Prelim Bits 30-09-2021 | UPSC Daily Current Affairs

Government Borrowings for FY 2021

The government will borrow Rs. 5.03 lakh crore in the 2nd half of the fiscal year 2021-22 to fund the revenue gap for reviving the pandemic-hit economy.

- According to the Budget for 2021-22, the government's gross borrowing was estimated at Rs. 12.05 lakh crore, while net borrowing was pegged at Rs. 9.37 lakh crore in the FY 2021-2022.

  Net borrowing is the amount borrowed during the fiscal year.

  Gross borrowing includes net borrowing for the year and the repayment of past loans.

- Out of gross market borrowing of Rs. 12.05 lakh crore projected in the Budget, the government planned to borrow,
  a. Rs. 7.24 lakh crore in first half (H1) of FY 2021,
  b. Rs. 5.03 lakh crore in second half (H2) of FY 2021.
- But the effective borrowing in H1 was Rs 7.02 lakh crore.
- H2 projection also factors requirements for release of balance amount of the GST compensation to the states during the year.
- The Budget has pegged fiscal deficit at 6.8% for the next fiscal, down from 9.5% of the GDP in the current financial year.
- [Fiscal deficit is the gap between what the central government spends and earns. It is the level of borrowings by the Union government.]

Government Borrowings

- Government Borrowing is a loan taken by the government through issue of government securities called G-secs and Treasury Bills.
- It is the total amount of money that the government borrows to fund its spending on public services and benefits.
- It falls under capital receipts in the Budget document.
- The government raises money from the market to fund its fiscal deficit.
- If the government borrows more than what it has projected in the Budget document, its interest costs go up risking higher fiscal deficit.

  Article 292 deals with the borrowing by the Central Government.

  Article 293 deals with the borrowing by State Governments. The State Governments, which are indebted, must seek the consent of the Central Government before raising further borrowings.

Off-budget Borrowings

- Such borrowings are a way for the Centre to finance its expenditures while keeping the debt off the books - so that it is not counted in the calculation of fiscal deficit.
- The Off-budget Borrowings include,
    1. Loans that public sector undertakings were supposed to take on their behalf and
    2. Deferred payments of bills and loans by the Centre.
- These items constitute the "off-budget borrowings" because these loans and deferred payments are not part of the fiscal deficit calculation.

SEBI's Rules for Gold Exchange, Silver ETFs & Other Top Decisions

Securities and Exchange Board of India has approved a range of new measures including the framework for a gold exchange, Silver ETFs & social stock exchanges.

Framework for a Gold Exchange

- The instrument representing gold will be called 'Electronic Gold Receipt (EGR)' and it will be notified as "securities" under Securities Contracts (Regulation) Act, 1956.
- EGRs will have the trading, clearing and settlement features akin to any other security instruments.
- Gold exchanges will be set up for trading in EGR. Also, existing stock exchanges will be allowed to provide the platform for trading of EGRs.
- The denomination for trading of EGR and conversion of EGR into gold will be decided by the stock exchange with the approval of SEBI.
- Clearing corporation will settle the trades executed on stock exchanges by transferring EGRs and funds to the buyer and seller, respectively.
- EGR holders, at their discretion, can withdraw the underlying gold from the vaults after surrendering the EGRs.
- **SEBI-accredited vault managers,** who will have a net worth of at least Rs. 50 crore, will be responsible for
    a. Storage and safekeeping of gold deposits,
    b. Creation of EGRs,
    c. Withdrawal of gold,
    d. Grievance redressal and periodic reconciliation of physical gold with the records of depository.
- **Benefits** - Price discovery at the exchanges will lead to transparency in gold pricing. India will change from being price takers to be price setters.
- The gold exchanges would provide transparent price discovery, investment liquidity and assurance in the quality of gold.

Silver ETFs

- Silver Exchange Traded Funds (ETFs) will be set up in line with the existing mechanism for gold ETFs.
- This will be done after an amendment to SEBI (Mutual Funds) Regulations, 1996.

Framework for Social Stock Exchange

- The SEBI board also approved the framework for a separate Social Stock Exchange (SSE).

- The SSE must be listing Non-Profit Organization (NPO) and For-Profit Social Enterprise (FPE) that are engaged in 15 broad eligible social activities approved SEBI.
- With this, social entities can raise funds via equity, MFs, zero-coupon zero-principal bonds, social impact funds & development impact bonds.
- Social Venture Funds under SEBI (Alternative Investment Funds) Regulations will be rechristened Social Impact Funds.
- The corpus requirements for such funds shall be reduced from Rs. 20 crore to Rs. 5 crore. Reference to "muted returns" needed to be removed.
- Audit of social impact, i.e. social audit will be mandated for Social Enterprises raising funds/registered on SSE.

Norms for Merger & Acquisition

- SEBI said if an acquirer wanted to delist a company, then s/he should offer a suitable premium over the open offer price.
- If a company does not delist after the open offer and the acquirer has crossed the 75% holding mark, a 12-month cooling period will be allowed for making a 2nd attempt using the reverse book-building mechanism.
- If it is still not successful, the acquirer will have to comply with the minimum public shareholding norms within one year.

Safe Harbour

The Central Board of Direct Taxes has extended the applicability of the Safe Harbour Rates further for 2020-21 for calculating transfer pricing by foreign firms in India.

- Safe harbour is defined as circumstances in which the tax authority shall accept the transfer price declared by the taxpayer to be at arm's length.
- Generally, a safe harbour is a legal provision to sidestep or eliminate legal or regulatory liability in certain situations, provided that certain conditions are met.
- The phrase safe harbour also has uses in the finance, real estate, and legal industries.
- The term safe harbour may also be used to refer to a "shark repellent" tactic used by companies who want to avert a hostile takeover.
    - The company may purposefully acquire a heavily-regulated company to make themselves look less attractive to the entity that is considering taking them over.
- Safe harbor can also refer to an accounting method that avoids legal or tax regulations.

Renewable Energy Certificate

Ministry of Power has redesigned the existing Renewable Energy Certificate (REC) mechanism, which was introduced in 2010.

- The proposed changes will provide some flexibility to the players, additional avenues, rationalization and also addressing the RECs validity period uncertainty issues.
- Features of changes proposed in revamped REC mechanism are,
    a. Validity of REC would be perpetual i.e., till it is sold.
    b. Floor and forbearance prices are not required to be specified.
    c. Central Electricity Regulatory Commission (CERC) to have monitoring and the surveillance mechanism ensures that there is no hoarding of RECs.
    d. RE generator who is eligible for REC, will be eligible for issuance of RECs for the period of PPA as per the prevailing guidelines.
        - The existing RE projects that are eligible for REC would continue to get RECs for

25 years.

e. Technology multiplier can be introduced to promote new and high priced RE technologies.

- **Issuance** - RECs can be issued to obligated entities (including DISCOMs and open access consumers) which purchase RE Power beyond their RPO compliance notified by the Central Government.
- No REC to be issued to the beneficiary of subsidies/concessions or waiver of any other charges. The FOR to define concessional charges uniformly for denying the RECs.
- The changes proposed in revamped REC mechanism will be implemented by CERC through regulatory process.

National Export Insurance Account Scheme

The Government will infuse a capital of Rs. 1,650 Crore (Grant-in-aid) to National Export Insurance Account (NEIA) for 5 years (FY 2021-22 to FY 2025-2026).

- The capital infusion in NEIA Trust will help the Indian Project Exporters (IPE) to tap the huge potential of project exports in focus market.
    - Support to project exports with Indian content sourced from across the country will enhance the manufacturing in India.
- It will enhance the underwriting capacity of the NEIA Trust.
- It will enable NEIA to support project exports worth Rs. 33,000 Crore at full capacity utilization that in turn will translate into an estimated output of Rs. 25,000 Crore worth domestically manufactured goods.

NEIA Trust

- NEIA Trust was established in 2006 to promote Medium and Long-Term (MLT) or project exports from India.
- It supports projects which are commercially viable and are strategically and nationally important by enabling **credit and political insurance**.
- It promotes exports by extending risk covers to the credit issued by Export Credit Guarantee Corporation of India Ltd. (ECGC) and the Exim Bank for Buyer's Credit (BC-NEIA) tied to project exports from India.
- Since inception, NEIA has extended 213 covers, with a consolidated project value of Rs. 53,000 crores, to 52 countries as of 31st August 2021

Source: PIB, The Hindu, The Indian Express, Economic Times, NDTV, CNBC