

# NIBM Interview Prep

INDIAN ECONOMY – CHAPTER SUMMARIES + COMPLETE  
INTERVIEW Q&A

📅 INTERVIEW: 23RD APRIL

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# Chapter 1 – Fundamentals of Macro Economy

GDP, Inflation Indices, Exchange Rates, Key Concepts

## 1.1 Micro vs Macro Economics

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**Microeconomics** studies individual economic agents (firms, households) and resource allocation. **Macroeconomics** studies the national economy as a whole – GDP, unemployment, interest rates, inflation, trade.

**Three fundamental economic questions:** What to produce? How to produce? For whom to produce? Every society must answer these through its economic system.

## 1.2 Economic Systems

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- **Market Economy (Capitalist/Laissez-faire):** Prices, profits, and incentives drive decisions.
- **Command Economy (Socialist):** Government owns and directs production.
- **Mixed Economy:** Blend of both – most modern economies including India.

## 1.3 Four Sectors of Economy

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**Private Sector** (enterprises owned by individuals) | **Government Sector** (PSUs, administration) | **Household Sector** (people/population) | **External Sector** (exports, imports, financial flows).

## 1.4 Factors of Production & Types of Goods

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Four factors: **Entrepreneur** (earns Profit) | **Capital** (earns Interest) | **Natural Resources** (earns Rent) | **Labour** (earns Wages)

**Intermediate Goods:** Semi-finished; need further processing. **Final Goods:** Consumption goods (durable, non-durable, services) or **Capital Goods** (produced, durable, used as input without transformation).

## 1.5 Investment & Circular Flow

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Gross Investment = Gross Fixed Capital Formation +  
Change in Inventory + Valuable metals  
Net Investment = Gross Investment - Depreciation
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**Key insight:** If households save → enterprises produce capital goods → higher future growth. *Higher savings = higher investment.* India's savings ≈ 28% of GDP (2019-20).

## 1.6 Gross Domestic Product (GDP)

Total final value of goods & services produced within a country's domestic territory in a financial year.

### Three Methods of GDP Calculation:

1. **Value Added/Product Method:** Sum of value added by all firms
2. **Expenditure Method:**  $GDP = C + I + G + X - M$
3. **Income Method:**  $GDP = Profit + Interest + Rent + Wages$

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GNP = GDP + NFIA (Net Factor Income from Abroad)  
NNP = GNP - Depreciation  
GDP at MP = GVA at basic prices + Indirect Taxes -  
Subsidies
```

**India switched to GDP at Market Prices from January 2015** (earlier used Factor Cost). Base year: 2011-12. NSO calculates

GDP. India's nominal GDP 2022-23  $\approx$  ₹272 lakh crore; Real GDP growth 7%.

## 1.7 GDP vs GVA

**GVA (Gross Value Added)** = Total output – Intermediate consumption. GVA is calculated sector-wise (Agriculture, Industry, Services). **GDP = GVA + Taxes – Subsidies**. GVA is useful to understand sectoral performance; GDP gives the total economy picture.

## 1.8 Nominal vs Real GDP

**Nominal GDP:** Uses current year prices. **Real GDP:** Uses base year (constant) prices – measures quantity growth only. Economic growth = % change in *Real* GDP.

`GDP Deflator = Nominal GDP / Real GDP → measures overall inflation`

## 1.9 ICOR (Incremental Capital Output Ratio)

`ICOR = Investment % of GDP / % growth in GDP`

Lower ICOR = more efficient use of capital. If ICOR = 5 and target growth = 8%, need 40% investment. If ICOR drops to 4 → only 32% investment needed.

## 1.10 Inflation Indices

Index	Measures	Published by	Key Weight
CPI-Combined	Retail prices (incl. services)	NSO (MoSPI)	Food 45.86% (highest)
WPI	Wholesale prices (goods)	DPIIT (Commerce)	Manufactured 64.23%

only)

GDP Deflator	All goods & services produced	NSO (quarterly)	Weights change with production
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**RBI uses CPI-Combined** as its inflation target measure ( $4\% \pm 2\%$ ). WPI does not capture services inflation. CPI/WPI include imported goods; GDP deflator does not.

### 1.11 Exchange Rates

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- **NER (Nominal Exchange Rate):** Price of one currency in another (market rate).
- **PPP Exchange Rate:** Rate at which same basket of goods costs the same in two countries.
- **RER (Real Exchange Rate):**  $NER/PPP$  – measures trade competitiveness. Higher RER = currency appreciating = less competitive exports.
- **REER/NEER:** Weighted averages vs trading partners.

**India: Managed Float system** (post-1993). RBI intervenes to reduce rupee volatility but doesn't target a specific rate.

### 1.12 Recession vs Slowdown

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**Recession:** At least 2 consecutive quarters of negative real GDP growth.

**Slowdown:** Growth rate declining but still positive. India's recessions: 1957-58, 1965-66, 1972-73, 1979-80, and 2020-21 (Covid, -5.8%).

**Depression:** Severe, prolonged recession.

### 1.13 Economic Development vs Growth

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**Growth** = increase in GDP/per capita income. **Development** = broader improvement in wellbeing: per capita income, health, education, poverty

reduction, employment. Growth is necessary but not sufficient for development.

**Green GDP:** GDP adjusted for environmental degradation/resource depletion. **Human Capital:** Education + health investment to raise labour productivity.

## Chapter 2 – Money & Banking Part I

Money Supply, Monetary Policy, RBI Functions, Financial System

### 2.1 Money & Banking Basics

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Money evolved from barter (double coincidence of wants problem) → gold/silver → paper currency (backed by gold) → fiat currency. **RBI** = the "X" who issues currency notes backed by assets (Govt. Securities, gold, foreign currency).

#### Functions of Money:

1. Medium of Exchange
2. Unit of Account
3. Store of Value

### 2.2 Money Supply Measures

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$M1 = \text{Currency with Public} + \text{Demand Deposits with banks}$

$M2 = M1 + \text{Savings Deposits with Post Office}$

$M3 = M1 + \text{Time Deposits with banks (BROAD MONEY - most used)}$

$M4 = M3 + \text{All Post Office deposits}$

**M3 = "Aggregate Monetary Resources"** – most commonly used. M1 is most liquid. Monetary Base (Mo / High Powered Money) = Currency with public + Vault cash of banks + Bank deposits with RBI.

## 2.3 Money Creation (Fractional Reserve Banking)

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$$\text{Money Multiplier} = (1 + \text{cdr}) / (\text{cdr} + \text{rdr})$$

Where: cdr = Currency-Deposit Ratio; rdr = Reserve-Deposit Ratio (CRR + SLR)

Banks keep only a fraction of deposits as reserves and lend the rest, creating new money. Higher CRR/SLR → higher rdr → lower money multiplier → less money creation.

## 2.4 Monetary Policy & MPC

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**New Monetary Policy Framework (Feb 2015):** Objective = Price stability with growth in mind. Inflation target = **4% ± 2%** (CPI-Combined). Target set by Govt. in consultation with RBI (currently till March 2026). RBI "fails" if inflation above 6% or below 2% for 3 consecutive quarters.

### **Monetary Policy Committee (MPC):**

- 6 members: 3 from RBI (including Governor) + 3 appointed by Govt.
- Each has 1 vote; Governor has casting vote in tie.
- Meets 6 times/year (bi-monthly); off-cycle meetings possible.
- MPC decides **only the Repo Rate** (not CRR, SLR, Reverse Repo).
- MPC decisions are **binding on RBI**.

## 2.5 Monetary Policy Instruments

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Instrument	Current Rate (approx. 2023)	Description
Repo Rate (Policy Rate)	~6.5%	Rate at which RBI lends overnight to banks against Govt. Securities
Reverse Repo Rate	Repo – 0.25% = ~6.25%	Rate at which RBI absorbs liquidity from banks overnight
SDF (Standing Deposit Facility)	Repo – 0.25%	Introduced April 2022; banks deposit with RBI without collateral; floor of LAF corridor
MSF (Marginal Standing Facility)	Repo + 0.25%	Banks borrow by dipping into SLR; upper ceiling of LAF corridor
Bank Rate	= MSF Rate	Used for calculating penalties on CRR/SLR shortfall
CRR	~4%	Cash banks must keep with RBI (no interest). Governed by RBI Act 1934
SLR	~18%	Liquid assets (Govt. Securities, gold, cash) banks must maintain. Ceiling = 40%. Governed by Banking Regulation Act 1949

**Term Repo / LTRO:** RBI lends to banks at/above repo rate for longer tenure (not just overnight). Used to inject *durable* liquidity. **TLTRO** = Targeted LTRO for specific sectors. **LAF Corridor:** SDF (floor) → Repo Rate (middle) → MSF (ceiling).

**Why banks park surplus with RBI (Reverse Repo / SDF) instead of lending?** Banks can earn *risk-free* return from RBI. If market lending rates < reverse repo rate, or banks are risk-averse (NPAs), or economy has low credit demand, they prefer safe RBI parking. SDF offers this without needing collateral.

## 2.6 OMO, MSS & Sterilization

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**OMO (Open Market Operations):** RBI buys/sells Govt. Securities in secondary market to inject/absorb liquidity. If inflation high → RBI sells securities (absorbs money). If growth support needed → RBI buys securities (injects money).

**MSS (Market Stabilization Scheme):** Introduced 2004. RBI issues Govt. T-bills and dated securities to absorb excess liquidity from large capital inflows. Proceeds kept in separate MSS account with RBI – only for redemption of MSS bonds.

**Sterilization** = offsetting the money supply impact of capital inflows through OMOs/MSS.

## 2.7 RBI – Roles & Functions

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1. **Monetary Management** – formulate & execute monetary policy
2. **Regulation & Supervision** – of banks, cooperative banks, NBFCs, PDs, CICs
3. **Foreign Exchange Management** – oversight of forex market (FEMA 1999); manage forex reserves
4. **Government Securities & Money Market Regulation**
5. **Banker to Government** – manages Consolidated Fund, Contingency Fund; issues WMA (Ways & Means Advances) to Govt.; acts as advisor
6. **Debt Manager** – raises money for Central & State Govts. by issuing securities
7. **Banker to Banks** – lender of last resort; settlement of interbank transfers; CRR/SLR maintenance

8. **Currency Issuer** – note design, production, management; currency chests network
9. **Payment Systems Oversight** – PSS Act 2007; authorizes NPCI (UPI, IMPS, RuPay, AEPS, FASTag)
10. **Developmental Role** – Priority Sector Lending, Lead Bank Scheme, Kisan Credit Cards
11. **Research & Data Dissemination**

**DICGC** (100% RBI subsidiary) insures deposits up to ₹5 lakhs per depositor per bank. Covers commercial banks + UCBs + foreign bank branches. If bank in moratorium, DICGC must pay within 90 days.

## 2.8 CRR vs SLR – Key Differences

Feature	CRR	SLR
Kept with	RBI (cash only)	Bank itself (Govt. Securities, gold, cash with RBI)
Law	RBI Act 1934	Banking Regulation Act 1949 (ceiling 40%)
Interest	No interest paid by RBI	Banks earn interest on Govt. Securities
Purpose	Control money supply; ensure liquidity	Ensure banks hold safe assets; channel credit to Govt.
Penalty	Bank Rate + 3% penal rate on shortfall	Bank Rate + 3% penal rate on shortfall

**Relationship:** Both reduce money available for lending → reduce money multiplier. CRR directly reduces monetary base; SLR channels funds to safe Govt. assets. Together they set the reserve

deposit ratio ( $rdr = CRR + SLR$ ). Higher CRR/SLR → contractionary effect.

## 2.9 Indian Financial System Structure

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**Banks:** Scheduled Commercial Banks (public, private, foreign, RRBs, SFBs, Payment Banks) + Cooperative Banks (Urban + Rural). **NBFIs:** AIFIs (NABARD, NHB, EXIM, SIDBI) + NBFCs + Primary Dealers + CICs.

**Banks vs NBFCs key difference:** Banks accept *demand deposits* and issue cheques. NBFCs do neither. NBFCs cannot call themselves banks.

## 2.10 Base Rate, MCLR & External Benchmark Rate

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- **Base Rate (2010):** Minimum lending rate; based on average cost of deposits.
- **MCLR (2016):** Based on *marginal* cost of deposits – faster transmission of rate changes.
- **External Benchmark Rate (Oct 2019):** New retail/MSME loans must link to Repo Rate, 3-month T-bill yield, 6-month T-bill yield, or FBIL benchmark. Ensures near-instant monetary policy transmission.

## 2.11 Securities & Financial Markets

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**Capital Market:** Long-term securities (equity + debt). Primary market (new issues) + Secondary market (BSE/NSE). **Money Market:** Short-term (< 1 year) high-liquidity instruments: T-bills, Call money, CDs, CPs, CMBs, CBLO.

**Government Securities:** T-bills (< 1 year, zero coupon), CMBs (< 91 days), Dated Securities (5-40 years), SDLs (State Development Loans). All qualify for SLR. Traded on E-Kuber (primary) and NDS-OM (secondary).

## 2.12 Digital Payments

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**UPI (Unified Payments Interface):** NPCI platform; instant interbank fund transfer via VPA; works 24×7; person-to-person and person-to-merchant. **CBDC (e-Rupee):** Digital legal tender issued by RBI; like cash but digital; bearer instrument; no interest; available via bank wallets. **e-RUPI:** Purpose-specific digital voucher (not currency); issued by Govt./corporates for welfare delivery.

## Chapter 3 – Money & Banking Part II ★ (EXTREMELY IMPORTANT)

Banking History, NPA Crisis, IBC 2016, RBI-Govt Relationship, NBFCs

### 3.1 History of Indian Banking

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- **1806-1843:** Three Presidency Banks (Bengal, Bombay, Madras).
- **1921:** Merged into Imperial Bank of India.
- **1935:** RBI established (based on Hilton Young Commission); took over from Imperial Bank and Controller of Currency.
- **1949:** RBI nationalized; Banking Regulation Act enacted.
- **1955:** Imperial Bank → State Bank of India (nationalized).
- **1969:** 14 banks nationalized (deposits > ₹50 crore) – "social control" policy.
- **1980:** 6 more banks nationalized (deposits > ₹200 crore) → PSB share = 92% of deposits.
- **Pre-1991 problems:** CRR jumped from 2% to 15%; SLR from 25% to 38.5%. Banks unprofitable, directed credit, administered interest rates, no competition.

### 3.2 Narasimham Committee Reforms

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**Narasimham Committee I (1991):** Reduce SLR to 25% (prudential basis, not fiscal financing); deregulate interest rates; phase out directed credit; create ARC for bad debts; separate regulation – RBI as primary bank regulator; level playing field for public/private/foreign banks.

**Narasimham Committee II (1997):** More autonomy to PSBs; reduce Govt. equity to 33%; merge large banks for international strength; raise capital adequacy norms; RBI should not own banks (conflict of interest – RBI transferred SBI/NHB/NABARD stakes to Govt.).

### 3.3 RBI – Government Relationship

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**Section 7 of RBI Act:** Govt. can give written directions to RBI in public interest. RBI Board then takes over decision-making (Governor loses say). *Never used in 85+ years.* Called the "Sword of Damocles" – hangs over but never deployed. Reflects that RBI is **autonomous within limits set by Govt.**

RBI is 100% owned by Govt. of India. Governor appointed by PM in consultation with Finance Minister. Key quotes: Manmohan Singh – "Finance Minister's view must prevail"; Subbarao – "Autonomous within RBI Act framework"; Reddy – "Continuous dialogue essential."

### 3.4 NPA (Non-Performing Assets) & Crisis

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#### What is NPA?

Assets (loans) where principal/interest is overdue for **more than 90 days**. Sub-Standard (< 12 months NPA) → Doubtful (12-36 months) → Loss Assets.

Stressed Assets = NPAs + Restructured Loans +  
Written-off Assets

### **NPA Crisis Causes:**

- Credit-led boom of 2000s → post-2008 global crisis → UPA-II domestic issues (2009-14)
- Directed/concessional lending; weak credit appraisal; ever-greening of loans
- Infrastructure projects delayed due to land acquisition, environmental clearances

## **3.5 Resolution Framework**

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### **SARFAESI Act 2002:**

Allows banks to take possession of secured assets and sell them **without court intervention** to recover NPA loans. Banks give 60-day notice to defaulters. If not repaid, banks can enforce security interest (sell collateral).

### **RBI Circular (June 2019) on NPA Resolution:**

- 30-day review period after default.
- Inter-Creditor Agreement (ICA) within 30 days; 75% by value + 60% by number → decisions binding.
- Resolution Plan implemented within 180 days.
- Penalty: +20% additional provision if unresolved after 180 days; +15% more after 365 days.

## **3.6 Insolvency and Bankruptcy Code (IBC) 2016 ★**

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**Key shift:** Pre-IBC, onus was on *debtor* to initiate resolution. IBC shifts responsibility to *creditor*. Replaces SICA, Company Law Board winding-up, BIFR, and multiple fragmented laws into one unified code.

## IBC Process:

1. **Default trigger:** > ₹1 crore default by corporate debtor.
2. Creditor (financial or operational) or debtor files with **NCLT**.
3. 10-day demand notice before NCLT filing.
4. NCLT admits → appoints **Interim Resolution Professional (IRP)** → public announcement.
5. **Committee of Creditors (CoC)** formed (only financial creditors).
6. Resolution Plan submitted by Resolution Applicants → CoC approves by **66% majority**.
7. NCLT final approval → implementation.
8. If no plan → **Liquidation**.
9. Timeline: **180 days** (+ 90 days extension) = 270 days; legal proceedings extend to 330 days max.

## Four Pillars of IBC:

1. **Insolvency Professionals (IPs)** – regulated by Insolvency Professional Agencies
2. **Information Utilities** – electronic databases of creditor-debtor information
3. **Adjudicating Authority** – NCLT (companies), DRT (individuals); appellate: NCLAT, DRAT
4. **Insolvency & Bankruptcy Board of India (IBBI)** – regulator of IPs and Information Utilities

**Pre-Pack Scheme (IBC Amendment 2021):** For MSMEs with defaults < ₹1 crore. Original promoters submit plan (management stays). Swiss Challenge if plan doesn't cover operational creditors fully. Completed in 120 days vs 180 days for normal CIRP.

## IBC Outcomes:

- Only ~15% of NCLT-admitted cases resulted in Resolution; rest went to Liquidation.

- Major behavioral change: thousands of defaulters settling before NCLT.
- Boosted ease of doing business; attracted FDI.
- Challenges: Few NCLT benches → delays; cross-border insolvency not implemented yet.

### 3.7 Bad Bank (NARCL)

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**NARCL (National Asset Reconstruction Company Ltd, 2021):** Govt-created bad bank to buy NPAs from commercial banks. NARCL (ARC) + IDRCL (resolution manager) work together. NARCL pays 15% cash + 85% securities (Govt. guaranteed) for NPA purchase price. Frees bank capital for fresh lending.

### 3.8 Development Financial Institutions (DFIs)

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DFIs fill gaps in long-term financing. They emphasize *project viability* (not just collateral), provide long-term loans + equity + guarantees, and maintain continuous partnership with clients.

- **NABARD** (1982): Agriculture, rural dev; supervises RRBs & rural cooperatives; refinancing not direct lending
- **NHB** (1988): Housing finance; refinancing
- **EXIM Bank** (1982): Export-import finance; direct + indirect
- **SIDBI** (1990): MSMEs; mainly refinancing
- **NaBFID** (2021): New DFI for infrastructure; ₹20,000 cr Govt. equity
- **MUDRA**: Refinancing for micro/informal sector loans up to ₹10 lakh (Shishu/Kishor/Tarun)

### 3.9 FSDC (Financial Stability and Development Council)

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Set up in December 2010 by Govt. of India. **Not a statutory body.** Chaired by Finance Minister. Members: RBI, SEBI, IRDA, PFRDA governors, IBBI chair, CEA. Coordinates macro-prudential supervision, financial stability, inter-regulatory coordination, and financial inclusion.

### 3.10 Corporate Governance in Banks (PJ Nayak Committee 2014)

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Recommended: Bank Investment Company (BIC) to hold Govt's stakes in PSBs → autonomy from Govt. interference. Banks Board Bureau (BBB) set up as interim measure → now replaced by **Financial Services Institutions Bureau (FSIB)** from July 2022. FSIB recommends appointments of WTDs and NECs in PSBs, FIs, and PSIs.

## Chapter 4 – Government Budgeting

Budget, Deficits, Fiscal Policy, FRBM, GST, Tax System

### 4.1 Budget Basics

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India's financial year: April 1 to March 31. Budget presented on **1st February** at 11 AM by Finance Minister in Lok Sabha. Prepared by Budget Division, Dept. of Economic Affairs, Ministry of Finance.

- **Full Budget:** Entire year estimates.
- **Interim Budget:** Election year; covers part of year until new govt. forms full budget.
- **Vote-on-Account:** Only expenditure side; Parliament gives advance grant for 2 months (1/6th of annual estimate). Used when budget delayed.
- **Zero-Based Budget:** All expenses recalculated from scratch (not incremental).
- **Outcome Budget:** Converts outlays into measurable outcomes/targets.
- **Gender Budget:** Tracks allocations for women (100% schemes in Part A; 30%+ in Part B). Started 2005-06.

## 4.2 Budget Classification: Revenue vs Capital

Type	Receipts	Expenditures
<b>Revenue</b>	Tax Revenue (direct + indirect) + Non-Tax Revenue (interest, dividends, fees). Does NOT create liability or reduce assets.	Current/consumption expenses: salaries, interest payments, subsidies, grants. Does NOT create assets.
<b>Capital</b>	Market borrowings, external loans, recoveries, disinvestment, small savings. Creates liability OR reduces assets.	Creates assets (land, machinery) OR reduces liabilities. Includes loans to states, PSU investments.

## 4.3 Government Deficits

Revenue Deficit = Revenue Expenditure - Revenue Receipts

Fiscal Deficit = Total Expenditure - Total Receipts (except borrowings) = Total Borrowings

Primary Deficit = Fiscal Deficit - Net Interest Payments

Effective Revenue Deficit = Revenue Deficit - Grants for capital asset creation by States

**Fiscal Deficit 2022-23:** 6.4% of GDP (Centre). Target under FRBM: 3% of GDP. States allowed 3.5% of GSDP in 2023-24. High fiscal deficit → crowding out risk, inflation risk, debt sustainability concerns.

## 4.4 Fiscal Policy

**Expansionary:** Increase spending + reduce taxes → stimulate demand (used in recessions). **Contractionary:** Reduce spending + increase taxes → cool inflation.

**Counter-cyclical policy:** Stimulus during recession; austerity during boom. *Recommended by Keynes; India's Economic Surveys advocate this.* **Pro-cyclical policy:** Amplifies business cycles – dangerous.

**Crowding Out:** Govt. borrowing competes with private sector for savings → raises interest rates → less private investment. However, in India with unemployed resources, **crowding IN** is more common as Govt. spending boosts private sector demand.

#### 4.5 FRBM Act 2003

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- Fiscal deficit target: **3% of GDP**
- Govt. + State debt target: 60% of GDP (centre: 40%)
- **Escape clause:** national security, war, calamity, structural reforms, GDP growth decline of 3%+
- Deviation capped at 0.5% of GDP
- Prohibits direct RBI monetization of deficit (except in emergencies)
- Requires Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, Macroeconomic Framework Statement with every budget

#### 4.6 Government Accounts

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- **Consolidated Fund of India:** All taxes + loans + expenditure. Parliament authorization required for any withdrawal.
- **Contingency Fund:** At President's disposal for unforeseen expenses. Corpus = ₹30,000 crore. Replenished from Consolidated Fund after Parliamentary approval.
- **Public Account:** Small savings, PF, security deposits. Government acts as banker/trustee. No Parliament vote required.

#### 4.7 India's Tax System

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### **Direct Taxes (Central):**

Income Tax (individuals), Corporate Tax (CIT: 25.17% without exemptions; 34.94% with exemptions), Capital Gains Tax, STT, MAT (15% on book profit), Equalization Levy (Google Tax).

### **Indirect Taxes:**

GST (CGST + SGST + IGST), Customs Duty. Alcohol, petroleum, electricity outside GST.

**All indirect taxes are regressive** – same absolute tax burden falls heavier on lower incomes as a % of income. Income tax is progressive.

## **4.8 GST (Goods & Services Tax)**

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**Introduced 1st July 2017.** Subsumed 17 central + state indirect taxes. One nation, one tax. Destination-based (not origin-based). Input Tax Credit available across value chain and states.

### **GST Structure:**

- CGST (Centre) + SGST (State) for intra-state; IGST (Centre) for inter-state transactions.
- Rates: 0% (exempt), 3% (gold), 5%, 12%, 18%, 28% + compensation cess on demerit goods.
- GST Council: Finance Minister (chair) + state finance ministers. 3/4 majority needed. Centre = 1/3 weightage; States = 2/3. Recommendations are *recommendatory*, not binding (SC judgment 2022).
- E-Way Bill required for goods > ₹50,000 in value.
- Composition Scheme: Up to ₹1.5 crore turnover → pay 1% flat rate; can't claim input credit.

**Benefits of GST:** Eliminated tax-on-tax cascading effect; created unified national market; input tax credit prevents evasion; formalized informal sector; simplified compliance; boosted exports competitiveness. **Challenges:** Multi-slab structure; petroleum/alcohol excluded; inverted duty structure in some sectors.

#### 4.9 Finance Commission & Centre-State Transfers

Finance Commission appointed every 5 years by President (Article 280). **XV FC (2021-26):** 41% vertical devolution of Divisible Pool to 28 states. Horizontal distribution based on: Income Distance (45%), Population-2011 (15%), Demographic Performance (12.5%), Area (15%), Forest (10%), Tax Effort (2.5%).

Grants-in-aid: Revenue Deficit Grants, Local Body Grants, Disaster Management Grants, Sector-specific Grants, State-specific Grants.

### RBI / Monetary Policy – Interview Q&A

All answers primarily from Vivek Singh Chapters 2 & 3

- 1 **What is the role of the Reserve Bank of India in the economy?**
- 2 **What is the repo rate?**
- 3 **What is the reverse repo rate?**
- 4 **Why do commercial banks park surplus funds with RBI instead of lending them out?**

**5 What is CRR (Cash Reserve Ratio)?**

**6 What is SLR (Statutory Liquidity Ratio)?**

**7 What is the relationship between CRR and SLR?**

**8 What is Term Repo? What is LTRO?**

**9 What is the Monetary Policy Committee (MPC)?**

**10 What are recent policy decisions taken by RBI?**

**11 What penalties can RBI impose if banks don't maintain CRR/SLR?**

## **Bank vs NBFC / Financial Structure**

Ch.2 – Section 2.17

**1 What is the difference between a bank and an NBFC?**

**2 Why do some customers prefer NBFCs over banks?**

**3 What role do NBFCs play in the economy?**

## **Balance Sheet / Accounting (VERY IMPORTANT)**

Book + Own Knowledge

**1** What is the difference between a Balance Sheet, P&L Account, and Cash Flow Statement?

**2** What is the difference between a manufacturing company's and a bank's balance sheet?

**3** On which side of the balance sheet does capital appear?

**4** What are contingent liabilities?

**5** How can a borrower manipulate a balance sheet?

## ● Financial Concepts / Investment

Own knowledge (not in book)

**1** What is Time Value of Money (TVM)?

**2** What is Internal Rate of Return (IRR)?

**3** If you were a pensioner, where would you invest your money and why?

**4** Investment suggestions for low-risk vs high-risk investors?

## ● Digital Banking / Cybersecurity / Fintech

Ch.2 + Own Knowledge

**1** What is UPI and will it replace debit/credit cards?

**2** How would you handle elderly customers who are victims of digital fraud / "digital arrest" scams?

**3** What is a Business Correspondent (BC) and how does Aadhaar-based verification work?

**4** Will fintech companies replace traditional banks?

## ● Insurance – Basics

**1** Types of insurance and what "coverage" means?

## ● Economics – Core Concepts

Ch.1, Ch.2, Ch.4 + Own knowledge

**1** What is the difference between GDP and GVA?

**2** What is inflation? What are its causes?

**3** What is Balance of Payments (BoP)?

**4** What is fiscal deficit?

**5** What is the Bandwagon Effect?

**6 How do trade wars affect the economy?**

**7 How do interest rates impact economic growth?**

## **Statistics / Analytics**

**1 What is the difference between correlation and regression?**

**2 What is standard deviation?**

## **Applied / Thinking Questions (VERY IMPORTANT for NIBM)**

These test your judgment, practicality, and banking mindset

**1 If you are a banker, how would you decide whether to give a loan or not?**

**2 How would you explain a financial concept to someone from a non-finance background?**

**3 How would you handle customers reluctant to adopt digital banking?**

**4 How do banks ensure profitability while managing risk?**

📖 Source: Indian Economy by Vivek Singh (7th Edition 2023-24) + Applied Banking  
Knowledge | Prepared for NIBM Interview – April 23