges like regular shares.
- ETFs are traded on the BSE and NSE.

Benefits of ETF

- ETFs allow investors to avoid the risk of poor security selection by the fund manager, while offering a diversified investment portfolio.
- ETFs offer anytime liquidity through the exchanges.
- The fund has a very low expense ratio, which, in turn, enhances the returns for investors.
- An ETF is publicly listed and traded on the stock exchange,this helps investors to know the price of each unit of the ETF while taking a decision about investment.

ETFs vs. Mutual Funds

- ETFs trade offer a degree of flexibility unavailable with traditional mutual funds.
- ETFs are cheaper than traditional mutual funds and index funds in terms of fees.
- ETFs can be bought / sold through trading terminals anywhere across the country.

3. RBI bars ARCs from Bilaterally Buying Assets

Why in News?

The Reserve Bank of India (RBI) tightened norms for Asset Reconstruction Companies (ARCs).

- It has restricted ARCs from buying financial assets from their sponsor firms and lenders on a bilateral basis.
- However, the regulator has allowed the ARCs to participate in auctions of such assets.
- The decision has been taken to make ARCs **more accountable** for their participation in the market and to **diversify the potential investor base** for stressed assets.

What are ARCs?

- An Asset Reconstruction Company is a **specialised financial institution** that buys Non Performing Assets (NPAs) from banks and financial institutions so that the latter can clean up their balance sheets.
- Banks rather than going after the defaulters by wasting their time and effort, can sell the bad assets to the ARCs at a mutually agreed value.
- This helps banks to concentrate on normal banking activities.
- The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 provides the legal basis for the setting up ARCs in India.
    - SARFAESI Act allows banks and other financial organisations to recover bad loans effectively.
    - It helps reconstruction of bad assets without the intervention of courts.
    - However, this is possible only for secured loans. For unsecured loans, banks should move the court in order to file a civil case of defaulting.
- Since the introduction of the SARFAESI Act, a large number of ARCs have been formed and registered with the RBI which has got the power to regulate the ARCs.

4. Pradhan Mantri Annadata Aay Sanrakshan Abhiyan Scheme

Why in News?

Agriculture Ministry data shows that the Government procured just 3% of pulses and oilseeds sanctioned for Kharif 2019-20 under the Pradhan Mantri Annadata Aay Sanrakshan Abhiyan Scheme (PM-AASHA).

- 37.59 lakh metric tonnes of procurement had been sanctioned under the Centrally funded scheme. However, only 1.08 lakh tonnes have been procured.

About PM-AASHA

- PM-AASHA is an umbrella scheme aimed towards ensuring remunerative prices to farmers for their produce.
- It will help protect farmers income.

- It was notified in September, 2018.
- Components:
  - Price Support Scheme (PSS)
    - Physical procurement of **pulses, oilseeds and Copra** to be done by Central Nodal Agencies with proactive role of State governments.
    - National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), Food Corporation of India (FCI) will take up PSS operations in states/districts.
    - The procurement expenditure and losses due to procurement will be borne by the Central Government as per norms.
  - Price Deficiency Payment Scheme (PDPS)
    - It covers all oilseeds for which MSP is notified.
    - There is direct payment of the difference between the MSP and the selling price will be made to pre-registered farmers selling his produce in the notified market yard through a transparent auction process.
    - This scheme does not involve any physical procurement of crops as farmers are paid the difference between the MSP price and sale price on disposal in notified market.
  - Pilot of Private Procurement & Stockist Scheme (PPSS)
    - States have the option to roll out Private Procurement Stockist Scheme (PPSS) on a pilot basis in selected district/APMCs.
    - It is applicable for Oilseeds and involves the participation of private stockist.
    - PPSS involves physical procurement of the notified commodity, thus it substitute PSS/PDPS in the pilot districts.