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THE WORLDONOMICS TIMES

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DECODING THE LABYRINTH: WORLDONOMICS TIMES JULY EDITION UNVEILS THE NUANCES OF A SHIFTING GLOBAL LANDSCAPE

The global economy, a complex and ever-evolving labyrinth, presents both challenges and opportunities for nations and individuals alike. In this dynamic landscape, Worldonomics Times serves as your trusted guide, offering insightful analysis and expert perspectives through its July publication.

A Multifaceted Approach to Economic Understanding:

Worldonomics Times distinguishes itself by providing a holistic view of the economic sphere. From the sweeping trends of macroeconomics to the intricacies of specific sectors, readers gain valuable knowledge from articles penned by renowned economists and industry leaders. Whether you seek to understand how geopolitical tensions impact financial markets or explore the potential disruptions of Web3 technologies, Worldonomics Times equips you with the information you need to navigate this intricate system.

Spotlight on the Latest: Central Banks and Cryptocurrencies:

The July edition places a particular focus on the evolving relationship between central banks and cryptocurrencies. As digital assets continue to gain traction, central banks around the world are grappling with how to regulate and integrate them into the existing financial ecosystem. Worldonomics Times delves into this critical discussion, exploring potential policy approaches, the risks and opportunities associated with cryptocurrencies, and their impact on monetary policy.

Beyond the Headlines: A Spectrum of Economic Issues:

Of course, Worldonomics Times goes beyond this single topic. The publication continues to shed light on technological advancements and their profound impact on society. Articles explore the transformative potential of artificial intelligence, blockchain, and the metaverse, while also considering the ethical considerations surrounding these developments.

Championing Social Justice and Equality:

Worldonomics Times remains a platform for fostering meaningful dialogue on social issues. Articles delve into critical topics like gender equality, racial justice, LGBTQ+ rights, and the ongoing struggle to address socio-economic disparities. These pieces not only highlight the challenges faced by marginalized communities but also propose solutions for building a more just and inclusive world.

Sustainability: Charting a Course for a Greener Future:

The fight against climate change and the pursuit of sustainable development remain at the forefront of Worldonomics Times' focus. Articles showcase advancements in renewable energy technologies, innovative green practices, and the global push towards a low-carbon economy. The publication continues to explore the synergy between technology and sustainability, analyzing the rise of green hydrogen, sustainable infrastructure projects, and the role of circular economy principles.

Education: The Cornerstone of Progress:

Recognizing the critical role of education in a knowledge-based economy, Worldonomics Times continues to advocate for lifelong learning. Articles explore innovative pedagogical approaches, the effective integration of technology in education, the growing importance of vocational training, and the democratizing power of online learning platforms. The publication emphasizes the importance of empowering individuals through continuous skill development and knowledge acquisition.

Sandeep Kumar

EDITOR-IN-CHIEF

Worldonomics Times

Union Budget and Monetary Policy

Fiscal and Monetary policy are two different tools that have an impact on the economic activity of a country and are used to regulate the economy over time. Fiscal policies are related to the way a government is managing the aspects of spending and taxation, for stabilising and helping in the growth of the economy. **Union Budget** is the most important document for fiscal policy, presented for each financial year by the government in the parliament. **Monetary policies** are formed and managed by the central banks of a country related to the aspects of money supply and interest rates in an economy. Monetary policy is announced by RBI in April each year and reviewed after every two months.

Union Budget

Union Budget is the annual financial statement of a government which lays out fiscal roadmap for the country for the next one year. The Government of India, every year prepares budget which shows the expected receipts and expenditures of the government in the coming financial year. Receipts of the government come from taxes (both direct and indirect), profits from various financial institutions, government commercial undertakings, interest from loans given to other governments, local bodies, etc. and expenditure of the government are on developmental projects such as construction of energy and non-developmental expenditure on a large number of activities such as defence, subsidies, police, law and order, etc. It is prepared by the ministry of finance in consultation with Niti Aayog and other concerned ministries. The budget is presented by Finance Minister in Lok Sabha.

Objectives of Union Budget

- Reallocation of Resources: It helps to distribute resources keeping in view the social and economic conditions of the country.
- Reducing Inequalities in Income and Wealth: Government aims to bring economic equality by imposing taxes on the elite class and spending the collected money on the welfare of the poor.
- Contributing to Economic Growth: A country's economic growth is based on the rate of investment and savings. Therefore, the budgetary plan focuses on preparing adequate resources for investing in the public sector and raise the overall rate of investments and savings.
- Bringing Economic Stability: The Budget focuses on avoiding business fluctuations so as to accomplish the aim of financial stability. Policies such as Deficit Budget (during deflation) and Surplus Budget (during inflation) assist in balancing the prices in the economy.
- Managing Public Enterprises: Many public sector industries are built for the social welfare of the people. The Budget is planned to deliver different provisions for operating such business and imparting financial help.
- Reducing Regional Differences: It aims to reduce regional inequalities by promoting the installation of production units in the underdeveloped regions.

Components of Union Budget

A. Revenue Budget: It consists of the Revenue Receipts and Revenue Expenditure. Revenue Receipts do not have a direct impact on the assets and liabilities of the government. It consists of the money earned by the government through tax (such as excise duty, income tax) and non-tax sources (such as dividend income, profits, interest receipts). Revenue Expenditure is the expenditure by the government which does not impact its assets or liabilities. For example, this includes salaries, interest payments, pension, and administrative expenses.

B. Capital Budget: It includes the Capital Receipts and Capital Expenditure. Capital Receipts indicate the receipts which lead to a decrease in assets or an increase in liabilities of the government. It consists of: (i) the money earned by selling assets (or disinvestment) such as shares of public enterprises, and (ii) the money received in the form of borrowings or repayment of loans by states. Capital expenditure is used to create assets or to reduce liabilities. It consists of: (i) the long-term investments by the government on creating assets such as roads and hospitals, and (ii) the money given by the government in the form of loans to states or repayment of its borrowings.

Budget Deficit, Revenue Deficit and Fiscal Deficit

If receipts are equal to expenditure, the budget is said to be balanced one. If receipts are higher than the expenditure, the budget is said to be surplus one and if receipts are lower than the expenditure, the budget is said to be deficit one.

Budget deficit is thus the difference between total receipts and total expenditure (revenue plus capital). If borrowings and other liabilities are added to the budget deficit, we get fiscal deficit. Fiscal deficit, thus measures that part of government expenditure which is financed by borrowings. Revenue deficit is the difference between revenue receipts and revenue expenditure. Consider the following example to understand both the concepts:

Particulars	2023-24 BE (Rs. Crore)	2024-25 BE (Rs. Crore)
1.Revenue Receipts	26,32,281	30,01,275
2. Capital Receipts of which	18,70,816	17,64,494
(a) Loan recoveries + other receipts	84,000	79,000
(b) Borrowings & other liabilities	17,86,816	16,85,494
3.Total Receipts (1+2)	45,03,097	47,65,768
4.Revenue expenditure	35,02,136	36,54,657
5. Capital expenditure	10,00,961	11,11,111
6. Total expenditure (4+5)	45,03,097	47,65,768
7. Budgetary Deficit (3-6)	NIL	NIL
8. Revenue deficit (4-6)	8,69,855	6,53,383
9. Fiscal deficit [1 + 2(a) - 6 = 7 + 2(b)]	17,86,816	16,85,494

Key components of Fiscal Policy

Fiscal policy refers to the government's strategy of managing its budget through revenue collection (mainly taxes) and expenditure to influence the country's economy. The key components of fiscal policy relates to:

- Government Revenue: The primary sources of government revenue include direct taxes (like income tax and corporate tax), indirect taxes (like Goods and Services Tax), customs duties, and non-tax revenues (like dividends from public sector enterprises, interest receipts, etc.).
- Government Expenditure: This encompasses spending on various sectors such as defense, infrastructure, education, healthcare, subsidies, social welfare programs, interest payments on borrowings, and other administrative expenses.
- Budget Management: Fiscal policy is primarily manifested through the annual Union Budget, where the government outlines its revenue and expenditure for the upcoming financial year. The budget reflects the priorities of the government and its approach to managing the economy
- Public Debt Management: Fiscal policy also involves managing the country's public debt. Borrowing decisions and debt servicing obligations impact the economy's overall health.
- Stimulating Economic Growth: In times of economic slowdown, the government may increase spending (fiscal stimulus) to spur growth, often leading to a higher fiscal deficit in the short term.
- Inflation Control: Fiscal policy can also be used to control inflation. For example, reducing government spending or increasing taxes can help cool down an overheated economy.
- Redistributive Policies: Through its expenditure and tax policies, the government can redistribute income and resources among different sections of society, aiming to reduce income inequality and promote social welfare.
- Counter-Cyclical Measures: The government uses fiscal policy as a counter-cyclical tool to stabilize the economy during various phases of the business cycle - spending more during recessions and cutting back during booms.

Budget documents presented to the Parliament

Besides the Finance Minister's Budget Speech, the following Budget documents presented to the Parliament:

1. Annual Financial Statement (AFS)
2. Demands for Grants (DG)
3. Finance Bill
4. Fiscal Policy Statements
5. Expenditure Budget
6. Receipt Budget
7. Expenditure Profile
8. Budget at a Glance
9. Key Features of Budget 2024-25
10. Implementation of Budget Announcements, 2023-24

A. Annual Financial Statement: The Annual Financial Statement shows the estimated receipts and expenditure of the Government of India, under three parts in which Government Accounts are kept viz., (i) The Consolidated Fund of India, (ii) The Contingency Fund of India and (iii) The Public Account of India. The Revenue and the Capital sections together, make the Union Budget.

(i) The Consolidated Fund of India: All revenues received by the Government, loans raised by it, and also receipts from recoveries of loans granted by it, together form the Consolidated Fund of India. All expenditure of the Government is incurred from the Consolidated Fund of India and no amount can be drawn from the Consolidated Fund without due authorization from the Parliament.

(ii) Contingency Fund of India: It is an imprest placed at the disposal of the President of India to facilitate meeting of urgent unforeseen expenditure by the Government pending authorization from the Parliament. The corpus of the Contingency Fund as authorized by Parliament presently stands at 30,000 crore.

(iii) Public Account of India: Provident Funds, Small Savings collections, receipts of Government set apart for expenditure on specific objects such as road development, primary education, other Reserve/Special Funds etc., are examples of moneys kept in the Public Account.

B. Demands for Grants: The estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok Sabha, be submitted in the form of Demands for Grants.

C. Finance Bill: Finance Bill provide details regarding the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. It also contains other provisions relating to Budget that could be classified as Money Bill.

D. Fiscal Policy Statements mandated under FRBM Act: The Macro-economic Framework Statement contains an assessment of the growth prospects of the economy along with the statement of specific underlying assumptions. The Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement sets out the three-year rolling targets for specific fiscal indicators in relation to GDP at market prices, namely (i) Fiscal Deficit, (ii) Revenue Deficit, (iii) Primary Deficit (iv) Tax Revenue (v) Non-tax Revenue and (vi) Central Government Debt. It also outlines the strategic priorities of the Government relating to taxation, expenditure, borrowings, guarantees etc. The Statement explains how the current fiscal policies are in conformity with sound fiscal management principles and gives the rationale for any major deviation in key fiscal measures.

E. Expenditure Budget: In the Expenditure Budget, the estimates made for a scheme/programme are brought together and shown on a net basis on Revenue and Capital basis at one place. Expenditure of individual Ministries/ Departments are classified under 2 broad Umbrellas (i) Centres' Expenditures and (ii) Transfers to States/ Union Territories (UTs). Under the Umbrella of Centres' Expenditure there are 3 sub-classification (a) Establishment expenditure of the Centre (b) Central Sector Schemes and (iii) Other Central Expenditure including those on Central Public Sector Enterprises (CPSEs) and Autonomous Bodies.

F. Receipt Budget: The document provides details of tax and non-tax revenue receipts and capital receipts and explains the estimates.

G. Expenditure Profile: It gives an aggregation of various types of expenditure and certain other items. Scheme expenditure forms a sizeable proportion of the total expenditure of the Central Government. Railways is the principal departmentally-run commercial undertaking of Government. The Budget of the Ministry of Railways and the Demands for Grants relating to Railway expenditure are presented to the Parliament together with the Union Budget.

H. Budget at a Glance: This document shows in brief, receipts and disbursements along with broad details of tax revenues and other receipts. The excess of Government's revenue expenditure over revenue receipts constitutes revenue deficit of Government. The difference between the total expenditure of Government by way of revenue, capital and loans net of repayments on the one hand and revenue receipts of Government and capital receipts which are not in the nature of borrowing but which accrue to Government on the other, constitutes gross fiscal deficit.

I. Key Features of Budget 2024-25: The Document is a snapshot summary of the economic vision of the Government and the major policy initiatives in the thrust areas of the economy for growth and welfare.

J. Implementation of Budget Announcements 2023-24: The Document summarises the status of implementation of the announcements made by Hon'ble Finance Minister in the Budget Speech of previous year..

Monetary Policy

RBI is entrusted with the responsibility of conducting monetary policy in India with the primary objective of maintaining price stability while keeping in mind the objective of growth. Monetary Policy relates to the control of the availability, cost and use of money and credit with the help of monetary measures in order to achieve specific goals. It comprises those decisions which directly influence the volume and composition of money supply, the size and distribution of credit, the level and structure of interest rates, and the effects of these monetary variables upon related factors such as savings and investment and determination of output, income and price.

The broad concerns of monetary policy have been -

1. to regulate monetary growth so as to maintain a reasonable degree of price stability,
2. to ensure adequate expansion in credit to assist economic growth,
3. to encourage the flow of credit into certain desired channels including priority and the hitherto neglected sectors, and
4. to introduce measures for strengthening the banking system and creating institutions for filling credit gaps.

The key policy rates based on April 2024 Monetary policy are as under:

Repo Rate : 6.50%
Standing Deposit Facility (SDF) : 6.25%
Marginal Standing Facility (MSF) : 6.75%
Bank Rate : 6.75%
Fixed Reverse Repo Rate : 3.35%
Cash Reserve Ratio (CRR) : 4.50%
Statutory Liquidity Ratio (SLR) : 18.00%

Objectives of Monetary policy

1. Stability in price or controlling inflation
2. Full employment
3. Regulate the issue of bank notes
4. Operates currency and credit system to its advantages
5. Ensure adequate flow of credit to the productive sector
6. Balance between price stability and economic growth.
7. Debt management
8. Rapid economic growth
9. Moderate long term interest rate
10. Exchange Rate Stability
11. External balance of payments equilibrium

There is agreement between RBI and Government of India to fix target rate and maximum and minimum tolerable inflation rate which is also known as inflation targeting. Inflation target is set by Government of India in consultation with RBI once in every five year. Present inflation target rate is 4% and upper tolerance rate is 6% and lower tolerance rate is 2%.

Instruments for implementation of Monetary policy

Monetary policy is implemented by the RBI through the instruments of credit control.

These are (i) quantitative or general measures and (ii) qualitative or selective measures. The quantitative measures are directed towards influencing the total volume of credit in the banking system without special regard for the use to which it is put. Selective or qualitative instruments of credit control, on the other hand, are directed towards the particular use of credit and not its total volume.

A. Quantitative or General Measures : Quantitative measures have a general effect on credit regulation. They are used for changing the total volume of credit in the economy.

- Repo Rate**:** The interest rate at which the Reserve Bank provides liquidity under the liquidity adjustment facility (LAF) to all LAF participants against the collateral of government and other approved securities.
- Standing Deposit Facility (SDF) Rate**:** The rate at which the Reserve Bank accepts uncollateralised deposits, on an overnight basis, from all LAF participants. The SDF is also a financial stability tool in addition to its role in liquidity management. The SDF rate is placed at 25 basis points below the policy repo rate. With introduction of SDF in April 2022, the SDF rate replaced the fixed reverse repo rate as the floor of the LAF corridor.
- Marginal Standing Facility (MSF) Rate**:** The penal rate at which banks can borrow, on an overnight basis, from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit (2 per cent). This provides a safety valve against unanticipated liquidity shocks to the banking system. The MSF rate is placed at 25 basis points above the policy repo rate.
- Liquidity Adjustment Facility (LAF): The LAF refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system. It consists of overnight as well as term repo/reverse repos (fixed as well as variable rates), SDF and MSF. Apart from LAF, instruments of liquidity management include outright open market operations (OMOs), forex swaps and market stabilisation scheme (MSS).
- LAF Corridor**:** The LAF corridor has the marginal standing facility (MSF) rate as its upper bound (ceiling) and the standing deposit facility (SDF) rate as the lower bound (floor), with the policy repo rate in the middle of the corridor.
- Main Liquidity Management Tool: A 14-day term repo/reverse repo auction operation at a variable rate conducted to coincide with the cash reserve ratio (CRR) maintenance cycle is the main liquidity management tool for managing frictional liquidity requirements.
- Fine Tuning Operations: The main liquidity operation is supported by fine-tuning operations, overnight and/or longer tenor, to tide over any unanticipated liquidity changes during the reserve maintenance period. In addition, the Reserve Bank conducts, if needed, longer-term variable rate repo/reverse repo auctions of more than 14 days.
- Reverse Repo Rate: The interest rate at which the Reserve Bank absorbs liquidity from banks against the collateral of eligible government securities under the LAF. Following the introduction of SDF, the fixed rate reverse repo operations will be at the discretion of the RBI for purposes specified from time to time.
- Bank Rate: The rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is published under Section 49 of the RBI Act, 1934. This rate has been aligned with the MSF rate and, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

- Cash Reserve Ratio (CRR): The average daily balance that a bank is required to maintain with the Reserve Bank as a per cent of its net demand and time liabilities (NDTL) as on the last Friday of the second preceding fortnight that the Reserve Bank may notify from time to time in the Official Gazette.
- Statutory Liquidity Ratio (SLR): Every bank shall maintain in India assets, the value of which shall not be less than such percentage of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, as the Reserve Bank may, by notification in the Official Gazette, specify from time to time and such assets shall be maintained as may be specified in such notification (typically in unencumbered government securities, cash and gold).
- Open Market Operations (OMOs): These include outright purchase/sale of government securities by the Reserve Bank for injection/absorption of durable liquidity in the banking system.

B. Qualitative or Selective Measures: Qualitative or selective measures are generally meant to regulate credit for specific purposes.

- Securing loan regulation by fixation of margin requirements: RBI is empowered to fix the margin and thereby fix the maximum amount which the purchaser of securities may borrow against those securities. Raising of margin curbs the borrowing capacity of the security holder.
- Consumer credit regulation: The regulation of consumer credit consists of laying down rules regarding down payments and maximum maturities of instalment credit for the purchase of specified durable consumer goods. Raising the required down payment limits and shortening of maximum period tend to reduce the demand for such loans and thereby check consumer credit.
- Issue of directives: The Central Bank also uses directives to various commercial banks. These directives are intended to encourage or curb individual credit structure and the aggregate volume of loans. RBI has issued directions on Priority Sector Lending, and other areas.
- Rationing of credit: Rationing of credit is a selective method adopted by the Central Bank for controlling and regulating the purpose for which credit is granted or allocated by commercial banks.
- Moral persuasion: Moral suasion implies persuasion and request made by the Central Bank to the commercial banks to co-operate with the general monetary policy of the former. Moral suasion is a psychological means of controlling credit; it is a purely informal and milder form of selective credit control.
- Direct Action: The Central Bank may take direct action against the erring commercial banks. It may refuse to rediscount their papers, and give excess credit, or it may charge a penal rate of interest over and above the Bank Rate, for the credit demanded beyond a prescribed limit.

By making frequent changes in monetary policy, RBI ensures that the monetary system in the economy functions according to the nation's needs and goals.

CMA YASH PAUL BHOLA

Ex- Director (Finance),
National Fertilizers Limited
President (Hon.)
International Navodaya
Chamber Of Commerce