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TODAY'S ANALYSIS

(08 July 2024)

TOPICS TO BE COVERED

- INDIA'S BALANCE OF PAYMENTS
- DIGITAL BHARAT NIDHI
- BRICS ATTRACTING ASEAN COUNTRIES
- MCQs



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INDIA'S BALANCE OF PAYMENTS

Last week, data from the **Reserve Bank of India (RBI)** showed that **India's current account** registered a **surplus** during the **fourth quarter (Jan-Mar)** of the **2023-24 financial year**.

This was the **first time in 11 quarters** that India had witnessed a surplus.

SIGNIFICANCE OF TRANSACTIONS ON CURRENT ACCOUNT:

Movements in the current account are closely monitored as **they not only impact the exchange rate of the rupee and India's sovereign ratings, but also because they point to the overall health of the economy.**

WHAT IS BALANCE OF PAYMENT?

- The **Balance of Payments (BoP)** is essentially a **ledger of a country's transactions with the rest of the world.**
- As indians **trade and transact** with the rest of the world, **money flows in and out of the country.**
- The BoP shows **how much money (shown here in billions of US dollars) went out of the country and how much money came in.**

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- All the **money coming into** the country is **marked positive** and all the **money going out** is **marked negative**.
- The BoP matters because **it captures the relative demand of the rupee vis-à-vis the demand for foreign currencies** (represented in dollar terms).

Understanding India's Balance of Payments

(In \$ billion)		Q4 FY24	FY24	FY23	FY21	FY25#
Current account*		6	-23.3 (0.7% of GDP)	-67 (2% of GDP)	24 (0.9% of GDP)	-39 (1% of GDP)
	Trade of Goods	-51	-242	-265	-102	-268
	Trade of Services (Invisibles)	57	218	198	126	229
	Services	43	163	143	89	171
	Transfers	29	106	101	74	106
Capital account*		25	86	59	63	77
	Foreign investment	13	54	23	80	52
	FDI	2	10	28	44	20
	FII	11	44	-5	36	32
	Loans	2	2	8	6	10
	Banking Capital	7	41	21	-21	15
	Other Capital	3	-10	7	-2	0
Balance of Payments*		31	64	-9	87	38
Change in Forex**		-31	-64	9	-87	

* A minus sign is deficit; ** A minus sign shows increase in India's foreign exchange reserves; # Forecast by ICICI Securities
Source: RBI, ICICI Securities, Indian Express Research

CONSTITUENTS OF BoP

The table shows the constituents of India's BoP. The BoP has two main 'accounts' —

- Current Account, and
- Capital Account.

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CURRENT ACCOUNT: The current account, as the name suggests, records transactions that are of a 'current' nature. There are two subdivisions of the current account:

- The trade of goods, and
- The trade of services.

The net of these two kinds of trades is the current account.

CAPITAL ACCOUNT: The capital account captures transactions **that are less about current consumption and more about investments**, such as **Foreign Direct Investment (FDI) and Foreign Institutional Investments (FII)**.

The table for Q4 shows a net surplus of \$25 billion on the capital account.

Lastly, the **BoP table always balances through the change in the foreign exchange reserves column.**

When there is a BoP surplus — **net of current and capital account** — implying billions of dollars coming into the country, the **RBI sucks up these dollars and adds to its foreign exchange reserves.**

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DIGITAL BHARAT NIDHI

The **Department of Telecommunications (DoT)** on **July 4** released draft rules to **operationalise the Digital Bharat Nidhi**, in a fresh attempt by the central government at **increasing telecom connectivity in rural areas**.

Digital Bharat Nidhi would replace the erstwhile **Universal Service Obligation Fund (USOF)**, which is a **pool of funds generated by a 5 per cent Universal Service Levy charged upon all the telecom fund operators on their Adjusted Gross Revenue (AGR)**.

The idea is that **this money would be used to fund the expansion of telecom networks in remote and rural areas**, where private companies may otherwise resist offering their services due to them not being revenue-generating markets.

HOW WILL DIGITAL BHARAT NIDHI WORK?

- As per the Telecom Act, contributions made by telecom companies towards the DBN will first be credited to the Consolidated Fund of India (CFI).
- All revenues that the government receives, including loans raised and all money received in repayment of loans, are credited to the CFI.
- The government also incurs its expenditures from this fund.

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- The Centre will deposit the collected funds to the DBN from time to time.
- Funds collected under the DBN will be used to:
 - Support universal service through promoting access to and delivery of telecommunication services in underserved rural, remote and urban areas;
 - Fund research and development of telecommunication services, technologies, and products;
 - Support pilot projects, consultancy assistance and advisory support for Improving connectivity; and
 - For the introduction of telecommunication services, technologies, and products.
- As per the **draft rules issued by the DoT** on how the DBN will be operationalised, the **Centre will appoint an “administrator”** who will select **“DBN implementers”** through **“bidding”** or invitation of applications from eligible persons.
- This so-called **administrator will determine the modalities** of providing funding to DBN implementers on a **case-by-case basis**, including but not limited to **full funding, partial funding, co-funding, market risk mitigation, and risk capital**.
- The **DBN shall fund schemes and projects** for providing targeted access to telecommunication services for underserved groups of society such as **women, persons with disabilities and economically and socially weaker sections**, as per the draft rules.

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AIM OF DBN

- The introduction of **next-generation telecommunication technologies** in underserved rural, remote and urban areas;
- **Improving affordability** of telecommunication services in such areas;
- **Promote innovation, research and development**, promotion and commercialisation of indigenous technology development and associated intellectual property, including creation of regulatory sandboxes;
- **Developing and establishing relevant standards** to meet national Requirements and their standardisation in international standardisation bodies; and
- **Encouraging start-ups in the telecommunications sector** including the manufacturing of telecom equipment, among other things.

UNDERUTILISATION OF USOF

Since its establishment in 2003, a **common criticism of the USOF has been its relative underutilisation.**

- According to information shared in Parliament by former Minister of State for Communications Devusinh Chauhan in December 2022, **between 2017 and 2022, the**

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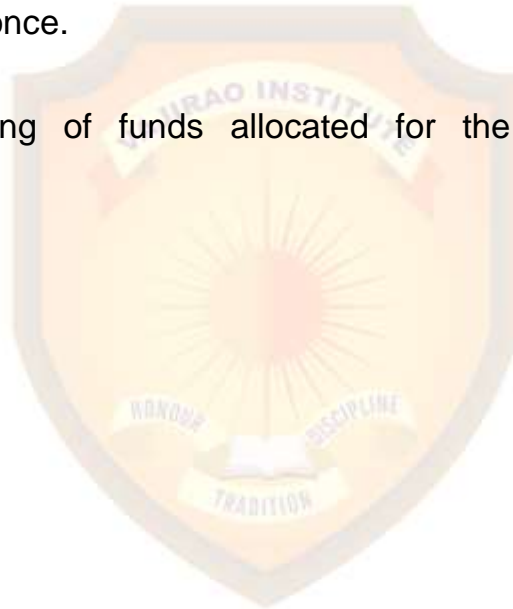
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government had collected Rs 41,740 crore as part of contributions made by telcos towards the USOF, of which it had utilised Rs **30,213 crore – about 72 per cent.**

- In **2019-20**, the collection was **Rs 7,962 crore**, of which the utilised amount was just **Rs 2,926 crore**. In the period specified by the former minister, the government did not achieve complete utilisation even once.

REASON: the underspending of funds allocated for the BharatNet project for fibre connectivity to villages.



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BRICS ATTRACTING ASEAN COUNTRIES

BRICS is **attracting Southeast Asian countries**, with **Thailand and Malaysia** being the latest to express their interest in joining the bloc.

Last month, **Thailand submitted a membership request**, while **Malaysian Prime Minister Anwar Ibrahim** said in an interview with Chinese news portal **Guancha** that his country would soon begin formal procedures.

PRESENT MEMBERSHIP

- Last year, **BRICS** — an acronym that was originally used to refer to **Brazil, Russia, India, China, and South Africa** — decided to expand its membership, inviting **Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates** to join the bloc.
- The name for the expanded group has **not yet been officially announced**, but it could be called **“BRICS+.”**
- Combined, its members account for about **45% of the world’s population** — around **3.5 billion people**.

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- Their economies are worth around **\$30 trillion (€28 trillion)** — **about 28% of the global economy**, according to World Bank Data.

WHY MALAYSIA & THAILAND WANT TO JOIN?

- The bloc **can help Malaysia's digital economy grow faster** by allowing it to integrate with countries that have strong digital markets and also take advantage of best practices from other members.
- Thailand would also be able to draw investments in important industries including services, manufacturing, and agriculture.
- The trade ties that Malaysia and Thailand already have with China have influenced their decisions to join **BRICS**.
 - China has been Malaysia's largest trading partner for the past 15 years and Thailand's biggest for 11 years, according to official data.

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MCQs

1. Consider the following & mark the correct statements:
 1. India's BoP comprises of Current & Capital Account.
 2. India's Current Account has been positive for FY 24.

(A) Only 1

(B) Only 2

(C) Both 1 & 2

(D) Neither 1 nor 2



Ans. (A)

2. Which of the following is part of the Current Account?
 - (A) The dividends on investments done by FII.
 - (B) The investments & dividend of FII.
 - (C) Investments done by FII.
 - (D) None of the above

Ans. (A)

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3. Consider the following statements wrt The Digital Bharat Nidhi & mark the correct one:
1. The DBN will replace the USOF.
 2. The USOF, introduced in 2005, aims to enhance network coverage in Unserved areas.

- (A) Only 1
(B) Only 2
(C) Both 1 & 2
(D) Neither 1 nor 2

Ans. (A)

4. Which of the following are aims of DBN?

1. Improving affordability.
2. Promoting innovation.
3. Setting standards.

- (A) Only 1
(B) Only 2
(C) 1 & 2
(D) All of the above

Ans. (D)

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5. Which of the countries is part of the expanded BRICS?

- (A) Malaysia
- (B) Argentina
- (C) Saudi arabia
- (D) Indonesia

Ans. (C)



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