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# CURRENT AFFAIRS

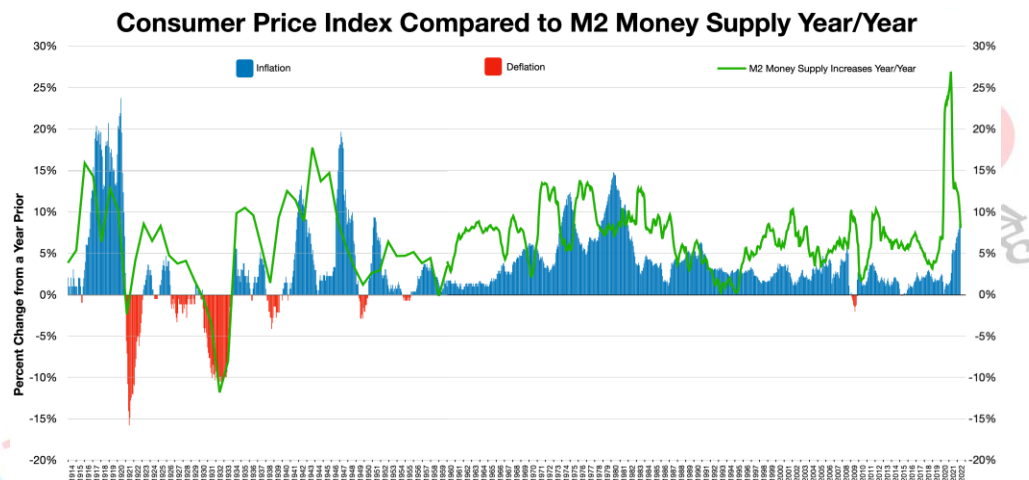
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## CONSUMER PRICE INDEX – CPI

This article covers “Daily Current Affairs” and the topic details “Consumer Price Index”. The topic “Consumer Price Index” has relevance in the “Indian Economy” section of the UPSC CSE exam.



### For Prelims:

What is CPI? What is its basket? What are different versions?

### For Mains:

GS3: Indian Economy and Issues related to it

### Why in the news?

Recent reports show that Retail Inflation denoted by Consumer Price Index has risen to a three-month high of 4.81 per cent.

### Consumer Price Index

A consumer price index (CPI) measures changes in the prices of a basket of consumer goods and services purchased by households. It measures changes in the price level for the specified consumers in the particular region.

### There are different versions of CPI in India such as–

CPI	Base Year	Publishing Agency
CPI (Combined)	2012	Central Statistics Office, Ministry of Statistics and Programme Implementation (MoSPI)

CPI (Rural)	2012	Central Statistics Office, MoSPI
CPI (Urban)	2012	Central Statistics Office, MoSPI
CPI (AL/RL) (Agricultural Labour /Rural Labour)	2012	Labour Bureau
CPI (UNME) (Urban Non-Manual Employees)	2004-05	Central Statistics Office, MoSPI
CPI (IW) (Industrial Workers)	2001	Labour Bureau

### All-India Combined Consumer Price Index (CPI-Combined)

- The Reserve Bank of India (RBI) uses the All-India Combined Consumer Price Index (AICPI) as its primary measure of consumer price changes.
- The index is now being calculated with a base year of 2012 = 100, and several improvements have been made in accordance with international standards.
- The basket of items and weighting diagrams for the revised series were created using the Modified Mixed Reference Period (MMRP) data from the Consumer Expenditure Survey (CES) of the 68th Round of the National Sample Survey (NSS) in 2011-12.

### The weights in CPI-C are as follows:

Major Groups	Weight (%)
Food and beverages	45.86
Misc. group	28.32
Housing	10.07
Fuel & light	6.84
Clothing & footwear	6.53
Pan, tobacco and intoxicants	2.38
General	100.00

### Core Inflation

- Core inflation is a measure of inflation that excludes the prices of food and energy.
- It is calculated by subtracting the prices of food and energy from the overall inflation rate. This is done to get a better understanding of the underlying trend in inflation, as the prices of food and energy can be volatile.
- While in CPI-C, major fuel items such as 'petrol for vehicle' and 'diesel for vehicle', which have relatively large weights, are not included in 'fuel and light'. These fuel items are classified under "transport and communication", a subcategory of the "miscellaneous" group.

Core Inflation = Overall Inflation – (Weight of Food and Beverages + Weight of Fuel and Light)

### Refined Core Inflation

- The Economic Survey 2021-22 constructed a "refined" core inflation rate by excluding main fuel items such as petrol, diesel, and lubricants and other fuels for vehicles, as well as food and beverages and fuel and light, from the headline retail inflation rate.

Refined Core Inflation = Overall Inflation – (Weight of Food and Beverages + Weight of Fuel and Light + Weight of Transport Fuel Items)

### **Need for Changes in CPI Basket:**

#### **Reflecting evolving consumption patterns:**

- As societies progress and economic conditions evolve, people's consumption patterns shift. New products and services emerge, and the relative importance of different expenditure categories changes.

#### **Improving accuracy:**

- The CPI is used as a measure of inflation, which has significant implications for economic policy and decision-making.
- To make informed policy decisions, it is crucial to have an accurate measure of inflation that aligns with the current consumption patterns.

#### **Addressing changing relative prices:**

- The relative prices of goods and services can fluctuate over time. Some items may become relatively more expensive, while others may become relatively cheaper.
- If the CPI basket does not account for these changes in relative prices, it may not accurately reflect the cost of living for consumers.

#### **Accounting for technological advancements:**

- Technological advancements introduce new products and services into the market, which can significantly impact consumer behavior and spending patterns.
- For example, the rise of digital services, internet usage, and other technology-related expenses may not be adequately captured in the current CPI basket.

#### **Addressing biases and flaws:**

- The current CPI basket may have biases or flaws that need to be addressed. For example, the weightage assigned to certain items may be disproportionate or not reflective of their actual importance in household budgets.

Ultimately, an accurate and up-to-date CPI basket is essential for policymakers, economists, and society as a whole to have a clear understanding of inflation, consumer spending patterns, and the economic well-being of the population. Only through adapting and evolving the CPI can we accurately measure the true cost of living and make informed decisions that align with the dynamics of the modern economy.

#### **Sources:**

How the CPI basket conceals the inflation picture – The Hindu

#### **Q1. With reference Consumer Price Index (CPI), consider the following statements:**

1. Food and beverages has the highest weight in the CPI Basket while Fuel & light has the lowest weight.
2. The Labour Bureau of India publishes the CPI for Urban Non- Manual Employees.
3. Core inflation is a measure of inflation that excludes volatile prices of food and energy.

#### **Which of the statements given above is/are correct?**

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 3 only
- (d) 1, 2 and 3

**Answer: (c)**

## Q2. Consider the following statements:

1. Refined core inflation is a measure of inflation that excludes the prices of volatile items like fuel and light, but includes food and beverages.
2. The Reserve Bank of India uses the Combined Consumer Price Index as its main indicator of consumer price changes.
3. CPI (IW) is used for calculating dearness allowance for Central Government Employees.

How many of the abovementioned statement/s is/are correct ?

- (a) Only one
- (b) Only two
- (c) Only three
- (d) None

Answer: (b)

Q3. Explain the need for a revised CPI basket, challenges faced, and implications for accurate inflation measurement.

Gaurav Nikumbh

## PREVENTION OF MONEY LAUNDERING ACT (PMLA)

This article covers "Daily Current Affairs" and the topic details "PMLA". The topic "PMLA" has relevance in the Governance section of the UPSC CSE exam.



### For Prelims:

About the Prevention of Money Laundering Act (PMLA)?

### For Mains:

GS 2: Governance

Why has GSTN been brought under the PMLA?

*What is the Goods and Services Tax Network (GSTN)?*

### **Why in the news?**

The Centre's move to bring the Goods and Services Tax Network (GSTN) under the purview of the Prevention of Money Laundering Act (PMLA) was to empower the relevant investigating agencies to deal with tax fraud and money laundering matters, and not giving outright access to data to any party

### **What is the Prevention of Money Laundering Act (PMLA), 2002?**

- The Prevention of Money Laundering Act (PMLA), 2002 was enacted with the objective of preventing money laundering and enabling the confiscation of property that is derived from or involved in money laundering activities. It serves as a crucial component of India's legal framework in the fight against money laundering and associated offenses.
- Definition of Money Laundering: The act defines money laundering as any process by which proceeds of crime are involved in any transaction, directly or indirectly, to conceal the illicit origin of the property.
- Criminal Offense: Money laundering is considered a criminal offense under the PMLA, and individuals involved in money laundering activities can face legal action and penalties.
- Confiscation of Property: The PMLA enables authorities to confiscate property derived from money laundering or involved in money laundering activities.
- Attachment of Property: The act provides for the attachment of properties involved in money laundering offenses during the investigation and trial process.
- Prohibition on Dealing with Attached Property: Once a property is attached under the PMLA, any transaction or dealing with that property is prohibited without prior permission from the authorities.

### **Why has GSTN been brought under the PMLA?**

#### **Enhancing the Fight Against Money Laundering and GST Fraud:**

- The move aims to strengthen efforts in combating money laundering and combating Goods and Services Tax (GST) fraud.
- It is believed that bringing GSTN under the ambit of the Prevention of Money Laundering Act (PMLA) will help enhance the fight against financial crimes.

#### **Improved Information Sharing:**

- The recent notification amends a previous 2006 notification, allowing for improved information sharing between GSTN, Enforcement Directorate (ED), and Financial Intelligence Unit (FIU) under the provisions of the PMLA Act, 2002.
- This amendment facilitates better coordination and collaboration among these entities in identifying and tackling money laundering activities and GST fraud.

#### **Identification of Suspected GST Identification Numbers:**

- In a recent drive against fake registrations, field tax officials identified over 69,600 suspected GST identification numbers for physical verification.
- Out of these, more than 59,000 were verified, and it was found that 25% of them were non-existent.
- This highlights the need for robust measures to prevent GST fraud and money laundering through the GST system.

### **What is the Goods and Services Tax Network (GSTN)?**

- GSTN is an organization that has developed an indirect taxation platform for the implementation of the Goods and Services Tax (GST) in India.
- It provides IT infrastructure and services to taxpayers, Central and State Governments, and other stakeholders.



- GSTN helps taxpayers in preparing and filing returns, making payments, and complying with indirect tax regulations.
- It is a government-owned company incorporated in 2013, and the Board of GSTN has approved its conversion into a government company.

**Regulating Authorities:**

- The Directorate of Enforcement (ED) is responsible for enforcing the provisions of the PMLA and investigating money laundering cases.
- The Financial Intelligence Unit – India (FIU-IND) is a unit of the Indian government’s Department of Revenue and gathers financial intelligence on money laundering offenses.
- FIU-IND operates under the PMLA and collaborates with enforcement agencies and foreign Financial Intelligence Units (FIUs).
- By bringing GSTN under the PMLA ambit, the authorities aim to leverage the provisions of the act to tackle money laundering activities and strengthen efforts against GST fraud. This step emphasizes the importance of combating financial crimes and ensuring the integrity of the GST system.

**SOURCE:**

<https://economictimes.indiatimes.com/news/economy/policy/brought-gst-under-pmla-purview-to-empower-investigators-in-fighting-financial-fraud-centre/articleshow/101699287.cms>

**Q.1 Which of the following statements regarding the Prevention of Money Laundering Act (PMLA), 2002 is/are correct?**

1. The PMLA was enacted to prevent money laundering and provide for the confiscation of property derived from or involved in money laundering.
2. The PMLA forms the core of India’s legal framework to combat money laundering and related crimes.
3. The Financial Intelligence Unit – India (FIU-IND) is responsible for enforcing the provisions of the PMLA and investigating money laundering cases.
4. Money laundering is defined as the process by which illicit funds are converted into legal assets to conceal their illicit origin.

**Choose the correct option:**

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1, 3, and 4 only
- (d) 1, 2, and 4 only

**ANSWER: D**

**Q.2 What is/are the most likely advantages of implementing ‘Goods and Services Tax (GST)’?**

1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.
2. It will drastically reduce the ‘Current Account Deficit’ of India and will enable it to increase its foreign exchange reserves.
3. It will enormously increase the growth and size of the economy of India and will enable it to overtake China in the near future.

**Select the correct answer using the code given below:**

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**ANSWER: A**

**Q.3 “Discuss the significance of the Prevention of Money Laundering Act (PMLA), 2002 in combating financial crimes in India. Analyze the key provisions of the PMLA and its impact on money laundering prevention and asset confiscation. Also, evaluate the challenges and potential areas of improvement in the implementation and enforcement of the act.”**

**Rishabh**



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