Kristu Jayanti College

AUTONOMOUS Bengaluru

Reaccredited with 'A' Grade by NAAC | Affiliated to Bangalore University

Department of Commerce (UG)

Limelight 2k16-17

The Ultimatum

Reading Between the Lines

A Threat or a Promise ?

Contents

"It's not enough just to be busy; so are the ants. The real question is: What are you busy about ?"

- Henry David Thoreau

Magazine Contents

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Timeline & Activities

MILESTONES

2017
Declared to be the 9th Best Commerce College in India

2016
Secured the Esteemed National Excellence Award, ASSOCHAM Higher Education Summit

2015
Declared the 16th Best Commerce College in India & The 3rd Best in Bangalore

2015
Introduced BCom with ACCA (Integrated)

2013
BCom Professional introduced, with special impetus for CA & CS

2010, 2011, 2012, 2013
Declared The Best Emerging Commerce College in India

2010, 2011, 2012, 2013
Declared one among the Top Ten, Best Commerce Colleges in Bangalore City

2000- The genesis
The Department of Commerce commences

(All ranks declared as per India Today, Nielsen Survey)

Events Hosted

Jai Hind
Aug 16

Excelsior fest
Aug 25

Yaan fest
Sept 26

Pratibimba Parva
Sept 27

Aug 16

Jai Hind Programme

Soaked in patriotic fervour, the Independence Day brought forth the memories of the sacrifices made by our freedom fighters. Embarking on its essence celebrating the cultural heritage of our land with a host of events and competitions together with Patriotic songs, dances, speeches of our freedom fighters, fashion shows and much more aimed at stirring up the youth for an inner awakening as they gathered in one accord to the service of our nation as the bud of the country's future found a fragrant blooming in the hands of its youth. It was, indeed, a time of culmination where many individually shouldered the responsibility in the revival of India, Thus, fanning the flame and rekindling the hope of the nation.

Aug 25

Excelsior Intra-collegiate Fest

Excelsior is the annual intra-collegiate commerce fest presenting a versatile platform whereby students unleash their latent talents and showcase their skills and expertise.
While the world today is infested with VUCA- an acronym describing the present Volatility, Uncertainty, Complexity and Ambiguity, it gives students the exposure to the intricacies of the corporate world in landscaping the scenario by connect the dots. The theme for the year was "OLYMPUS- Race for Ace" offering its tribute to the foundation of the present day Olympics with the witnessed this year- Best Manager, Public Relations, Entrepreneurship, Marketing, Finance, Human Resource events, Business Quiz, Mock Stock and Travel Guide scenarios, passing on the baton in the economic relay to the next generation of students in the race for the ace.

Sept 26

Yaan Fest

The Yann Fest acted as an opportunity for students to showcase their talents in a multi-cultural and culinary exhibition through numerous food and handicraft stalls highlighting the ethos of many nations all across the globe under the banner of "Unity in Diversity". Being granted the prospect of developing their intellect as future tycoons and their creativity as entrepreneurs, the students each had their own stalls, selling many items of handicrafts, fashion jewellery, curios as well as variety of culinary delights as successful business houses within the campus of the college.

Sept 27

Pratibimba Parva Fest

The quote 'Imagination is the highest kite one can fly' holds true for the kite-flying fest. The spectacular competition still heralds the beginning of a colourful journey to the heights. Just as the eagle soars above the storm, the kite fest embodies the inner quest to reach for the stars, building healthy competition and creativity. Hosted by the tourism sections of the Department in parallel with Yaan, as a festivity of colours raised to the wind, it stood as a symbol of Light and Prosperity- the vision of Kristu Jayanti College, hoisting its flag to the sky.

EVENTS HOSTED

Vanijya Darpan
Jan 20

Adroit
Feb 17

ICIBGSD
Feb 22

Jan 20

Vanijya Darpan

Vanijya Darpan- the annual Intra Collegiate Commerce Exhibition allowing facilitating students to demonstrate and array of talents bringing out their creativity in the application academic knowledge. The premise of experiential learning was formed allowing individuals create real and plausible scenarios seen through the transformation of their live experiences into existing cognitive frameworks, thus causing students to change the way they think and express towards a better learning experience. The students the UG Commerce Department participated in the event, in large numbers with great enthusiasm explaining business models highlighting the evolution of commerce from the traditional barter system leading to emerging trade patterns and openings to new possibilities in the world of Commerce within and far beyond the borders of the nation as a tribute to the India in the Global Financial System.

Feb 17

Adroit Inter-collegiate Fest

Adroit is an Annual National-level inter-collegiate Fest hosted by the Department with the objective of building a conceptual model as a bridge between theory and practice towards imparting the skills of leadership to the students in the handling of different crises, time management between different events and rounds, adaptability in managing between diverse situations, team building through a wide range of synergy bands, communication in presentation and diplomacy in negotiation with complete professionalism in management and interaction. The fest hosted a series of events such as Torch Bearer, Voice of the Ages, Eonian Impresario, Inevitable, Expresso, Horace, Merchandiser and Arbitrager. The participants from colleges across the country, gathered in large numbers and the events saw the competitors wage a tough fight against each other battling for victory under the theme "48 hours- The Future is You"

Feb 22

International Conference on Inclusive Business Growth & Sustainable Development

The ICIBGSD held on 22nd and 23rd February, 2017 was the first two-day international conference hosted by the UG Department of Commerce under the banner of Inclusive Business Growth and Sustainable Development in association with the ACCA and ISDC, hosting over 150 participants from 57 institutions and 14 universities including arts and science colleges, private & Public B schools at state & centre, featuring the works of more than 82 academicians, 13 research scholars and 60 students across the globe as a stage to present as well as publish their respective research papers on several topics under the theme set forth. It was held with the objective of enlightening young minds with the meaning and importance of inclusive business financing and sustainable development for the benefit of the environment, and long lasting progress, to expedite India and the world with citizens who are aware of the current situation and the difficulties faced by the smaller business houses in terms of financing and for sustainable planning towards the better good of the environment and economy on both Indian and Global terms in long-term planning.

Professional Interface Forum

Dec 14

Financial Planning & Investment

Filing of Income Tax Returns

Mar 08

Dec 14

Session on Financial Planning & Investment
Srinivasan Lakshmi Narayanan, Financial Planner, Life Transformers India

The session commenced on the note that nothing is impossible leading on to how even the middle class can save crores of Rupees over just a few years as aggressive investors within a few years without having to be tangled in a web of loan accounts. He worked out the ways commercial banks earn interest when customers take loans such as EMI and explained the methods used by financial institutions on the deposits of retail investors. He clarified that the salaried class could, in fact, buy the same items in less time and without debt simply by dividing and allocating his funds appropriately, following the simple equation of : "Income – Savings = Expenditure", towards planning out the savings of the household by shifting the focus from expenditure to Investment for higher returns even when income earned is constant by trading directly in the stock market or indirectly through mutual funds and other investment portals.

Mar 08

Workshop on Filing of Income Tax Returns
CA Maninder Singh, Tax and Audit Manager

The speaker demonstrated the types of e-filing on income tax returns both with and without the Digital Signature Certificate (DSC) and the steps of verification and revision of the same. He mentioned on the types of Income Tax Returns for different individual persons depending on the variety of sources of their respective incomes highlighting the many aspects and instances of tax planning in the calculation process in filing of returns to lower a person's tax. The workshop described the procedure of Filing, Types of Returns, and requirements of filing returns on the official website without the need of an intermediary from the step of registration and logging in to submission, acknowledgement and verification of filing. He also covered a few basic steps in tax planning to lower the overall Tax Liability of Individuals using the deductions allowed under the Income Tax Rules for students to continue along similar lines in the future.

Guest Lectures

June 21

Session on Financial Planning & Investment
Prof. Mohammed Sajid Khan, Head of International Development, ACCA

Mr. Khan encouraged the students on the path of ACCA stressing on the opportunity in the career prospects and respect in its title as a professional qualification. He also pointed out the flexibility of ACCA as a course and its global relevance in giving practical exposure along with knowledge on the subjects to students to develop their skills as accounting professionals during the course of their study.

July 14

Session on the Importance of ACCA
Mr. Ravindran Balakrishnan, ACCA & CIMA

The session made mention of the general aspects of ACCA and it's benefits to international business also, emphasising the importance of ethics in the organisation as an Auditor. Mr. Ravindran spoke about the areas of accounting which include-Management, Finance and Statutory Accounting in terms of the monetary benefit to the organisation and the stock market.

Aug 03

Career prospects in Tourism and Hospitality Industry
Prof. Vijayakumar Shivaraman, Oman Tourism College

The speaker emphasised the essential qualities of tourism professionals and the diverse prospects of Tourism and Hospitality Industry and its impacts on the home economy. He further discussed the various impacts of Tourism Industry with the students towards familiarising the students with the importance and scope of their career opportunities in Tourism and Hospitality industry in India and across the globe.

Feb 03

Investor Awareness in Stock Trading
Mrs. Merina Jose Kanjikal, Resource Personnel, BSE-IPF

The session threw light on trends in stock and share trading processes along with the precautions required to be taken related to fraud and insider trading. The speaker went into the interpretation of market trends with reference to sudden changes in stock prices made by panic sales as well as gradual changes in prices varying actively with economic variables as their intrinsic value.

Future Prospects of ACCA
June 21

Importance of ACCA
July 14

Career prospects in Tourism & Hospitality
Aug 03

Investor Awareness in Stock Trading
Feb 03

STUDY TOURS

June 21

Study Tour to Hampi

A four day study tour where students were taken to the city of Hampi in North Karnataka, to visit the ancient temple ruins from the times of the Kingdom of Vijayanagara, understand the historical significance of its tourist sites and its architectural relevance to the culture and practices of people in that era, showing the students the riches of the city while it was once the richest cities and one of the largest trade centres in the world. The tourism students of the department had the opportunity to study this UNESCO world heritage site as a part of their curriculum and skill development activity.

Feb 10

Field Trip in South India

A five day trip to the various monuments and temples across South India, with the main focus on creating awareness among students regarding the cultural heritage of the land presented in various palaces and temples across the four states as the evolution of their culture from the pre-independence to post-independence age. The students had the opportunity to study the ancient architecture, trade and fine arts in the culture of South India presented in many tourist areas including temples, aashrams, palaces, national parks and other heritage sites.

Feb 24

Natural Tourism in Tamil Nadu

The week of natural tourism in the Tamil Nadu organised with an intention to introduce various historical and natural tourism resources of the state to students state to apply theoretical knowledge of what was gained in class room lectures into practice towards better understanding the natural equatorial environment in Tamil Nadu. The tour was at the meeting of the Western and Eastern Ghats with the Nilgiri Hills, making it the state an ecological haven for students to study the historical relevance, architectural sites and the rich heritage of Tamil Nadu as a state and Tamil as a classical language, apart from the region's natural landscaping.

June 21 — Study Tour to Hampi

Feb 10 — Field Trip in South India

Feb 24 — Natural Tourism in Tamil Nadu

Business Affairs

The Indian Ideal

GOODS & SERVICES TAX

THE GAME CHANGER

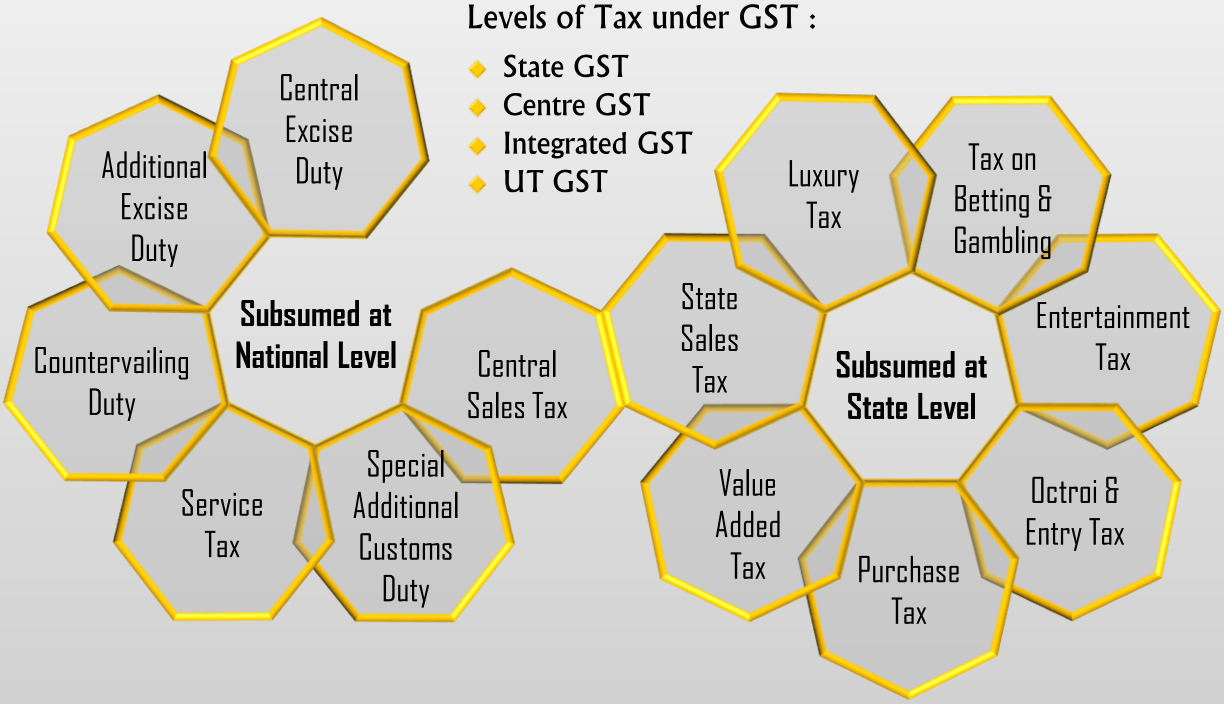
GST is a single unified indirect tax for the supply of goods & services, for the whole nation towards making India a common market applied on July 1st. It allows for taxing all parties right from the manufacturer to the consumer based on the value added and the increase in price per stage for what is traded.

OPERATIONAL CHANGES TO BUSINESSES

- Business firms and their accounts departments now have dealings with only one transparent authority instead of the four authorities of VAT, CST, Excise Duty and any other Countervailing Duty for Tax Payment and Credit on a monthly basis. This makes their transactions with the Government for indirect taxes far simpler.
- The procedure for filing GST on stock is simplified and digitalised. This makes it far easier for many business firms to pay tax on goods sold and permits companies to claim input tax credit seamlessly between different suppliers.
- Since filing on GST returns can be done only online, the whole process can be completed through an accounting software at both ends of the payment so that there is no possibility of human error in the calculation and payment of the tax on goods sold.
- GST allows for the a seamless flow of goods and services across the country between different states developing the national market in allowing business firms to claim a seamless tax credit as paid by the supplier and thus prevent cascading of taxes paid, including on sales and purchase returns treated as sales and purchases.
- It provides a uniformity of tax rates across five different slabs for goods and services rather than different rates for different products by State and Centre. However, cess is chargeable on certain super-luxury goods.
- In general, the cost of many necessary and essential goods used by common man will be lowered under the GST regime while the rich would bear the burden. It would also allow exporters the advantage of competitive pricing in the international market.

Levels of Tax under GST :

- State GST
- Centre GST
- Integrated GST
- UT GST



MSME SMALL BUSINESSES

- Since GST is filed online, and even small firms have to maintain inventory regularly and file the same on a monthly basis. Having the whole process digitalised would involve a cost of about ₹1 lakh a year for the maintenance of a computer with an internet connection, the basic software needed for GST and the salary to a paid accountant for inventory maintenance and tax filing.
- The capital costs of the infrastructure required to digitalise the whole inventory and accounting process would be an additional burden to the businessman if he doesn't already have a computerised database.
- If the firm is already registered under VAT, he would not incur excessive expenditure in registering under GST and If any firm is not registered under GST, it becomes less competitive as a seller that input credit cannot be claimed by his dealers and also less profitable as a business that it pays the whole amount of tax instead of claiming tax credit on what suppliers paid.
- The benefit of MSMEs registering under GST is that their business becomes more competitive in this regard and even the ₹1 lakh of compliance cost will be compensated in claiming input tax credit and the competitiveness of the business firms against the unregistered firms.
- In the past, Input Credit on VAT could be claimed by business houses if they themselves paid VAT on the value added by them, but now, GST Input Credit can be claimed by the firm only if the supplier has paid GST for his part.
- Therefore, it prevents leakage of tax in the value chain by ensuring that input tax credit is claimed only where the tax is paid on the previous transaction, thus giving the onus of tax collection to business firms themselves as inspectors of their own suppliers.
- It acts as a leveller between Larger and Smaller Enterprises that previously those firms with turnover of ₹1.5 crore now to those below ₹20 lakh turnover are exempt from VAT or excise duty.
- There is a lower cost and price of goods and services leading to less inflationary pressure in the economy. Even now CPI is at 1.54% under GST for the month of June 2017.
- The increased economic activity through GST and it's prevention of leakage in the value chain will increase GDP and Employment towards increased economic activity and investment, also worker as a boost to the 'Make in India' campaign.
- The GST Suvidha Provider (GSP) appointed by the GSTN (GST Network) to integrate with the indirect tax infrastructure and develop a digital and online interface for taxpayers to interact directly within the network, ensuring assistance and clarity to the business firms, allowing for more efficient and effective implementation of the new indirect tax by the Government of India.

Credits of taxes paid on inputs at each stage are available to the next dealer in the subsequent stage of value addition, so that the net payment obligation of each dealer is only the tax on value added to the goods/services. The final consumer thus bears only the GST charged by the last dealer in the supply chain, which would set off the benefits received by every preceding dealer including the manufacturer and suppliers.

Pre-GST Stock

- The question of unavailability of CENVAT Credit on pre-GST stock with dealers tends to create a lot of commotion among business houses. However, to the benefit of customers with pre-GST sales, excessive discounts even to the lowest profit margin. This would only show that the manufacturer hasn't paid Central Excise, or that the firm doesn't have the invoice stating the same, which would otherwise allow them to avail 100% credit of CENVAT on pre GST stock irrespective of whether or not they themselves are registered under central excise.
- The Central Excise Invoice is the invoice having prescribed particulars in terms of Central Excise Rules stating that Central Excise Duty has been paid on the goods manufactured. Such an invoice would have been issued within 12 months immediately preceding the date of GST implementation.
- Allowance is still given even if they are not in possession of the 'Central Excise Invoice' to claim credit at 40% of the CGST applicable on supply of pre GST stock within six months only after payment of CGST or IGST.
- Presently most storage depots, warehouses, consignees and agents of many manufacturing companies are yet not registered under Central Excise. Therefore their distributors will be not be eligible to claim 100% credit of Central Excise duty on pre-GST closing stock. They will be entitled to input tax credit to the extent of only 40% of CGST paid because they would not be in a possession of the Central Excise Invoice showing payment of Central Excise duty.
- A dealer in possession of the Central Excise Invoice will be allowed credit on the stock where he has already filed form 'GST Tran-1' within sixty days of GST implementation. The businessman will have to specify the details of stock held on the date of GST implementation. However input credit will be allowed only after CGST is paid on the supply of such stock, allowed only upto a six month period with a statement in 'Form GST Tran' at the end of each of the six tax periods during which the GST is in operation indicating the details of supplies of such goods effected during the tax period for which the stock is sold or held.

GST Rates

- The slabs for GST are exemption at 0%, with rates at 5%, 12%, 18% and 28% on more than a hundred categories of goods and services depending on their consumption patterns as per how they vary between necessities to essentials to luxury's.
- More than 80% of the categories listed fall under the 18% and less rates to benefit the common man.
- The prices of necessities and essentials remain within 12% while luxuries are at 28%, some with cess added even upto 40%.
- Reverse Charge has also been introduced with GST on certain demerit goods so that the dealer or receiver of the goods is equally liable to pay tax on the item at a stated rate, just as was implemented in case of service tax under the previous regime.
- Under SGST, the Central Government has assured the compensation of loss in revenue, if any, to the states for the first five years GST implementation under the proposed GST (Compensation to States for Loss of Revenue) Bill, 2016.

CHALLENGES

- The long-standing bubble of Globalism is now on the verge of collapse, affecting Foreign Investments, International Trade and the Integration of India with the Global Economy with the onset of Protectionism in the global economy set by Brexit and Trump administration.
- The US Federal Reserve's intention to increase policy rates in 2017, may lead to lower capital inflows and higher outflows from the emerging economies by decreasing the value of the rupee against the dollar.
- Uncertainty around commodity prices, especially that of crude oil, has implications for the fiscal situation of emerging economies, along with India's self-inflicted setbacks of Demonetisation.

ACHIEVEMENTS

- Inflation is brought under control. CPI-based inflation has declined from 6% in July 2016 to 3.4% by the end of 2016, and to 2.2% this quarter.
- The Economy has moved on a high growth path with India's Current Account Deficit declined from about 1% of GDP last year to 0.3% of GDP within the first half of 2016-17.
- FDI grew by 36% in Q1 2016-17 over 2015-16, despite 5% a reduction in global FDI inflows while Foreign exchange reserves have reached 361 billion US Dollars by January.

FISCAL POLICY

- The government has moved forward on its attempt of fiscal consolidation without compromising on public investment, hoping for better implementation of Budget Policies.
- Total expenditure is ₹21,47,000 crore with primary focus on capital expenditure, which will be at 25.4 % over the previous year 2016-17.
- Total resources being transferred to the States and the Union Territories with Legislatures is ₹4.11 lakh crores, against ₹3.60 lakh crores in the previous financial year 2016-17
- ₹3,000 crore will be allotted to the Department of Economic Affairs, Ministry of Finance for the implementation of the Budget, including expenditure for science and technology is ₹37,435 crore.
- Fiscal deficit for the current year 2017-18 is 3.2% of GDP, and aimed to reach the recommended 3% for the next three years, keeping in mind the sustainable debt target and need for public investment towards economic development.
- Revenue Deficit of 2.3% of last year 2016-17 stands reduced to 2.1% in the Revised Estimates. The Revenue Deficit for next year is pegged at 1.9% , against 2% mandated by the FRBM Act.

Buried under the tonnes of sheets of Budget documents, is the Government's first formal acknowledgement about ISRO's two new bold sojourns to Earth's immediate neighbours where it will drop off a full load of 104 satellites on a single mission to Venus and Mars.

FINANCIAL SECTOR

- More than 90% of the total FDI inflows are now through the automatic route with further liberalisation under consideration reaching $3405 million in May 2017. The Foreign Investment Promotion Board (FIPB) has successfully implemented e-filing and online processing and will now be phased out from the year 2017-18 for the RBI to begin building FDI policy.
- A Bill relating to curtail the menace of illicit deposit schemes with and without KYC norms complied will be introduced relating to resolution of financial firms in the current Budget Session of Parliament, the stability and resilience of our financial system.
- Commodities markets require further reforms for the benefit of farmers. An expert committee will be constituted to study and promote creation of an operational and legal framework to integrate spot market and derivatives market for commodities trading to benefit the primary sector leading to fairer prices.
- The focus on resolution of stressed legacy accounts with non-performing assets of Banks yet continues to this year. The legal framework has been strengthened to facilitate resolution, through the enactment of the Insolvency and Bankruptcy Code, 2016, and the amendments to the SARFAESI and Debt Recovery Tribunal Acts, the government hopes to make the banking sector more profitable and encourage growth of credit security.

Realty Stocks in the Indian Industry surged with affordable housing having attained the Infrastructure Status with Tax Benefits in this year's Budget along with the provisions granted by the Real Estate (Regulation and Development) Act, 2016.

TRANSPORT INFRASTRUCTURE

- An allocation of ₹39,61,354 crore is made for infrastructure. For the transportation sector as a whole, including rail, roads, shipping, provision of ₹2,41,387 crores has been made in 2017-18 as capital and development expenditure of Railways at ₹1,31,000 crores.
- Tariffs of Railways would be fixed, taking into consideration costs, quality of service and competition from other forms of transport. The Railways will focus on four major areas of Passenger safety, Capital and development works, Cleanliness and accounting reforms.
- Besides seed capital from the Government, the Railways will arrange resources from their own revenues and other sources towards a better network.
- Budget allocation for highways is increased from ₹57,976 crores to ₹64,900 crores in 2017-18. 2,000kms of coastal connectivity roads have taken for construction and development facilitating connectivity with ports and remote villages.
- A specific programme towards the development of multi-modal logistics parks, with multi modal transport facilities, will be drawn up and implemented towards making the economy more efficient in the transport of Goods.
- It is proposed to feed about 7,000 stations with solar power in the medium term. A beginning has already been made in 300 stations. Works will be taken up for 2,000 railway stations as part of 1000 MW solar mission.

AGRICULTURE & RURAL DEVELOPMENT

- The Government is now committed to doubling the income of farmers in the next 5 years and has initiated many steps towards making this a reality.
- NABARD has been authorised to provide credit targeted at ₹10 lakh crores for this year along with a 60 days interest waiver on the loans through Primary Agriculture Credit Societies.
- The Fasal Bima Yojana launched by the Government is a major step towards providing Insurance for Farmers. The coverage of this scheme will be increased from 30% of cropped area in 2016-17 to 40% in 2017-18 and 50% in 2018-19 for which the budget provision is 13,240 crores.
- A Long Term Irrigation Fund has already been set up in NABARD with a total corpus of this Fund to ₹40,000 crores. A dedicated Micro Irrigation Fund will be set up with the bank to achieve the goal of 'per drop more crop' with an initial corpus of ₹5,000 crores.
- A model law on contract farming would also be prepared and circulated among the States for adoption as well as the waiver of loan for many indebted farmers.
- The Government will attempt to bring one crore households out of poverty and to make 50,000 gram panchayats poverty free by 2019. This mission will work with a focused micro plan for sustainable livelihood for every deprived household.

NATIONAL BANK FOR AGRICULTURE RURAL DEVELOPMENT

NABARD

- The Government has made a conscious effort to reorient MGNREGA to support the resolution to double farmers' income in India. While providing at least 100 days employment to every rural household, MGNREGA should create productive assets to improve farm productivity and incomes including the participation of women in MGNREGA up to 55%.
- The government proposes to complete the construction of 1 crore houses by 2019 for the houseless and those living in undeveloped and thatched huts, stepping up the allocation for Pradhan Mantri Awaas Yojana Gramin from ₹15,000 crores in the previous year 2016-17 to ₹23,000 crores in 2017-18.
- The Pradhan Mantri Gram Sadak Yojana (PMGSY) is now being implemented as never before towards connecting different villages in India and is committed to complete the current target under PMGSY by 2019 with the allocation of ₹19,000 crore for the year.
- The Government is well on the way to achieving its target of 100% village electrification by 1st May 2018. An increased allocation of ₹4,814 crores has been proposed under the Deendayal Upadhyaya Gram Jyoti Yojana to achieve the same in this financial year 2017-18.
- Swachh Bharat (Gramin) made tremendous progress in promoting safe sanitation and provision of drinking water under the National Rural Drinking Water Scheme.
- The Government will continue to work closely with the farmers and rural areas towards improving life and environment. The total allocation for the rural, agriculture and allied sectors in 2017-18 is ₹1,87,223 crores, which is 24% higher than the previous year.

DEPARTMENT OF COMMERCE

INCOME TAX REFORMS

- The net tax revenue of 2013-14 was ₹11.38 lakh crores. This grew by 9.4% in 2014-15 and 17% in 2015-16. As per the year of 2016-17, The government will end the year with a high growth rate of 17% for the second year in a row, especially during the Income Declaration Scheme, 2016 and Demonetisation. Due to changes in policy of the Modi Government, the rate of growth of advance tax in income tax in the first three quarters of the 2016-17 was 34.8%.
- While the Government is trying to bring within the tax net more people who are evading taxes, the present burden of taxation is mainly on honest tax payers and salaried employees who file their returns correctly. Therefore, post-demonetisation, there is a legitimate expectation of this class of people to reduce their burden of taxation. Also an argument is made that if a nominal rate of taxation is kept for lower slab, many more people will prefer to come in the tax net.
- This budget has reduced the existing rate of taxation for individual assesses between income of ₹2.5 lakhs to ₹5 lakhs to 5% from the present rate of 10%. This would reduce the tax liability of all persons below ₹5 lakh income either to zero (with rebate) or 50% of their existing liability. In order not to have duplication of benefit, the existing benefit of rebate available to the same group of beneficiaries is being reduced to ₹2500 available only to assessees upto income of ₹3.5 lakhs. The combined effect of both these measures will mean that there would be zero tax liability for people getting income upto ₹3 lakhs p.a. and the tax liability will only be ₹2,500 for people with income between ₹3 and ₹3.5 lakhs.
- In order to make good some of the revenue lost on account of this relief, The Government has decided to levy a surcharge of 10% of tax payable on categories of individuals whose annual taxable income is between ₹50 lakhs and ₹1 crore. The existing surcharge of 15% of tax on those earning more than ₹1 crore will continue as before. Which is, in fact, likely to generate an additional revenue of ₹2,700 crores to the Government.

For businesses with a turnover of less than ₹50 crore, the applicable tax rate has been brought down to 25% from 30%, which would bring significant relief to medium and small enterprises, especially those lost in the informal economy hit hard by demonetisation. However, there has been no such relief granted for larger corporates.

INCOME FROM HOUSE PROPERTY

- From this year 2017-18, the deduction under loss from house property as interest loan to is reduced merely ₹2 lakh, while the remaining unabsorbed loss from house property can be carried forward for 8 years instead of the 10-15 years that it would otherwise take to pay back the interest on house loan considering regular cash inflows of an individual under regular circumstances.
- Also, tenants are now required to deduct TDS at 5% of rent paid where rent is above ₹50,000 a month. If the landlord is unwilling for such an provision for TDS to be deducted from what he would receive, it is likely that finding houses for rent will be more difficult, leading to part payments in terms of cash to reduce tax liability thereby, contributing the to parallel economy.

The Government continues focussing on the early reporting of the income by the tax payers to facilitate revenue assessment for prompt the decision making. Working towards this objective, Finance Minister Arun Jaitley has been proposing changes in the income tax law with respect to various aspects of filing of the income tax return by individuals and HUFs.

- So far, the Income Tax Act has provided that where a person was required to file his income tax return under Section 139(1) but failed to do so by the end of the assessment year, the ITO could levy a penalty of ₹5,000, after giving adequate opportunity to listen to the assessee's side of the story. However, now there is a mandatory fine to be paid under self assessment in filing of the income tax return without having to wait for any communication from the assessing officer. The amount of fees would rest on on the quantum of delay and quantum of your income.
- In case the income exceeds ₹5 lakh per annum, the assessee will have to pay a fee of ₹5000 if the income tax return is filed beyond 31st July but by 31st December of the assessment year. For filing the return of income beyond that but within the 31st of March it will be a fee of ₹10,000. The amount of fee, however, would be restricted to ₹1,000 in case taxable income does not exceed ₹5 lakh for the year.
- Prior to the amendment of Section 139 by last year's Finance Act, an assessee was not allowed to revise his income tax return against any errors noticed later unless the same was filed before the due date. So you could revise income tax return even if the original return was filed by the due date, within a period of one year from the end of the assessment year or by the completion of the assessment, whichever is earlier. The finance minister has now proposed to cut back the time limit permitted for revising it by a whole year such that now a person is allowed to file his revised return by the end of the year only.
- So technically, the time limit for filing and revising the original Income Tax Return remains the same. This will apply for the income tax returns to be filed for the assessment year 2018-2019. So, for example, where a person files is original return for the assessment year 2018-2019 on 31st March 2019 so it cannot be revised beyond 31st March, 2019 itself.
- After the linking of Aadhar card with the PAN Card made compulsory for filing IT returns under the rule of Finance Minister Arun Jaitley, the government has even greater access to the personal details of citizens with regard to their incomes in addition to what was already made known to them under KYC norms by bank deposits, especially applicable to those made during the demonetisation period made mandatory to report such transactions for assessment year 2017-18.

There is now a new provision to enable a secondary transfer pricing adjustment made to an MNC's income to recalculate profit at arm's length price of goods and services provided including loans. This reallocation of income is now not only with the Indian subsidiary, but with regard to the foreign parent company as well. Its done with an upward primary adjustment to the Indian firm's income, which results in higher taxes in India. However, the adjustment adversely affecting the cash flow of MNCs themselves.

THE WHY- CASHLESS TO DIGITAL

- The government has longed to crackdown on counterfeit currency producers on a massive scale. Making a sudden announcement of removing them from the status of legal tender, the government made sure not let those with black money stored in cash get away or forgers by bringing in the forged currency into circulation. A sudden announcement brought huge losses to these people and also to various terror outfits which can be said to be a huge victory for the country !
- Prime Minister Narendra Modi aimed to hit at the black money flooding the shadow economy of the country, which was perceived to be at about 23% of the transactions of white money in the country that every 5th transaction is in black money.
- With high denomination bank notes used as a means of storage of unaccounted wealth evidenced by large recoveries made by law enforcement agents in different parts.
- The CBI made a soft estimate that black money of India is around ₹25 lakh crore, equal to the size for the Indian Government to execute two year's budget without any tax or borrowing, or the investment in the infrastructure sector for the entire Eleventh five year plan.
- Pure cash is used as a mode of payment in illicit transactions and financing of unlawful activities due to their non-traceability, so the Government, thus, intended hit the core of the parallel economy.
- The second intent of demonetisation is the presence of counterfeit money to the value of ₹400 crore. Now, 250 of every million notes said to be fake yet, are increasingly difficult for most people to recognise.
- Going into demonetisation as a decision against money laundering in the country against corruption, the Government has considerably disrupted the operations of many such parties.
- Another reason cited by the notification is against counterfeit money used in drug trafficking and terrorist financing, as an initiative of the Government.

THE EXCHANGE

- Specified notes could be exchanged up to ₹4000 for any other Denomination of Bank Notes with the deposit of specified notes allowed to an unlimited extent credited to depositor's or third party account, except where KYC compliance is incomplete, the maximum transfer allowed was only ₹50,000.
- OTC withdrawal was permitted to ₹10,000 per day and upto ₹20,000 per week while withdrawal from ATMs were permitted upto ₹2,000 per day upto 18th November, and later raised to ₹4,000 from 19th November for exchange and withdrawal.
- However, there were no restrictions on non-cash or electronic methods of transfer between different account holders.
- A grace period was allowed above the first limit of December 31st, upto March 31st 2017 for residents who were not able to deposit their savings during the 50 days, and upto June 30th for non-residents.
- Commercial Banks were shut down from other business activity on 9th to prepare for exchange from 11th onwards with their ATMs shut down on 9th and 10th of November to prepare to dispense money to the public.

POSSIBLY COUNTER-PRODUCTIVE

- Considering a 90% cash economy suddenly going digital at the onset of 86% of it's currency value ceasing to be legal tender would seems one of the most incredible things that the Government could do.
- Bearing in mind that the Government which calls itself an 'Aam Aadmi Sarkaar' hardly mourned for the loss of more than a hundred of its citizens who passed in the hardships of demonetisation, not only outside banks in long queues, but since essential services refused to accept old currency notes in exchange for services, the state governments were led to give compensation to the families of those affected while the Centre looked forward to the 'Greater good of the Country' in the wake of events.
- Most of the black money from India isn't even kept in the country, let alone in cash, apart from land and jewellery. Demonetisation didn't have any effect on the 95% of black money stored in Swiss and other foreign bank accounts.
- Up to 97% of the demonetised bank notes have been deposited into banks which have received a total of ₹14.97 lakh crore as on December 30 out of the ₹15.4 lakh crore that was demonetised. This is against the government's initial estimate that ₹3 lakh crore would not return to the Indian financial system.
- Further more, the decision of invalidating high denomination notes of ₹500 & ₹1000 only to introduce a ₹2000 note would indeed be counter-productive to the long-term economic objectives of the decision.
- The fact that the Demonetisation drive was known to many ministers in advance draws substantial speculation from the public that some corrupt politicians actually got to keep their ill-gotten gains while most of the public lost out on theirs.
- Economic growth and many economic activities were stunted and halted in November and continued sluggishly afterwards while the World Bank's estimates of India's GDP had fallen from 7.6% to 7.1%.
- The practical aspects of cash shortages, disruption to general banking work and the long queues while the RBI hadn't yet printed sufficient notes in time brought economic figures further down.

INTEREST RATES

- With unproductive cash brought back into the Indian Financial System, Investments can now be made in Commerce and Industry towards rebuilding the economy after demonetisation.
- The deposits made into banks during the demonetisation period have now given high liquidity to banks as savings in the organised financial sector building up the banking industry after its disruption.
- Now that supply of money for the bank has exceeded it's demand, the interest rates on deposits are brought down.
- When interest rates on deposits are brought down, the banks can grant credit at a lower rate.
- This credit will be invested in economic activities towards boosting India's GDP and creating more employment.
- With the increase in economic activity, the disinflationary cash crunch will have only short-term effects in the country.
- The government's investments will also increase with the RBI's Statutory Liquidity Ratio required from banks having increased.

PAYMENTS

- With no restrictions on bank deposits and stringent limits on exchange of currency notes, the country was forced to move onward to the next stage of electronic money with payments made with electronic fund transfers and other bank account transfers.
- The growth of payment wallets had increased drastically with Paytm taking the lead right from small time shopkeepers to the Delhi and Mumbai Metros.
- With the decrease in Black money, there has been considerable moderation in currency circulation within the country leading to short-term deflation.
- With banks having high liquidity with deposits with high supply of money to them, the RBI is better fit to implement monetary policy and set credit rates at what is beneficial for growth.
- During and after demonetisation, there has been creation of Bank Accounts in Rural Areas under the Pradhan Mantri Jan Dhan Yojana for rural integration in micro-finance.
- The payment and settlement system in India has been improving steadily under the RBI with greater trackability in transactions, and this time, demonetisation has given a boost to the financial system.

GOVERNMENT REVENUE

- Contrary to the CBI's expectations, 97% of demonetised currency did, in fact, re-enter the financial system through deposits in Assam, Repayment of loans, Purchase of luxury goods, Illicit agents and other methods.
- From the very onset to the end of the Income Declaration Scheme, 2016 the government's tax revenue had steadily increased. However, this time, the government's income as the RBI's dividend is from the scrapped notes which were never redeemed.
- The revenue that the Government received from demonetisation has allowed it to reduce income tax rates for the first slab against the infrastructure for the implementation of GST.
- It has also facilitated a lower budget deficit under Fiscal Responsibility and Budget Management Act, 2003 to a mere 3.2% of GDP as opposed to over 4 years ago% .
- The Government exceeds it's 2016-17 tax collection target, revenue jumps by 18%. The Direct tax mop-up grew 14.2% at ₹8.47 trillion with Net personal income tax collections after refunds grew at 21%.
- The Government is also able to spend a greater sum on economic and social infrastructure from the amounts that were recovered after demonetisation as the currency not exchanged.

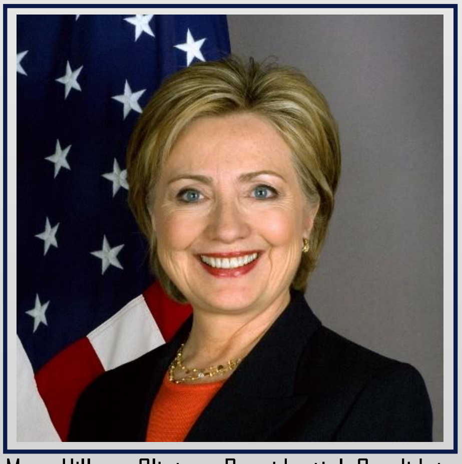
The fact of the matter is that there is no such alleged shortage of financial resources in India, the problem only lies in where the money is placed, stored, invested and what it is used for even in Government agencies. The Income Declaration Scheme, 2016, now extended to September, 2017 was the predecessor to the government's plans to claim its black money from the public- the warning of a last chance before the unclaimed became worthless altogether !

The Trump Triumph

Make America Great Again

On the 8th day of November, 2016, Presidential candidate Donald Trump was elected to the Oval Office by less than 58% of the nation. He assumed office on January 20th, 2017 on the fulfilment of a pledge to Make America Great Again.

- Even allowing for the probability that celebrity simply beat substance, Trump had two major facts about the American electorate working in his favour. The first being that most Republicans would vote for him simply because they didn't want Hillary to be their president, and the second that the swing voters who ultimately decide who will win the general election tend to be low-information voters anyway.
- As a brash and unpredictable candidate, Trump positioned himself as an agent of change using Clinton's extensive experience in the White House against her by citing it as evidence that she would stand for to carry on the status quo.
- Many of the votes for Trump were actually votes against Clinton's policies of war against Iran, to stop the US from entering an era of wars against terrorist nations. FBI director Comey's letter regarding Hillary's email correspondence on a private server further set off voters against her, that she might have exchanged secret and confidential information.
- Trump hit at what the US electorate wanted most, along the lines of the preceding Brexit, towards reduce immigration and get their jobs back from China and India.
- The dare to slash US' role in the NAFTA and possibly renegotiate its place in the WTO as well showed his electoral college his seriousness in making the nation great once again and in keeping it that way.
- Turning to build a great wall of America, separating Mexico, preventing and deporting illegal immigrants builds further on Trumps personal brand as a builder, a man of action aimed at solving America's problems in overhauling the system rather than merely patching it up.
- Trump's populist rhetoric and open contempt for civility and basic standards of chivalry enabled him to connect with the Republican base like no other candidate since Ronald Reagan. Trump didn't play by the normal rules of politics, and his voters loved him for it.
- In an effort to make popular his nativism and expand protectionist policies he campaigned with the words 'Buy American, Hire American' towards building faith in the American Dream in a Government of the people, by the people and for the people towards the greater good of the nation.
- Trump proposed slashing tax rates for businesses to 15% from the current 35% for public corporations, and 39.6% for small businesses, and also to reduce individual income tax rates from the present seven tax brackets to just three with rates of 10%, 25% and 35% as well as granting a wider standard for deductions.
- Trumps campaign was targeted to working classes besides the first four voting states, Iowa, New Hampshire, South Carolina and Nevada, Trump rallied mainly in the South with scattered rallies in the Northeast and Midwest, converting the Blue states to Red as a pro-middle class person.



Mrs. Hillary Clinton, Presidential Candidate and Former Secretary of State

MAKE AMERICA GREAT AGAIN

Immigration

- He is aimed at cracking down on skilled worker visa abuse and forcing US government agencies to hire domestic workers and so, Trump introduced a bill for the minimum income limits of the H1-B guest worker visa to be doubled to $130,000, more than what the parallel American worker would be paid, so that companies would discourage outsourcing and expatriate cheap labour for American jobs and build the job market supply in The United States.
- He intends to build a wall along the Mexican border and deport 11 million unauthorised immigrants, prevent entry of illegal drugs, and lower crime rates in the southern states. Trump suggested building solar panels along the wall to create energy so that the wall would be a source of revenue and pay for itself since the US met stiff resistance in getting Mexico to pay for the construction of the wall.
- Trump now enforces an executive order Protecting the Nation from Foreign Terrorist Entry into the United States as a Radical Muslim ban preventing immigration from countries with a Muslim-majority- Iran, Iraq, Libya, Somalia, Sudan, Syria and Yemen as well as blocked the entry of Syrian Refugees, towards preventing the entry of threats into the country that their soldiers fight overseas.

The Buy American and Hire American executive order signed on April 18th, 2017 is aimed at cracking down on skilled worker visa abuse and compelling US Government agencies to give preference to domestically produced products to the utmost potential.

H1-B Visas

- Trump bet his whole campaign on the idea that popular hostility to liberal immigration and free trade policies would propel him to the White House.
- The Government wants to have strict audit and a counter-checking clamp down on fraud or misuse of the visas earmarking 20% of small and start-up employers including the removal of country-wise allotment towards ensuring equitable distribution. The department of labour insists that Firms hiring H-1B visa holders need to make an effort of good faith to recruit Americans first if not, itself cracking down on outsourcing companies that import workers for temporary training and then send them back home to do the same job.
- The order raises the bar for foreign guest workers used by US and Indian companies to do work that American workers were thought to be unable to do, taking aim at filtering out poorly-qualified, low-skilled workers that flood America's economy substituting its own citizens.
- The US grants 85,000 temporary visas including H1-B annually to high-skilled foreigners with 65,000 hired from abroad and the rest from among foreigners enrolled in American colleges.
- Indians are by far the largest recipients of these visas, having the Chinese in a distant being second with 70% in 2015 allotted primarily to the Indian IT industry.
- Technology companies in whose activities are outsourced from the USA, primarily India, are now amidst of a massive restructuring drive to downsize their firms since the visas would not be applicable to many of their employees.

DEPARTMENT OF COMMERCE

Make America Great Again

Trade

- He also pledged to scrap the USA's role in bilateral and multilateral free trade agreements where they affected the domestic industry adversely without benefits to counteract the import of goods.
- He even promised to revoke the NAFTA, that once paved the way for the creation of high-paying export-related jobs and strong economic growth throughout North America, but now leads to high imports for the US, affecting the domestic industry and taking production away from American citizens.
- Donald Trump sees the WTO as a disaster that more 70,000 factories in the US have closed and shifted to East Asia since China joint. Furious at the Chinese industry's taking over of American manufacturing at lower costs, Trump is willing to go as far as revising USA's terms of membership in the WTO.
- He sneered at the United States being the world's largest steel importer, importing 30.1 million metric tons from Canada, Brazil and Asia despite its being merely 1% of the total goods imported. He wanted to bring the coal jobs back rather than having to continue importing coal from South American states.
- However the protectionist bark may not hold much of a bite, since America itself has been strengthened over the years by Global trade and has only been a part of the global supply chain rather than actually heading it with many of America's MNCs manufacturing in developing economies.

Working Classes

- Trump wanted to stop the outsourcing of American jobs affecting the domestic industry and increasing unemployment rates to even 10% in 2009.
- It was also about blue-collar jobs that had been outsourced to manufacturers and insourced with both skilled and unskilled labour. Trump was speaking to the blue-collar market, which has been underserved by politicians both theoretically and in fact. He wanted to stop guest visas from being abused.
- A lot of his policies are aimed towards improving the lives of the lower and middle classes although there are possibilities of his even repealing Obamacare. Trump won his majority by implementing many of the Democratic policies in a Republican Government.
- After being elected with the promise of overhauling the existing system of increased costs of living and terrible inequality, Trump has played into frustrations among many Americans over their sense of financial insecurity, he has been working towards a massive tax reduction for working and middle-income Americans and eliminating income for the low-income groups, while ensuring that the rich pay their fair share.

Behind the 'Make America Great Again 'cap was the story of a factory shutting down planning to move its operations to China, before Trump came in to save the day. He tasked the firm with manufacturing the caps to be produced domestically- 100% Made in America as the core concept of his campaign towards resurrecting the Lost American Dream to build the country reaching its former glory.

With India

Make America Great Again

During his presidential campaign, US President Donald Trump famously declared 'I am a big fan of Hindu. I am a big fan of India.' Did he mean it or was it merely superficial campaign rhetoric with 2.7 million Asian Voters in New Jersey ? The question now is as to whether the India would really have a big friend in the White House as Trump trumped while they roll out the red carpet for PM Modi working towards a strong Asia-Pacific Partnership.

Guest Worker Visas

- The immediate concern for India with the 'Buy American, Hire American' executive order was the upgrade of the H1-B guest worker visas doubled to $130,000, which is more than what the parallel American worker would be paid. With more than 65% of these visas being allotted to Indian IT professionals, especially Infosys, most Indian employees working as cheap labour would henceforward no longer qualify for their ticket to a better life in American soil and cheap labour imported for the company.
- Many tech companies in Silicon Valley tend to hire Indians in technical roles either directly or through outsourcing firms. Critics of the H-1B system have long said that the system was set up for companies to exploit and hire low-wage foreign workers in place of Americans. Now Trump has revamped it from a random lottery to a merit and seniority based allotment going to the most skilled and highly paid applicants hired to by firms that would not use it to replace Americans.

Trade with India

- With the US' largest trade partners being Canada and Mexico, India is a distant 9th in place of trade volume, however their trade account with the South-east Asian giants is a deficit. Increased trade protectionism in the United States would hurt Indian exports to the west including pharmaceuticals, textiles and auto-products, and even jewellery. Yet, given India's domestic demand-driven economy as well as a high demand for these products in other western nations, the impact of US trade policy would be relatively low compared to other trade-oriented emerging markets.
- The United States Trump administration could be a very difficult trade partner for India to work with, despite the US' presently being the largest investor in the country and India's second largest trade partner after China.
- With India's exports to the US at more than $46,000 million and exports from the US at $21,500 million, the US' deficit of Indian Trade stood at about $24 thousand million last year as its 9th largest trade partner under an open skies agreement in 2005 leading to better air connectivity. Trump's objective is to change those figures for India and China towards completely removing the deficit of trade with these nations.
- Without any agreement on free trade or any hope for such an arrangement under the Trump administration, there are high import customs between the two countries along with multiple trade quotas, restrictions and other non-tariff barriers, thus preventing favourable market access or potential to either country.
- India is, in itself, not a part of the Asia-Pacific Economic Co-operation (APEC) but has recently shown interest in being the next ideal member, allowing other economies to benefit from its wide market and robust supply of labour towards increasing foreign investment within India, including from the USA.

MAKE AMERICA GREAT AGAIN

NUCLEAR AGREEMENT

- The Indo-US civil nuclear deal is expected to figure during talks between PM Modi and Trump, for an agreement between the Toshiba-owned Westinghouse and the Nuclear Power Corporation of India Ltd (NPCIL) to build six nuclear power reactors in Andhra Pradesh hoped to be completed.
- When completed, this was to be the first operational of the India-U.S. civil nuclear deal announced in 2008. The nuclear arrangement hinged on the completion of the India-Japan Nuclear Co-operation Agreement, as Toshiba and other suppliers for reactor parts are bound by Japanese laws and by the actual contract to be negotiated by the White House.
- However, Westinghouse Electric, itself filed for bankruptcy protecting in March, thus leaving the deal at a standstill, unlikely to be completed within the next 3 months, when, in fact, it was deemed to have been completed over two years ago.

THE GAME PLAN

- India could either be the USA's Trojan horse to Asia against the rise of the Chinese economic and military superpower and the treat of Pakistan's terrorism, or be its donkey in Donald Trump's 'America First' goal. This time, India's fate lies in the hands of PM Modi.
- From the very 1st day of his term, the Trump administration has steered towards greater trade protectionism, a tougher stance on immigration and called for a reassessment of U.S. foreign policy positions which raise concerns about the impact they will have on other countries, particularly among emerging markets.
- Since the Trump administration is keen on bilateral treaties instead of multilateral trade deals, it may be a tangible outcome if the two largest democracies in the world set their sights on negotiating a bilateral investment treaty, considering that America is already the largest Investor in India, who is working towards a greater ease of doing business.
- On the other hand, it paves way for India as an emerging economy, to enjoy the benefits of globalisation when a superpower like America makes deliberately puts itself in isolation.
- India is fundamentally in a strong position due to sharply lower fiscal and current account deficits since the taper tantrum in 2013, lower inflation over the recent years and better sustainable growth prospects on account of continued productivity enhancing reforms instituted by the Modi Government. Considering the prevalence of equity over debt flows to India, it should be able to cushion the impact of a strong dollar or higher bond rates in Washington while India continues to develop as an economy taking advantage of Globalism even while Britain and America retract from it.

After several slashes of war against Iran, Afghanistan, Russia, North Korea and ISIS and recovery from its recession,America has made its choice in voting for Trump to enter a period of nativism, a respite before the next major episode. The Trump administration is not the cause of America's attitude to a global retreat, rather a mere symptom of it, and an agent of change stepping in to make America great again.

The Brexit Breakdown

IMMIGRATION

- As per European Union policy, EU citizens are allowed mostly free mobility between EU countries. The problem of immigration was recognised by Britain decades ago, but was intensified with the entry of Turkey into the EU. Brexit campaigners had portrayed a multitude a Syrians crossing the border into London city calling upon feelings of racism from inflow of refugees and fears of rise in crime for Britain to raise its own flag high.
- The blame of a nearly 9% unemployment in 2012 was on immigration that other EU nationals had taken the jobs available in both high and low skilled job requirements for lower pay, while it was also related to the repercussions of the global recession as a reflection of the global market.
- The high immigration from low-income countries in Europe was held responsible for the higher cost of social security to British citizens, when, on the contrary, the taxes and other charges received from immigrants had contributed to a lower cost on social security, which brought down the actual amount paid by citizens for better services as well as development.
- Furthermore, the dread of citizenship and citizen rights being granted to EU nationals and thus having political and economic policies set in favour of the European Union and naturalised citizens rather than citizens having their innate right to their very own soil, left a lasting impression against EU nationals in the minds of many British citizens.

The factors involved in Brexiters decisions as a whole emerged from the continuing apprehension of their residences, work environments, mobility of labour, social and economic infrastructure, being adversely affected by high immigration of more than 3 lakh a year forming nearly 0.5% of their population and growing further.

WORKING CLASSES

- After the deregulation of the Labour Market in UK, there was an great absence of job security among working classes. With the much corporate downsizing during the great recession, unemployment was at more than 5% in the beginning of 2016 with the build-up of decentralisation and privatisation.
- The availability of cheap labour from other EU nationals to British firms with the country as a part of a single labour market brought greater fear among British workers that their jobs would continue to be claimed by immigrants.
- In many parts of the UK, where both the Government investment and private business spending were low without sufficient economic infrastructure to support much commerce, trade and industry, the vote in favour of Brexit was higher. Therefore, it was generally held that high immigration is directly related to the level of poverty and unemployment faced by British residents.
- With a 10-year high 5% inflation during the great recession, low investment and high unemployment in the UK, the British were trapped in poverty, for which immigrants were ultimately held responsible.
- The working classes finally revolted with Brexit as their weapon of choice, to leave European economics and reach back to what had always worked out for them- the prototype to the upcoming POTUS.

Economic Polices

- Having to be a part of the customs union brought many restrictions upon the country from drafting its own laws on trade outside the EU as well as enforcing free trade with other EU states, removing Britain's autonomy to set its own trade laws and foreign policy in this regard.
- With the UK's trade policies having to coincide with the European Union's multilateral trade agreements, the current account deficit was at 5.2% of GDP, the highest deficit among developed countries. Having to be a part of the European Common Market claimed its price on Britain's Pound bringing it to the value of €1.1 from a €1.5 average over the years.
- With a weak monetary policy to support this level of BOP deficit, during the financial recession, the European Economic Community adopted fiscal austerity in reducing Government expenditure during the great recession and thereafter, which adversely affected UK's economy while, Britain instead wanted to support quantitative easing to build up the economy after the 2008 recession.
- The greater instability of credit during the global crisis led to the downturn of many major banks in the UK, including the Government bailout of Northern Rock, Lloyds TSB and The Royal Bank of Scotland, while the Bank of England, UK's central bank cut interest rates even further to fix the economy, and encourage credit extending the existing £50 billion Special Liquidity Scheme to £200 billion, while a further £250 billion was pumped in under a bank debt guarantee scheme, all towards reducing the savings-investment gap against the financial downturn.
- While Brussels continued to engulf the UK's funds through various membership fees, loans and donations; the UK itself was in dire need of funds to recover its financial markets and continue public investment and build up the economy.

Major Renegotiations with the EU

- The deal created an emergency brake mechanism allowing a member state to limit access to in-work benefits for new EU immigrants upto four years of their residence in the UK, as opposed to the existing rule permitting an EU immigrant to claim the social security benefits which are granted to a UK national including Jobseeker's Allowance, Child benefit or Child tax credit. This was however, not likely to considerably reduce the inflow of EU nationals to England and Wales.
- The right to issue a Red Card to Brussels to revise any law would be allowed a member of the EU council with the support of 15 other member states. It would not act as a single veto, since EU lawmakers still be able to press forward if the concerns raised where they are deemed to have been addressed reasonably.
- The UK was to be exempted from any law forming an even closer union in terms of trade, economics and politics, as per its own discretion, also allowing them to object to laws passed against their interests as non-Eurozone members.
- The internal dynamics of Conservative Party politics could push Cameron to demand the unobtainable and so derail the renegotiation, yet Britain fought against it and risked it all in the renegotiation, with the higher hand of Britain during the Euro-crisis with every ill-tempered emergency summit called.

In 2016, the UK Government paid £13.1 billion to the EU budget, as its fourth largest contributor after Germany, France and Italy, while the EU's spending on the UK was forecast to be a mere £4.5 billion making their support estimated at about £8.6 billion as £35 million a day to the EU, which could well be spent on economic and social infrastructure of Great Britain's own citizens, rather than the support of the EU.

- With the UK Independence Party having campaigned to leave the EU for many years before the referendum, and Former Prime Minister David Cameron during the UK General Election, 2015, having promised for a renegotiation with Brussels regarding Britain's terms of membership, and a referendum of whether or not to remain with the Union thereafter, the cards were set for negotiations to be made.
- With the continuation of the European Debt crisis, the renegotiations were finally signed on February 19th, 2016 by David Cameron and Donald Tusk towards forming a Union with a greatly detached Britain, which would have led to the further disintegration of the Union with its other top contributors, if executed with Britain's stay.
- As on October 2015, there was an officially recognised cross-party group campaigning for Britain to remain a member, called Britain Stronger in Europe while on the other hand, there were two groups promoting exit which sought to be the official Leave campaign: 'Leave EU' (supported by most of UKIP, including Nigel Farage), and 'Vote Leave' (supported by Conservative Party Eurosceptic).
- The UK government's official position under the leadership of David Cameron, a signatory of the renegotiation with Brussels, was to support the remain option, since renegotiations were reasonably in favour of the UK's membership.
- Nonetheless, Prime Minister David Cameron granted his ministers and MPs the freedom to campaign as per their own discretion in the interest of the UK. In an exception to the usual rule of cabinet collective responsibility, PM Cameron allowed cabinet ministers to campaign publicly for EU withdrawal despite their own Government working toward the very opposite.
- Despite the controversial campaign to remain in the European Union, on 23rd June, 2016 the United Kingdom, on a national turnout of 72% of the electoral college for the United Kingdom European Union membership referendum, 2016, voted by 51.9% to 48.1% to leave the European Union and thus, rejected the terms of a modified membership agreement, due to which the changes in the EU were never implemented, in fact, for the better benefit of the EU.
- David Cameron then gave his unpredicted resignation from the office of Prime Minister on the 13th of July, 2016 thereby, making way for his successor in the Party, Theresa May to step in to draft the Brexit blueprint for the nation, negotiating terms with Brussels, since no contingency plan of Brexit had been drafted even until then.
- The European Union (Notification of Withdrawal) Act, 2017 passed in March granted the UK Government to give the official notice to Brussels under Section 50(2) of the Treaty of the European Union in less than 140 words, and so it was done by the new Prime Minister.
- With UK general elections held on June 8th, 2017 the Conservative party won majority allowing Theresa May to hold in her post in completing Brexit negotiations through their Brexit Secretary David Davis starting discussions on June 19th with the European Union's chief diplomacy agent Michel Barnier both working towards a soft Brexit for the better good of all Europe and the rest of the world.

NEGOTIATIONS WITH THE EU

- Britain yielded to the EU on the opening day of the Brexit talks, June 19th,when it agreed to settle its divorce, defining the rights of 3 million EU nationals in the UK, starting from June 19th before trying to negotiate a future trade deal. In a major defeat, Brexit Secretary David Davis was forced to drop his central demand for the two rays of Brexit negotiations to be staged in parallel, within hours of arriving in Brussels.
- Europe may offer soft Brexit and let UK stay in Single Market, if done on the jurisdiction of the European Court, thus allowing Theresa May to fulfil her pledge to end its jurisdiction while also meeting the EU's requirements of the UK, just when the cabinet was nearly divided over whether to adopt a softer jobs-first Brexit slant, or pursue the Prime Minister's tough immigration-centred strategy which, eventually, failed to win the Conservatives a Commons majority, in the 2017 general elections.
- For the EU, Brexit is its worst and most apprehended break-up: discussing the terms of the divorce first, then the relationship where they could still be friends. The EU has long said that the UK will not be allowed to start trade talks until it agrees an outline deal on citizens' rights, money and the matter of the border of Ireland as a part of Brexit.
- The Great Repeal Act will be passed on the conclusion of Brexit towards repealing all EU laws adopted by Britain under the European Communities Act, 1972 and enforce certain EU laws by their own sovereign power. This would conclude Brexit as it comes into force in terms of citizen rights and trade. Thus, the rights of EU nationals living in the UK would finally be lost unless granted independently under Brexit or the UK itself.

SILK ROUTE TO BYPASS THE UK

- With Britain's change in trade patterns and the EU to begin charging import duty on UK goods, as well as the Transatlantic Trade & Investment Partnership as a bilateral agreement to be worked out with Trump, Europe will be able to wean itself of the UK by expanding its trade network between its own emerging markets and developed countries in the continent itself.
- Even with Brexit, the UK is not America's and the world's only passage to Europe. America's trade with the rest of Europe itself is 5 times more than with Britain alone, giving the impression that the US doesn't stand in need of the United Kingdom- money or influence.
- The trade between Asia and other EU countries itself leads to a deficit of trade for the EU with greater imports than exports even without the UK, in more than merely crude oil and other rough commodities.
- With China's 21st century Silk Route Belt and Road Plan expanding to Europe and heading west thereafter, the UK's role is almost negligible besides its own bilateral agreements.
- With the loss of free mobility of EU nationals in the UK, companies would hesitate to invest or remove investment from there to other EU nations, affecting employment as well.
- With 50% of UK exports by value are delivered to other European trade partners as a part of EU multilateral agreements. With their imports from UK falling, India and other Asian countries would be the most likely beneficiaries.

Exchange Rates

- In a market that buys the rumour and sells the fact, Brexit's hit fell hard on the Pound pulling it down by 15% to a 31 year low to 1.1, thus bringing inflation to 2.3%, further lowered by the thoughts of a second Scottish Independence Referendum. However The pound has jumped to €1.140 after dipping to €1.131 before the Queen's speech at parliament.
- The English Stock Market FTSE 100 crashed at the onset of Britain's uncertainty in Global Finances, but is now has risen by about 100% from that date, working towards a full recovery from Brexit ridding itself of the thorn of Europe.
- The Bank of England lowered bank interest rates to boost economic activity during the time of the campaigning and after Brexit, but has now raised the rates once again to stimulate investment and production
- With the EU's disappointment in the Brexit referendum as the loss of its fourth largest financer, the Euro also fell against the dollar, yet is on the way to recovery.

Strategic Outcome

- With America now on the verge of losing its trojan horse passing through the gate of Europe, it would now looks for a stronghold in Europe through Germany and France and in Asia through India as its rival against the rise of the Chinese superpower and spread of terrorism.
- With the UK having shaken off its shackles of trade restrictions from the European Common Market, it is free to form its own trade policies with various non-European countries, including India. With the UK facing an uncertain future within Europe from a business perspective, relationships with other markets are gaining attention.
- UK contributes a mere 2.36% to world GDP with its exports mainly to the duty free EU market. With its clamp to the rest of Europe now having lost of its grip, it turns its hopes to the United States as a trading partner through the proposed Transatlantic Trade & Investment Treaty as a partnership with the west.
- However, since Trump in his American nativism seeks to protect his economy from imports as far as possible, Britain is likely turn from the US to Asia's own India and China in building a Trade & Investment Partnership within the Asian bloc with India already as the third largest investor in the UK with over 800 companies established.
- India has a greater scope in Europe for trade and investment as an emerging market now that the UK is seen to have resigned from its European and Global economics, while Britain also has many investors in India under the Make in India campaign and even prior to the entry of the Modi Government.

Brexit has now opened the EU's dormant Pandora's Box of the grudges that its members have held against its practices for decades now. Macron and Marine both say that EU must reform or face 'Frexit' from it's second largest contributor. Since France, wishes to regain its territorial sovereignty as a nation, should there be a Frexit, we would be welcoming back the Franc as Government debt reconverted from the Euro.

Overview of

Operational Independence

of The Reserve Bank of India

- Prof. Geentajali Patel
- Prof. Preethi S J G

"The central bank needs to be able to make policy without short term political concerns"

- Ben Bernanke

Operational Independence

First reported in Livemint

One of the post-demonetisation concerns by many of those who stood against the decision is about the autonomy and institutional integrity of the Reserve Bank of India (RBI). They are blaming the RBI for giving up to the government's dictate and surrendering its independence. While assessing the autonomy of the RBI, it should recognised that RBI is not a pure monetary authority but as a central bank, is responsible for several other functions too.

Operational independence is the autonomous capacity of a central bank to pursue its objectives without intervention or pressure from third parties. It is not a binary variable but a matter of degree and a high degree of operational independence is difficult to achieve. Operational independence exists when no one can tell the central bank what to do.

Central bank independence is usually assured by legislation and the institutional framework governing the bank's relationship with elected officials, particularly the minister of finance. In India the RBI Act provides for operational independence to RBI. But, the RBI is not constitutionally independent, as the 1934 Act governing its operation gives the government power to direct it. The government appoints the central bank governor and four deputies. The Governor of RBI appointed by the Central Government for a term not exceeding five years is eligible for reappointment. The Central Government has powers to remove the Governor as per Section 11(1) of the RBI Act which does not provide for any reasons for removal. The present Act does not specify the reasons for which the Governor can be removed. The law also does not place any obligation on the government to make the reasons for removal public.

"The Central Government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest," the Act says. Technically, the government is also permitted by the Act to supersede the central bank if it believes the RBI has failed to carry out its obligations. RBI is so constituted and financed that its autonomy and independence are not diluted.

It conducts effective supervision and oversight without facing any limitations and is able to raise the required resources therefor. The Central Government, however, reserves the right to issue directions to RBI from time to time in public interest. There is no indication of industry intervention in its operations and there is no limitation in procurement and organising the resources needed for carrying out its obligation.

Present Scenario

The RBI has now moved into a new phase of monetary policy formulation. With the PM Narendra Modi government demonetising high-value banknotes in November, RBI began facing questions not just on its autonomy but also on its competence. RBI's employees' union and former governors joined the debate, expressing alarm over the dent to the institution's credibility and autonomy. In such an environment, criticism of the Monetary Policy Committee (MPC) must have been like the proverbial last straw on RBI's back, forcing a response from the powers-that-be at the central bank, even if the response was couched in typical central bank speak.

The debate over the independence of RBI may have been rekindled only in the recent past, but the debate is as old as the central bank itself. The concept of an independent central bank for India "on a level of authority with the treasury" was first spelled out by one of the greatest economists of the 20th century, John Maynard Keynes. But Keynes's wish for an independent RBI did not amuse the legendary chief of the English central bank, Montagu Norman. Norman was quite blunt in his assessment of how RBI should be structured, and proclaimed "a Hindoo marriage" between the Bank of England (the dominant spouse) and RBI (the subservient wife), whereby in return for formal advisory services, RBI was to yield to the Bank of England the right to determine the disposition of its funds.

Mr. Anand Chandavarkar, who served as an economist with RBI's research department, observed that RBI was in fact more independent in the British Raj than in the post-independence period. As RBI assumed quasi-fiscal mandates in order to fulfil plan targets set by the powerful Planning Commission, it became an "emasculated fiscal agency", in his words.

In the post-liberalisation period, RBI regained a semblance of autonomy, partly owing to the chemistry between successive finance ministers and RBI governors, as one of RBI's official historians, T C A Srinivasa Raghavan, notes in his latest book, "Dialogue of the Deaf: The Government and the RBI".

As India opened itself up to the global economy, and the notion of having an independent central bank became part of conventional economic wisdom in the West, the RBI too began to enjoy greater clout, and significantly greater autonomy than before. The end to the automatic monetisation of the fiscal deficit under Governor C Rangarajan, supplemented later by the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 helped RBI gain greater operational autonomy outside the Government of India, atleast for the time being, in theory.

> This phase ended after the great crash of 2008, as successive governors since then allowed the government to wrest back the autonomy RBI had begun enjoying in the post-liberalisation era.

Renovation vs Reconstruction

Economists have long argued that interference by the government in the functioning of the central bank could lead to low interest rates and stoke the fires of inflation. Governments driven by electoral calculations could, for instance, favour lowering of interest rates just before elections to provide a short-term boost to growth even if it comes at the cost of long-term inflation. Thus, there is a risk that monetary policy would become volatile, and lose credibility and effectiveness.

Chandavarkar, in his essay, had argued for a new commission that would re-examine the role of RBI in independent India, and suggest ways to give constitutional protection to RBI's autonomy, and legislate a federal structure for the bank with representation from different regions, which may be impacted differently by monetary policies.

Legislating autonomy can also work only when the Indian economy does not have as much fiscal dominance as it has today. As the economist Ignacio Mas of the World Bank argued in a 1994 research paper, simply proclaiming central bank independence without imposing fiscal discipline might lead to a "game of chicken" between the central bank and the government. In such a scenario, the central bank will try and raise interest rates to discourage fiscal profligacy by the government, while the government will continue to spend and borrow, testing the central bank's resolve to raise interest rates for monetary policy towards economic growth.

Legislating autonomy in an economy such as India is also difficult as a large part of the banking system is state-owned and functions under the directions of the finance ministry. If RBI is at loggerheads with the ministry, and the finance minister is unable to remove the RBI governor, it is possible for him or her to frustrate the efforts of RBI through directives issued by the banking division of the finance ministry.

How autonomous RBI would become in the near or distant future will depend not just on how and who is appointed governor, but also on how it is decided, to iron out these institutional wrinkles, before it becomes too late.

Tolerance and Respect for Economic Progress

The eternal question of why India's tradition of debate and an open spirit of enquiry is critical for its economic progress was answered by former RBI Governor Raghuram Rajan in his speech to an assembly of college graduates in a plea for tolerance within the nation.

The bulk of economic growth did not come from putting more factors of production such as labour and capital to work. Instead, it came from putting those factors of production together more tactfully, that is, from what he called total factor productivity growth. Put differently, new ideas, new methods of production and better logistics are what lead to sustained economic growth. But more intelligent ways of working will enable the country to leapfrog old methods and sooner reach the production possibility frontier, just as the software industry. Once society is at the frontier and using the best methods in the world, the only way to grow is to innovate and be even better than others in the world. This is what our software firms are now trying.

What this rules out is anyone imposing a particular view or ideology because of their power. Instead, all ideas should be scrutinised critically, no matter whether they originate domestically or abroad, whether they have matured over thousands of years or a few minutes, whether they come from an untutored student or from a professor.

The Government sets the long-term objectives of the economy upon which the Reserve Bank builds the framework of its policy. It comes to far more than hiking and lowering interest rates to deal with inflation and supply of money. The freedom of the RBI to take these decisions lies in consultation with the Ministry of Finance of the Central Government.

Where the Government sets a target and gives the RBI a target to enforce, then it is the Government's part to stop second-guessing how the RBI is to do it and let them perform it in their best judgement. To do anything less than that and to continue to instruct the RBI how to do it would be trespassing on their domain and undermining the fact that it is the Reserve Bank's job to perform it. Undertaking anything more than setting the objective and giving guidelines would only bring the Government to redouble its effort while losing sight of its goal.

It's the job of the central bank to take of measured risks as a necessary evil to promote economic growth in the long-term. Policy making is about deciding in the face of uncertainty, after weighing the alternatives as best as one can. There is always a need for Macro-economic Stability. Growth is good, but growth with stability is better, especially in a developing country where so many people live at the margin. For the RBI, it means ensuring growth does not exceed its potential, adopting prudential policies that reduce our risk, and building sufficient buffers that the country is protected against shocks.

Buying The Rumour

and Selling The Fact

> "One of the greatest things about the stock market is that every time one person buys, another sells, and both think they are astute."
>
> - William Feather

Buying The Rumour & Selling The Fact

Investors who try to profit from breaking news must answer this one question: How many other have already capitalised on the news? This core element is related to insider trading and asymmetric information based on the fact that the news may not have spread completely. Once a critical number of investors have already traded on the news will be considered baked in the cake and no longer essential information.

When an existing company creates hype about a new product, new management or any other new and material development, that the market will receive it and that its industry will be revolutionised or atleast changed, even slightly for the better or worse, The stock trends higher for a few weeks where the news is presumed to be positive, right up until the details of the new product are revealed and until its release into the market and the reaction of consumers is witnessed by the stock market.

One of these cases will come to play when it comes down to the wire and the product is finally brought to the consumer market, for the profitability of the firm to be shown in the market price:

i. The product is announced, and the market reception is great. However, the stock still sells off since many investors were planning on hitting the exits as soon as details of the product were released, because they know that it's smart to 'buy the rumour, sell the fact'. Moreover, it is nearly impossible for the product announcement to live up to the hype that it created, so the stock sells off.

ii. On the other hand, if the product announcement is underwhelming, short-term investors sell as well. Not a good thing- the worst case scenario for a company.

iii. The product unveiling is a massive hit, and investors pile into the stock because the product is so revolutionary, sending the stock even higher. This is a pretty rare occurrence.

What happened hence, in these cases, is that the market had played itself out. The investors relied on the news even before the event took place. Supply and Demand for the stock took place as per the prediction assuming that it had already come to pass.

Speculators and other stock traders buy on the rumour, they treat forecasts prepared by economists and analysts as though the event had already happened, precisely as predicted. In the sense that they 'build in' the forecast to the price, creating the very high on the price bar that the onset news would in itself produce on the price of the stock.

To sell on the fact relates to the outbreak of the event itself. The market sometimes gets the seeming paradox of a price reaching a new high immediately prior to the event and falling lower immediately after it, even when the news matches the forecast. The lower price comes about because the early birds take profit on the up move that they themselves engineered. The new low is usually short-lived. In any case, the forecast was for good news and the good news occurred, so the news was properly built in and the new high is the appropriate price.

News traders would rely on short-term reactions drive the market in a particular direction and can look at historical data to predict how future news can affect prices.

If the news is much better than forecast, though, traders don't take profit because better-than-expected news draws in new players and sends the price higher still. Then the early birds are positioned to make even better profits. If the news fails to match expectations, traders and investors alike sell, and the dip may turn into a longer-lasting price drop.

Demand & Supply

Whatever happens in buying and selling determines the prices of the stock. Assuming the stock market to be a perfect capital market, the prices of corporate stock are determined by their demand and supply. Where the demand for the share rises, the price of the share rises against the demand. When the supply, even when new stock may be issued, of the stock in the market is high, the price of the stock falls since there is insufficient demand against the supply to support the previously high price if the rumours surrounding the project do not bring about a rise in price by the news.

The demand for a company's shares or floating bonds is determined by the profit that investors expect to receive from it in the form of dividend or capital appreciation. When the company performs well or is expected to perform well, investors expect a higher profit and thus a higher return on the investment in either form. So investors buy the stock leading to higher demand for the stock against its supply since investors who own the stock would continue to hold them in hope of capital appreciation. Thus, the rise of demand against supply leads to an increase in the price.

In an investor driven market, prices of the stock are determined by the actions of market traders, including speculators. When news is published about the company or insider information leaks away or public speculation plays its way into the company, investors expect it to have either a positive or a negative effect on the profitability of the company.

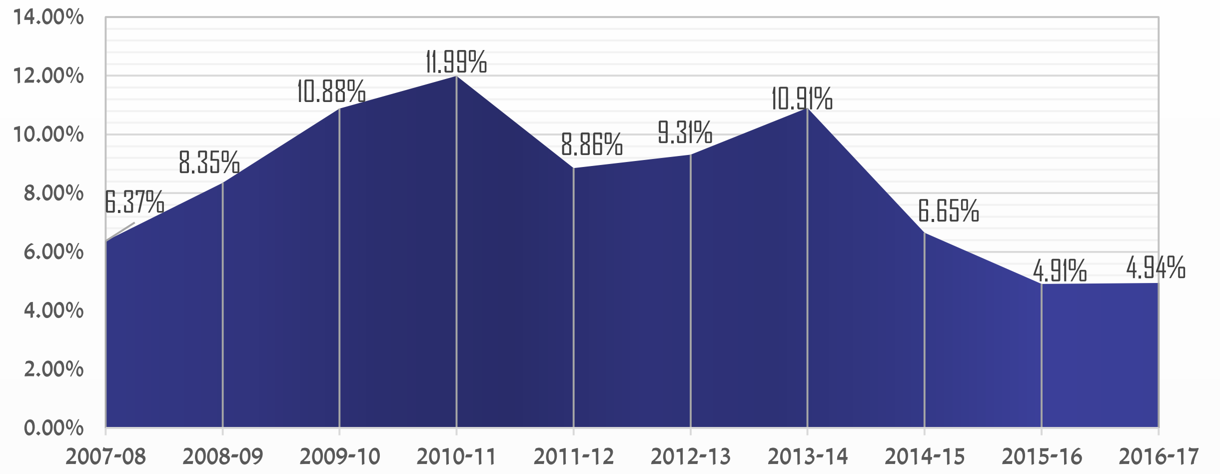
So, they act on this information in one of the two- buying the stock or selling it, not to mention the possibility of investors holding the stock in their possession. Thus, traders capitalise on the news creating demand or supply by their very own actions. In acting on the news of the company, industry or economy, the investors have already imparted the effect of the news in the pricing of the stock since demand and supply have waivered accordingly with a reasonable volume and number of investors.

So, the current price of the share fully incorporates all relevant information of the asset as the share of a company since there are already many people to take advantage of a mispricing of stocks or any available asymmetric spread of information and capitalise on these opportunities such that the rumour is bought before its happening, and the fact is sold no sooner than the price reflects it, which would bring down the price of the share.

Economic Face-off

Inflation Rate

Average Inflation Rate



Source : World Bank Data

Inflation as measured by the Consumer Price Index (CPI) reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, annually, biannually or monthly. The Laspeyres formula is generally used with the base year of 2011-12.

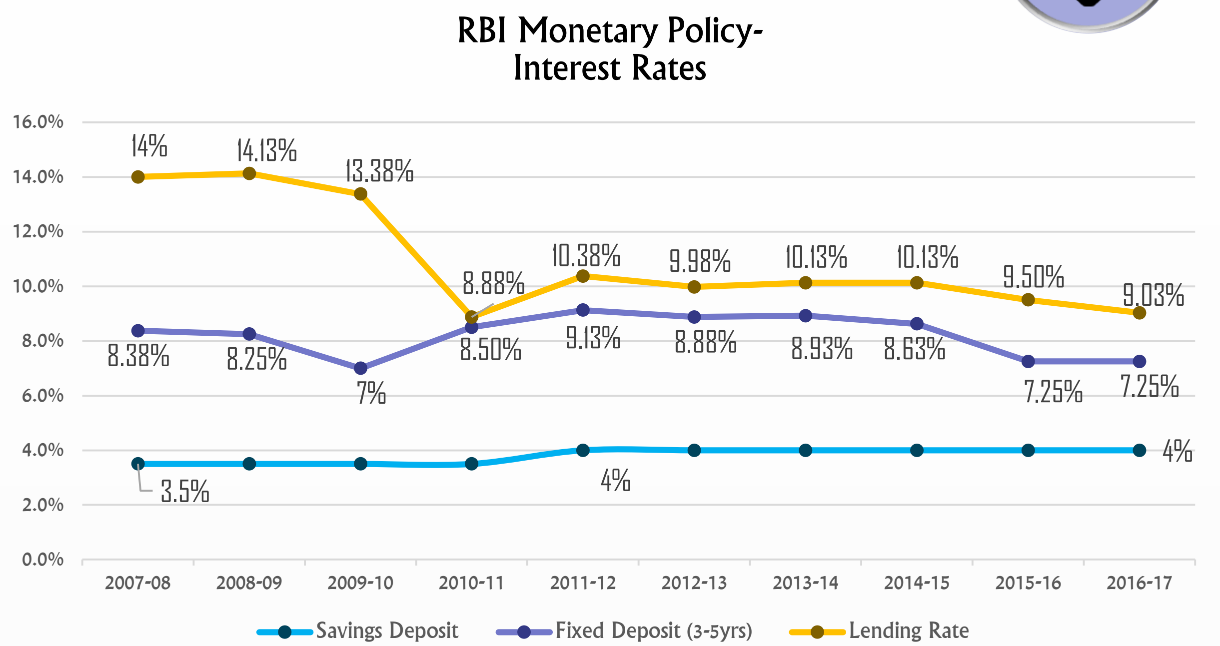
A higher inflation rate, can indicate a pick up demand and stronger economic activity, driven by higher spending on goods such as cars and greater discretionary expenses on eating out and recreation. Bank Interest Rates will have to slide down structurally over the next 6-12 months given the macro-economic dispensation India has arrived at. For 2017-18, The Reserve Bank has projected retail inflation to average 4.5% in the first half and 5% in the second half of the year. The question is as to whether the Modi Government has been hiding behind statistics for three years even as the cracks are becoming visible.

RBI may have an inflation target of 4% but what it should be really worried about is the cost of achieving and maintaining a very low inflation rate. For every one percentage point decrease in inflation, the government risks destroying 3.4 percentage points of growth. With the Consumer Price Index based inflation coming in at 2.18% for the month of May and continuing to decrease in June in terms of retail inflation including food inflation, the question that arises is: Is there a cost to keeping inflation so low? The Reserve Bank of India may have an inflation target of 4% but what it should be really worried about is the cost of achieving and maintaining a very low inflation rate against the treat of losing growth in the economy.

First reported in Livemint

Food Inflation Rate

Source : Tradingeconomics.com | Ministry of Statistics and Programme Implementation, GOI



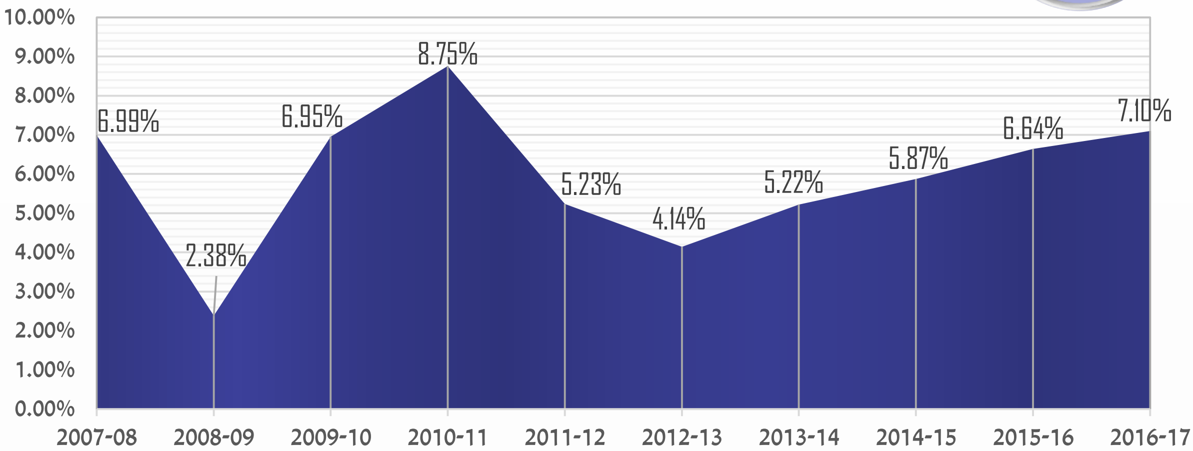
Source : Reserve Bank of India Data

The rates of regular savings deposit have remained constant at 4% as per RBI bank rates, however, commercial banks have not always passed on this rate to the public. While Fixed Deposit Rates have varied to slightly between 9% and 7% over the last few years, banks differentiate between the purpose, type and term of loans in determining the rate of interest changed in case of lending to the public. The RBI shifted the stance of the policy from accommodative to neutral and left the repo rate unchanged at 6.25%, but the three-month treasury bill is now trading at 5.7% and one-year treasury bill at 6.10%, much below the repo rate, thus, undermining the signalling rate. The cause of it is liquidity of banks allowing them to lend more easily- with over ₹4 lakh crore excess money following demonetisation that replaced roughly 86% of ₹17.97 lakh crore worth of currency in circulation in seven weeks between November and December.

The surplus in the banking system at ₹5 lakh crore was inching closer to the maximum absorption capacity of the central bank. RBI had ₹7.5 lakh crore of GOI securities prior to demonetisation drive, which act as collateral to absorb banking system surplus through the reverse repo window. RBI's estimate of deposit accretion going forward might have prompted them to announce a large CRR hike which would obviate any discussion around RBI running short of G-secs. On the other hand, the liquidity scenarios may not exactly comparable, as the total deposits in the banking system was far less then and banks' Cash Reserve Ratio (CRR) was higher. Since February 2013, CRR has been fixed at 4%, increased after demonetisation to an incremental CRR of 100%. This way, it sucked out around ₹3.24 lakh crore excess liquidity from the system.

The Cash Reserve Ratio (CRR) has been pegged at 4% of the Time and Demand Liabilities of Banks under the RBI with Statutory Liquidity Ratio (SLR) reaching 21.25% from the former 20.5%. Policy Repo Rate is 6% with Reverse Repo Rate at 6.5% and Bank Rate reaching 7% from the previous 6.5%. The Banking Regulation (Amendment) Ordinance, 2017 had come into force in May and will soon become an act, working towards reducing the level of stressed assets within the formal banking system incorporating the changes in the Insolvency and Bankruptcy Code, 2016 to initiate the insolvency resolution process towards better availability of credit and balance the interests of all the stakeholders including alteration in the order of priority of payment of dues as well as to establish The Insolvency and Bankruptcy Board of India.

Gross Domestic Product



Source : World Bank Data

Annual percentage growth rate of GDP per capita based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP per capita is gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

The latest data on economic growth have, however, punctured that narrative reasonably effectively. While full-year growth for 2016-17 came in at a respectable 7.1%, the numbers have benefited from a change in how inflation is measured. The real news is that fourth-quarter GDP growth fell to 6.1% — lower than China's. India is no longer the fastest growing large economy in the world, and Government ministers are going to need a new first line for their speeches to attract foreign investment. India's GDP is presently at $2.074 lakh crore.

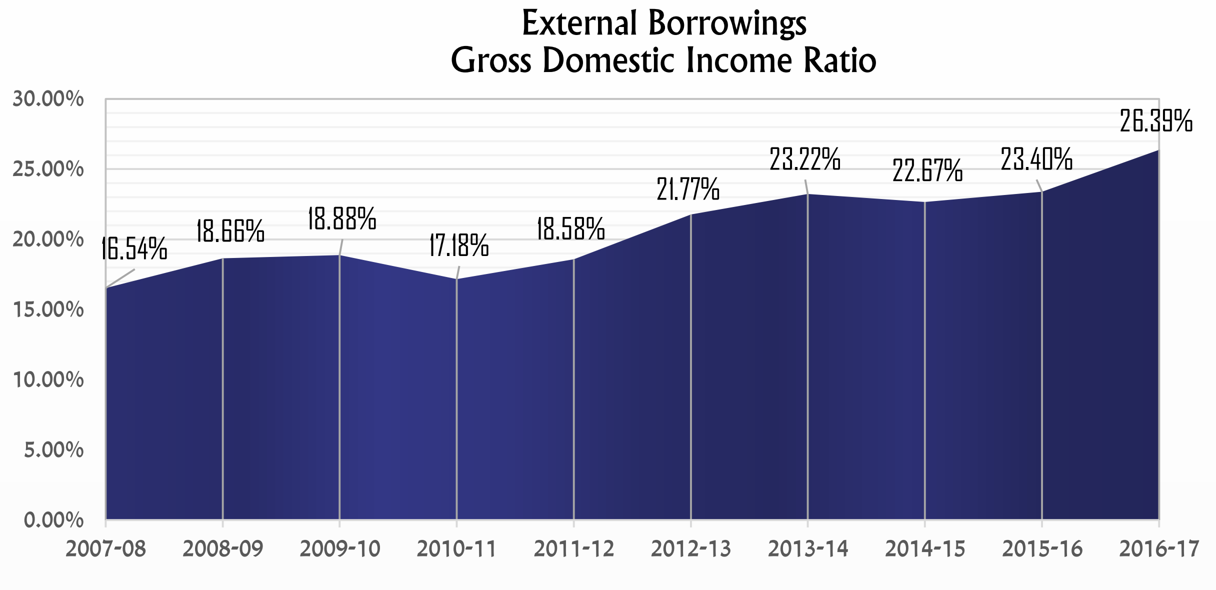
It would be easy to blame this on PM Narendra Modi's decision, to withdraw 86% of India's currency from circulation, which however, did wipe out black money that stood still in the form of cash and put the rest to productive investment.

Partly, that's because the Government has simply not moved swiftly or decisively enough over the decade in addressing India's mountain of bad loans beyond passing a bankruptcy law and, more recently, giving the Central Bank additional power to force resolutions in the most pressing cases. Much of Indian investment, even for large-scale, growth-enhancing infrastructure projects, is routed through banks. And public-sector banks, struggling with their balance sheets, are reluctant to lend. Bank credit growth has recently hit multi-decade lows.

Despite decline in growth rate, there is a silver lining for the Indian economy. The decline in GDP growth rate may lead to an announcement of a cut in lending rates by the Reserve Bank of India (RBI) by September, Industry is already demanding it. The growth forecast for the current fiscal year remains between 7 and 8%. Many observers predict a boost after the roll out of the Goods and Services Tax (GST) from July 1st this year.

The reason of why decline in GDP growth rate is good news for Indian economy is that the declining GDP growth rate may not be actually be a negative signal for the government and Indian economy since demonetisation seems to have curbed the use of black money in the sectors that have been hit harder in manufacturing, mining, trade, hotels, transport, communication, services related to broadcasting, financial, real estate and professional services in the fourth quarter. a greater portion of unorganised pockets of economy will make a shift to formal economy, which may see better figures in the next quarter and fiscal year.

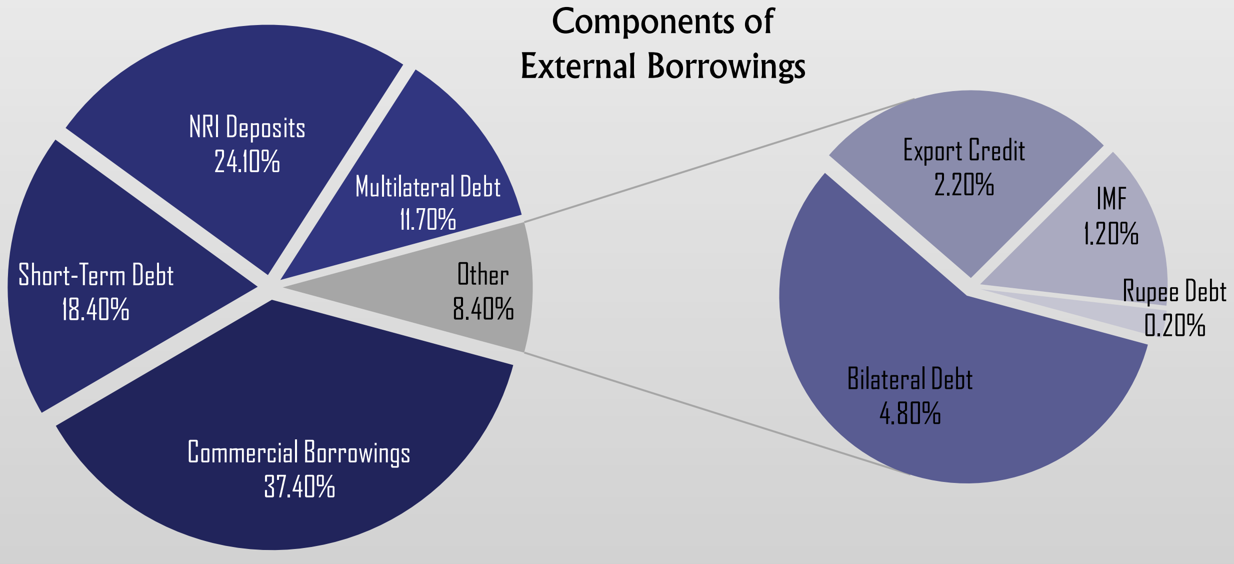
First reported in India Today



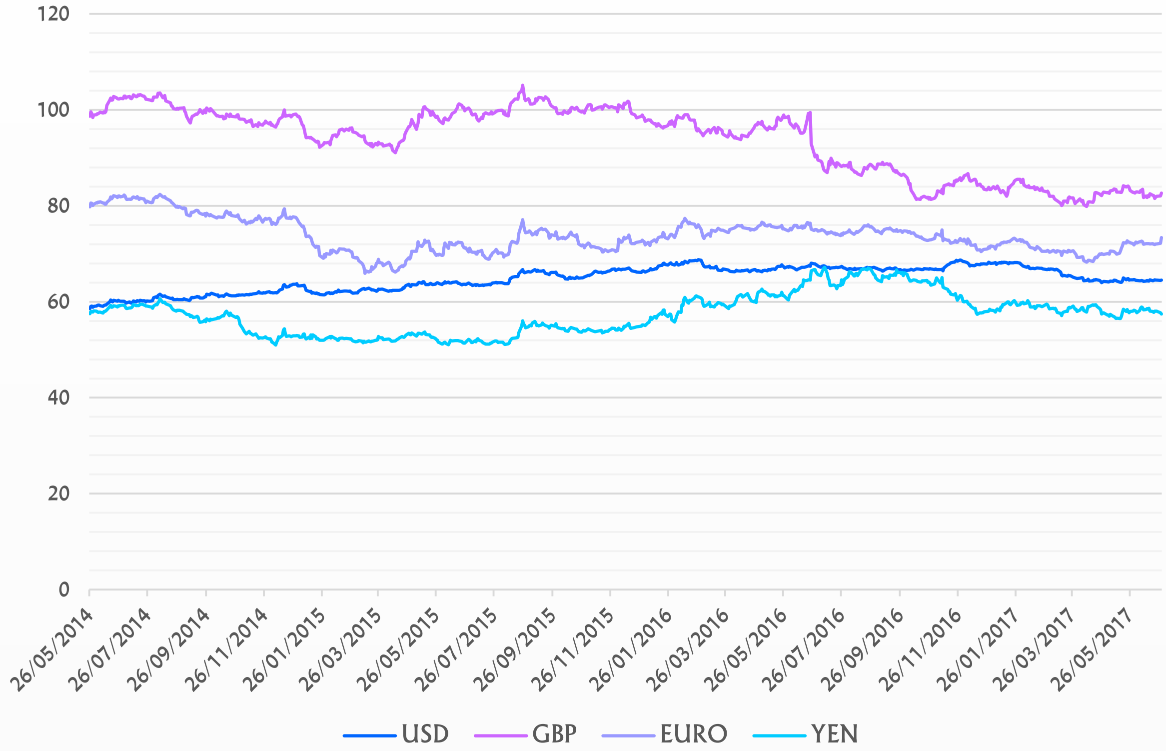
Source : Department of Economic Affairs, MOF, GOI

Total external debt stocks to gross national income. Total external debt is debt owed to non-residents repayable in currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.

At 23% in 2015, India had one of the lowest foreign debt-GDP ratios among 83 emerging market (EM) countries, although it had risen from 17% in 2005. Even among the Asian countries covered in an analysis by global ratings major Moody's Investors Service, compared to an average debt-GDP ratio of 47%, India's was less than half that number. India's external debt stock fell by $29.0 billion (6.0%) to $456.1 billion, at end-December 2016 over the level at end-March 2016. The decline in external debt during the period was due to the fall in long-term external debt. On a sequential basis, total external debt at end-December 2016 declined by $28.1 billion, a whole 5.8% from the end-September 2016 level.



Value of the Rupee
In comparison with other currencies



$1 = ₹64.5288 **€1** = ₹73.3757 **¥1** = ₹54.4400 **£1** = ₹82.6614

Source : Reserve Bank of India Data

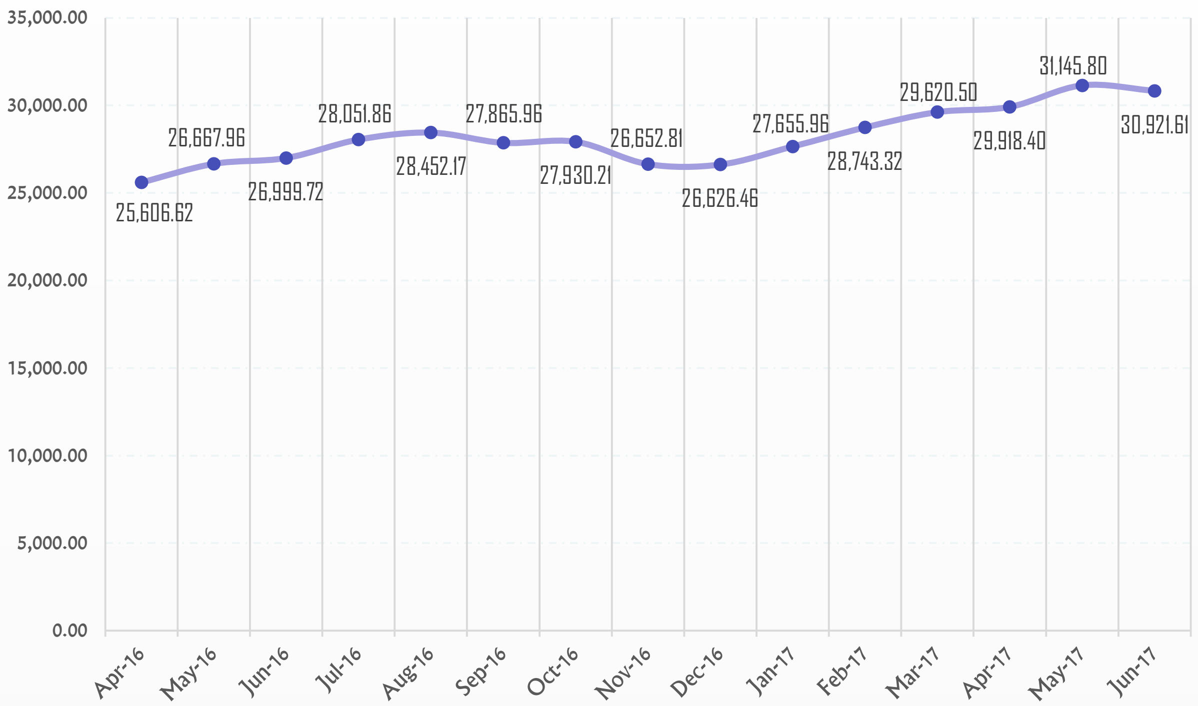
The Indian Rupee hit a 16-month high against the US dollar on Wednesday, ahead of the US Federal Reserve's decision on interest rates. The Indian economy has good fundamentals, low short term external debt, and sizeable foreign exchange reserves. These should stand the country in good stead in the days to come.

Since Trump had taken office on January 20th, the Rupee has appreciated nearly 4% against the US dollar, partly to do with the winding down of the 'Trump-trade' and loss in the dollar world-wide. With market participants having grown more and more sceptical about Trump's 'America First' agenda and how he intends to implement it, many have mowing down their long-dollar positions while emerging market currencies gained this year against US' exit from the globalism bubble.

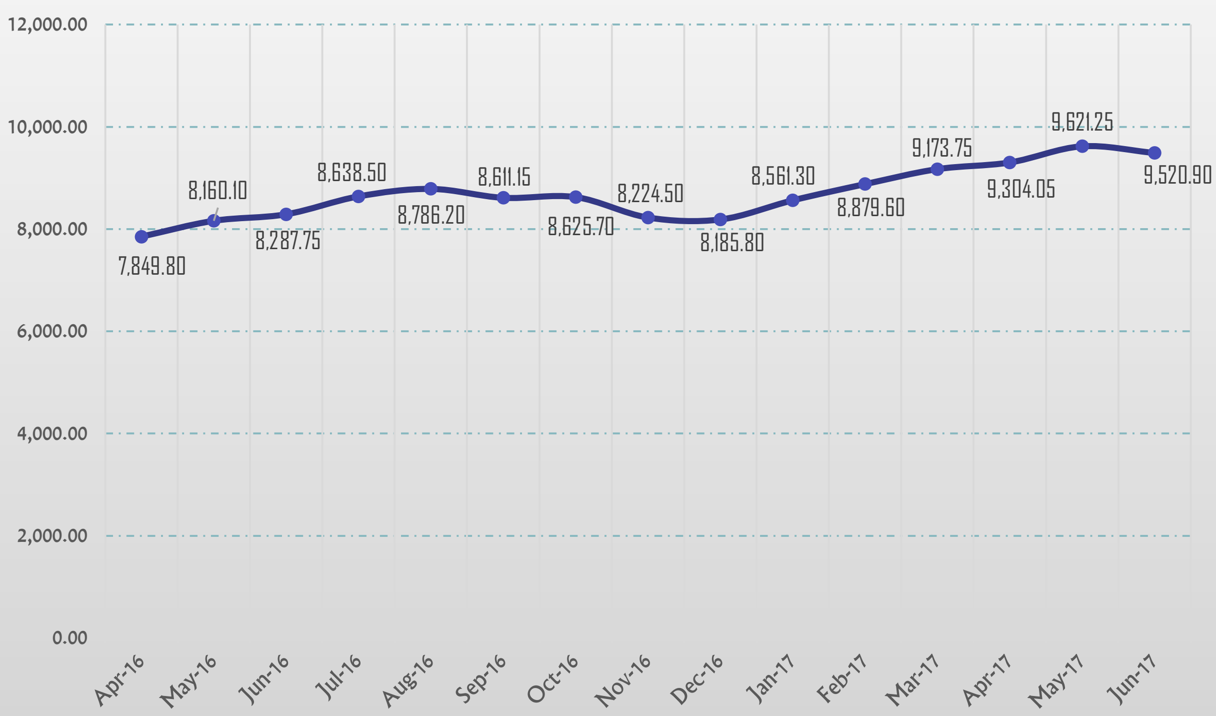
In the meantime, there has been a multitude of factors on the domestic front leading to substantial gains in the Rupee. Following the BJP's victory in the elections in 2014, foreign investors have come to be more optimistic on the Indian equities. Since the announcement of the election results on March 13th, FIIs have poured in $3.4 billion into Indian markets, compared to an outflow of similar magnitude in the first ten months of FY17.

Another major change has been in the outlook of the policy rate with the RBI's change in its stance from an accommodative to a neutral leading to the rise in bond yields creating an inflow of foreign capital into the Indian debt market. In addition, the GDP growth for the third quarter of FY17 has been much better than expected and has helped alleviate some of the earlier fears related to demonetisation and GST to be introduced which would benefit the Indian economy giving it a better ease of doing business as a newly industrialised country with the fastest developing service sector, now building up to becoming a superpower in the near future.

S&P BSE SENSEX



NIFTY 50







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