NEXTGEN IAS

INDIAN ECONOMY

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For UPSC Civil Services Examination and other State PSC Exams

1. Planning

- **Economic planning** is the making of major economic decisions what and how much is to be produced, how, when and where it is to be produced, and to whom it is to be allocated by the comprehensive survey of the economic system as whole. **(H.D. Dickinsom)**
- **Planning was adopted for the first time in the world** by **Soviet Union**

1.1 Planning in India

- Planning in India starts in 1930s.
- Even before independence, the colonial government had established a planning board that lasted from 1944 to 1946.
- Before independence private industrialists and economists published three development plans in 1944.
- India's leaders adopted the principle of formal economic planning soon after independence as an effective way to intervene in the economy of faster growth and social justice.

Four decades of planning show that India's economy, a **mix of public and private enterprise**, is too large and diverse to be wholly predictable or responsive to directions of the planning authorities.

1.2 Important Dates

- **1934**: ***M. Visvesvaryya***, in his book '**Planned Economy of India'**, advocates the necessity of planning in the country much before Independence.
- **1944**: Bombay Plan, published in January 1944, prepared by eight leading industrialist of Bombay.
- ***Gandhian Plan put forward by S.N. Agrawal*** (1944).
- **1944**: Planning Development Council was set up under the chairmanship of A. Dalal.
- Peoples Plan drafted by M.N. Roy (1945).
- **1946:** Interim Government sets up the Planning Advisory Board.
- **1947**: Economic Programme Committee was set up under the chairmanship of Jawaharlal Nehru.
- **1950**: ***Planning Commission*** was set up.
- **2015**: **Formation of Niti Aayog**.

1.3 Visvesvarayya Plan

- Proposed the ***first blueprint of Indian Planning***
- Democratic capitalism with emphasis on industrialisation

- Simply, it's a shift of labour from agri sector to industrial sector targeting double national income in a decade

1.4 FICCI Proposal

- **1934:** FICCI recommended serious need of National Planning
- **Reason: Laissez-Faire, Great Depression, New Deal in USA, Soviet Experiment in National Planning**

1.5 Congress Plan

- **National Planning Committee @ 1938** – initiative of Subash C.Bose
- **Reason to start NPC:** to work out concrete programmes for development encompassing all major areas of economy
- NPC under the chairmanship of J.L.Nehru
- Final report of NPC was published in 1949

1.6 Important Developments

- **Post-War reconstruction committee (1941) –** To consider various plans for the reconstruction of the economy
- **Consultative committee of economists (1941)** – setup under the chairmanship of Ramaswamy Mudaliar to advise 4 Post-War reconstruction committees for executing the National Plan
- **Planning and Development Dept (1944)** – created under a separate member of Viceroy's Executive council for organising planning work in the country. Ardeshir Dalal (controller of Bombay Plan) was appointed as acting member. Finally this dept was abolished in 1946

1.7 Bombay Plan

- Popular title of **"A Plan of Economic Development for India"**
- Prepared by Capitalists
- Published in **1944-45**

Important Agreements between NPC and Bombay Plan Club

1) Agrarian restructuring
2) Rapid industrialisation
3) Development of essential consumer goods industries
4) Promoting medium scale, small scale and cottage industries
5) Social welfare

1.8 Gandhian Plan

- **Sriman Narayan Agarwal** formulated this plan in 1944
- More emphasis on **agriculture**
- Promote cottage and village level industries
- Articulated a "**Decentralised Economic Structure**" for India with self-contained villages

1.9 People's Plan

- **M N Roy** formulated this plan in 1945
- Plan was based on **Marxist Socialism**
- Focused on the need for providing "basic necessities of life"
- Agricultural and industrial sectores ➔ equally highlighted
- "**Economic reforms with the human face**" – slogan of 1990s economic reforms has the resonance of People's plan

1.10 Sarvodaya Plan

- **Jayprakash Narayan** formulated this plan in 1950
- Inspired from the Gandhian techniques of constructive works and **Sarvodaya concept of Acharya Vinoba Bave**
- Major ideas of the plan were **similar to Gandhian Plan**
- Negative impact of Indian Planning process @ 1960s → Increasing centralising nature and dilution of people's participation in it
- Idea of democratic decentralisation was disliked by the rulers → led to the formation of Jayprakash Narayan Committee @ 1961
- JPC pointed out planning and execution of plans wrt PRI
- Disregarding the advice of JPC , central schemes like SFDA, DPAP, ITDP, IADP were introduced → outside the purview of Panchayats
- After 73rd and 74th amendments, role of local bodies and their importance in the process of planned development was accepted

1.11 Planning Commission

- The Planning Commission was **established in 1950**, in accordance with **Article 39** of the Directive Principles of the Constitution of India headed by Prime Minister.
- The Commission is ***independent of the Cabinet***.
- A staff drafts plans under the guidance of the Commission; the draft plans are presented for **approval to the National Development Council**, which consists of members of the Planning Commission, the Chief Ministers of the States and Administrators of UTs and All Union Ministers.
- The Council can make changes in the draft plan.

- After ***Council approval***, the draft is presented to the ***Cabinet*** and subsequently to ***Parliament***, whose approval makes the plan an operating document for Central and State governments.

Jawaharlal Nehru was the first chairman of the Planning Commission by virtue of his being the Prime Minister of India.

Functions

1) Assessment of the material, capital and human resources of the country, including technical personnel and formulation of proposals for the augmentation of such resources;
2) Formulation of plans for effective and balanced utilization of resources;
3) Defining stages in which the plan should be carried out;
4) Determination of the resources necessary for implementation of the plans;
5) Appraisal from time to time of the progress achieved;
6) Public co-operation in national development;
7) Perspective planning;

National Planning Council

- **Advisory body** attached to the Planning Commission
- It was established in **1965**
- It includes experts representing a cross-section of the Indian economy.

Niti Aayog

- The government of India has replaced Planning Commission with a new institution named Niti Aayog (**National Institution for Transforming India**).
- The institution will serve as 'Think Tank' of the Government - a directional and policy dynamo.
- Niti Aayog will provide Governments at the Central and State Levels with relevant strategic and technical advice across the spectrum of key elements of policy, this includes matters of national and international importance on the economic front, dissemination of best practices from within the country as well as from other nations, the infusion of new policy ideas and specific issue-based support.

Composition

Niti Aayog will have

- Prime Minister as its chairman
- 1 Vice-Chairman cum chief-executive officer
- 5 fulltime members
- 2 part time members
- 4 central government ministers

1.12 Five Year Plans

- The development plans drawn up by the Planning Commission to establish India's economy in five-year phases are called
- **Five-Year Plan :** A five-year plan is an indicative plan of action reflecting largely the intent of the government for that period at the national, regional, and sectorial level.

First Plan (1951-56)

Reasons

- ✓ Influx of refugees
- ✓ Severe food shortage
- ✓ Mounting inflation
- ✓ Heavy dependence on imports and foreign assistance
  - As the economy was facing the problem of large scale food grains import (1951) and the pressure of price-rise, the modest overall target of 2.1% was fixed

Major Objective

- Agriculture, Price Stability, Power & Transport.
- The first five year plan focused on to stimulate **balanced economic development** while correcting imbalances caused by World War II and partition various objectives were.
- It was based on ***Harrod Domar Model***.
- Its **highest priority** on agriculture, irrigation and power projects.

Goals

- **Rate of investment** was targeted at 7% of national income.
- Modest overall growth target of 2.1%

Outlay

1. **44.6% went in favour of public sector undertakings (PSUs)**

- Under the first five year plan provision was made to spend a total of 2,378 crore during the plan period. But the **actual expenditure** outcome to **1960 crore** only.

Achievements

- **National income** grew by 18% and **per capita income** by 11%.
- **Actual Growth Rate – 3.6%**
- **Food production** increased by 20%.

Negative Aspect

2. Development of **public sector industries was neglected** and only 6% fund was spent on this.

Positive Aspect

- The plan got beginner's success with 3.6% annual growth rate, actually prices came down. Many multipurpose irrigation projects were conceived, and rural development initiative was taken up.

Outcome

- Successful plan primarily because of good harvests in the last 2 years of the plan
- Objectives of rehabilitation of refugees, food self-sufficiency and control of prices were more or less achieved

FIRST FIVE YEAR PLAN (1951 -56)

- I – Irrigation and Energy, INDUSTRY
- P - POWER
- S - SOCIAL SERVICE
- Co - Communication
- A – Agriculture & Community Development
- T – Transport

Second Plan (1956-61)

Reasons

- ✓ Lack of purchasing power
- ✓ Unavailability of Infrastructure
- ✓ Unemployment

Major objective

- **Rapid Industrialisation**
- It was based on ***Mahalnobis Model***
- ✓ The emphasis of Mahalanobis model was on achieving self-reliance and also to meet the needs of our domestic economy

Goals

- Goal of establishing the **socialistic pattern of society** (Industrial Policy of 1956)
- Growth target of 4.5%
- It targeted a 25% increase in national income through rapid industrialisation
- **Rate of investment** planned to be raised from 7 % to 11% of national income.
- Rapid industrialization with particular emphasis on **development of basic and heavy industries**.

Outlay

- ✓ Public sector – 4800 cr
- ✓ Pvt sector – 3100 cr
- ✓ Actual outlay, however, amounted to **Rs. 4,600 crores** of which investment amounted to Rs. 3,650 crores and the balance Rs. 950 crores was current developmental expenditure

Achievements

- **Actual achievement** was only 20%
- **Achieved growth – 4.21%**
- **Per capita income** rose by 8%.
- Large industries including ***steel plants (Durgapur, Bhilai and Rourkela)*** were set up.
- The **locomotive factory at Chittaranjan and Coach factory at Perambur** were other major projects of this period.

Negative Aspect

- Due to the assumption of a closed economy, shortages of food and capital were felt during this plan

Positive Aspects

- Second plan was conceived in an atmosphere of economic stability
- This plan is known for a top-down industrialisation of the big industries creating a base for the growth of medium and small scale industries and going down to village and cottage industries
- Gave birth to the concept of Public Sector of state run enterprises based on the Russian model of Industrialisation
- Most of the public sector in India was set up during this plan period and also known as the industrialisation or the public sector plan

Outcome

- ✓ **Acute shortage of foreign exchange led to pruning of development targets**
- ✓ **Price rise was also seen**
- ✓ **Plan was only moderately successful**

Second five year plan (1956 -61)

- M - Mahalanobis Model
- A - Atomic Energy Commission
- D - Durgapur steel company,

Tata Inst of Fundamental Research

- R - Rourkela Steel Company, Rapid Industrialisation
- A - Agriculture
- S - Socialistic Pattern of Society

Third Plan (1961-66)

Reason

✓ At its conception, it was felt that Indian economy has entered a "takeoff stage"

Major Objective

- **Self sustaining growth**
- Based on **John Sandy and S Chakravarthy model**

Goals

3. Make India a 'self-reliant' and 'self-generating' economy
4. Growth target of 5.6%
5. Integrated growth of industry balanced with agriculture

Outlay

- Total proposed outlay → Rs. 11,600 crore [Rs. 7,500 crore was for the public sector]
- **Actual public sector outlay** → Rs. 8,576 crore

Achievements

- **Growth rate of only 2.2%** achieved as against a target of 5% per annum

Negative aspects

- Emphasis on basic industries continued but ***agriculture and allied sectors (irrigation and power) were allocated 35% of the outlay***
- **A series of crises** - China war (1962), Nehru's death (1964), Pakistan war (1965) and Shastri's death (1966), major drought (1965-66) - marred the smooth implementation of the plan
- **Inflation (36%) ate up much of the achievement; Rupee devaluation (1966)**

Positive Aspects

- ✓ Due to conflicts the approach during the later phase was shifted from development to **defence & development**
- ✓ Engineering industries like automobiles, cotton textile machinery, diesel engines, electric transformers and machine tools, advanced according to set-targets
- ✓ **FCI was established** to store grains imported under USPL-480 programme and PDS was started for rationing

Outcome

- Slowdown in industrial development
- Failure of monsoon and drought in many parts of the country
- Only 2% growth rate in foodgrain production
- Increase in inequality in income and wealth
- Challenging balance of payment situation
- Growth rate of per capita income was almost negligible
- It was a failed plan

Three Annual Plans or Holiday Plan (1966-69)

Major Objectives

- ✓ To overcome the ill-effects of two wars
- ✓ To solve the food problem
- ✓ To control inflation
- ✓ To prepare the base for the 4th plan
- Failure of Third Plan that of the **devaluation of rupee (to boost exports) along with inflationary recession** led to postponement of Fourth FYP, a plan holiday was declared for three years.

Outlay

- **Total** → Rs. 6,625.4 cr
- Agriculture and irrigation → 25% of total investment
- 23% → Industrial Sector

- 18% each in power and transport

Positive aspects

- All available resources were mobilised for building a **buffer stock** and for stepping up **food production** learning from the experience of near-famine years (1965-66).
- Favourable monsoons and technological break-through in wheat popularly known as **'green revolution'** reduced the inflationary pressure.
- **Nationalisation of banks** was another major step during this period.
- **Devaluation of currency in 1966**

Negative aspect

✓ Failed to control unemployment and inflation

Outcome

- Annual growth rate touched 6.9 % per annum
- Production of food grains reached 95 million tons in the year 1967-68

Holiday Plan (1966-69)

- Nationalisation of Banks
- Agriculture (Green Revolution in India)

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Fourth Plan (1969-74)

Outlay → 15782 cr

Reason

✓ Refusal of supply of essential equipment and raw materials from the allies during Indo Pak war

Major objective

- **Growth with stability** and progress towards **self-reliance** [Based on Gadgil Strategy]
- Emphasis on ***growth with distributive justice***.

Goals

- ✓ **self-sufficiency in agriculture and industrial production**. (In agriculture, growth rate of 5% per annum and in industrial production growth rate of 8% to 10% per annum were targeted)
- ✓ A substantial increase in the **outlay for family planning** (278 crores from 25 crores in third plan)

Achievements

- **Growth rate of only 3.3%** achieved as against a target of 5.7% per annum
- National income grew by 3.3% per annum
- Per capita income by 1.2% per annum
- Agricultural production by 2.8%
- Industrial production by 3.9%

Negative Aspect

- Droughts and the Indo-Pak war of 1971-72 led the economy to capital diversions creating financial crunch for the plan

Positive Aspect

- Nationalisation of 14 banks in 1969

Outcome

- Agriculture and Industrial sector growth rate was good in first two years but failed to continue momentum in the last 3 yrs
- High rate of inflation
- Sub-optimal utilization of capacities in the industrial sector
- Slowdown in new capacity creation
- Labour unrest
- Irregular monsoon
- High unemployment rate
- Higher growth rate of population
- Oil crisis in 1972-73
- Problem of refugees after 1971 war with Pakistan
- Growth rate of National Income was 3.2% (Actual Target --> 5.7%)
- Growth rate of per capita income was negligible

Fifth Plan (1974-79)

Outlay → 39,426 cr

Reason

- ✓ Economic crisis arising out of run-away inflation fuelled by hike in oil prices and failure of the government. takeover of the wholesale trade in wheat

Major objective

- Twin objectives of **poverty eradication and attainment of self-reliance**
- A National Programme for **Minimum Needs** including elementary education, safe drinking water, health care, and shelter for landless.
- Adequate collection and distribution system in order to provide the ***commodities*** of necessary consumption to the poor people on ***reasonable and stable prices***.
- Stress on **Export Promotion and Import Substitution**

Achievements

- **Growth rate of only 4.8%** achieved as against a target of 4.4% per annum
- Agricultural production increased by 4.2% – the highest so far

Negative Aspects

- The plan was declared closed one year before the schedule but later on the decision was reversed by the Congress government
- **No improvement in unemployment** situation
- Reduced targets for growth rate of national income as well as different sectors

Positive Aspects

- Moderate inflation of 2.1% per annum

Outcome

- Govt. Launched the **Twenty-point programme**
- Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards
- The plan period was badly disturbed by 1975 emergency and a change of government in the centre in 1977
- Havocs of inflation led the government to hand over a new function to ***RBI to stabilise inflation***
- This plan saw an **increase in the socio-economic and regional disparities**

Fifth five year plan (1974-79)

- P - Poverty Eradication
- E - Employment
- S - Self reliance
- T - Twenty Point Programme
- M - Minimum Need Programme

Pest Control

Emergency years (1975-1977)

- The Janata Government terminated the Plan in 1978.

Rolling Plan (1978-80)

Reason

- Janata Party government ended the 5th plan one year before schedule and started 6th plan (1978-83)

Outlay → 12,177 cr

Positive Aspect

- Janata government launched this rolling plan emphasising on **employment in contrast to Nehru model** which the government criticised for concentration of power, widening inequality and for mounting poverty

Negative Aspect

- Due to political instability and change in the government in the terminal year of the 5th plan, 6th plan could not be started on April 1, 1979 and was postponed for one year

Outcome

- ✓ This plan **could not be completed due to fall of 'Janata Party' government**
- ✓ The year 1979-80 was declared as annual plan and 6th plan started from April 1, 1980

Sixth Plan (1980-85)

Reason

- ✓ In 1980, there was again a **change of government** at the centre with the return of the congress which abandoned the 6th plan of the Janata government in the year 1980 itself and launched a different plan aimed at directly attacking on the problem of poverty by creating conditions of an expanding economy

Major objective

- **Poverty Alleviation [Garibi Hatao]** → it marked the transformation from allocating scarce resources in the economy to welfare orientation

Goals

- To ensure faster rate of economic development
- Efficient utilization of resources
- Reduction in unemployment and poverty
- To encourage modernisation for achieving economic and technological self-sufficiency
- Rapid development and efficient utilisation of the energy sources
- To increase people's participation through education
- To minimise regional disparity
- To minimise disparity of income and wealth
- Policies for controlling the population explosion

Outlay → 1,10,468 cr

Positive aspects

- Poverty alleviation gives the top priority
- Qualitative improvement in the living standards of people by means of **Minimum Need Programme (MNP)**
- Schemes for transferring skills **(TRYSEM)** and assets **(IRDP)** and providing slack season employment **(NREP)** → these were not new schemes, all different schemes were combined as one scheme and known as Integrated Rural Development Programmes (IRDP)
- First plan to focus on gender issues, women empowerment and the growing inequalities amongst the states and also intra-regional imbalances

Negative aspects

- Industrial growth rate was less than the targeted rate

Achievements

- Actual growth of national income was higher at 5.7% against a target of 5.2%
- **Increase of 16% per annum in real investment** in fixed asset by private sector
- **Poverty declined** from 48.3% in 1977-78 to 37.4% in 1983-84

Outcome

- Sixth Plan could be taken as a success as most of the targets were realised even though during the last year (1984-85) many parts of the country faced severe famine conditions and agricultural output was less.

- "First six five-year plans were directed plans as there was a larger role of public sector and substantially larger investment by the government or the government could ensure investment in specific areas as it was the major investor.
- The major emphasis in these plans were towards industrialisation, setting-up of the public sector, self-reliance and establishing India as a self-generating economy, to provide employment and meeting the needs of the economy, rather than they being provided directly by the government.
- Towards 5th and 6th plans, poverty and welfare orientation of the plans became visible."

Sixth five year Plan (1980-85)

- M – Management
- A - Agriculture production
- I - Industry production
- L - Local Development Schemes

Seventh Plan (1985-90)

Reason

- With the success of 6th FYP, government geared up towards long term perspective planning 1985-2000 with special focus on energy sector

Major objective: Growth, Modernisation, Self-reliance and Social justice

Goals

- Establishment of a self-sufficient economy
- Progress towards a social system based on equality and justice
- To prepare firm base for technological development in agriculture and industrial sector
- Faster growth in energy sector with focus on domestic resources
- Ecological and environment protection
- Strong emphasis on creation of productive employment on farm as well as rural subsidiary occupations.
- Stress on increasing the production of food grains, oilseeds, sugar, textiles, domestic fuel and housing.
- ***Outward-looking strategy with exports*** receiving high priority.

"This plan had **two very important areas**, one that of larger agricultural sector orientation of increasing production and productivity and the second pertains to a steady decline in the public sector investment implying a larger contribution of private sector "

Negative Aspects

- Tempo of domestic and external liberalisation hastened

- There was a ***severe short fall in mining sector*** (5.6% against a target of 13%)
- **Social sector performance fell far short of targets**– especially in housing for the landless, elementary education and general poverty alleviation.
- By the end of the plan, India had a **highly unfavourable balance of payment situation**. It has experienced for the first time, a problem of imports outstripping exports resulting in the balance of payment crisis requiring India to seek loan from IMF.

Positive Aspects

- The Plan had a **15-year perspective (1985-2000)** for removal of poverty, providing for basic needs, achieving universal elementary education and total access to health facilities.
- Modernisation of various public sector units was taken up
- **Promotion to sunrise industries** especially food processing and electronics
- For the first time, share of public sector in total plan outlay was less than 50% → 47.8%
- **Jawahar Rojgar Yojana (JRY)** was launched in 1989 with the motive to create wage-employment for the rural poor

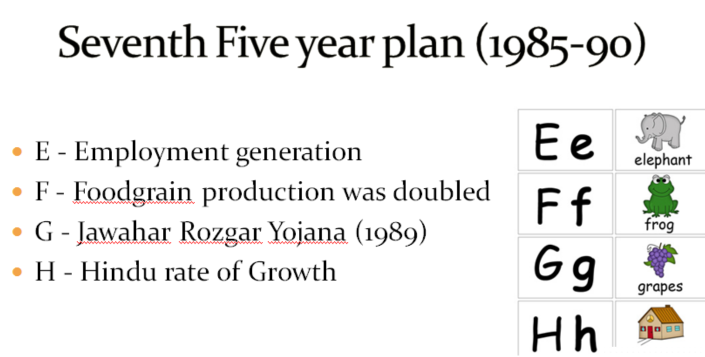
Achievements

- Average **annual growth rate** during the plan period was **5.6%** (target 5%).
- **Agriculture grew at 4.1%** against a target of 4%.
- ***Manufacturing industries achieved a growth rate of 8.8%*** (target 8%).

Outlay → 2,18,730 cr

Outcome

✓ The plan was **very successful as the economy recorded 6% growth rate** against the targeted 5% with the decade of 80's struggling out of the 'Hindu Rate of Growth'.



Two Annual Plans (1990-92)

Reason

✓ Due to economic crisis and political instability at the centre, 8th plan could not be started in 1990

Outcome

- **"New Industrial Policy"** was announced and it is considered the beginning of large scale liberalisation in the Indian Economy
- The two consecutive annual plans were formulated within the framework of the approach to the 8th plan with the **basic thrust on maximisation of employment and social transformation**

"Each successive plan after 7th plan has seen a phased reduction in public sector outlay and large levels of private sector, changing planning from 'directed to indirected', which is indicating which sectors require investments in terms of priorities and private sector is accordingly expected to make investment in those sectors."

Eighth Plan (1992-97)

Key issues during the launch of the plan:

✓ Worsening balance of payment situation
✓ Rising debt burden
✓ Widening budget deficit
✓ Recession in Industry
✓ Increasing inflation

Major objective: ***Human resource development***

Goals

- Creation of sufficient employment opportunities and achieve full employment by the end of the century
- To control population explosion by people's participation
- Modernisation and diversification of industries to make them more competitive
- Special emphasis on areas like primary education, drinking water, health
- Universalisation of primary education and 100% literacy in the age group 15-35 yrs
- Diversification in agriculture sector with the objective of self sufficieny and surplus for export

Outlay

- The level of **national investment proposed was Rs. 7,98,000 crore** and the public sector outlay, Rs. 4, 34,100 crore.
- Consistent with the expected resources, the size of the plan of the States and Union Territories was projected at Rs. 1,86,235 cr and of the central plan at Rs. 2, 47,865 crores.

Positive aspects

- The plan was **launched in 1992 after the plan holiday** during the economically and politically difficult days of 1990-91 and 91-92
- It was Manmohan-Rao (F.M- P.M.) Era of economic liberalization
- **Modernisation of industries** was focused
- India became member of WTO to pace with world economics

Negative aspects

- **Share of the public sector in total plan outlay was 34.3%** much below the target of 45.2%
- **Actual employment growth was only 2%** against a target of 2.6%.

Achievements

- **Per capita national output grew by 3.9% per annum**. But, this growth masked considerable distortion in the distribution front. From data regarding inflation and price indices, there is evidence that the poor became poorer despite 'the safety net'.
- **Annual growth rate achieved in the Plan period is 6.8%** against the target of 5.6 %.
- **Agriculture sector growth rate was 3.6%** higher than the target of 3.5%
- **Industrial sector growth rate 8.5%** higher than the the target of 8.1%

Outcome

- The **Eighth Plan was to walk on 'two legs'** - one leg of alleviating poverty and removing unemployment; and the other 'leg' providing a 'safety net' for those who will be affected by the structural adjustment programme. The plan had thus built in the 'human face' element of adjustment.
- Rapid economic growth (highest annual growth rate so far – 6.8 %)
- High growth of agriculture and allied sector, and manufacturing sector
- Growth in exports and imports
- Improvement in trade and current account deficit

Ninth Plan (1997-2002)

Reason

- 8th plan period ended in 1997. Implementation of the 9th plan was to begin from the same year.

- But a **series of political crises** in the country delayed the formulation and approval of the plan by two years.
- The NDC finally approved the plan in February 1999, envisaging a GDP growth rate of 6.5 percent per annum. Though delayed by two years in approval, the plan was to run its period through to 2002

Major objective: ***Equitable distribution and growth with equality***

Goals

- To extend the achievements of 8th plan
- To create sufficient productive employment
- To give priority to the development of agriculture for eradication of poverty
- To keep the prices under control for faster economic development
- To ensure food and nutritional security to all, especially the vulnerable
- To control the population growth rate
- To provide the basic minimum services like clean drinking water, primary health care facility , universal primary education, housing etc.
- To encourage mass participation through institutions like Panchayati Raj institutions, cooperatives and voluntary organisations

Outlay:

The size of the plan was estimated to be **Rs. 8,59,000 crore** at 1996-97 prices. This included plans of the Centre, States and public sector undertakings. The gross budgetary support to the plan from the Centre was fixed at Rs. 3,74,000 crore. Resources from public sector undertakings and states were estimated to be Rs. 2, 90,000 crore and Rs. 1, 95,000 crore respectively.

Positive Aspects:

- The development strategy emphasised the role of markets and the need for government to intervene to promote a degree of competition through suitable legislation. Licence Raj was to be ended. The Plan emphasised **cooperative federalism**. It also stressed the importance of infrastructural development.
- Aimed to depend prominently on the private sector
- The Plan was indicative in nature, focusing on policies. It also provided a 15-year perspective.
- It aimed to achieve a growth rate of 8% per annum in the medium term and a rate of 6.5% during the plan period (1997-2002).
- It assigned priority to agriculture and rural development with a view to generate adequate productive employment and eradicate poverty
- Envisaged the **creation of 52 million jobs** as against the demand for job opportunities for 60.5 million persons.

- The backlog of unemployment, which was 7.5 million at the close of the eighth Plan, was expected to be 6.6 million at the end of the Ninth Plan.

Negative aspects:

- The **GDP grew only by 5.35% per annum** during the plan period against the target of 6.5%. The shortfall was due to ***poor performance by agricultural and industrial sectors***, as explained in the table below.

Sector	**8th Plan**	**9th Plan**
Agriculture	4.69	**2.06**
Manufacturing	**7.58**	**4.51**
Services	**7.54**	**7.78**
Total	**6.68**	**5.35**

- 9th plan was launched when there was an all round 'slowdown' in the economy by the South East Asian Financial Crisis (1996-97)
- Some other development during the ninth plan, such as cyclone in Orissa, earthquake in Gujarat, Kargil war etc. also resulted in diversion of resources from investment and consequent decline in the growth rates.

Outcome:

The issue of fiscal consolidation became a top priority of the governments for the first time, which had its focus on the following related issues:

1. Sharp reduction in revenue deficit of government, including centre, states and PSUs through a combination of improved revenue collections and control of in-essential expenditures
2. Cutting down subsidies, collection of user charges on economic services (i.e. electricity, transportation, etc.), cutting down interest, wages, pension, PF, etc;
3. Decentralisation of planning and implementation through greater reliance on states and the PRIs.

9th was developed in context of 4 important dimensions of the government policy:

- ✓ Improving the quality of the life
- ✓ Generation of Productive employment
- ✓ Creation of regional balances
- ✓ Self-reliance

Tenth Plan (2002-07)

Reason:

- Taking note of the inabilities of the earlier Five Years Plans, especially that of the 9th Five Year Plan, government decided to take up a resolution for immediate implementation of all the policies formulated in the past.
- **Major objective: Growth with emphasis on human development**

Goals:

- **The Tenth Plan laid down an ambitious target of 8% annual growth rate for the economy, against the prevailing rate of 5.5%.**
- Its long-term vision was to ***double the per capita income*** in the next ten years, to reduce the decadal population growth from 21.3% (1991-2001) to 16.2% by 2010-11 and to ensure that the growth in gainful employment kept pace with the addition to the labour force.

Total outlay: Rs. 15,92,300 crore

Positive Aspects:

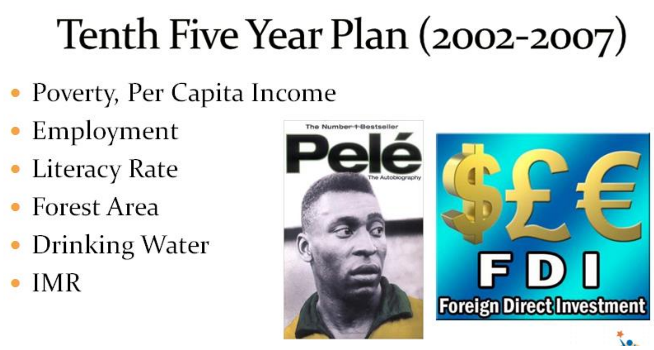
- Accepting that the higher growth rates are not the only objective – it should be translated into ***improving the quality of life of the people***
- For the first time the plan went to set the **'monitorable targets'** for 11 select indicators of development for the centre as well as for the states
- **'Governance'** was considered a factor of the development
- Agriculture sector declared as the **priming moving force (PMF) of the economy**
- Increased emphasis on the social sector i.e. education, health etc.

Negative Aspects:

- For too many people still lacked the basic requirements for a decent living in terms of nutritional standards, access to education and basic health, and also many other public services such as water supply and sewage.
- The benefits did not reach fully some disadvantages sections like the Scheduled Castes and Tribes and minorities.
- **Regional imbalances** - both across states and even within states - were also noticed.
- Against the ambitious target of 8%, the ***economy grew at the rate of 7.7%*** on an average during the 10th Plan period.
- Evaluation by the Planning Commission noticed that while the **rate of growth was impressive, it was lop-sided and did not benefit all people alike**.

Outcome:

- ✓ Poor performance of agriculture sector
- ✓ Critical areas like employment and social infrastructure were neglected
- ✓ Foreign exchange reserves have gone up from about $50 billion to more than $200 billion



Eleventh Plan (2007-12)

Reason:

10th plan reflected the concern that economic growth alone may not lead to the attainment of the long term sustainability and of adequate improvement in social justice

Major objective: Faster and more Inclusive Growth

Goals:

- **The Eleventh Plan targets to resolve the regional imbalance still prevailing in the country.**
- The Plan document, sub-titled **Inclusive Growth**, outlines a strategy for making growth both faster and more inclusive. Encouraged by the achievement of a rate of 7.7% on an average during the 10th Plan, itself a target of 9% growth during the Plan period, with acceleration during the period to reach 10% by the end of the Plan.
- The target of 9% growth requires the average rate of investment to rise from 32% (during 10th Plan) to 37% in the current plan, reaching 39% at the end of the plan period.

- Private investment which has contributed 78% of the investment during the 10th Plan is expected to maintain its share.
- Public investment is expected to be maintained at the same level of 22% as in the 10th Plan.
- Planning Commission has framed a plan for achieving faster growth with greater inclusiveness which involves the following interrelated components:
  a) a continuation of the policy of economic reform which has created a competitive private sector capable of benefiting from the opportunities provided by greater integration with the world;
  b) more emphasis on agriculture,
  c) improved access to essential services in health and education (including skill development);
  d) special thrust on infrastructural development;
  e) special attention to the needs of disadvantaged groups, and
  f) good governance at all level, central, state and local.
- The broad targets fixed by the 11th Plan include a 4% per cent growth in Agriculture sector, 10% growth in Industries and Minerals, and investment in infrastructure to grow from 5.43% of GDP in 06-07 to 9.43% by the end of the 11th Plan.

Total public sector outlay in the Eleventh Plan (both Central and States and including the PSEs) is estimated at 36,44,718 crore. Of this total, the share of the Centre (including the plans of Public Sector Enterprises (PSEs) will amount to 21,56,571 crore, while that of the States and union territories (UTs) will be 14,88,147 crore.

27 National Targets under 11th Plan

The Plan has adopted 27 targets at the national level to ensure inclusive growth. These are related to:

(i) income and poverty
(ii) education
(iii) Health
(iv) women and children
(v) infrastructure
(vi) environment

a) Targeted growth of GDP at 9% per year.
b) To raise industrial growth rate from 9.2% in 10th Plan to 10% in 11th Plan.
c) To reduce unemployment among educated youth to less than 5%.
d) To reduce Infant Moraling Rate (IMR) to 28 and Material Morality Rate (MMR) to 1 per 1000 on live births by the end of plan.
e) To increase sex-ratio to 935 by 2011-12 and 950 by 2016-17.
f) To ensure that all children enjoy a safe childhood, without any compulsion to work.
g) To ensure electricity connection to all villages and BPL household by 2009 and 24-hour power supply by the end of this plan.
h) To achive standards of air quality in all cities
i) To treat all urban waste water by 2011-12.

j) To increase forest and tree cover by 5%.

Negative Aspects:

- Restoring dynamism in agriculture
- Managing India's water resources
- Problems in achieving power generation targets
- Issues pertaining to urbanisation
- Special problems of urban development
- Increase in the key deficit indicators
- Issue of price stability

Positive Aspects:

- It has brought out the need for **neo-liberal policies** given the changing political dynamics and a changed face of the economy
- It gave thrust to **Public Private Partnership (PPP) model** for infrastructural development in the economy

Achievements:

- **Growth rate of 8%** achieved as against a target of 9% per annum
- The shortfall in achievement of (various growth targets) can be attributed both to internal and external factors viz. global slowdown, fluctuations in international prices, strong inflationary pressures and negative growth in agriculture due to drought like situation
- **Domestic savings and investment** averaged 33.5 % and 36.1% of GDP at market prices respectively in the Eleventh Plan which is below the target but not very far.

Outcome:

- India had **emerged as one of the fastest growing economy** by the end of the Tenth Plan
- The savings and investment rates had increased, industrial sector had responded well to face competition in the global economy and foreign investors were keen to invest in India
- But the growth was not perceived as sufficiently inclusive for many groups, specially SCs, STs & minorities as borne out by data on several dimensions like poverty, malnutrition, mortality, current daily employment etc
- Since the period saw two global crises - one in 2008 and another in 2011 – the 8% growth may be termed as satisfactory.
- Based on the latest estimates of poverty released by the Planning Commission, poverty in the country has declined by 1.5 percentage points per year between 2004-05 and 2009-10.

Eleventh five year plan (2007 -2012)

- T - Telecommunicatons (2G)
- E - Electricity, Environment Science
- A - Anemia
- C - Clean water
- H - Health education
- E - Environment Science
- R - Rapid growth
- S - Skill Development

Eleventh Plan Achievements on Inclusive Growth:

- **GDP growth** in the Eleventh Plan 2007–08 to 2011–12 was 8 % compared with 7.6 % in the Tenth Plan (2002–03 to 2006–07) and only 5.7 % in the Ninth Plan (1997–98 to 2001–02). The growth rate of 7.9 % in the Eleventh Plan period is one of the highest of any country in that period which saw two global crises.
- **Agricultural GDP growth** accelerated in the Eleventh Plan, to an average rate of 3.7 %, compared with 2.4 % the Tenth Plan, and 2.5 % in the Ninth Plan.
- The **percentage of the population below the poverty line declined** at the rate of 1.5 percentage points (ppt) per year in the period 2004–05 to 2009–10, twice the rate at which it declined in the previous period 1993–94 to 2004–05. (When the data for the latest NSSO survey for 2011–12 become available, it is likely that the rate of decline may be close to 2 ppt per year.)
- The rate of growth of real consumption per capita in rural areas in the period 2004–05 to 2011–12 was 3.4 % per year which was four times the rate in the previous period 1993–94 to 2004–05.
- The ***rate of unemployment declined*** from 8.2 % in 2004–05 to 6.6 % in 2009–10 reversing the trend observed in the earlier period when it had actually increased from 6.1 per cent in 1993 –94 to 8.2 per cent in 2004–05.
- **Rural real wages increased** 6.8 % per year in the Eleventh Plan (2007 –08 to 2011–12) compared to an average 1.1 % per year in the previous decade, led largely by the government's rural policies and initiatives
- **Complete immunization rate increased** by 2.1 ppt per year between 2002–04 and 2007–08, compared to a 1.7 ppt fall per year between 1998–99 and 2002–04. Similarly, institutional deliveries increased by 1.6 ppt per year between 2002–04 and 2007–08 higher than the 1.3 ppt increase per year between 1998–99 and 2002–04.
- **Net enrolment rate at the primary level** rose to a near universal 98.3 % in 2009–10. Dropout rate (classes I–VIII) also showed improvements, falling 1.7 ppt per year between 2003–04 and 2009–10, which was twice the 0.8 ppt fall between 1998–99 and 2003–04.

Twelfth Five Year Plan (2012-2017)

Reasons:

- Global economy was going through a second financial crisis, precipitated by the sovereign debt problems of the Euro-zone

⇨ The crisis affected all countries including India. Our growth slowed down to 6.2% in 2011-12.

⇨ Domestic economy has also run up against several constraints. Macro-economic balances have surfaced following the fiscal expansion undertaken after 2008 to give a fiscal stimulus to the economy. Inflationary pressures have built up.

Major objective: Faster, Sustainable and More Indusive Growth

Planning Commission in its meeting held on April 2011, the Prime Minister, Dr. Manmohan Singh, addressed the Planning Commission concerning the twelth Five Year Plan of India. The main point of the Twelfth Plan are:

Resource Allocation Priorities in 12th plan

- **Health and Education received less than projected in Eleventh Plan**. Allocations for these sectors will have to be increased in 12th plan.
- Health, Education and Skill Development together in the Centre's Plan will have to be increased by at least 1.2% point of GDP.
- Infrastructure,including irrigation and watershed management and urban infrastructure, will need additional 0.7 percentage point of GDP over the next 5 years.
- Since Centre's GBS will rise by only 1.3 percentage points over 5 years, all other sectors will have a slower growth in allocations.
- Decrease the number of Centrally Sponsored Schemes (CSS) to a few major schemes. For the rest, create new flexi-fund which allow Ministries to experiment in other CSS areas.
- PPP model must be encouraged, including in the social sector, i.e. health and education. Efforts on this front need to be intensified.
- Distinction between plan and non-plan being reviewed by Rangarajan Committee.

Broad Objectives of 12th Five Year Plan

- To reduce poverty
- To improve regional equality across states and within states
- To improve living conditions for SCs, STs, OBCs, Minorities
- To generate attractive employment opportunities for Indian youth
- To eliminate gender gaps

Monitorable Targets of the Plan:

25 core indicators listed below reflect the vision of rapid, sustainable and more inclusive growth of the twelfth Plan:

Economic Growth

1. Real GDP Growth Rate of 8.0 %
2. Agriculture Growth Rate of 4.0 %
3. Manufacturing Growth Rate of 10.0 %

4. Every State must have an average growth rate in the Twelfth Plan preferably higher than that achieved in the Eleventh Plan.

Poverty and Employment

5. Head-count ratio of consumption poverty to be reduced by 10 percentage points over the preceding estimates by the end of Twelfth FYP.
6. Generate 50 million new work opportunities in the non-farm sector and provide skill certification to equivalent numbers during the Twelfth FYP.

Education

7. Mean Years of Schooling to increase to seven years by the end of Twelfth FYP.
8. Enhance access to higher education by creating two million additional seats for each age cohort aligned to the skill needs of the economy.
9. Eliminate gender and social gap in school enrolment (that is, between girls and boys, and between SCs, STs, Muslims and the rest of the population) by the end of Twelfth FYP.

Health

10. Reduce IMR to 25 and MMR to 1 per 1,000 live births, and improve Child Sex Ratio (0 –6 years) to 950 by the end of the Twelfth FYP.
11. Reduce Total Fertility Rate to 2.1 by the end of Twelfth FYP.
12. Reduce under-nutrition among children aged 0–3 years to half of the NFHS-3 levels by the end of Twelfth FYP.

Infrastructure, Including Rural Infrastructure

13. Increase investment in infrastructure as a percentage of GDP to 9 % by the end of Twelfth FYP.
14. Increase the Gross Irrigated Area from 90 million hectare to 103 million hectare by the end of Twelfth FYP.
15. Provide electricity to all villages and reduce AT&C losses to 20 % by the end of Twelfth FYP.
16. Connect all villages with all-weather roads by the end of Twelfth FYP.
17. Upgrade national and state highways to the minimum two-lane standard by the end of Twelfth FYP.
18. Complete Eastern and Western Dedicated Freight Corridors by the end of Twelfth FYP.
19. Increase rural tele-density to 70 % by the end of Twelfth FYP.
20. Ensure 50 % of rural population has access to 40 lpcd piped drinking water supply, and 50 % gram panchayats achieve Nirmal Gram Status by the end of Twelfth FYP.

Environment and Sustainability

21. Increase green cover (as measured by satellite imagery) by 1 million hectare every year during the Twelfth FYP.
22. Add 30,000 MW of renewable energy capacity in the Twelfth Plan
23. Reduce emission intensity of GDP in line with the target of 20 % to 25 % reduction over 2005 levels by 2020.

Service Delivery

24. Provide access to banking services to 90 per cent Indian households by the end of Twelfth FYP.
25. Major subsidies and welfare related beneficiary payments to be shifted to direct cash transfer by the end of the Twelfth Plan, using the Aadhar platform with linked bank accounts.

- 13th Finance Commission increased the devolution to the states from 30.5 %to 32 % of divisible pool and it covers the period up to 2014-15, which includes the first three years of the twelfth Plan.
- The projections of resources for the Twelfth Plan have been made assuming 28.45 % of tax devolutions of the Gross Tax revenue.
- This has been assumed by factoring in the surcharges being phased out and keeping the same ratio beyond 13th FC period till the terminal year of the Twelfth Plan.
- Recently 14th Finance Commission increased the devolution to the states from 32 %to 42 % of divisible pool and it covers the period up to 2015-16

12 th Five Year Plan (2012-17)

- Sanitation, Skill Development
- Health
- Education
- PRI
- Agriculture
- Infrastructure

Review of Five-Year Plans

Sectorial Growth Rate in Different Five Years Plans

Plan	Growth Rate	Agri-culture	Industry	Services	Actual Growth Rate
Frist Plan	2.1	2.71	5.54	4.17	3.6
Second Plan	4.5	3.15	5.59	4.94	4.21
Third Plan	5.6	-0.73	6.28	5.26	2.72
Plan Holiday		4.16	1.42	4.1	3.69
Fourth Plan	5.7	2.57	4.91	3.22	2.01
Fifth Plan	4.4	3.28	6.55	5.66	4.83
Sixth Plan	5.2	2.25	5.32	5.41	5.4
Seventh Plan	5	3.47	6.77	7.19	6
Eighth Plan	5.6	4.68	7.58	7.54	6.68
Ninth Plan	6.5	2.06	4.51	7.78	5.4
Tenth Plan	8	2.34	8.9	9.4	7.5
Eleventh Plan	9 (8.1)	4	10.5	9.9	8
Twelth Plan	8	04	10.9	10	–

The following interferences can be drawn from the above table

- The average growth during the period of 1st to 11th plan works out to be about 4.5%. This is quite a **considerable achievement compared to 1% growth during the pre-Independence period**
- **Agriculture has been growing** at 2-3% during the plan periods as against 0.3% growth during the pre-Independence period
- **Spectacular industrial progress** has been made during the plan periods. The industrial growth is recorded at 6-8% which is nearly 3-4 times higher than the growth rate during the pre-Independence period
- The trend growth rate during the first 3 decades of the planning was extremely modest at the rate of 3.5% per annum. In the later phase of 1981-2013, the growth rate was recorded at 5.9% per annum
- It is clear that there was a ***sharp acceleration in the rate of growth since 1980***. It went almost unnoticed. It came into limelight in the early 2000s. A majority of scholars opined that the structural break in the economic performance of independent India occured around 1980. The growth was impressive, not only in comparison with the part in India but also in comparison with the performance of most developed countries in the world.
- In developed countries, the industrial and service sectors contribute a major share in GDP with agriculture accounting for a relatively lower share. During the progress of growth over the years, the Indian economy too experienced an **improvement in the shares of industry and services sector in overall GDP**. However, the share of agricultural sector in GDP has been continuously declining and it came down to 13.9% in 2013-14. It is a cause of worry as the Indian agriculture has been in crisis with crop holidays and farmers suicides
- A **significant growth rate is noticed with regard to service sector**. During 2008-09 to 2013-14, the contribution of services to GDP growth was as high as 69.8%. It reflects the structural transformation of the economy, as it moves to a somewhat higher level of development. However, one should think about the sustainability of this pattern of growth. The real failure, throughout the second half of the 20th century, was

India's inability to tranform its growth into development, which would have brought about an improvement in the living conditions of common people.

Self-Reliance:

- The **4th plan set before itself the two principal objectives** of "growth with stability" and "progressive achievement of self-reliance"
- Even in the subsequent plans, planned development enabled India to be self sufficient in most of the important sectors and productive activities
- It is no small achievement to note that ***India is the only country with self sufficiency to a considerable extent among the 115 developing countries*** of the world
- In the field of self reliance, India has made two achievements. First, the country is now almost **self-sufficient in food**. Second, with the growth of iron and steel; machine tools and heavy engineering industries, India made advancement towards self-reliance in **capital equipment**

Balanced regional development:

- Regional disparities in development have been a major concern throughout the plan period. The Planning Commission has sought to **tackle the problem of regional disparities in 3 ways:**
  1) The recognition of backwardness as a factor to be taken into account in the transfer of financial resources from centre to states
  2) Special area development programmes directed at development of backward areas
  3) Measures to promote private investment in backward areas
- It is now well established that the ***inter-state disparities in the growth of GSDP have increased in the post reform period*** beginning from early 90s when compared to 80s
- The general view is that the richer states have grown faster than the poorer states.
- The regional disparities in per capita GSDP growth is even greater because the poorer states in general have experienced a faster growth in population
- The states whose pre-reform conditions were favourable in respect of infrastructure could benefit from the opportunities opened up, especially in the service sector, by economic reforms and could register higher growth rates in GSDP
- Naturally, the **private investment has been flowing basically to the high income states** where per capita outlays have been higher and where infrastructure is well developed
- More than half of the share in FDI and foreign technical collaborations were attracted by the advanced states such as Maharashtra, Gujarat and Tamil Nadu

Enhancement of employment opportunities:

- The extent of unemployment in the country at the start of the planning and its reduction over the years shows how eradication of unemployment is being undertaken

- As per the **68th round of NSSO**;unemployment rate according to Usual Principal Status (UPS) was 2.7% for 2011-12; while it was 3.7% according to Current Weekly Status (CWS) and 5.6% according to Current Daily Status (CDS). It implies that high degree of intermittent unemployment is there in India
- **Rural unemployment in the form of seasonal unemployment is higher** than urban unemployment
- Over the years, government has introduced different employment generation programmes on permanent basis sometimes and on majority of times

Reduction in Income Inequalities:

- During the plan period, **income distribution in India has been skewed in favour of the top 20% of people in the country**
- In the mid 90s income disparity between the top and bottom levels of the population was nearly 5 times
- During the whole plan period, income inequalities have not been reduced in India
- In the post reform period, especially last one and half decades income inequalities have been further widening

Elimination of Poverty:

- During the plan period, various measures have been introduced by the government to reduce the problem of poverty in the country.
- Provision of essential food items and kerosene through the PDS at subsidised prices, rural and urban employment programmes, free education, health and housing facilities are some key government programmes in this direction
- The government has also proposed food security legislation according to which food at affordable prices would be made available to the people below the poverty line
- All the estimates state that rural poverty is relatively more when compared to urban poverty

Modernisation:

- The term modernisation means a variety of structural and institutional changes in the economic activities
- India has given importance to science, technology and rationalization during the plan period to improve productivities
- New agricultural strategy in the form of **green revolution** was introduced in the 3rd five year plan
- From the **7th plan onwards technological advances** were given priority under modernization

Inclusiveness and sustainability of growth:

- Inspite of relatively satisfactory performance in some of the macro economic variables, **post-reform period witnessed slow rate** of reduction in poverty, low quality of employment of growth, increase in rural-urban disparities, increase in income inequalities across the social groups and increase in the regional disparities.

- ***Agricultural growth was low in the last 10 yrs and farmer suicides*** are more evident in the post-reform period.
- By keeping these imp issues in mind , 11th FYP introduced the objective of inclusiveness and sustainability of growth
- **Inclusive growth is a broader concept** covering economic, social and cultural aspects of development.
- The major components of inclusive growth in India are
  - (i) Agriculture growth
  - (ii) Employment generation and poverty reduction
  - (iii) Reduction in regional and other disparities
  - (iv) Achieving an equitable growth
- The objective of inclusiveness is reflected in the adoption of monitorable targets in 12th FYP. Inclusiveness primarily aims at providing economic benefits to hither to neglected marginalized sections so that economy can move towards an equitable growth.

1.13 Major challenges in the economy:

- Delivering essential public services to the poor
- Regaining agricultural dynamism and improving the status of farmers with reference to performance of human development particularly in health and education
- Increasing manufacturing competitiveness to face global competition
- Developing human resources
- Protecting the environment
- Improving governance
- Removing regional backwardness
- Bridging the gap between urban and rural India
- Inclusion of social and marginal groups, women, minorities and children in growth process
- Women empowerment

1.14 Achievements of Planning:

- There is a considerable rise in Net Domestic Product, savings and investment
- Per capita incomes have increased
- India has achieved self-sufficiency in almost all basic and capital goods industries and consumer goods industries
- Self-sufficiency in foodgrains production is achieved and food security is assured
- There is a good deal of diversification in industrial structure
- The plans have created significant infrastructure particularly in the fields of transport, irrigation and telecommunications

➔ There has been tremendous development of educational sector and there has been a significant growth in trained scientific and technical manpower. India is one of the leading nations in IT and space exploration

Failures of Planning:

⇨ Incidence of poverty is relatively high in rural areas
⇨ Unemployment has risen. This is the basic reason for poverty in both urban and rural areas
⇨ Inequalities of income have not been reduced. They have been widening in the post reform era
⇨ There is unequal land ownership as land reforms are inadequately implemented
⇨ Regional disparities still persist

2. FROM PLANNING TO NITI AAYOG

- NITI → **National Institution for Transforming India**
- Established by the government of India as a ***replacement for the Planning Commission***
- It is formed on the basis of extensive consultations across the stake holders – state governments, relative institutions, experts and the people at large
- India has undergone a paradigm shift over the past six decades - politically, economically, socially, technologically as well as demographically. The role of Government in national development has seen a parallel evolution.
- NITI has not come into existence all of a sudden. The ***document of 8th five yr plan, standing committee on finance in its report on demand for grants (2011-12) and Manmohan Singh*** accepted in his farewell address to the Planning Commission in 2014 have sought appropriate changes in the Planning Commission

8th Five Year Plan document:

➔ The very first plan after the liberalisation of 1991 - itself categorically stated that, as the role of Government was reviewed and restructured, the role and functions of the Planning Commission too needed to be re-thought.

➔ The Planning Commission needed to be reformed to keep up with changing trends; letting go of old practices and beliefs whose relevance had been lost, and adopting new ones based on the past experiences of India as well as other nations.

Standing Committee on Finance of the 15th Lok Sabha

➔ Observed in its **35th Report on Demand for Grants (2011-12)** that the Planning Commission "has to come to grips with the emerging social realities to re-invent itself to make itself more relevant and effective for aligning the planning process with economic reforms and its consequences, particularly for the poor"

Mahatma Gandhi had said:

- "Constant development is the law of life, and a man who always tries to maintain his dogmas in order to appear consistent drives himself into a false position". Keeping true to this principle our institutions of governance and policy must evolve with the changing dynamics of the new India, while remaining true to the founding principles of the Constitution of India, and rooted in our Bharatiyata or wisdom of our civilizational history and ethos.
- Keeping with these changing times, the Government of India has decided to set up Niti Aayog (National Institution for Transforming India), in place of the erstwhile Planning Commission, as a means **to better serve the needs and aspirations of the people of India**
- The new institution will be a catalyst to the developmental process; nurturing an overall enabling environment, through a holistic approach to development going beyond the limited sphere of the Public Sector and Government of India
- At the **core of Niti Aayog's creation are two hubs – Team India Hub and the Knowledge and Innovation Hub**. The Team India Hub leads the engagement of states with the Central government, while the Knowledge and Innovation Hub builds NITI's think-tank capabilities. These hubs reflect the two key tasks of the Aayog.

2.1 Functions and Mandates of NITI Ayog:

- Think tank for Government policy formulation.
- Find best practices from other countries, partner with other national and international bodies to help their adoption in India.
- Cooperative Federalism: Involve state governments and even villages in planning process.
- Sustainable development
- Urban Development: to ensure cities can remain habitable and provide economic venues to everyone.
- Participatory Development: with help of private sector and citizens.
- Inclusive Development or Antyodaya: Ensure SC, ST and Women too enjoy the fruits of Development.
- Poverty elimination to ensure dignity and self-respect.
- Focus on 5 crore Small enterprises– to generate more employment for weaker sections.
- Monitoring and feedback. Midway course correction, if needed.
- Make policies to reap demographic dividend and social capital.
- Regional Councils will address specific "issues" for a group of states. Example: Regional Council for drought, Left-wing extremism, Tribal welfare and so on.
- Extract maximum benefit from NRI's geo-economic and Geo-political strength for India's Development.
- Use Social media and ICT tools to ensure transparency, accountability and good governance.
- Help sorting inter-departmental conflicts.

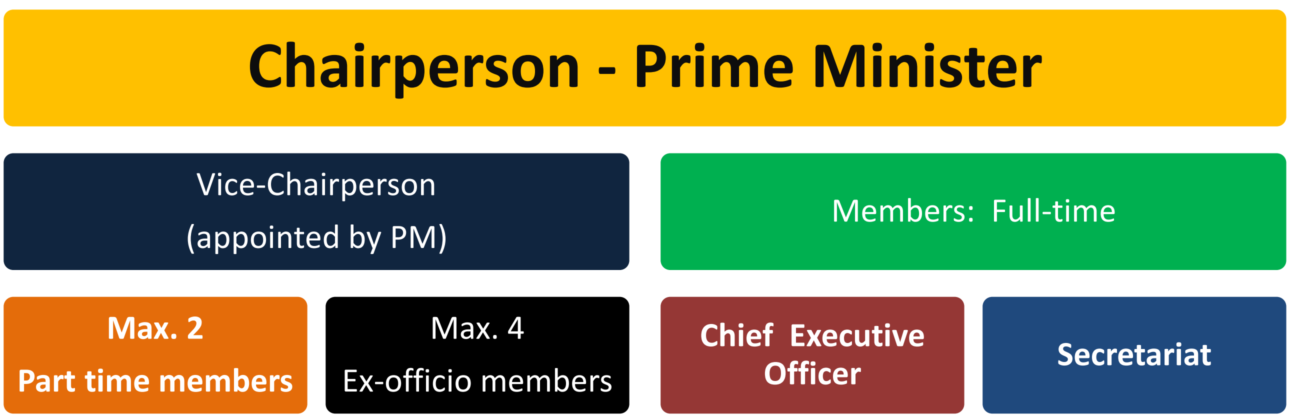
2.2 Structure of NITI:

Niti Aayog will comprise:

- **Chairperson:** Prime Minister of India
- **Governing Council**: comprising the Chief Ministers of all States and Lt. Governors of Union Territories
- **Regional Councils**: will be formed to address specific issues and contingencies impacting more than one state or region. Strategy and Planning in the Niti Aayog will be anchored from State-level; with Regional Councils convened by the Prime Minister for identified priority domains, put under the joint leadership of related sub-groups of States (grouped around commonalities which could be geographic, economic, social or otherwise) and Central Ministries.

  Regional Councils will

  - ✓ Have specified tenures, with the mandate to evolve strategy and oversee implementation
  - ✓ Be jointly headed by one of the group Chief Ministers (on a rotational basis or otherwise) and a corresponding Central Minister.
  - ✓ Include the sectoral Central Ministers and Secretaries concerned, as well as State Ministers and Secretaries.
  - ✓ Be linked with corresponding domain experts and academic institutions.
  - ✓ Have a dedicated support cell in the Niti Aayog Secretariat
- **Special Invitees:** experts, specialists and practitioners with relevant domain knowledge as special invitees nominated by the Prime Minister.



- Prime Minister as the Chairperson
- **Vice-Chairperson**: to be appointed by the Prime Minister
- **Members:** full-time
- **Part-time Members:** maximum of 2, from leading universities, research organisations and other relevant institutions in an ex-officio capacity. Part time members will be on a rotational.
- **Ex-Officio Members:** maximum of 4 members of the Union Council of Ministers to be nominated by the Prime Minister.
- **Chief Executive Officer:** to be appointed by the Prime Minister for a fixed tenure, in the rank of Secretary to the Government of India.
- **Secretariat:** as deemed necessary

Niti Aayog will aim to accomplish the following objectives and opportunities:

- ⇨ An administration paradigm in which the Government is an "enabler" rather than a "provider of first and last resort."
- ⇨ Progress from "food security" to focus on a mix of agricultural production, as well as actual returns that farmers get from their produce.
- ⇨ Ensure that India is an active player in the debates and deliberations on the global commons.
- ⇨ Ensure that the economically vibrant middle-class remains engaged, and its potential is fully realized.
- ⇨ Leverage India's pool of entrepreneurial, scientific and intellectual human capital.
- ⇨ Incorporate the significant geo-economic and geo-political strength of the Non-Resident Indian Community.
- ⇨ Use urbanization as an opportunity to create a wholesome and secure habitat through the use of modern technology.
- ⇨ Use technology to reduce opacity and potential for misadventures in governance.

The Niti Aayog aims to enable India to better face complex challenges, through the following:

- Leveraging of India's demographic dividend, and realization of the potential of youth, men and women, through education, skill development, elimination of gender bias, and employment
- Elimination of poverty, and the chance for every Indian to live a life of dignity and self-respect
- Redressal of inequalities based on gender bias, caste and economic disparities
- Integrate villages institutionally into the development process
- Policy support to more than 50 million small businesses, which are a major source of employment creation
- Safeguarding of our environmental and ecological assets

2.3 VEHICLE OF GOOD GOVERNANCE

- ➢ Chanakya had mapped out centuries ago how good governance was at the root of a nation's wealth, values, comfort and happiness.
- ➢ Niti Aayog will seek to facilitate and empower this critical requirement of good governance, which is people-centric, participative, collaborative, transparent and policy-driven.
- ➢ It will provide critical directional and strategic input to the development process, focussing on deliverables and outcomes.
- ➢ This, along with being as incubator and disseminator of fresh thought and ideas for development, will be the core mission of Niti Aayog.

2.4 Niti Aayog's Vision for New India:

- **With the aim to transform India, NITI Ayog has envisioned an ambitious agenda for the country to be achieved by 2032**. The five year plan will be replaced by a three year action plan which will be a part of a seven year strategy that will in turn help to realise 15 year long term vision.
- The ***target set for next 15 years*** include 3 fold rise in GDP, Rs. 2 lakh increase in per capita GDP and facilities such as housing with toilets, electricity and digital connectivity for all, a fully literate population with unhindered access to health care and a clean India with clean air and water etc.
- **What is the need of the hour ??**
- Today, there is a need to identify and address the challenges faced because of global environment, consistent poverty within India, regional inequalities etc.
- Indian economy will grow at a rapid pace provided certain preconditions are met. When there is matter of planning and growth, the tendency is to look into investment, capital output ratio etc. but beyond that, there is a ***need to look at investment in social capital, human capital which is badly neglected***. There is a need of social harmony in country when news such as recent killing of CRPF jawans in sukma, unrest in Kashmir shows a warfare going on in certain parts of country. It is not possible to grow efficiently if there is domestic discord and social non-harmony.

Challenges

- **Employment**- Today, India is seeing high economic rate with almost jobless growth. Indian workforce is increasing every month by 1 million and the jobs getting created are in lakhs. Without large job creation there isn't going to be poverty reduction. The challenge to tackle job less growth and less employment opportunity is going to become worse even at 9% growth with technological changes.
- **Education**- higher literate population talks about good quality education for all, which means doubling public investment in education, health care and social protection is required. Lack of public expenditure in social capital will create long term problems.
- **Agrarian crisis** is visible almost everywhere but there is hardly any steps to protect farmers' income and building resilience for small rain fed farmers. Every year, knee-jerk or situation based actions are taken.
- **Malnutrition** is related to all other inequalities, condition of women, adolescent girls, lack of access to clean water and sanitation, conditions of tribal population.

How to address the current challenges?

The focus has to be on

- 3 D- demand, demography and democracy which are inherent to India.
- Inclusiveness- need to focus on inclusiveness by providing health facilities, education for all and expenditure in infrastructure, agriculture etc.
- Resilience- the focus has to be on public institutions by strengthening them. Regulating environment, banking system and management of natural resources important for resilience.

Funding the development

Earlier, lot of funds used to come to states from central government through two ways-

- Devolution as per finance commission's recommendation which is 42% of revenue share of the centre.
- Through special schemes of various union ministries to which any eligible state can lay a claim and get money.

- The NITI Ayog has a system of laying out outcomes to be achieved in healthcare, education and water management which are thought out in detail.
- For this, secretaries of departments of state government, chief secretaries and occasionally CMs are convened by the NITI Ayog to monitor, evaluate and incentivise.
- This is happening. But enough money is not going into it. **In healthcare, India spends far less than any other country, just 1% of GDP**.
- There cannot be sustenance of social capacity that is required to generate the kind of growth expected for 15 years.

The **positive impact of Niti Aayog** can be seen as

- Cooperative Federalism : The centre and states have been brought on a single platform with state Chief ministers heading certain committees. Eg. DBT on Kerosense in Andhra
- It has been able identify best practices of certain states and replicate them in others abandoning the previous top down approach eg. UP's seed DBT replication, Yantradoot-Farm Machine rent scheme being replicated
- Various indices such Agri marketing index, Health index have created competitive environment among states to foster reforms
- The extra constitutional role of Planning commission which usurped the domain of finance commission has been done away with

Certain issues are

- Its role has become that of think thank whose recommendations are advisory
- Centre's domination and bias in the institution is still persistent as some states don't attend center state meetings

Niti Aayog 's vision, action and strategy reflects the new aspirational India as

- It has fostered the SETU and Atal Innovation Mission to boost startup ecosystem in India
- Its 3 year and 15-year plans are in line with tangible short term and long term goals for the nation
- It is overseeing authority for SDG which seek to make India at par with developed nations
- Its reformative suggestions in the agriculture sector such as land leasing and land pooling have potential to transform rural India

Though transformed role of Niti Aayog has been much appreciated it is accused of being urban centric organisation with little focus for the rural youth who form the bulk of the young population of the country towards which it needs to redirect its focus.

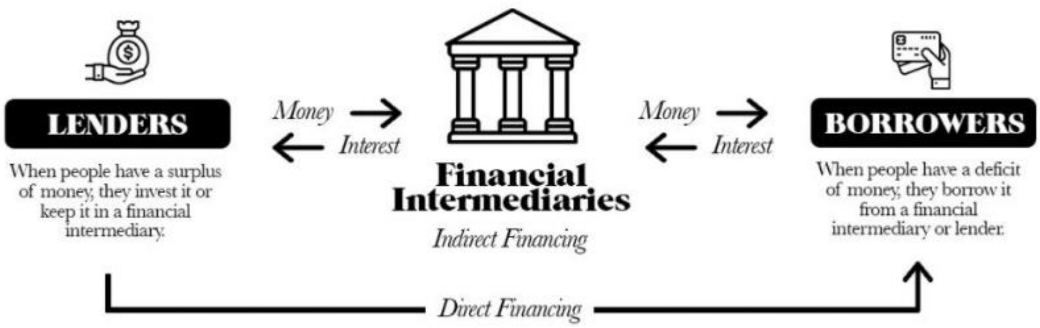
Guiding Principles

- In carrying out the functions, Niti Aayog will be guided by an overall vision of development which is inclusive, equitable and sustainable. A **strategy of empowerment built on human dignity and national self-respect**, which lives up to Swami Vivekananda's idea of our duty to encourage everyone in his struggle to live up to his own highest idea".
- **Antyodaya:** Prioritize service and uplift of the poor, marginalized and downtrodden, as enunciated in Pandit Deendayal Upadhyay's idea of 'Antyodaya'. Development is incomplete and meaningless, if it does not reach the farthest individual. In the centuries old words of Tiruvalluvar, the sage-poet, nothing is more dreadfully painful than poverty".
- **Inclusion:** Empower vulnerable and marginalized sections, redressing identity-based inequalities of all kinds gender, region, religion, caste or class. As Sankar Dev wrote decades ago: "to see every being as equivalent to one's own soul is the supreme means (of attaining deliverance)". Weaker sections must be enabled to be masters of their own fate, having equal influence over the choices the nation makes
- **Village**: Integrate our villages into the development process, to draw on the vitality and energy of the bedrock of our ethos, culture and sustenance.
- **Demographic dividend:** Harness our greatest asset, the people of India; by focussing on their development, through education and skilling, and their empowerment, through productive livelihood opportunities.
- **People's Participation:** Transform the developmental process into a people-driven one, making an awakened and participative citizenry the driver of good governance. This includes our extended Indian family of the Non-Resident Indian community spread across the world, whose significant geo-economic and geopolitical strength must be harnessed.
- **Governance:** Nurture an open, transparent, accountable, pro-active and purposeful style of governance, transitioning focus from Outlay to Output to Outcome.
- **Sustainability:** Maintain sustainability at the core of our planning and developmental process, building on our ancient tradition of respect for the environment.

3. Money and Banking

3.1 Financial System:

- A financial system is an institutional mechanism that **intermediates between ultimate borrowers and ultimate lenders.**



3.2 Classification of financial system:

⇨ Broadly, on the basis of purpose, the financial system can be classified into industrial finance, agricultural finance, development finance and government finance.

Indian Financial System:

⇨ The Indian Financial System consists of two markets: the **Money Market and the Capital Market.**

Basis	Capital market	Money market
Meaning	It refers to the whole network of organisations, institutions and instruments that deal in medium and long-term funds.	Money Market is a market for short-term funds which deals in monetary assets whose period of maturity is upto one year.
Liquidity	Only actively traded securities have ready market.	In this market, there is a formal arrangement of creating liquidity.
Safety	In this market securities of every company are bought and sold. Hence, there is more risk involved.	The transaction are made in the instruments issued by the financial institutions and financially strong companies.
Expected return	The expected returns are high as there in scope of earning capital gains and long-term prosperity is also shared by the company in form of high dividends and bonus issues.	The expected return is less due to short duration and lower risk.
Duration	Period of maturity is more than one year.	Period of maturity ranges from one day to one year.
Investment outlay	Investment outlay does not necessarily require huge investment outlay. The unit prices is low, i.e. ₹ 10, ₹ 100 and so even the trading lots are small, i.e. 5, 50, 100 etc.	Money market transactions entail huge sums of money as instruments are quite expensive.
Participants	Individual investors as well as institutional investors like financial institutions, banks, corporate houses and foreign investors participate in the capital market transactions.	The participants are RBI, Commercial Banks financial institutions, mutual funds and corporate houses. Individual investors do not participate in money market.
Instruments traded	The instruments of capital market include equity shares, preference shares, bonds, debentures, etc.	Some of the main instruments used in money market are commercial paper, treasury bills, trade bills, certificate of deposit, etc.

Money Market:

- Money market is a **short term credit market for short term funds**.
- Money market deals in financial securities whose period of **maturity is in the range of one day to one year**.
- In money market, the **commercial banks are the major lenders** of money.
- **RBI is the controlling authority** of the money market.

➢ The cluster of financial institutions that deal in short-term securities and loans, gold and foreign exchange are termed as money market.

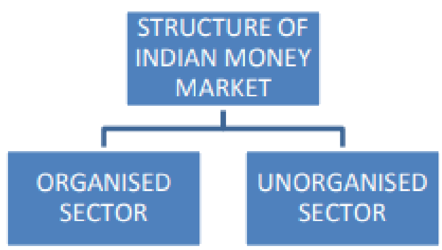
Unorganized money market:

➢ The unorganized money market consists of **indigenous bankers, money lenders and unregulated non-bank financial intermediaries** such as finance companies, chit funds and nidhis.
➢ Farmers, artisans and other small time producers and traders borrow money from the unorganized money market.

Organized Money Market:

➢ Organized money market is the **formal market for money regulated by RBI** with commercial banks being the main players.
➢ Foreign banks, co-operative banks, Discount and Finance House of India, finance companies, provident funds, Securities Trading Corporation of India, Public Sector Undertakings and mutual funds are the other institutions which operate in the formal Indian money market.
➢ The **Reserve Bank of India** is the monetary authority controlling the formal money market.

Components of Money Market in India:



- Call and Notice Money Market
- Treasury Bills Market
- Commercial Bills Market
- Market for Certificates of Deposits (CDs)
- Market for Commercial Papers (CPs)
- Repos Market
- Money Market Mutual Funds (MMMFs)
- Discount & Finance House of India (DFHI)

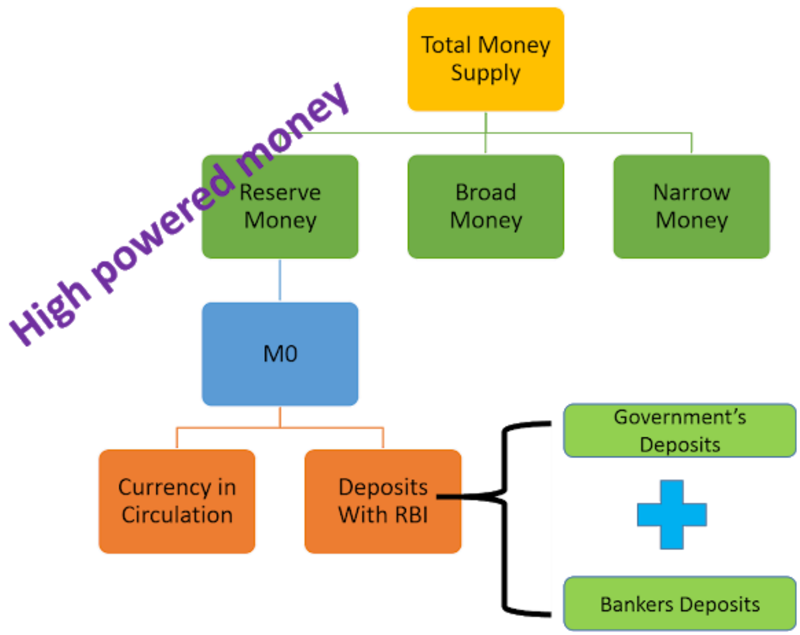
- Indigenous Bankers
- Money Lenders
- Unregulated Non-Bank Financia
- Intermediaries (Chit Funds, Nidhis and Loan Companies)
- Finance Brokers

3.3 Concept of Money Supply:

➔ Money supply refers to the **amount of money which is in circulation in an economy** at any given time.
➔ It is the **total stock of money held by the people** consisting of individuals, firms, State and its constituent bodies except the State treasury, Central Bank and Commercial Banks.
➔ Simply money supply is stock of money in circulation.

- ➔ The supply of money in a country depends upon the ***system of note issue*** adopted by the country. For instance, India adopted the **Minimum Reserve System in 1957**. Under this system, the **Reserve Bank of India has to maintain a minimum reserve of Rs.200 Crores consisting of gold and foreign securities. Out of this, the value of gold should not be less than Rs.115 Crores.**
- ➔ There are different forms of money supply – reserve money, narrow money, broad money etc. But the most important indicator of all these is **reserve money. It is also called as high powered money, base money and central bank money**.

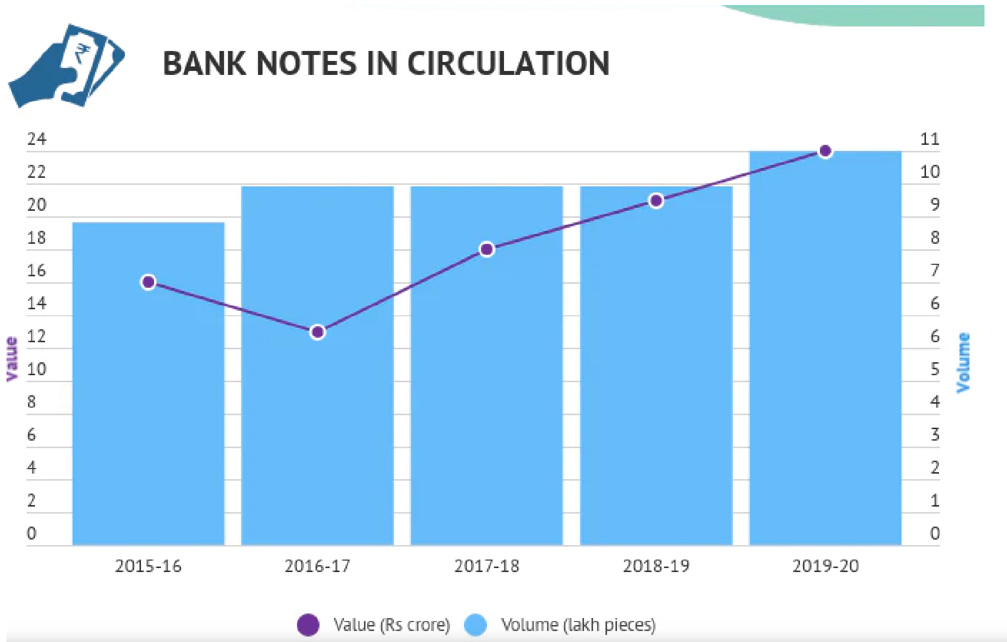
NOTE: Bank money is considered as secondary money whereas cash money is known as high powered money.



3.4 Currency in Circulation:

⇒ Currency in circulation comprises **currency with the public and cash in hand with banks**.

⇒ It includes notes in circulation, rupee coins and small coins.



⇒ The rupee coin is a **token coin made of nickel** and its face value is higher than its metallic value.

⇒ **Govt issues all coins upto Rs. 1000**.

⇒ **All the paper currency of India except one rupee note bears the signature of RBI Governor** as these are issued by RBI, but the **one rupee note bears the signature of the Finance Secretary**.

⇒ *One Rupee Note doesn't contain "I promise to pay bearer.."*

⇒ The volume of rupee coins and small coins as well as one-rupee notes in controlled by RBI.

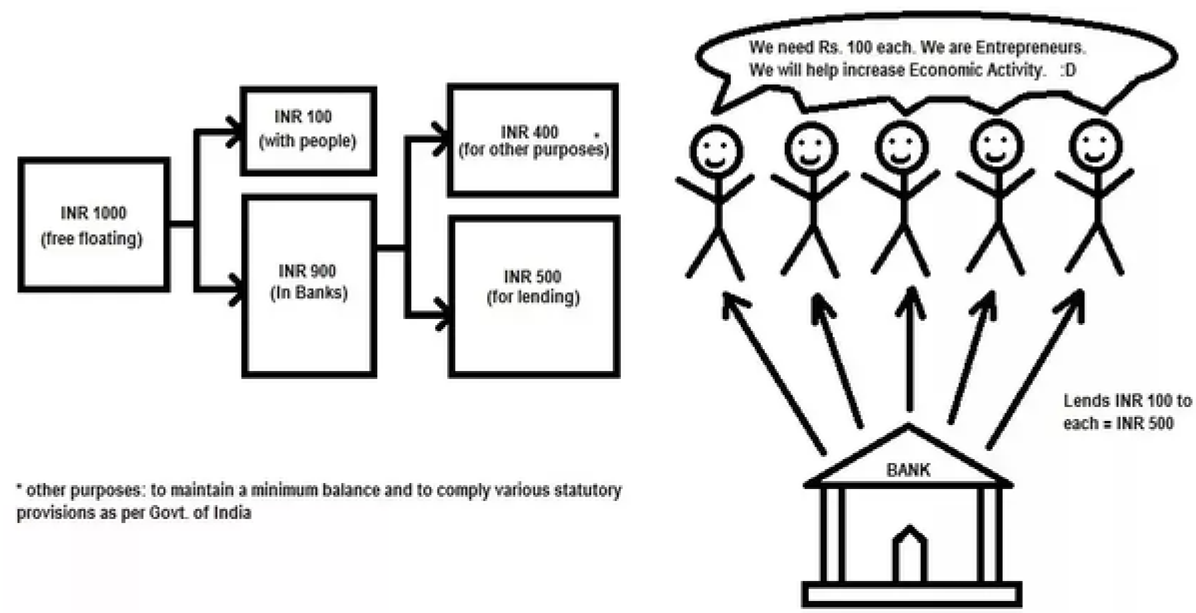
⇒ **RBI can print and issue currency notes of different denominations from two rupee notes to ten thousand rupee notes**.

⇒ **The symbol of Indian Rupee came into use on July 15th,2010**. India is the 5th economy (after America, Britain, Japan and Europe) to accept a new currency symbol.

⇒ **New currency symbol was designed by D Udaya Kumar**. It is an amalgamation of Devangri 'Ra' and the Roman 'R' without the stem.

3.5 Velocity of Circulation of Money:

- The **average number of times a unit of money circulates amongst the people** in a given year is known as Velocity of Circulation of Money.



3.6 Quantity of Money:

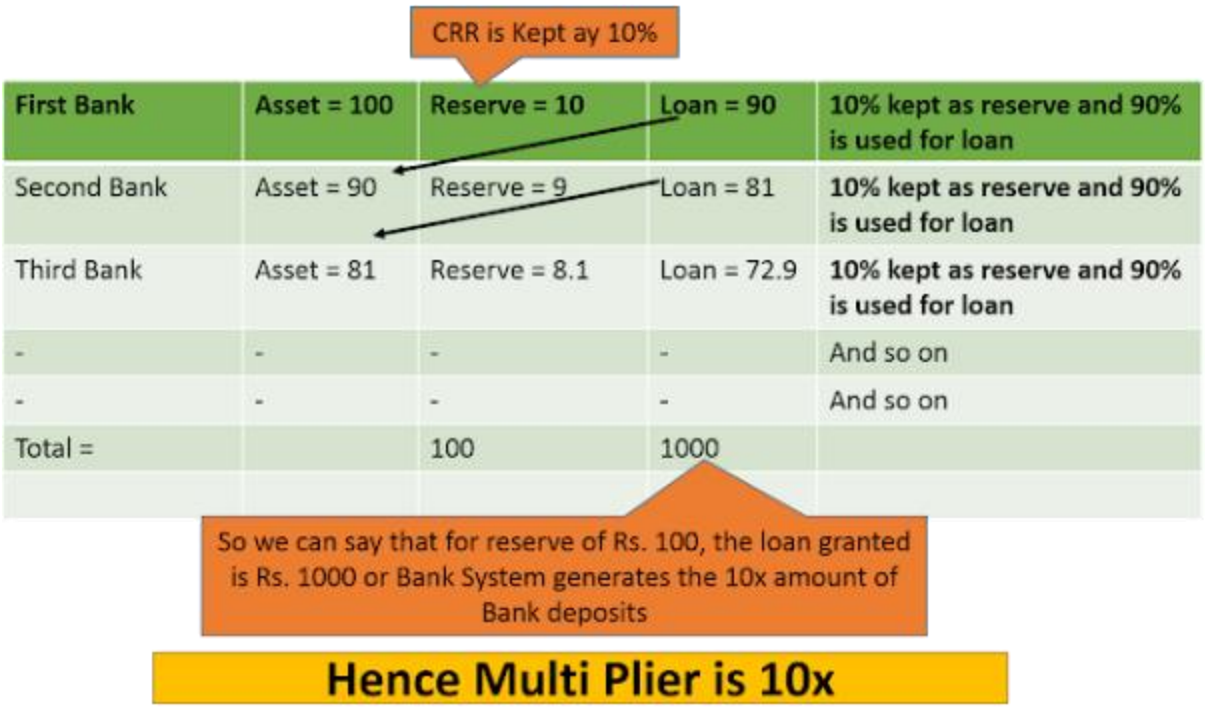
The quantity of money in existence in a country at a particular time or the supply of money in a spendable form consists of 2 items.

1) **Currency component** consisting of coins and currency notes issued by RBI which are in circulation

2) **Deposit component** consisting of deposits of general public with banks, which they can withdraw through bank cheques and ATM cards.

3.7 Money Multiplier:

- It describes how an initial deposit leads to a greater final increase in the total money supply.
- It represents the **largest degree to which the money supply is influenced by changes in the quantity of deposits**.


CRR is Kept ay 10%

First Bank	Asset = 100	Reserve = 10	Loan = 90	10% kept as reserve and 90% is used for loan
Second Bank	Asset = 90	Reserve = 9	Loan = 81	10% kept as reserve and 90% is used for loan
Third Bank	Asset = 81	Reserve = 8.1	Loan = 72.9	10% kept as reserve and 90% is used for loan
-	-	-	-	And so on
-	-	-	-	And so on
Total =		100	1000	

So we can say that for reserve of Rs. 100, the loan granted is Rs. 1000 or Bank System generates the 10x amount of Bank deposits

Hence Multi Plier is 10x

3.8 Stock of Money:

- In every economy it is necessary for the central bank to know the stock (amount/level) of money available in the economy only then it **can go for suitable kind of credit and monetary policy**.
- Following the recommendations of the **Second Working Group on Money Supply (SWG) in 1977, RBI has been publishing four monetary aggregates (component of money)**– M1, M2, M3 and M4 (are basically short terms for the Money-1, Money-2, Money-3 and Money-4) besides the Reserve Money.

Monetary Aggregates:

M_1 = Currency with the public + Demand deposits with the commercial Banks + Other deposits with the RBI.

M_2 = M_1 + Post Office Savings Bank Deposits.

M_3 = M_1 + Time deposits with the commercial banks.

M_4 = M_3 + Total Post Office Deposits (excluding NSCs).

- ✓ **Narrow Money (M1)** = Currency with the public + Demand Deposits of public in Banks
- ✓ When a third component viz. Post office Savings Deposits is also added to M1, it becomes M2.

M2 = M1 + Post Office Savings

- ✓ **M3: (Broad concept of money supply)**

M3 (Broad Money)= M1+ Time deposits with the banking system

- ✓ M4 = M3 + All deposits with post office savings banks (excluding National Savings Certificates)

Reserve Money:

Reserve Money (M0) = Currency in Circulation + Bankers' Deposits with RBI + 'Other' Deposits with RBI

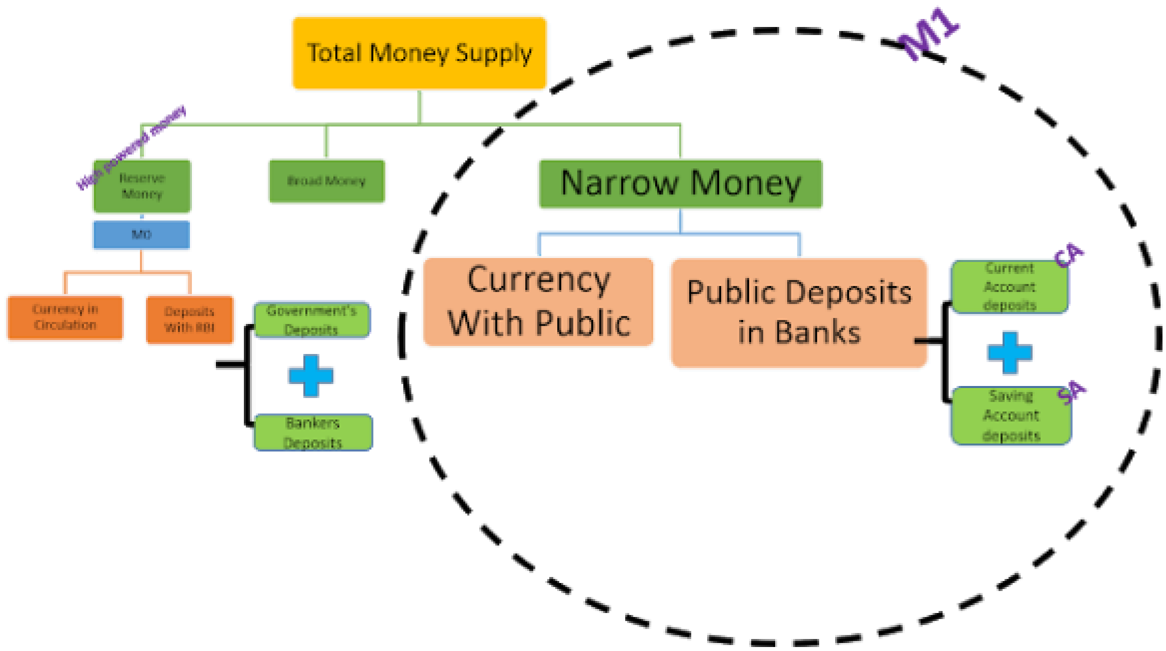
- ➔ Reserve money holds the topmost position in the RBI's monetary policy.
- ➔ RBI issues currency notes of rupees 2, 5, 10, 20, 50, 100, and 2000 denominations which RBI calls as the **'Reserve Money'**
- ➔ **RBI issues currency of one rupee notes and coins including coins of smaller denominations on behalf of the government of India** which accounts for around 2% of the total high power money.

Gross amount of the following 6 segments of money at any point of time is known as Reserve Money (RM)

1) RBI's net credit to the government
2) RBI's net credit to the Banks
3) RBI's net credit to the commercial banks
4) Net forex reserve with the RBI
5) Govt's currency liabilities to the public
6) Net non-monetary liabilities of the RBI

Narrow Money:

- Narrow money is a category of money supply that includes **all physical money like coins and currency along with demand deposits and other liquid assets held by RBI**.
- Narrow Money (M1) ➔ Currency + Bank Money held by the people
- **Narrow money excludes time deposits of the public with the banking system** on the ground that they are income-earning assets and as such are not liquid.



Near Money:

- Some financial assets may not be as liquid as the currency notes and chequable deposits. For example, the ***time deposits, Bankers Acceptances, Bills of Exchanges, government and Private Bonds, Saving certificates, Shares etc. though possess the power of money but are not able to immediately perform the economic activities but still they are highly liquid and can be easily converted into money***. Thus, these are called "Near Money".
- **Examples of near money are:** Savings account, Money funds, Bank time deposits (certificates of deposit), government treasury securities (such as T-bills), Bonds near their redemption date, Foreign currencies, especially widely traded ones such as the US dollar, euro or yen.

Hard Money:

- Hard money is **money issued with the backing of gold or other very credible assets**.
- Hard money avoids the risks of inflation.

Soft Money:

- Soft money is just **paper currency backed by government bonds**. Here money is printed without keeping adequate reserves like gold in proportion to the newly issued money.
- Element of inflation is higher under soft money.

Fiat Money:

- **Currency notes and coins** are called fiat money.
- They do not have intrinsic value like a gold or silver coin.
- They are also called **legal tenders** as they cannot be refused by any citizen of the country for settlement of any kind of transaction.

Hot Money:

- **Funds which flow into a country to take advantage of the favourable rates of interest in that country.**
- They influence the balance of payments and strengthen the exchange rate of the recipient country.

3.9 Proportional Reserve System:

- Originally, the ***assets of the Issue department were to consist of not less than 2/5th of the Gold or sterling securities, provided Gold was NOT less than Rs. 40 Crores in value***. Remaining 3/5th of the assets might be rupee coins. This was called Proportional Reserve System.

3.10 Minimum Reserve System:

- **Proportional Reserve System changed in 1956**. Since then, RBI is required to maintain a Gold and Foreign Exchange Reserves of Rs. 200 Crore of which at least Rs. 115 Crore should be in Gold. This is called Minimum Reserve System.
- Under the minimum reserve system RBI is required to keep a certain minimum 'reserve of gold and foreign securities and is empowered to issue currency to any extent
- **Sources of high power money supply** ➔ RBI and government of India

3.11 Legal Tender:

➔ **RBI Act of 1934** which gives RBI the sole right to issue bank notes, states that "Every bank note shall be legal tender at any place in India in payment for the amount expressed therein."

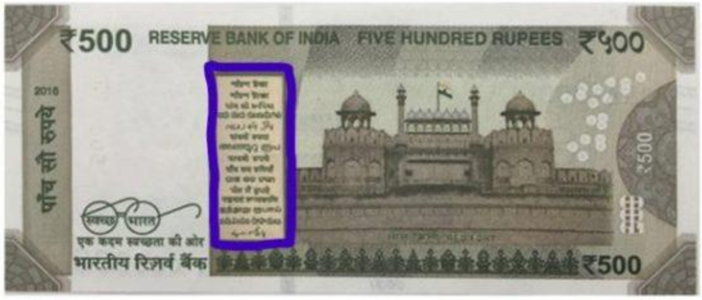
➔ **Coins function as limited legal tender**.

➔ **Currency notes are unlimited legal tender.**

➔ When ***fiat money is legally valid for all debts and transactions*** throughout the country, it is called as **legal tender**.

3.12 Printing of Currency Notes:

- **Currency Notes Press (Nasik Road):** Since 1991 this press prints currency notes of 1,2,5,10,50 and 100
- **Bank Notes Press (Dewas):** Currency Notes of 20,50,100 and 500 are printed here
- Under **Section 22 of the Reserve Bank of India Act, RBI issues currency notes**.
- Indian Currency Notes have **17 languages** printed on them.
- The **front side of the banknote contains only two languages** (English and Hindi).
- In **back side**, there is a language panel on left side of the banknotes. There are **15 scheduled Indian languages** written inside the panel excluding Hindi and English.

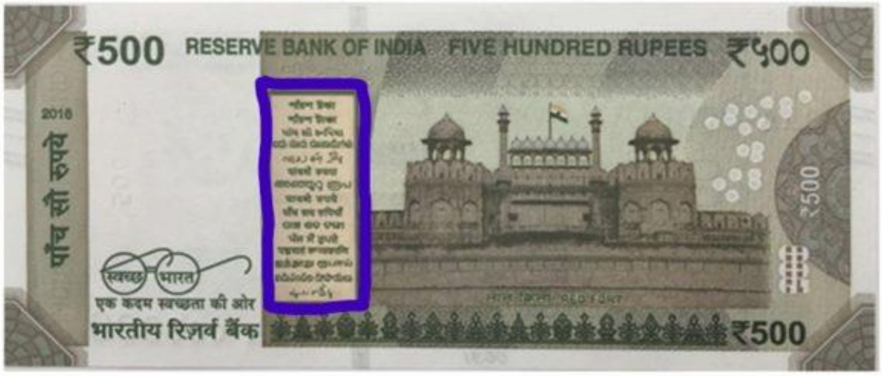


3.13 Demonetisation:

- Demonetisation is a situation where the Central Bank of the country **(Reserve Bank in India) withdraws the old currency notes of certain denomination** as an official mode of payment.
- On **8th November 2016**, the government of India announced the **demonetisation of all 500 and 1,000 banknotes of the Mahatma Gandhi Series**. It also announced the issuance of new 500 and 2,000 banknotes in exchange for the demonetised banknotes.
- Govt of India had demonetised banknotes on two prior occasions—**once in 1946 and once in 1978**—and in both cases, the goal was to combat tax evasion via "black money" held outside the formal economic system.
- **In 1936, Rs 10,000, which was the highest denomination note, was introduced but was demonetised in 1946**. Though, it was **re-introduced in 1954 but later, in 1978, the then Prime Minister Morarji Desai** in his intensive move to counter the black money, introduced The **High Denomination Banks Act (Demonetisation) and declared Rs 500 , Rs 1000 and Rs 10,000 notes illegal**.

3.14 Currency Notes (Bank Notes)

- **The number of languages on the language panel of a currency note is 15**
- The **front side of the banknote contains only two languages**. The denomination is written in both official languages **English and Hindi**.
- In back side, **there is a language panel on left side of the banknotes**. There are **15 scheduled Indian languages written inside the panel excluding Hindi and English**.
- Out of **22 languages have been accorded official language status** as per the eighth schedule of the constitution of India, gets places **only 16 languages in the Indian currency notes**.
- The another one language is **additional official language English. Totally 17.**
- However, the ***6 scheduled languages are missing*** in Indian Currency notes.
- As per RBI Act, 1934 Currency Notes can be issued **upto the denomination of Rs. 10,000**.



Rs. 2000 Note

- ➔ **Colour**: Magenta
- ➔ **Release Date**: 8th November 2016
- ➔ **Size:** 166mm X 66mm

Front:

- ✓ Image of Mahatma Gandhi
- ✓ 2000 written in Devanagari
- ✓ At 45 degree angle, you can see 2000 written in watermark

Back:

- ✓ Image of Mangalyaan
- ✓ Swachh Bharat Logo and slogan
- ✓ Language panel

Rs. 500 Note:

- ➔ **Colour**: Stone Gray
- ➔ **Release Date**: 10th November 2016

➔ **Size:** 150mm X 66mm

Front ➔ Image of Mahatma Gandhi

Back

- ✓ Image of Red Fort
- ✓ Swachh Bharat Logo and slogan
- ✓ Language Panel

Rs. 100 Note:

➔ **Color:** Lavender

➔ **Release Date:** 19th July 2018

➔ **Size:** 142 mm × 66 mm

Front

- ⇨ Image of Mahatma Gandhi in center
- ⇨ 100 written in Devanagari

Back

- ⇨ Rani ki vav
- ⇨ Swachh Bharat logo and slogan
- ⇨ Language panel

Rs. 200 Note:

- **Colour:** Bright Yellow
- **Release Date:** 25th August 2017
- **Size:** 146mm X 66mm
- **Front** – Image of Mahatma Gandhi in center
- **Back** – Image of the Sanchi Stupa

Rs. 50 Note:

Colour: Fluorescent Blue

Release Date: 10th November 2017

Size: 135mm X 66mm

Front

- Image of Mahatma Gandhi in center
- 50 written in Devanagari

Back

- Image of Hampi
- Swachh Bharat logo and slogan
- Language panel

Rs. 20 Note:

Colour: Greenish-Yellow

Release Date: 26th April 2019

Size: 129 mm × 63 mm

Front

- Image of Mahatma Gandhi in center
- 100 written in Devanagari

Back

- Ellora Caves
- Swachh Bharat logo and slogan
- Language panel

Rs. 10 Note:

Colour: Chocolate Brown

Release Date: 5th Jan 2018

Size: 123mm X 63mm

Front

- Image of Mahatma Gandhi in center
- 10 written in Devanagari

Back

- Motif of the Konark Sun Temple
- Swachh Bharat logo and slogan
- Language panel

3.15 Reserve Currency:

- A currency which government **and international institutions are willing to hold in their gold and foreign exchange reserves** and finance as significant proportion of international trade.
- Example – SDR by IMF

3.16 Cryptocurrency:

- It is a **digital or virtual currency designed to work as a medium of exchange**.
- It uses cryptography to secure and verify transactions as well as to control the creation of new units of a particular cryptocurrency.
- It typically **does not exist in physical form** (like paper money) and is typically ***not issued by a central authority***
- **Bitcoin**, first released as open-source software in 2009, is generally considered the first decentralized cryptocurrency
- **Top Cryptocurrencies** → Bitcoin, Ethereum, Ripple, NEO, Litecoin, Bitcoin Cash, Libra, Binance coin etc.

3.17 National Payments Corporation of India (NPCI):

- It is an **umbrella organisation for operating retail payments and settlement systems** in India.
- Founded in **2008**
- NPCI is a **not-for-profit organisation** registered under **section 8 of the Companies Act 2013**
- Established by **Reserve Bank of India & IBA**
- NPCI was incorporated in December 2008 and the Certificate of Commencement of Business was issued in April 2009

3.18 Reserve Bank of India (RBI) :

- ➔ Reserve Bank of India (RBI) is **India's central bank**, which **controls the issue and supply of the Indian rupee**.
- ➔ RBI is the **regulator of entire Banking in India**.
- ➔ RBI ***regulates commercial banks and non-banking finance companies*** working in India.
- ➔ It serves as the leader of the banking system and the money market.
- ➔ It **regulates money supply and credit** in the country.
- ➔ The RBI **carries out India's monetary policy** and exercises supervision and control over banks and non-banking finance companies in India.
- ➔ RBI was **set up on April 1, 1935 under the Reserve Bank of India Act,1934**
- ➔ RBI was **nationalised on January 1, 1949 under RBI (Transfer of Public Ownership) Act, 1948 and thereafter it is fully owned by government of India.**
- ➔ **Headquarters** ➔ Mumbai
- ➔ Reserve Bank of India has offices at **31 locations**.
- ➔ Reserve Bank of India was ***conceptualized based on the guidelines presented by Dr. Ambedkar to the "Royal Commission on Indian Currency & Finance" in 1925***.
- ➔ RBI is a leading member of the **Alliance for Financial Inclusion** (AFI).
- ➔ RBI is also known as **banker's bank** and is often referred to by the name **'Mint Street'**.
- ➔ The bank was set up based on the recommendations of the 1926 Royal Commission on Indian Currency and Finance, also known as the **Hilton–Young Commission**.
- ➔ The **original choice for the seal of RBI was the East India Company Double Mohur**, with the sketch of the Lion and Palm Tree. However, it was decided to **replace the lion with the tiger**, the national animal of India.

- ➔ The Central Office of the RBI was **established in Calcutta (now Kolkata) but was moved to Bombay (now Mumbai) in 1937**.
- ➔ RBI has **4 regional representations**: North in New Delhi, South in Chennai, East in Kolkata and West in Mumbai.
- ➔ It has 2 training colleges for its officers, viz. **Reserve Bank Staff College, Chennai** and **College of Agricultural Banking, Pune**.

- ➔ There are **3 autonomous institutions run by RBI** namely National Institute of Bank Management (NIBM), Indira Gandhi Institute of Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT).
- ➔ **Tarapore committee** was set up by the Reserve Bank of India under the chairmanship of former RBI deputy governor S. S. Tarapore to "lay the road map" to capital account convertibility.
- ➔ **Security Printing and Minting Corporation of India Limited (SPMCIL)**, a wholly owned company of the government of India, has printing presses at Nashik, Maharashtra and Dewas, Madhya Pradesh.
- ➔ **Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL),** owned by the RBI, has printing facilities in Mysore, Karnataka and Salboni, West Bengal.
- ➔ For the **minting of coins**, SPMCIL has four mints at Mumbai, Noida, Kolkata and Hyderabad for coin production.
- ➔ As per Indian Coinage Act 1906, **Coins can be issued upto the denomation of Rs. 1000**
- ➔ **Coins and Re.1 notes are issued by the government of India (GoI),** the *RBI works as an agent of GoI for the distribution and handling of coins*.
- ➔ New Rs. 500 and Rs. 2,000 notes were been issued on **8 November 2016.** The old series of Rs. 1,000 and Rs. 500 notes were demonetized from midnight on 8 November 2016.

NOTE: **Under Section 22 of the Reserve Bank of India Act**, RBI has sole ***right to issue currency notes of various denominations except one rupee notes***. The **One Rupee note is issued by Ministry of Finance and it bears the signatures of Finance Secretary**, while other notes bear the signature of Governor RBI.

- ➔ **First Governor of RBI :** Sir Obsorne Smith (1935-1937)
- ➔ **First Indian Governor of RBI** : C.D.Deshmukh (1943-1949)
- ➔ Governor and Deputy Governors of RBI are nominated by government of India and have tenure not more than 5 years.
- ➔ The Reserve Bank's affairs are governed by a central board of directors which comprises of 21 members. The board is appointed by the government of India in keeping with the Reserve Bank of India Act. The directors are appointed/nominated for a period of 4 years.

Functions of RBI:

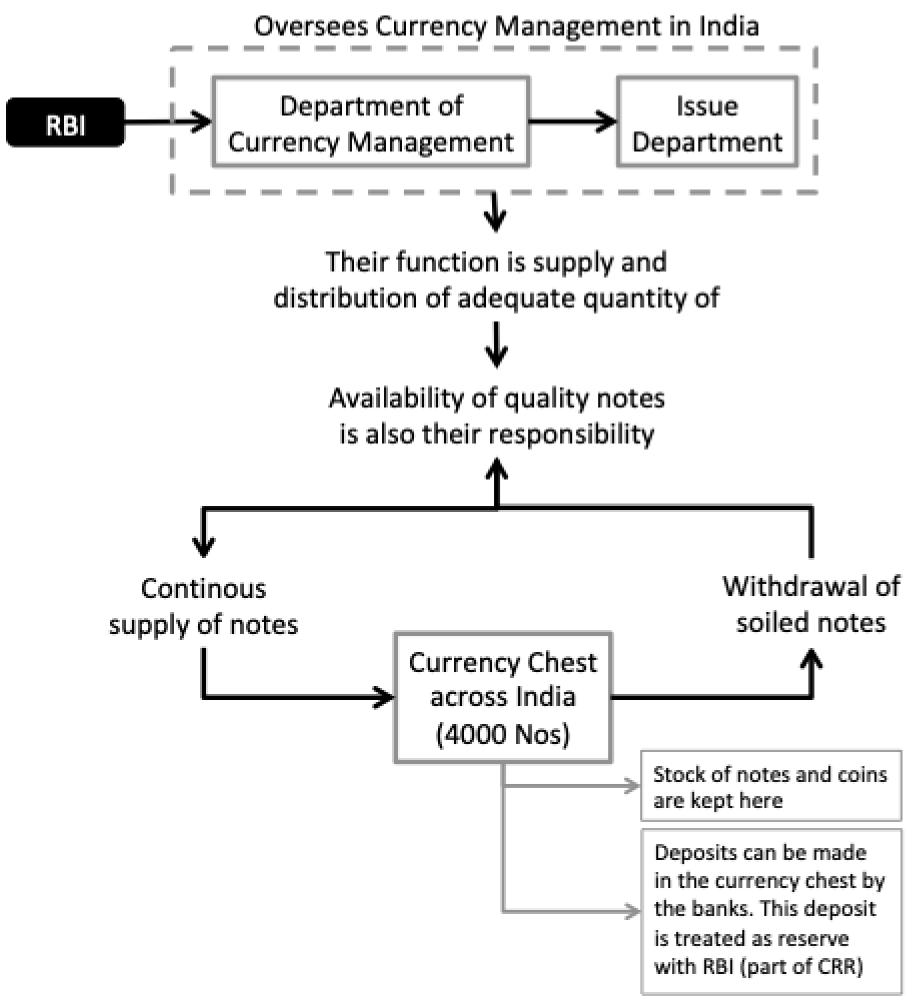
Issue Currency Notes:

- RBI has the sole authority to issue currency notes in India.
- Earlier all currency notes except one rupee note and coins of smaller denomination were issued by RBI.
- **One rupee note and the coins of all denominations are minted and issued by government of India, but they are circulated through RBI.**
- However, **Reserve Bank of India in New Mahatma Gandhi series has issued notes in the denominations of Rs 10 and above**.

- Reserve Bank of India has been given these exclusive powers under the provisions of section 22 of Reserve Bank of India Act, 1934. This system of issuing currency notes is known as minimum reserve system.
- **RBI adopted the minimum reserve system for note issue since 1957**.
- The currency notes issued by RBI is a legal tender throughout the territory of India without any limitations. It issues these currency notes against the security of gold bullion, gold coins, promissory notes, exchange bills and government of India bonds etc.

Advantages:

1) Uniformity in issue of currency notes
2) Effective state supervision
3) Easy to control and credit in accordance with the requirements of the economy



Banker, agent and financial advisor of the government

Under section 20 of Reserve Bank of India act, it acts as the banker and agent to the government. Section 21 and 21A gives powers to RBI to conduct transactions of Central and state governments.

- It has the duty to make payments, taxes, and deposits on behalf of the government
- It represents government of India at International levels like IMF and World Bank