Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims focus: about NBFC, Capital expenditure, Alternative Investment Funds

Mains focus: about the recent slowdown in the economy and measures taken by the govt. to check it

News: A series of measures taken by the government in the last few months to revive growth has started showing some results and the Centre will continue to support the industry and intervene as and when required, finance minister Nirmala Sitharaman said.

Background: India’s economic downturn had deepened in the September quarter with growth down to 4.5%, its slowest pace since March 2013. Tepid consumption and sluggish private investment has been the pain points for the economy.

Measures taken by the government to boost consumption and improve liquidity in the system.

1. All dues of goods and services providers were cleared, most tax refunds were processed, and small businesses were supported through bill-discounting to enable cash flows.
2. Besides, the liquidity-starved non-banking financial companies (NBFCs) and housing finance companies (HFCs) were given credit for smooth functioning. As much as 74.47 trillion was sanctioned to NBFCs and HFCs to support retail lending, he said, adding that 17 proposals amounting to 77,657 crore have been approved under the partial credit guarantee scheme in the last two days alone.
3. The central government has achieved more than two-thirds of the budgeted capital expenditure (capex) of 33.8 trillion for 2019-20. Key infrastructure ministries, including railways and highways, has projected capex of 2.46 trillion by December-end. Besides, 32 public sector companies have undertaken capex of 98,000 crore till November and will further spend 760,000 crore till March 2020. Along with the corporate tax cut, these steps are expected to boost investment, he said.
4. The government has also infused 60,314 crore equity into public sector banks. Government capex has the benefit of crowding in private investment and, therefore, government capital expenditure is extremely critical.
5. Last week, the finance minister had hinted at a cut in personal income tax to revive consumption, among others steps, to boost growth.

What more is to be done?

1. However, concrete results are yet to follow despite the measures taken by the government.
2. The 25,000-crore alternative investment fund (AIF) to revive stalled housing projects, is also expected to boost investment.
3. Last week, the finance minister had hinted at a cut in personal income tax to revive consumption, among others steps, to boost growth.
About NBFC

Non-banking finance companies (NBFCs) are a fundamental part of the Indian financial system playing a significant role in nation building and financial inclusion. It plays a complementary role to the banking system in promoting financial inclusion. There are multiple varieties of NBFCs and so the sector demands a well-coordinated response from all stakeholders keeping in mind the differential contextual requirements of different categories of NBFCs.

The Non-Banking Financial Companies (NBFCs) are the financial institutions that offer the banking services, but do not comply with the legal definition of a bank, i.e. it does not hold a bank license. Both banks and NBFCs are financial intermediaries. NBFCs can lend and make investments. Hence, their activities are akin to that of banks. However, there are a few differences between NBFCs and banks:

1. NBFC cannot accept demand deposits;
2. Banks can maintain demand deposits (savings/current accounts) but NBFCs accept only term deposits;
3. Banks form a part of Payment and Settlement Mechanism but NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
4. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Capital expenditure (Capex)

Capital expenditure has strong multiplier effects as it involves acquisition of assets such as land, buildings, machinery, and equipment.

Alternative Investment Funds

As defined in Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, AIFs refer to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP).

AIF does not include funds covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities.

Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.

Categories:
As per SEBI (AIF) Regulations, 2012, AIFs shall seek registration in one of the three categories:

Category I: Mainly invests in start-ups, SME’s or any other sector which Govt. considers economically and socially viable.

Category II: These include Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator.

Category III: Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator.