



ECONOMY MODULE 2023



ECON



UPSC
exam
notes

(APRIL - DECEMBER 2022)



ECONOMY MODULE FOR UPSC 2023 PRELIMS & MAINS

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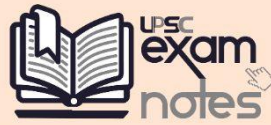
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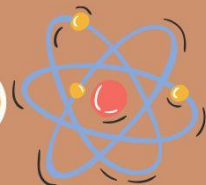
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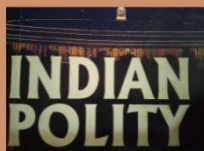
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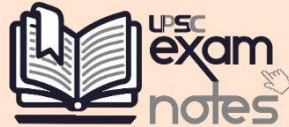


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Monetary Policy Committee (MPC)

1.Context:

Amid changed geopolitical developments since its policy, the monetary policy committee (MPC) of the central bank raised its projections for retail price inflation to 5.7%

2.Reasons:

- The projections on inflations are based on the assumption of international crude oil prices of the Indian basket remaining at 100\$ billion per barrel, any upward from this will raise inflation

RBI committee forecast economic growth 60 basis points lower at 7.2% for the current financial year against its February policy's projections

3.About Monetary Policy committee

The monetary policy committee is constituted by Central Government and maintained by the Reserve bank of India to fix the benchmark policy Interest repo rate (repo rate) to restrain within a particular target level

It has been established under section 45ZB of the RBI Act that was amended in 1934

4.Composition of MPC

Committee will have 6 members-government will nominate three, other three members from the RBI and the governor being ex-officio chairperson, deputy governor will be in charge of this committee who is also a member and also executive director of the central bank

The decision will be by a majority with the vote of each member

Instruments of Monetary Policy

Various Instruments of monetary Policy	
repo rate	repurchase rate or repo rate is at which the central bank lends money to the commercial banks for meeting short term funds requirement
reverse repo rate	Commercial banks park their money in the central bank for interest rate Liquidity adjustment facility: RBI allows banks to borrow the money from repurchase agreement
Liquidity adjustment facility	To help develop the interbank term money market, which in turn can set market-based benchmarks for pricing of loans and deposits and hence improve the transmission of monetary policy
Marginal standing facility (MSF)	A facility under which scheduled commercial banks can borrow an additional amount of overnight money from the Reserve bank by dipping into their Statutory Liquidity ratio(SLR) portfolio up to a limit at a penal rate of interest
Corridor	The MSF rate and reverse repo rate will decide corridor for the daily movement in the weighted average rate called money rate
Cash Reserve ratio	The percentage of total deposit that bank needs to keep it as cash. This is an RBI requirement. it helps eliminate liquidity risk Bank will not earn interest rate while it keeps at RBI
Statutory liquidity ratio	• Minimum reserve requirement that needs to be maintained by commercial banks within the nation • ratio of a bank's liquid assets to a bank's net demand and time liabilities (NDTL) • SLR is a reserve ratio that has to be maintained by the banks as per the mandate of RBI

Open Market Operations (OMOs)	Central banks buy, and sell short term treasuries and other securities in the open market to influence the money supply
Market stabilisation scheme (MSM)	Central bank to withdraw excess liquidity in the market by selling government securities

Micro, small, and Medium Enterprises (MSME)

MSMEs are very important in achieving the overall objectives of economic development. This sector is a significant contributor to the following

1. Industrial Output
2. Employment generation
3. Share in the Gross domestic product (GDP)

The COVID-19 pandemic made MSME sector much more vulnerable, this sector is still struggling to survive and recover from pandemic induced shocks

2.Impacts of pandemic

A recent survey in National Capital Region (NCR) showed the following facts

- Turnover of 90% of small firms have been declined
- Around 53% of firms faced more than a 50% decline in their turnover
- 29% of firms report a collapse in their business
- 53% observed a decrease in demand while 36% faced an erratic supply of raw materials

3.Reasons for this fall in turnover are:

1. Restrictions in the economic activities and mobility's
2. Decrease in demand
3. Shortage of raw materials
4. Restrictions on trade
5. Slow recovery of markets
6. Slow payment and labour shortage

Not all the factors have suffered from the COVID-19 pandemic, there is 10% of the sectors had a rise in their turnover or reported no change.

The key firms in this sector operated in health activities, Pharma industries, and medicinal, chemical and botanical products

To make the MSME sector resilient, there should be a provision from the beginning like a public provident fund

Owners of these sectors reported that they have used E-commerce platforms and some have shifted to other platforms like making sanitizers, masks etc.

Entrepreneurs from Other backward castes own nearly 30% of MSMEs in the Country

CPI

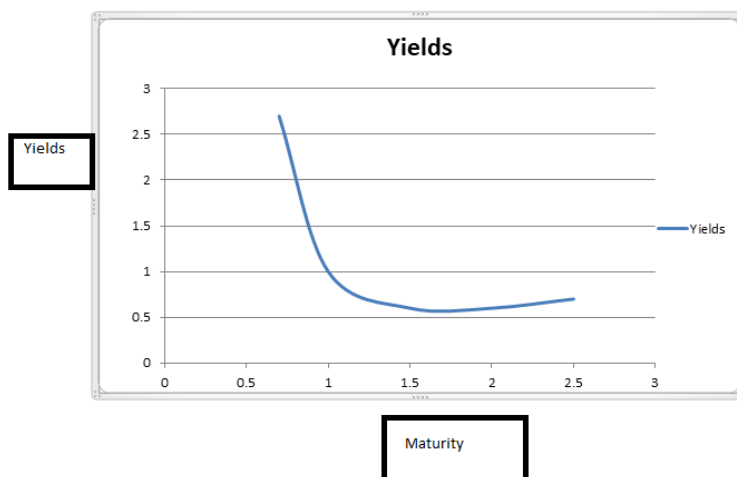
Classification of MSME

Size of the Enterprise	Investment and Turnover
Micro	Investment less than 1 crore Turnover is up to 5 crore
Small	Investment less than 10 crore Turnover up to 50 crore
Medium	Investment less than 20 crore Turnover up to 100 crore

Yield Curve Inversion

1. What is the Yield curve?

The yield curve graphically represents yields on similar bonds across a variety of maturities. It is also known as the term structure of interest rates



It is a line that plots yields (interest rates) of bonds having equal credit quality but different maturity lines. The slope on the curve gives the idea of future interest rates and economic activity

Two yield curve signals a spread between two maturities

2. Important points

- Yield curve graphically represents yields on similar bonds across a variety of maturities
- An inverted yield curve occurs when short term debt instruments have higher yields than long term instruments of the same credit risk profile
- **An inverted yield curve reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions**
- Market Participants and economists use a variety of yield spreads as a proxy for the yield curve

IMPACT OF INVERTED YIELD CURVE

1. Context

There are fears of a recession in many of the world's top economies, including the United States, the biggest and most consequential of all.

The US does look headed for a recession a key point is the inversion of US treasury yields.

2. About Recession

- A recession typically involves the overall output in an economy contracting for at least two consecutive quarters, along with job losses and a reduction in overall demand.
- The US National Bureau of Economic Research (NBER) decides whether the economy is in a recession based on its assessment of the depth, diffusion and duration of the impact on the economy.

Sometimes, the duration may not be long but the decline could be very severe as it

happened in the wake of the Covid-19 pandemic. Or, the depth and diffusion may be relatively less but the downturn may last long as is expected in the United Kingdom in the wake of the economic crisis triggered by the Liz Truss-Kwasi Kwarteng mini-Budget of September 2022.

3. US Treasury bonds

- In any economy, the safest loans are those that are given to government entities that will always be there and that typically do not default on their debt.
- Governments need to borrow money because their tax revenues more often than not are not enough to finance all their spending.

The instrument by which the government borrows from the market is called a government bond. In India they are called G-secs, in the UK they are called gilts and in the US, they are called treasuries.

4. What is the yield of a treasury

- Unlike a bank loan, on which the interest rate varies with time, a government bond comes with a pre-determined "**coupon**" payment.
- So, the US government may "**float**" a 10-year bond with a face value of \$100 and a coupon payment of \$5.
- This means, if you lend \$100 to the US government by buying this bond, you would get \$5 each year for the next 10 years plus the whole sum of \$100 at the end of 10 years. This would imply a yield of 5 per cent.
- But if for some reason one sold this bond to another investor, the yield will change depending on the price at which the bond is sold.
- If the price increase says, the bond is sold for \$110 the yield will fall because the annual return of \$5 remains the same and if the price falls, the yield will rise.

5. What is the Yield Curve

- Governments borrow for durations ranging from 1 month to 30 years.
- Typically, yields are higher for longer tenures because one is lending money for longer.
- If the yields for different tenures of bonds are mapped, it will give an upward-sloping curve ("**Normal**" in the chart above)
- The curves can be flat or steep depending on the money available in the market and the expected overall economic activity.
- When investors feel buoyant about the economy, they pull money out of long-term bonds and put it into short-term riskier assets such as stock markets.
- As prices of long-term bonds fall, their yields rise and the yield curve steepens.

6. Reasons for Yield inversion

- It happens when yields for shorter-duration bonds are higher than the yields on longer-duration bonds.
- If investors suspect that the economy is heading for trouble, they will pull out money from short-term risky assets (such as stock markets) and put it in long-term bonds.
- This causes the prices of long-term bonds to rise and their yields to fall.
- This process first leads to flattening and eventually the inversion of the yield curve.
- Yield inversion has long been a reliable predictor of recession in the US and US treasuries have been witnessing yield inversion for a while now.
- The spread between the yields of 10-year and 3-month treasuries has turned negative.

7. High inflation levels

- In its bid to contain historically high inflation levels, the US Federal Reserve has been raising short-term interest rates to curb overall demand and economic activity.
- Historically, every time the Fed has tried to bring down inflation by more than two percentage points, the US has witnessed a recession.

The Fed appears determined to bring down inflation to the 2 per cent level, but despite rapid interest rate hikes of around 425 basis points inflation has only moderated from around 9 per cent in July to 7 per cent in November.

- The Economy grew by over 3 per cent in the July-September quarter and continued to create hundreds of thousands of jobs, pushing up wages and keeping unemployment at historic lows.
- As such, even though the Fed has now started raising rates at a slower pace, it is expected that it will keep raising rates and stay at those higher levels for longer.
- The more the Fed tightens its monetary stance, the more likely it is for the US economy to fall into a recession which is what the yield inversion is showing.

8. Impact on India

- Rising interest rates are likely to make the US dollar even more strongly against the rupee.
- Indian imports will become costlier as a result and could fuel domestic inflation.
- Higher returns in the US may also lead to some rebalancing of the investments coming to India.
- Indian exports may benefit due to a weaker rupee but a recession will dampen the demand for Indian exports.
- A slowdown or recession may, however, come with the silver lining of lower crude oil prices for India

Inflation

1.Introduction

India's Inflation which is measured by Consumer Price Index (CPI) is has been staying above the tolerance level of RBI which is 6% for three consecutive months i.e. January to April 2022

Price rises of essential commodities, vegetables; edible oil and petroleum products have hit common people as the inflation rate is skyrocketed

India is not only the country that has been witnessing Inflation, developed countries like the UK, the US, and China is also dealing with spiralling commodity prices. While Pakistan and Sri Lanka are facing the worst economic crisis

The on-going Russia-Ukraine conflict has made it worse for many countries

2.Inflation in India

Retailed inflation soared to a 17-month high of 6.95% in March 2022, this is the third consecutive month that inflation remained above the % mark in 2022. 7.6% recorded in October 2020

Consumer Price Index is mainly roused because of rising essential food items like 'food and oil', vegetables and protein-rich items such as 'Meat and fish'

Retail inflation is tracked by the CPI measures the changes in prices from a retail buyer's perspective

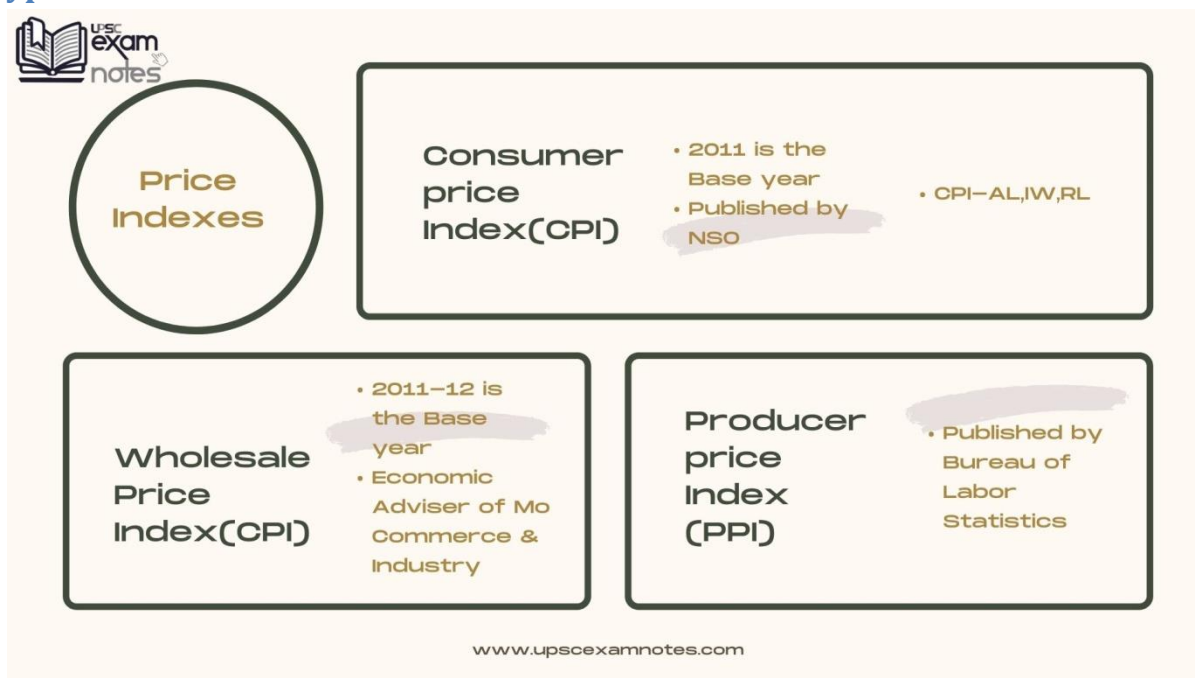
3.All about Inflation

Inflation: Inflation is the decline of purchasing power of a given currency over time.

Inflation is the rate at which the value of a currency is falling and, consequently, the general levels of prices and goods are rising

- Inflation is classified into three types: 1)Demand-Pull Inflation, 2)Cost pull inflation 3)Built Inflation
- The most commonly used inflation indexes are Consumer Price Index (CPI) and Wholesale Price Index (WPI)

Types of Inflation



Demand-Pull Inflation: This situation occurs when an increase in the money supply of money and credit stimulates overall demand for goods and services in an economy to increase more rapidly than the economic production capacity

Causes of this Inflation

1. Low unemployment
2. Depreciation of the rupee
3. Due to Fiscal Stimulus
4. Mismatch between Supply and Demand

Cost-push inflation:

It is a result of an increase in prices working through the production process inputs. When overall prices increase due to an increase in the cost of wages and raw materials

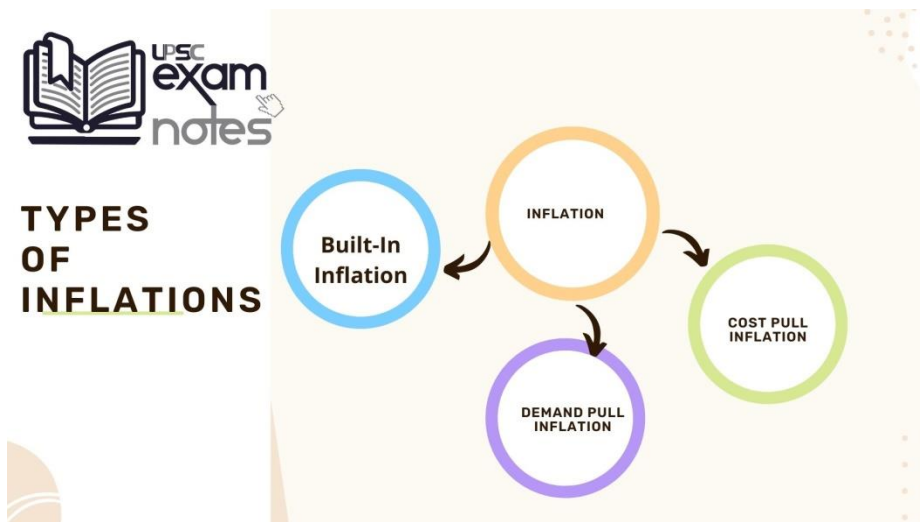
Causes of this Inflation

1. Crude oil prices fluctuation
2. Defective Food supply chain/ Supply chain
3. food Inflation
4. Depreciation of currency

Built-in Inflation:

This type of inflation occurs when workers demand higher wages. It is an adaptive expectation; people expect inflation will continue in future too. So they expect more wages and if the management increases the wages it adds more to the inflation because there will be a mismatch in supply and demand again

Types of Price index



Consumer Price index (CPI)

CPI is a measure that examines the weighted average of prices of a basket of goods and services which are of primary consumer needs. It includes transportation, food, and medical care.

CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them based on their relative weight in the whole basket

It calculates the difference in the price of commodities and services. **Its base year is 2012**

There are four types of CPI

1. CPI for Industrial worker (IW)
2. CPI for Agriculture Labour (AL)
3. CPI for Rural Labour (RL)
4. CPI Urban and rural combined

The first three are compiled by the **Labour Bureau of the Ministry of Labour and Employment**, fourth is compiled by **National Statistics Organisation (NSO) by the Ministry of Statistics and Programme Implementation**

Wholesale Price Index:

It measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses

It is used as an Inflation Indicator in India

Published by the Office of Economic Adviser, Ministry of Commerce and Industry

The base year for WPI is 2011-12

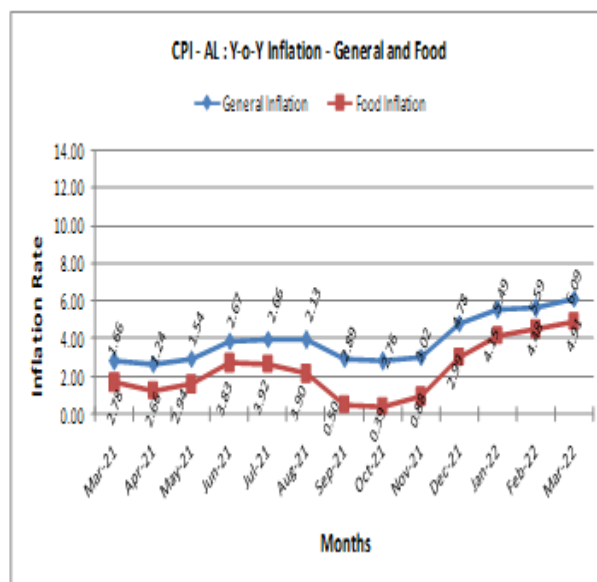
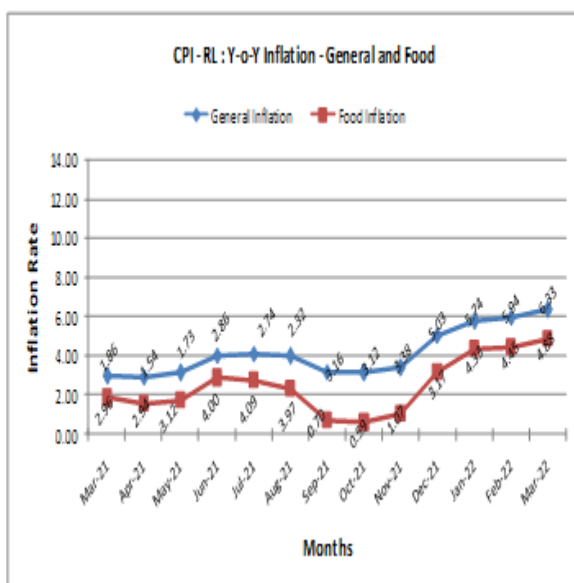
1.Producer Price Index:

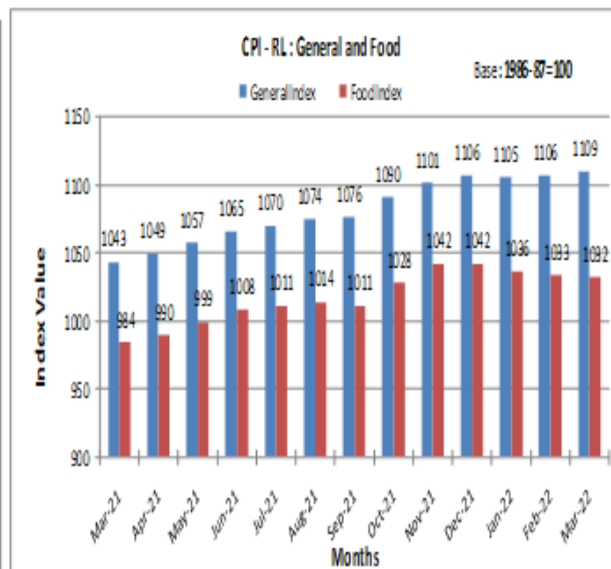
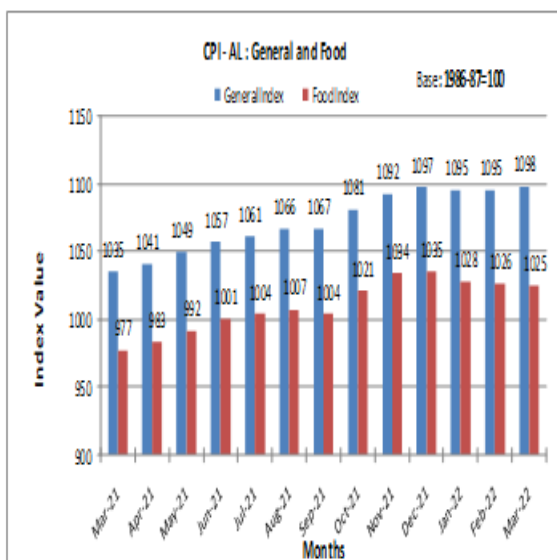
It is a Family of Indexes that measures the average change in selling prices received by domestic producers of intermediate goods and services over time.

PPI measures price changes from the perspective of the seller and differs from CPI

which measures from the

perspective of a buyer





2. Wholesale Price Index:

It measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses

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Published by the Office of Economic Adviser, Ministry of Commerce and Industry

The base year for WPI is 2011-12

STAGFLATION

1.Context

The Department of Economic Affairs in its Monthly Economic Review for May 2022 states that India is expected to witness slowing growth and faces an upside

risk to the fiscal deficit owing to the recent excise duty cuts on fuel, but it has a low risk of Stagflation owing to careful stabilisation policies.

2.What is Stagflation?

- Stagflation is a term that defines a situation characterized by a simultaneous increase in prices (Inflation) and stagnation of economic growth.
- It can also be defined as a period of inflation combined with a decline in the gross domestic product (GDP).
- The situation may comprise of following elements
 1. The growth rate of the economy slows down.
 2. The level of unemployment remains steadily high.
 3. Yet the inflation or price level remains high at the same time.
- The term stagflation was coined by Iain Macleod, a Conservative Party MP in the United Kingdom, in November 1965.
- It was the time when many developed economies experienced rapid inflation and high unemployment as a result of an oil shock.

3.Why is stagflation the worst?

- Typically, inflation rises when the economy is growing fast.
- That's because people are earning more and more money and are capable of paying higher prices for the same quantity of goods
- When the economy stalls, inflation tends to dip as well again because there is less money now chasing the same quantity of goods.
- Stagflation is said to happen when an economy faces stagnant growth as well as persistently high inflation. In other words, the worst of both worlds.
- That is because with stalled economic growth, unemployment tends to rise and existing incomes do not rise fast enough and yet, people have to contend with rising inflation.
- So people find themselves pressurised from both sides as their purchasing power is reduced.

- Simply put, stagflation is a contradiction. Slow economic growth would likely lead to an increase in unemployment but should not result in rising prices.
- This is the problem with this phenomenon an increase in the unemployment level results in a decrease in consumer spending power.

4. Case study of stagflation

- The most famous case of stagflation happened in the early and mid-1970s when OPEC (The Organisation of Petroleum Exporting Countries), which works like a cartel, decided to cut supply and sent oil prices soaring across the world.
- On the one hand, the rise in oil prices constrained the productive capacity of most western economies that heavily depended on oil hampering economic growth.
- On the other hand, the oil price spike also led to inflation and commodities became more costly.
- For instance, just in 1974, the oil prices went up by almost 70 per cent.
- Consequently, inflation in the US reached almost double-digits.

Central Bank for Digital Currency (CBDC)

1. Context:

World Bank has said the introduction of Digital Currency could potentially pose risks to privacy, increase the responsibilities of the Central Bank, and may also lead to Currency substitution through cross border transactions

2. About CBDC

- A CBDC is no different from the cash that we hold in our wallets, except that it exists in a digital platform. CBDC will be held in a digital wallet that is supervised by the Central Bank

- In India, RBI supervises the digital rupee although it might delegate some power to other Banks
- CBDT is a digital form of Fiat currency which can be transacted using wallets backed by the block chain and is regulated by the central bank. It is a legal tender issued by the central bank in a digital form
- It should be noted that the digital rupee will not replace physical cash; physical cash will continue to exist along with digital currency
- Though CBDC is directly inspired by bit coin, it is different from decentralised virtual currencies and crypto assets

Fiat Money:

It is a Government-issued currency that is not backed by a commodity such as gold. This gives so much power to central banks because Central banks can control how much they can print

Risks in adopting Digital Currencies

- People may withdraw all the money from the banks since the issuance of digital currency by the Central bank Confuse them
- RBI has to regulate the digital currency and put a check on digital currency
- Crypto currencies are volatile, they do not have any asset or value, and their values solely depend upon speculation
- Many legal changes are required since it can arise many issues once RBI starts issuing the digital currency
- Central bank must strongly think about the Fraudulent as well as hackers

Hedge Fund

1.Context:

Indian hedge fund investments have recouped most of the losses they made after Russia began to raise tensions with Ukraine

2.What is a Hegde Fund?

- Hedge Funds are sophisticated investment vehicles for the wealthy. A hedge fund is a private investment partnership and funds pool that uses varied and complex proprietary strategies and invests or trades in complex products
- Hedge funds typically include High net worth Individuals (HNI), and families, endowments and pension funds, insurance companies, and banks
- These funds work either as private investment partnerships or offshore investment corporations

Indian Hegde funds are regulated by the Security exchange board of India (SEBI) under (Alternative Investment funds) regulations, 2012 Act

They will have a minimum Investment amount of 1 crore. They seek to provide that is different, and often outsized, compared with regular market returns

CROSS-BORDER INTERBANK PAYMENT SYSTEMS (CIPS)

1. Background

- In 2015, China launched a new payments system—the **Cross-Border Interbank Payment System (CIPS)**—that uses China's currency, the **renminbi (RMB)**, for international transactions.
- China's central bank launched CIPS in 2015 as part of its **efforts to increase the use of Yuan for global transactions, reducing the country's reliance on US dollars.**
- CIPS supports **cross-border payment and settlement in the Yuan and the Hong Kong dollar.**
- However, the Yuan's share of global payment, at **3.2 per cent in value, is still leagues behind that of the US dollar, which is at 40 per cent.**

2. About SWIFT

- The SWIFT system stands for the **Society for Worldwide Interbank Financial Telecommunication.**
- The SWIFT messaging network is a **component of the global payments system.**
- Its principal function is to serve as the **main messaging network through which international payments are initiated.**
- Established in 1973, it is a **secure platform for financial institutions to exchange information about global monetary transactions** such as money transfers.
- SWIFT acts as a carrier of the **"messages containing the payment instructions between financial institutions involved in a transaction."**
- Thus, SWIFT does not move money, **but it operates as a middleman to verify information of transactions** by providing secure financial messaging services to more than **11,000 banks in over 200 countries.**
- Based in Belgium, it is **overseen by the central banks from eleven industrial countries:** Canada, France, Germany, Italy, Japan, the

Netherlands, Sweden, Switzerland, the United Kingdom, and the United States, besides Belgium.

3.CIPF vs. SWIFT

- Compared to the scope of SWIFT, which has 11,000 members, **CIPS is tiny.**
- SWIFT says it transfers **50 million messages a day**, facilitating **trade of \$5 trillion every day**, which dwarfs the **15,000 messages handled daily by CIPS.**
- Even though it has managed to attract nearly 1,205 indirect participants internationally, **CIPS only has 75 direct participants (mostly overseas subsidiaries or branches of Chinese banks).**

4.Need for an alternative for swift

- India, Russia and China are exploring an alternative to the **US-dominated SWIFT** (Society for Worldwide Interbank Financial Telecommunication) payment mechanism in a bid to smoothen trade with countries facing American sanctions.
- Russia's financial messaging system SPFS will be **linked with the Chinese cross-border interbank payment system CIPS.**
- While India still does not have a domestic financial messaging system, it plans to link the Central Bank of Russia's platform with a service that is under development.
- The new system is expected to work as a **"gateway" model** when **messages on payments are transcoded by a certain financial system.**

5.Indian way of trading in domestic currencies

- **Rupee-Rubble** is a payment mechanism between India and Russia to settle trade payments in rupees and rubbles, **instead of dollars and euros.**
- Goods imported to India will be paid for in rupees and goods imported by Russia will **be paid for in rubbles.**

- This is being done to **reduce dependence on the dollar and makes the countries less vulnerable to US sanctions.**
- The rupee-ruble trade agreement was **conceived decades ago in 1953.**

6.Can the dollar be completely phased out?

- To keep the dollar out of the equation, which would need a direct domestic currency conversion rate, **which is currently not available.**
- Global currencies are pegged to the dollar. So to arrive at a conversion rate, **we need to convert the domestic currency of both countries to dollars, to reach the domestic exchange rate between countries.**
- If we are to arrive at rupee-ruble direct exchange rates, then the governments and the central banks **of both countries have to agree on the rates.**

7.How important is domestic currency exchange

- It is important for countries such as India and China to have an alternative payment mechanism in place with Russia as the US, the EU and the UK have blocked **most of the Russian banks from accessing the Society for Worldwide Interbank Financial Telecommunication (SWIFT).**
- SWIFT is a global secure interbank system that communicates payment instructions and enables transactions **between banks from all the countries around the world.**
- Since transactions with Russia cannot be carried out in international currencies such as the dollar or the euro, a domestic currency payment mechanism could play a **pivotal role in deciding whether domestic exporters** will get their payments and if trading can be **continued with Russia.**

Non-Banking Financial Companies (NBFC)

1.Context:

Non-Banking Financial Companies (NBFC) will have to take prior permission from the Reserve Bank of India before issuing credit cards to their customers

2.Updated Rules:

- Apart from the requirement of a certificate of registration, a net owned fund of 100 Crores has been made a prerequisite for entering the credit card business for any financing company, including non-deposit one
- Without obtaining prior permission NBFCs cannot issue Credit Cards, Debit Cards, charge cards, or similar products virtually and physically
- RRBs can issue Credit Cards in collaboration with their sponsor banks or other banks
- Financially sound and well-managed scheduled urban cooperative banks (UCBs) with a minimum net worth of 100 Crores which are Core banking enabled (CBS) can issue credit cards with certain conditions
- To increase transparency related to credit card interest rates charged by issuers, the RBI has asked them for an annual percentage rate (APR) on credit cards for different situations such as retail purchase, balance transfer, cash advances, non-payment of the minimum amount due, late payments etc. if different.
- The method of calculating APR also has to be given with clear examples for a better understanding
- RBI has asked financial entities not to offer unsolicited loans or other credit facilities to the credit cardholders without seeking explicit content
- In case an unsolicited credit facility is extended without the written/explicit consent of the cardholder and the latter objects to the same, the cardholder should not only withdraw the facility but will also be liable to pay a penalty decided by RBI's ombudsmen
- Card issuers have also been asked not to raise the credit limit without the consent of the cardholder

3. Non-Banking Finance Companies (NBFC)

Non-Banking Finance companies also known as Non-Banking Financial Institutions (NBFI), are financial institutions that offer various banking services but do not have a banking license

- Investment banks, mortgage lenders, money market funds, insurance companies, hedge funds, private equity funds, all are examples of NBFCs
- These NBFCs are not allowed to take Demand deposits-readily available funds, such as those checking or savings accounts from the public
- NBFCs can offer services such as loans and credit facilities, currency exchange, retirement planning, money market, underwriting, and merger activities
- NBFCs are registered under the Companies Act, 1956

Labour Force Participation Rate (LFPR)

1. Context:

India's Labour Force Participation Rate have declined from 46% to 40% between 2016-17 to 2021-22-Centre for Monitoring Economy

This means that out of 100 members of the Population only 40 people are looking for work as a labour

2. About LFPR:

The Labour force participation rate is an estimate of an economy's active workforce.

The number of people ages 16 and 64 who are working or looking for employment is called the Labour force participation rate (LFPR)

- It is an important metric when the economy is not growing or witnessing a recession
- It is a measure undertaken to evaluate the working-age population in an economy
- Participation rate estimates the total number of people who are currently employed or looking for employment

- People who are not looking for a job like students, aged people, housewives are not part of the working population

3.Recent Trends in LFPR

- A state-wide analysis of LFPR in March 2016 and March 2022 shows that only one state, Rajasthan, recorded an overall increase in the working population
- Southern states like Tamil Nadu and Andhra Pradesh, which had the Highest LFPR in March 2016, recorded the sharpest drop
- The share of the population that participated in the economy either by working or looking for work dropped by 6 % in 2022, the decline was more in urban areas as LFPR slipped by 7% points
- Apart from Rajasthan, all states recorded a decline in 2022
- In rural areas, between March 2016 and March 2022, only two states have shown an increase in LFPR -Rajasthan, Gujarat
- In Urban areas, between March 2016 and March 2022, four States/UTs have shown an increase in LPR-Chandigarh, Rajasthan, Haryana, J&K

INSOLVENCY AND BANKRUPTCY

1.Context

Implementation of the Insolvency and Bankruptcy Code is facing at the adjudicatory level.

2. Background

- The term insolvency is used for individuals, partnerships or companies.
- While insolvency is a situation where a customer's inability to pay off the debts.
- Bankruptcy is a situation wherein application is made to an authority declaring insolvency and seeking to be declared as bankrupt.

3. About insolvency and bankruptcy code 2016 (IBC)

- This code was introduced for liquidation of assets of the company after its inability to pay the debt and to overcome the challenges of earlier SARFAESI Act.
- The process of liquidation can be initiated by either the debtor or the creditors.
- The Code establishes the Insolvency and Bankruptcy Board of India, to oversee the insolvency proceedings in the country.

4. Resolution under IBC

- When a company is unable to repay its debt.
- Then the company's account is declared as a Non-performing Asset by the bank.
- Now the insolvency process can be initiated by either the debtor or the creditors by approaching the National Company Law Tribunal.
- The National Company Law Tribunal grants a moratorium and an insolvency professional starts the liquidation plan for the company.
- The Resolution plan so made should be approved by the majority of creditors by voting.
- An insolvency professional will liquidate the assets of the company and recover the dues.

Foreign Portfolio Investment (FPI), Foreign Direct Investment (FDI)

1.Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) consists of securities and other financial assets held by investors in another country.

It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.

2.Key takeaways

Unlike FDI, FPI consists of passive ownership; investors have no control over ventures or direct ownership of property or a stake in a company.

- It involves holding financial assets from a country outside of the investor's own.
- FPI holdings can include stocks, ADRs, GDRs, bonds, mutual funds, and exchange-traded funds.
- Along with foreign direct investment (FDI), FPI is one of the common ways for investors to participate in an overseas economy, especially retail investors.
- Holding also includes bonds or other debt issued by these companies or foreign governments, mutual funds, or exchange-traded funds (ETFs) that invest in assets abroad or overseas.

An individual investor interested in opportunities outside their own country is most likely to invest through an FPI.

On a more macro level, foreign portfolio investment is part of a country's capital account and is shown on its balance of payments (BOP).

The BOP measures the amount of money flowing from one country to another country over one monetary year.

Pros	Cons
Feasible for retail investors	No direct control or management of investment
Quicker return on investment	Volatile
Highly liquid	Cause of economic disruption (if

withdrawn)

3.Foreign Direct Investment (FDI)

A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders.

Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright to expand its operations to a new region.

It is not usually used to describe a stock investment in a foreign company.

4.Key takeaways

- Foreign direct investments (FDI) are substantial investments made by a company into a foreign concern.
- The investment may involve acquiring a source of materials, expanding a company's footprint, or developing a multinational presence.
- As of 2020, the U.S. is second to China in attracting FDI.

Companies considering a foreign direct investment generally look only at companies in open economies that offer a skilled workforce and above-average growth prospects for the investor.

5.Types of Foreign Direct Investment

Foreign direct investments are commonly categorized as horizontal, vertical, or conglomerate.

- With a horizontal direct investment, a company establishes the same type of business operation in a foreign country as it operates in its home country.
- In a vertical investment, a business acquires a complementary business in another country.

- In a conglomerate type of foreign direct investment, a company invests in a foreign business that is unrelated to its core business. Since the investing company has no prior experience in the foreign company's area of expertise, this often takes the form of a joint venture.

FDI regulations in India now allow 100% foreign direct investment in single-brand retail without government approval.

Pros	Cons
Foster and maintain economic growth, both in the recipient country and in the country investing.	regulation and oversight of multiple governments
Developing countries financing the construction of new infrastructure and the creation of jobs for their local workers.	higher level of political risk
Multinational companies expanding their footprints into international markets.	

6. Difference between FPI and FDI

FPI	FDI
It is the addition of international assets to the portfolio of a company, an institutional investor such as a pension fund, or an individual investor.	It requires a substantial investment in, or the outright acquisition of, a company based in another country.

It is a form of portfolio diversification, achieved by purchasing the stocks or bonds of a foreign company.	FDI is generally a larger commitment, made to enhance the growth of a company.
volatile in nature	stable in nature

Current Account Deficit

1.Context

India's merchandise trade for April gives a reason for uplift seemingly.

2.Background

- Monitoring the trade deficit is crucial because of its direct bearing on the current account deficit (CAD).
- Alarmingly, foreign direct investment helps bridge the CAD has seen moderation.
- The wider the CAD, the greater the downward pressure on the rupee.
- Which has already weakened considerably since the conflict in Eastern Europe began in February?
- A weaker rupee makes imports costlier, potentially widening the trade deficit and thus triggering a vicious cycle.
- It records **exports and imports in goods and services and transfer payments.**
- It represents a country's transactions with the rest of the world and, like the capital account, is a component of a country's Balance of Payment (BOP).
- There is a deficit in the Current Account if the **value of the goods and services imported exceeds the value of those exported.**

3.Key Takeaways

- Outward shipments for the month rose 24.2 from a year earlier, with electronics and chemicals showing healthy expansion and petroleum products more than doubled.
- The trade deficit- the extent to which the import bill exceeds export receipts- is worryingly breached.
- Global crude oil prices have surged by more than 40 per cent in 2022 in the wake of Russia's war on Ukraine.
- The heat wave has bolstered power demand, resulting in a 136 per cent hike in coal imports last month.
- The Ministry of power set timelines for states to import coal over the next few months.
- The RBI has sought to steady the rupee against wild swings, evident in the dip in foreign exchange reserves.
- RBI fought against imported inflation as global commodity prices remain sharply raised.

4.The major components are:

- Goods,
- Services
- Net earnings on overseas investments and net transfer of payments over some time, such as remittances.

It is **measured as a percentage of GDP.**

The formulae for calculating Current Account Balance are:

$$\text{Current Account Balance} = \text{Trade gap} + \text{Net current transfers} + \text{Net}$$

income abroad.

(Trade gap = Exports – Imports).

4. Conclusion

- The government must consider additional incentives for exports and encourages local production of items to strain the import bill.
- The coal prices were prevented with better-advanced estimates of power demand and optimal allocation of coal-carrying wagons.
- Policymaker's ill afford to guard down on trade imbalances and risk growth-retrading inflation and more pressure on the rupee.

Initial Public Offering (IPO)

1. Context

The government of India selling a 5 per cent stake in LIC

2. Key Takeaways

- The much-awaited initial public offering (IPO) of the Life Insurance Corporation of India opened for subscription.
- The government is aiming to raise about 21,000 Crores from the issue under the disinvestment programme.
- The government reduced the disinvestment target significantly to 65,000 Crores for the current fiscal year, against the Budget estimate of 1.75 trillion last year.
- The government must focus on disinvestment to raise resources.

- It has now a new policy which envisages maintaining a minimum presence of central public sector enterprises (CPSEs) in strategic areas and other state-owned enterprises will be privatised.
- To get a better valuation, either partial disinvestment through the stock market or outright privatisation.
- The union government added some new conditions including,
- CPSEs have had a lot of conference calls with investors, their capital management and the use of debt.
- It engages with analysts and investors must welcome it.
- A large number of private-sector firms engage with analysts regularly for a better understanding of market challenges.
- It is opting for debt financing against using internal resources.
- Comptroller and Auditor General (CAG) report of 2021 says that 68 per cent of the profits of state-run companies are from Petroleum, coal and power.
- CAG study found that 188 entities with accumulated losses of about 1.75 trillion.

3.What is IPO?

An IPO or Initial Public Offering is the process of any company raising funds by offering shares to the public or new investors.

Following the IPO, the company is listed on the stock exchange.

4.Procedure

The company has to file its offer document with the market regulator Securities and Exchange Board of India (SEBI).

The offer document contains all relevant information about the company, such as its promoters, projects, financial details, the object of raising the money, terms of the issue etc.

SEBI has laid down certain rules for the companies to raise funds from the public.

5.Conditions

- The company must have net tangible assets of at least Rs 3 crore.
- The net worth of Rs 1 crore in each of the preceding three full years.
- It must have a minimum average pre-tax profit of Rs 15 crore in at least three of the immediately preceding five years.
- SEBI does not play a role in price fixation

6.Advantages of listing a company

- The listing on the stock exchange calls for additional disclosures by companies on regular basis and leading.
- The stringent compliance requirements may help a company raise capital and diversify and broaden its shareholder base.
- The listing of an exit to existing investors of the company can raise share capital for growth and expansion in the future through to follow- on public offering or FPO.

7.Invest on IPO

- Qualified institutional buyers (QIBs) investors include foreign portfolio investors (FPIs), mutual funds, commercial banks, insurance companies, pension funds etc.
- Individuals who invest up to Rs 2 lakh in an issue are classified as retail investors.

- Investors investing above Rs 2 lakh are classified as high net worth individuals.

8. Qualifications for investors

- A person should have 18 years of age.
- A brokerage account is needed to invest.

9. Look before investing

- The credibility of the promoter should be the top consideration.
- Investors must also do a financial analysis of the company.
- Compare it with peers in the same sector before investing in the IPO.
- If there is a company in the same sector that is already listed.
- If it has strong fundamentals and its shares are available at a competitive price, investors should consider that as well.
- Rather than going for the public issue of a company that is proposing to list.
- Investors must follow QIBs, who are perceived to have the expertise for assessment and evaluation, and a greater ability to do due diligence.
- These institutional investors invest in the first few days of the issue opening.
- Retail investors, who have a wider window for investing, can assess the demand from the interest shown by the QIBs, and can, simply follow them.
- If QIBs show a lot of interest, retail investors can go for the issue. If the QIBs are cold, it is better to avoid them.

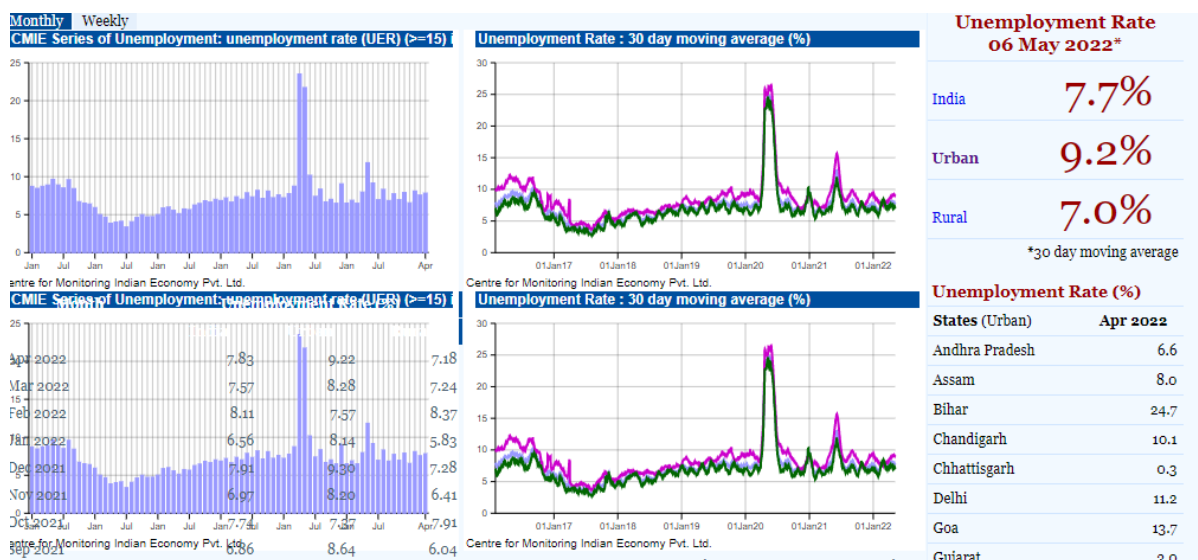
Unemployment

1.Context

Centre for Monitoring India Economy released A Static report on the Unemployment rate in India.

2.Key points

- India's unemployment rate is 7.7 per cent (urban 9.2 per cent and rural 7.0 per cent)
- Haryana tops with 39.0 per cent of unemployment and Chhattisgarh records the lowest with 0.3 per cent.



3.What is Unemployment?

Individuals who are employable and actively seeking a job but unable to find a job

The unemployment rate is measured by **the total number of unemployed people by the total number of people in the workforce.**

It serves as one of the indicators of a country's economic status.

4. Understanding Unemployment

- It does not include individuals who have stopped looking for work in the past four weeks due to various reasons.
- People who are not actively seeking a job but do want to work **are not classified as unemployed**.
- People who are not looked for a job in the past four weeks but actively seeking one in the last year are called the "**Marginally attached to the labour force**".
- People who have **given up looking for a job are called "Discouraged Workers"**.

5. Types of Unemployment

Demand Deficient Unemployment

- It is the biggest cause of unemployment.
- It happens during a recession when companies experience a reduction in the demand for their products or services.
- They respond by cutting back on their production, making it necessary to reduce their workforce within the organization.
- The workers are laid off due to its effect.

Frictional Unemployment

- It refers to those workers who are in between jobs.
- If a worker recently quit or was fired and is looking for a job in an economy that is not experiencing a recession.
- It is an easy thing for the employee to find a job that is most suitable for their skills.

Structural Unemployment

- It happens when the skill set of a worker does not match the skills demanded by the jobs available or when workers are available but are unable to reach the geographical location of the jobs.
- For example, a teaching job requires relocation to Canada, but the worker cannot secure a work visa due to certain visa restrictions.
- There is a technological change in the organization, such as workflow automation that displaces the need for human labour.

Voluntary unemployment

It happens when a worker decides to leave a job because it is no longer financially compelling.

An example is a worker whose take-home pay is less than his or her cost of living.

6.Causes of Unemployment

There are various reasons from both the demand side (employer) and the supply side (worker).

Demand-side reductions may be caused by **high-interest rates, global recession and financial crisis**.

Supply-side frictional unemployment and structural employment play a great role.

7.Effects

- The impact of unemployment can be felt by both the workers and the national economy causing a ripple effect.

- Unemployment causes workers to suffer financial hardship that impacts families, relationships and communities.
- It happens when consumer spending, which is one of an economy's key drivers of growth goes down, leading to a recession or even a depression when left unaddressed.
- It results in reduced demand, consumption and buying power, which causes low profits for businesses and leads to budget cuts and workforce reductions.
- It creates a cycle that goes on and it is difficult to reverse without some type of intervention.

8. Long-term Unemployment V/s Short-term Unemployment

- Unemployment that lasts more than 27 weeks even if the individual has sought employment in the last four weeks is called long-term unemployment.
- Its effects are far worse than short-term unemployment for obvious reasons.
- 56 per cent of the long-term unemployed reported a significant decrease in their net worth.
- Financial problems are not the only effects of long-term unemployment as 46 per cent in state-reported experiencing strained family relationships.
- The figure is relatively higher than the 39 per cent who were not unemployed for as long.
- Another 43 per cent of the long-term unemployed reported a significant effect on their ability to achieve their career goals.
- Long-term unemployment led to 38 per cent of these individuals losing their self-respect and 24 per cent seeking professional help.

Central Board of Direct Taxes (CBDT)

1.About

- Central Board of direct taxes (CBDT) is a statutory body established under the Central Board of Revenue Act, 1963.
- It deals with matters relating to levy and collection of direct taxes
- It's administrated by the department of revenue under the ministry of finance.
- It came into existence as a result of The Central Board of Revenue Act, of 1924.
- The board was split into two namely the **Central Board of Direct Taxes** and the **Central Board of Excise and Customs** under the Central Board of Revenue Act, 1963.

2.Composition

The Central Board of Direct Taxes Consists of a Chairman and six members

- Chairman
- Member (Income Tax and Revenue)
- Member (Legislation)
- Member (Administration)
- Member (Investigation)
- Member (TPS and System)
- Member (Audit and Judicial)

3.Functions

- It deals with matters related to levying and collecting Direct Taxes
- Formulation of various policies
- Supervision of the entire Income Tax Department
- proposes changes in the taxation structure in government policies

- suggests changes in tax rates and legislative changes in Direct Enactments

4. Indirect tax

Tax is levied on goods and services, as the name suggests it directly levies upon Tax Payers

It is something that a manufacturer pays to the government.

It is generally imposed on suppliers or manufacturers who pass it on to the final consumer.

There are **different types of indirect tax** in India.

- Excise duty,
- customs duty,
- Value-Added Tax (VAT),
- Service Tax,
- Stamp duty,
- Entertainment tax,
- Securities Transaction tax

5. GST in Indirect taxes

- After the implementation of GST, all these indirect taxes were bundled into one singular tax.
- The taxes that were once compulsory are now done away with due to the introduction of the new tax regime.
- GST eliminated the cascading effect of tax, thereby ensuring that they do not end up paying for every value addition.

- The taxes subsumed under GST on the state level include service tax, state excise duty, countervailing duty, additional excise duty and special additional customs duties.
- The taxes subsumed under GST at the central level include sales tax, central sales tax, purchase tax, entertainment tax, luxury tax, octroi and entry and taxes on betting and lottery gambling.

Special Drawing Rights (SDR)

1.Context:

International Monetary Fund (IMF) lifted Yuan's Weightage in the Special Drawing Rights currency basket

2.About SDR

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves

The SDR was created as a supplementary international reserve asset in the context of the **Bretton Woods fixed exchange rate system**

The collapse of the **Bretton Woods system** in 1973 and the shift of major countries to floating exchange rate regimes lessened the reliance on the SDR as a global reserve asset

- SDR serves as the unit of account in the IMF and other international organisations
- SDR is neither a currency nor a claim on the IMF, rather it is a potential claim on the freely usable currencies of IMF members

3.SDR and Values

The SDR was initially defined as equivalent to 0.888671 grams of gold which is at time one U.S dollar

SDR	Weightage in 2015	Fixed number of units of currency for a period of 5 years from Oct1, 2016
U.S. Dollar	41.73	0.58252
Euro	30.93	0.38671
Chinese Yuan	10.92	1.0174
Japanese Yen	8.33	11.900
Pound Sterling	8.09	0.085946

SDR value in terms of U.S.Dollar is determined daily based on the spot exchange rates observed at around noon London time and is posted on IMF

- SDR basket is reviewed every five years, or earlier if warranted, to ensure that the basket reflects the relative importance of currencies in the world's trading and financial systems
- During the 2015 review, Board approved new formula- assigning equal shares to the currency issuer's exports and a composite

financial indicator to determine the weight of the Currencies in the basket

4.SDR interest rate (SDRi)

SDRi provides the basis for calculating the interest rate charged to members on their non-concessional borrowing from the IMF and is paid to members for their remunerated creditor positions in the IMF

SDRi is also interest paid to members on their SDR holdings charged on their SDR allocations

Interest Rate on SDR, 2009–end July 2021

(percent a year)



Source: IMF Finance Department.

IMF

FOREX RESERVES

1. Background

- Foreign exchange reserves are assets denominated in a foreign currency that are held by a **nation's central bank**.
- These may **include foreign currencies, bonds, treasury bills, and other government securities**.
- Most foreign exchange reserves are held in **U.S. dollars, with China being the largest foreign currency reserve holder in the world**.
- Economists suggest that it's best to **hold foreign exchange reserves in a currency that is not directly connected to the country's own currency**.

2. The reasons for holding reserves

- Typically, official foreign exchange reserves are held in support of a range of objectives including to:
- support and maintain confidence in the policies for monetary and exchange rate management including the capacity to intervene in support of the **national or union currency**;
- limit external vulnerability by maintaining foreign currency liquidity to absorb shocks during times of crisis or when access to borrowing is curtailed and in doing so;
- provide a level of confidence to markets that a country can meet its external obligations;
- demonstrate the backing of domestic currency by external assets;
- assist the government in meeting its foreign exchange needs and external debt obligations; and
- Maintain a reserve for national disasters or emergencies.

3. Objective of Reserve Management

Reserve management should seek to ensure that:

- adequate foreign exchange reserves are available for meeting a defined range of objectives; liquidity, market, and credit risks are controlled in a prudent manner; and
- Subject to liquidity and other risk constraints, reasonable earnings are generated over the medium to long term on the funds invested.

4. India forex reserve include

- **India's foreign exchange reserves include:**
 - Foreign Currency Assets
 - Gold Reserves
 - Special Drawing Rights (SDR)
 - Reserve position with International Monetary Fund (IMF)

5. What determines Rupee Value?

- The value of any currency is determined by demand for the currency as well as its supply.
 - When the supply of a currency increases, its value drops.
 - On the other hand, when the demand for a currency increases, its value rises.
 - In the wider economy, central banks determine the supply of currencies, while the demand for currencies depends on the amount of goods and services produced in the economy.
- **Determining Rupee value in Forex Reserves**

- In the forex market, the supply of rupees is determined by the demand for imports and various foreign assets.
- So, if there is high demand to import oil, it can lead to an increase in the supply of rupees in the forex market and cause the rupee's value to drop.
- The demand for rupees in the forex market, on the other hand, depends on foreign demand for Indian exports and other domestic assets.
- So, for instance, when there is great enthusiasm among foreign investors to invest in India, it can lead to an increase in the supply of dollars in the forex market which in turn causes the **rupee's value to rise against the dollar**.

6. What's causing the rupee to lose value against the dollar?

- Since March 2022, the U.S. The Federal Reserve has been raising its benchmark interest rate causing investors seeking higher returns to pull capital away from emerging markets such as India and back into the U.S.
- This, in turn, has put pressure on emerging market currencies which have depreciated significantly against the U.S. dollar so far this year.
- Even developed market currencies such as the euro and the yen have depreciated against the dollar and the dollar index is up more than 8% so far this year.
- In fact, some analysts believe that the RBI's surprise decision to raise rates earlier this month may have simply been to defend the rupee by preventing any rapid outflow of capital from India.
- In 2013, the rupee fell 15% against the dollar in about three months after investors were spooked by the U.S. Federal Reserve's

decision to trim down its bond purchase programme that had helped keep long-term interest rates low.

- Moreover, India's **current account deficit**, which measures among other things the gap between the value of imports and exports of goods and services, is expected to hit a **10-year high of 3.3% of gross domestic product** in the current financial year as predicted by **Morgan Stanly**.
- This means that India's import demand amid rising global oil prices is likely to **negatively affect the rupee unless foreign investors pour sufficient capital into the country to fund the deficit**.
- The rupee, it should also be noted, has **consistently lost value against the U.S. dollar for several decades now**.
- A major reason for this has been the consistently higher domestic price inflation in India.
- Higher inflation in India suggests that the **RBI has been creating rupees at a faster rate than the U.S. Federal Reserve has been creating dollars**.
- So, while capital and trade flows gain a lot of attention in discussions on the rupee's value, the difference in the rates at which the U.S. Federal Reserve and the RBI regulate **the supply of their currencies may play a much larger role in determining the value of the rupee over the long run**.

7. Forex reserves of countries across the globe



Repo Rate

1.Context

RBI announced that the bank's Monetary Policy Committee (MPC) decided to raise the policy repo rate by 40 basis points to 4.40 per cent.

Citing inflation that was rising alarmingly and spreading fast globally, amid geopolitical tensions.

2.Repo Rate

- Government central banks repurchase securities from commercial lenders, they do so at a discounted rate is called the repo rate.

- **The fixed interest rate at which it provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).**
- When banks have short-term requirements for funds, they can place government securities that they hold with the Central bank and borrow money against securities at the repo rate.
- Since this is the rate of interest that the RBI charges commercial banks to lend their money.
- It serves as a key benchmark for the lenders to in turn price the loans they offer to their borrowers.
- The repo rate system allows central banks to control the money supply within economies by increasing or decreasing the availability of funds.

3.How does the Repo rate work?

- Besides the direct loan pricing relationship, the repo rate also functions as a monetary tool by helping to regulate the availability of liquidity or funds in the banking system.
- When the repo rate is decreased, banks may find an incentive to sell securities back to the government in cash return.
- This increase the money supply available to the general economy.
- When the repo rate is increased, lenders would end up thinking twice before borrowing from the central bank at the repo window.
- Thus the availability of money supply in the economy reduces.
- Central banks tend to target the regulation of money supply as a means to slow inflation.

4. Impact of the repo rate change on the inflation

- Changes to the repo rate to influence interest rates and the availability of money supply primarily work only on the demand side.
- By making credit more expensive and savings more attractive and therefore dissuading consumption.
- The high price of commodities such as crude oil or metals or imported food items such as edible oils on the supply side factors.

5. Other factors influence the repo rate efficiency

- It increases the impact on the real economy with a lag.
- RBI's annual "Report on Currency and Finance" observed that "the challenge for an efficient operating procedure of monetary policy is to minimise the transmission lag from changes in the policy rate to the operating target.
- It is mandated to keep medium-term inflation anchored at 4 per cent and bound within a tolerance range of 2 to 6 per cent.

6. Conclusion

These conduits of transmission intertwine and operate in conjunction and are difficult to disentangle.

Underscoring the challenges monetary authorities face in ensuring that changes to the repo rate help in achieving the policy objective.

Trade Agreements

1.Introduction

- A trade agreement happens when two or more countries agree on terms which help them to trade with each other
- A trade agreement usually involves a guarantee of investments with a wide range of taxes, tariffs
- Different types of agreements take place with respect to the situation and possible benefits for the countries who take part in it

2.Types of Agreements

- 1. **Free Trade Agreement (FTA)**: it is a level of integration where countries agree to eliminate tariffs and other restrictive regulations on products originating from their territories
- Accessing FTA benefits for your product a competitive advantage versus products from other Countries
- 2. **Customs Union**: It is a level of integration apart from removing tariffs for the products originating from their own territories, agreeing on the duties applied on products
- 3. **Open Regionalism**: It seeks to increase integration among neighbouring countries, eliminating and reducing at the same time barriers to integrate with the rest of the world. it is considered as a strategy to facilitate the international exchange of goods and services
- 4. **Economic Integration**: It is an arrangement among countries which usually starts with reducing or eliminating of trade barriers.

it has a logical order of depth on the degree of commitment of liberalization

- 5. **Partial/ Preferential Scope Agreements (PS):** It is a basic trade agreement which includes tariff reduction on a specific group of goods, sometimes unilaterally. it is usually seen as the first stage in a longer-term larger opening process
- 6. **Most Favoured Nations:** It is one of the principles of non-discrimination of the WTO. In normal conditions, if any country extends any benefit to a country it should extend that to all other countries too

Bad Bank

1.Context

The Finance Minister announced that the National Asset Reconstruction Company (NARCL) along with the India Debt Resolution Company (IDRCL) will take over the first set of bad loans from banks and try to resolve them.

2.What is a bad bank?

A bad bank is a financial entity set up to buy non-performing assets or bad loans, from the banks.

The aim of Setting up a bad bank is to help ease the burden on banks by taking bad loans off their balance sheets and getting them to lend again to customers without constraints.

3.Key points

- While the problem of bad loans has been a perennial one in the Indian banking sector.

- The Union government decided to set up a bad bank during the Budget, in the aftermath of the nationwide lockdowns.
- The moratorium was subsequently extended to borrowers by the Reserve Bank of India.
- It should be noted that the health of the balance sheets of Indian banks has improved significantly over the last few years with their gross non-performing assets (GNPA) ratio declining from a peak of 11.2 Per cent in financial year 18 to 6.9 Per cent in Q2 FY 22.

4. Pros and Cons of setting up a bad bank?

Pros	Cons
It is argued that it can help consolidate all bad loans of banks under a single exclusive entity.	Several problems with the idea of a bad bank to deal with bad loans.
The idea of a bad bank has been tried out in countries such as the U.S., Germany, Japan and others in the past.	Former RBI governor Raghuram Rajan criticised the idea, arguing that a bad bank backed by the government will merely shift bad assets from the hands of the public sector banks, which are owned by the government, to the hands of a bad bank, which is again owned by the government.
The troubled asset relief program (TARP) was implemented by the U.S.	There is little reason to believe that a mere transfer of assets from one pocket of the government to another will lead to a successful resolution of these bad debts when the set of incentives facing entities is essentially the same.
Treasury in the aftermath of the 2008 financial crisis was modelled around the idea of a bad bank.	Unlike a bad bank set up by the private sector, it is backed by the government and is likely to pay too much for stressed assets.
Under the program, the U.S. Treasury bought troubled assets such as mortgage-backed securities from U.S.	These have been reluctant to incur losses by selling off their bad loans at cheap prices. It is bad news for taxpayers who will once again have to foot the bill for bailing out troubled banks.

banks at the peak of the crisis and later resold them when market conditions improved.

It is estimated that the Treasury through its operations earned a nominal profit of anything between \$11 billion to \$30 billion, although some contest these figures.

5. Will a bad bank help ease the bad loan crisis?

- A key reason behind the bad loan crisis in public sector banks nature of their ownership.
- Unlike private banks, which are owned by individuals who have strong financial incentives to manage them well?
- Public sector banks are managed by bureaucrats who may often not have the same commitment to ensuring these lenders' profitability.
- To that extent, bailing out banks through a bad bank does not address the root problem of the bad loan crisis.
- There is a huge risk of moral hazard.
- Commercial banks that are bailed out by a bad bank are likely to have little reason to mend their ways.
- The safety net provided by a bad bank gives these banks more reason to lend recklessly and thus further exacerbates the bad loan crisis.

6. Will it help revive credit flow in the economy?

- A bad bank can help free capital of over five lakh crore that is locked in by banks as provisions against these bad loans.
- This, they say, will give banks the freedom to use the freed-up capital to extend more loans to their customers.

- This gives the impression that banks have unused funds lying in the balance sheets that they could use if only they could get rid of their bad loans.
- It is important not to mistake banks' reserve requirements for their capital position.
- This is because stopping banks from lending more aggressively may not be the lack of sufficient reserves which banks need to maintain against their loans.
- It may simply be the precarious capital position that many public sector banks find themselves in at the moment.
- Many public sector banks may be considered to be technically insolvent as an accurate recognition of the true scale of their bad loans would show their liabilities to be far exceeding their assets.
- In reality, it could help improve bank lending not by shoring up bank reserves but by improving banks' capital buffers.
- To the extent that a new bad bank set up by the government can improve banks' capital buffers by freeing up capital, it could help banks feel more confident to start lending again.

Minimum Support Price (MSP)

1.Context

The Union government announces minimum support prices for 23 crops.

2.MSP

The MSP for a crop is the price at which the government is supposed to procure or buy that crop from farmers if the market price falls below it.

3.Key points

- MSPs provide a floor for market prices and ensure that farmers receive a certain Minimum remuneration so that their cost of cultivation (and some profit) can be recovered.
- The government incentivises the production of certain crops for ensuring that India does not run out of staple food grains.

- Typically, it creates the benchmark for farm prices not just in those commodities for which they are announced, but also in crops that are substitutes.

4.Crops covered

7 Types of Cereals (Paddy, Wheat, Maize, Bajra, Jowar, Ragi and barley)
5 Types of Pulses (Chana, Arhar or Tur, Urad, Moong and Masur)
7 oilseeds (Rapeseed-Mustard, Groundnut, Soyabean, Sunflower, Sesamum, Safflower, Nigerseed)
4 Commercial crops (Cotton, Sugarcane, Copra, Raw Jute)

It is the government's decision, based on the recommendations of the Commission for Agricultural Costs and Prices (CACP)

5.The factors that are recommended for the MSPs

1. The demand and supply of a commodity,
2. Its cost of production,
3. The market price trends (both domestic and international),
4. Inter-crop price parity,
5. The terms of trade between agriculture and non-agriculture (that is, the ratio of prices of farm inputs and farm outputs),
6. A minimum of 50 per cent as the margin over the cost of production and
7. The likely implications of an MSP on consumers of that product.

Corvettes

1. Context

The DEFENCE Acquisition Council (DAC) has granted Acceptance of necessity (AoN) for several capital acquisition projects.

The projects include next-generation corvettes for the Navy at an approximate cost of Rs 36,000 crore

2.What is a Corvette?

A Corvette is the smallest naval ship. These are highly agile ships and categorised as missile boats, anti-submarine ships and categorised as:

- Missile boats
- Anti-submarine ships
- Coastal patrol craft
- Fast attack naval vessels

Corvettes date back to the 18th and the 19th centuries when they were extensively used in warfare, and then powered by sails and masts.

During World War II Corvettes are used to describe vessels with anti-submarine roles

Modern corvettes can go up to 2,000 tonnes in displacement, which keeps them agile

3.Indian Navy's Corvette

- The Indian Navy at present has the Kamotra class Corvettes, also known as Project 28
- These have an anti-submarine role and are built at Garden Reach shipbuilders and engineers in Kolkata

The Four Kamorta Class corvettes with the navy are INS Kamorta, INS Kiltan, and INS Kavaratti.

4.Next Generation Corvettes

The Next-generation corvettes are created for various roles like

- Surveillance
- Escort operations
- Deterrence

- Surface action group operations
- Search, attack and coastal defence

These roles will be an addition to the anti-submarine roles being already performed by the existing corvettes in the Navy

As per the AoN accorded by the DAC, these next-generation corvettes will be constructed based on the new in-house design of the Indian Navy using the latest technology of shipbuilding and would contribute to furthering the governments initiative of Security and growth for all in the region (SAGAR)

The Kamorta class corvettes already in service also have high indigenous content. The equipment includes Shikari-Sensor and processing System, and bomber and Electronic

The vessels also have the 'Sanket' electronic warfare systems and 'Kavach' decoy launchers

Warfare Suits named 'Ajanta' all manufactured by BEL

Financial Action Task Force (FATF)

1. Background

- The Financial Action Task Force (FATF) was established by a **Group of Seven (G-7) Summit in Paris**, initially to examine and develop measures to combat money laundering.
- The **Financial Action Task Force (FATF)** is the global money laundering and terrorist financing watchdog.
- The **inter-governmental body sets international standards** that aim to prevent these illegal activities and the harm they cause to society.
- As a **policy-making body**, the FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

- With more than **200 countries and jurisdictions committed to implementing them.**
- The FATF has developed the FATF Recommendations, or **FATF Standards**, which ensure a **co-ordinated global response to prevent organised crime, corruption and terrorism.**
- They help authorities go after the **money of criminals dealing in illegal drugs, human trafficking and other crimes.**
- The **FATF also works to stop funding for weapons of mass destruction.**
- The FATF reviews **money laundering and terrorist financing techniques and continuously strengthens** its standards to address new risks, such as the regulation of virtual assets, **which have spread as cryptocurrencies gain popularity.**
- The FATF monitors countries to ensure they **implement the FATF Standards** fully and effectively and holds countries to account that do not comply.

2. Role and Function of FATF

- **As a policy-making body:** works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.
 - The FATF reviews money laundering and terrorist financing techniques and continuously strengthens its standards to address new risks, such as the regulation of virtual assets, which have spread as cryptocurrencies gain popularity.
 - It also works to stop funding for weapons of mass destruction.
- **Protection:** The role of the FATF is to protect the integrity of the financial system, and enhance its transparency, which contributes towards global security.
- **Monitoring function:** it monitors countries to ensure they implement the FATF Standards fully and effectively and holds countries to account that do not comply.
- **Developed standards/recommendations:** develops and sets global policies, standards, best practices, and guidance to ensure a coordinated global response to prevent organized crime, corruption, and terrorism.
 - It conducts and publishes expert operational and strategic studies on risks, trends, and methods.

- **Coordination:** these standards help authorities coordinate with each other and go after the money of criminals dealing with illegal drugs, human trafficking, and other crimes.

3. Procedural Lists in FATF

FATF has 2 types of lists

3.1 Black List

3.2 Grey List

Black List	Grey List
Only those countries are included in this list that FATF considers as uncooperative tax havens for terror funding.	Those countries which are not considered as the safe haven for supporting terror fund and money laundering; are included in this list.
These countries are known as Non-Cooperative Countries or Territories (NCCTs).	The inclusion in this list is not as severe as blacklisted.
In other words, countries that are supporting terror funding and money laundering activities are placed on the Blacklist.	Now the Grey list is a warning given to the country that it might come in the Black list.
The FATF blacklist or OECD blacklist has been issued by the Financial Action Task Force since 2000 and lists countries	If a country is unable to curb mushrooming of terror funding and money laundering; it is shifted from the grey list to the black list by the FATF.

that it judges to be non-cooperative in the global fight against money laundering and terror funding.

The FATF updates the blacklist regularly, adding or deleting entries.

5.Importance of Financial Task Force

- **Prevention:** though the FATF Blacklist carries no formal sanction under international law, in reality, a jurisdiction placed on the FATF Blacklist often found itself under **intense financial pressure**. Hence, it prevents jurisdictions from **prohibited activities under the FATF recommendations**.
- **Fighting terror financing and money laundering:** It has been at the forefront of international efforts to fight money laundering and combating finance to terrorism.
 - Its efforts have been in conjunction with relevant resolutions of the **United Nations Security Council (UNSC)**.
 - It has made it difficult to access financial **resources for terror organizations that are causing these crimes against humanity**.
- **Promoting cooperation:** it has intensified cooperation with bodies such as the **United Nations, the IMF, the World Bank, and the G-20 Finance Ministers and Central Bank Governors** on the issues of terror financing, money laundering, and other corrupt practices.
- **Awareness generation:** FATF has gained **credibility as a professional organization, ensuring increased awareness** regarding the challenges being faced by the **global financial system, and human security issues like terrorism**.

6. Way forward

- As FATF reviews money laundering and terrorist financing techniques and continuously strengthens its standards to address new risks, such as the regulation of virtual assets, which have spread as cryptocurrencies gain popularity.
- The FATF should **strictly monitor countries to ensure they implement the FATF Standards fully and effectively, and holds countries to account that do not comply.**

RUPEE DEPRECIATION

1. Background

- The rise and fall of the value of a currency vis-à-vis other currencies is a normal development in an interconnected global economy.
- However, it can become a matter of concern beyond a point, because a section of people in the country gets affected when the value of its currency either rises or appreciates too much (e.g. exporters are worse off as their products become more expensive in the global market leading to a fall in demand for the same, but importers are better off as importable become cheaper in foreign currency terms) or it declines or depreciates too much (e.g. exporters face internationally lower prices for their exportable as their currency gets cheaper and importers face higher prices of importable as foreign currencies get dearer).
- The depreciation of the Indian National Rupee has been witnessed for quite some time now.
- A conventional argument is that this automatically corrects the situation by depressing imports (fall in import demand due to rise in the cost of imports) and augmenting exports (rise in export demand in the rest of the world due to falling export prices), through which the domestic currency reaches its 'equilibrium' value.
- However, this may not happen due to a number of complex factors, and, even if such correction happens over some time, the country may face a number of problems in the meanwhile.

2. Impact on the Indian Economy

- As the rupee declines continuously, the costs of imports go up.
- The rising costs of imports can have a dampening effect on luxurious consumer importable, like gold, jewellery and precious metals, which is good for the economy (in terms of reducing the country's current account deficit).
- However, since many of the industries in India, like, automobiles, machinery, chemicals, and major food processing industries, are heavily import-dependent, the rising costs of imports for them may undermine their export competitiveness.
- Moreover, as the cost of fuel, passes in all other prices directly in production costs as an intermediate input, a rise in the cost of fuel imports is inflationary.
- On the other hand, some sectors, like, Information Technology (IT) & IT Enabled Services, textiles, and pharmaceuticals are expected to benefit due to their large export exposure in the international market.

3. Aspects that contribute to depreciation or appreciation of the rupee

- Value of the Rupee keeps constantly changing with the development and depletion of the society and its economic stature.
- For instance, the value of one rupee in 1947 would not be the same as the value of a rupee in 2022.
- It has constantly changed both in terms of its appearance and purchasing power.
- Discussing its value, the value of any currency is linked with the economic conditions and policies of its country.
- Any currency, be it Rupee or USD its growth depends on certain factors that dominate the economy contributing to its growth and fall.
- In the case of the Rupee, some of the factors that contribute to its appreciation and depreciation are the Inflation Rate, Employment Rate, Imports & Exports, Growth Rate, Interest Rates, Trade Deficit, and Performance of the Equity Markets, Foreign Exchange Reserves, and Foreign Investment Inflows etc. etc.

4. Other aspects that contribute to appreciation or depreciation are:

- Net Inflow/Outflow of Money: The overall inflow and outflow of the money affect the value of a country's currency. The more the inflow the better the value, the more the outflow the worst the value.
- Income Levels: When the incomes of the citizens increase, they tend to spend more which increases the demand for imported goods increases the demand for foreign currencies and contributes to an overall weakening of the local currency.
- Overseas Market: A country that has a trade surplus result in currency appreciation and the country that lacks or has a lesser trade surplus tend to have a weaker value of its currency.

5. How does the Rupee Appreciate or Depreciate?

There are many major and important factors that contribute to the Rupee's Appreciation or Depreciation such as:

5.1 Trade Surplus: It means a country that sells more goods and services in overseas markets than it buys from others has a trade surplus which means more inflow of foreign currency in the country than what we as a country pay for the imports. Trade Surplus is one of the many reasons that strengthens or weakens the rupee.

5.2 Role of Reserve Bank of India: It is known that the Reserve Bank of India controls the value of the rupee through its several tools. One amongst them involves controlling the Rupee supply in the market. Other ways through which the RBI controls the rupee are: by changing the interest rates, tweaking the cash reserve ratio, relaxing or tightening rules for fund flows and selling or buying dollars in the open market.

5.3 INFLATIONARY PRICES- If the prices increase, it means the value of the currency has scraped down and its purchasing power has fallen. The fall in purchasing power directly reduces consumption in the market hitting a low for the industries, resulting in making imports costlier and growth to Exporters.

5.4 MINTING- When government prints money to meet its needs it must go with the pace of the economic growth, haste in minting without matching the pace may result in catastrophic conditions.

5.5 FOREX DEMAND- One of the major reasons behind the rise and low of the currency is Foreign Exchange Demand. The rates for the foreign exchange of currencies directly depend on the market scenario followed by the countries. Floating or flexible exchange rates are determined by market forces without any intervention from central governments.

5.6 TOURISM- The most important impact created by tourism is on the economic condition of a country. Although its contributions are varied. Direct effects of the tourism sector are related directly to the overall visitor expenditure. When a visitor from another country visits India the income received from the tourist expenditure results in the appreciation of the rupee.

Not just the rupee appreciation, it contributes to the overall development of the economic status of various sectors such as the employment opportunities, increases in investment, development and infrastructure spending, increase in tax revenue, creation of new business opportunities and development of the income and standard of living of the people.

Thus, a mere rise and fall in a certain market can impact the value of the Rupee in both an appreciating and depreciating manner.

6. Recent trend in Rupee Depreciation

- Foreign portfolio investors (FPIs) have pulled out a cumulative \$9.4 billion from equity and bond market since January.
- The US Federal Reserve's rate hikes have made dollar assets give more returns thereby making emerging-market assets look less appealing.
- Higher crude oil prices.
- Escalation of a global trade war especially the US-China trade war.

- Absence of credible domestic reforms to cut huge logistics costs.
- High import intensity in some key segments like petroleum and gems and jewellery.
- Fall in the currencies of emerging market peers.
- The current account deficit (CAD) has widened due to the rise in oil prices.
- Global volatility is much higher than in August 2013 when the rupee had touched its previous low of 68.83.

7. Infographics

How does the Rupee Appreciate or Depreciate?

The Rupee appreciates or depreciates on following factors:

1. INTEREST RATE

India with an interest rate of 6-7% attracts greater capital inflow as investors get a higher return than their earnings in the US. (with Interest rates of 2-3%). This results in rupee appreciation.



2. INFLATION RATE

A country with lower inflation would have increased demand for its products by foreign buyers. Higher demand for goods & services would result in currency appreciation.



3. EXPORT-IMPORT

A country exporting more than importing from other countries, would result in higher demand for that currency, causing currency appreciation.



Impact of Rupee Appreciation & Depreciation:

IMPACT ON INDUSTRY

Rupee Appreciation means imports turn cheaper and exports become expensive. Rupee depreciation means exports earn more.



IMPACT ON STOCK MARKET

Foreign investors (FIIs) stand to benefit from a rupee appreciation. Subsequently increased FII inflows could fuel a bull run in the stock market.



FUEL SHOCK

In the case of a Rupee depreciation, the biggest blow to the Indian economy would be the higher outflows due to fuel becoming expensive. This increased fuel costs would result in food inflation as transportation costs become higher..



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BLACK SWAN EVENT

1.Context:

A study by the Reserve Bank of India (RBI) has spoken about the possibility of capital outflows to the tune of \$100billion (7, 80,000 crores) from India in case of a major global risk scenario or black swan event

2.What is a black swan event?

A black swan is a rare, unpredictable event that comes as a surprise and has a significant impact on society and the world

These events are said to have three distinguishing characteristics-

1. They are extremely rare
2. Outside the realm of regular expectations
3. They will have a severe impact when they hit

3.Origin of Black Swan theory

The term itself is linked to the discovery of black swans. Europeans believed all swans to be white until 1697

The metaphor of 'black swan event' is derived from this unprecedented spotting from the 17th century. the black swan theory was put forward by the author and investor Nassim Nicholas Taleb in 2001 and later popularised in his book; Black Swan: The impact of the Highly Improbable

4.Previous events

- A black swan event triggered by a sudden crash in the blooming house market in the US
- Fall of Soviet Union
- Terrorist Attack in the US

OPEN NETWORK FOR DIGITAL COMMERCE

1. Context

The Government of India announced the launch of the pilot phase of an open network for digital commerce in five cities to democratise the country's fast-growing digital e-commerce space currently dominated by the two U.S. headquarter firms –Amazon and Walmart.

After UPI, another game Changing idea to democratize Commerce –ONDC soft launch today to select consumers, sellers and logistic providers.

2.WHAT IS ONDC?

- It is not for profit organization that will offer a network to enable local digital commerce stores across industries to be discovered and engaged by any network-enabled applications.
- It is neither an aggregator application nor a hosting platform and all existing digital commerce applications and platforms can voluntarily choose to adopt and be a part of the ONDC network.
- ONDC aims to enable buying of products from all participating e-commerce platforms by consumers through a single platform. Under ONDC, it is envisaged that a buyer registered on one participating e-commerce site may purchase goods from a seller on another participating e-commerce site
- ONDC model is trying to replicate the sues of the Unified Payments Interface (UPI) in the field of digital payments
- UPI allows people to send or receive money irrespective of the payment platforms they are registered on.
- The open network concept also extends beyond the retail sector, to any digital commerce domains including wholesale, mobility, food delivery, travel etc.

3.WHAT LEAD TO THE FORMATION OF ONDC

- The Department for promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industries, conducted an outreach during the outbreak of the COVID-19 pandemic to understand its impact on small sellers and hyper-local supply chain functioning. Post which it was found

that there is a huge disconnect between the scale of online demand and the ability of the local retail ecosystem to participate.

- Following this, consultations were held with multiple ministries and industry experts and ONDC was envisioned to revolutionize digital commerce in India
- ONDC has been envisaged as an entity which should be able to work without the need for day-to-day guidance and advisory from the shareholders /members. The independence of the management is linked to the financial independence of the entity and therefore the entity will be required to get funding independently and have a self-sustaining financial model.

4.CURRENT STATUS

- ONDC is in the pilot stage in five cities-Delhi NCR, Bangalore, Bhopal, Shillong and Coimbatore
- The government has also constituted an advisory council to analyze the potential of ONDC as a concept and to advise the government on the measures needed to accelerate its adoption.

5.WHAT ARE THE LIKELY BENEFITS OF ONDC

The ONDC will standardize operations like cataloguing, inventory management, order management and order fulfilment, hence making it simpler and easier for small businesses to be discoverable over the network and conduct business

6.GIST

- ONDC is a not-for-profit organization that will offer a network to enable local digital commerce stores across industries to be discovered and engaged by any network-enabled applications
- The ONDC model is trying to replicate the success of the Unified Payments Interface in the field of digital payments
- Over the next five years, the ONDC expects to bring on board 90 crores users and 12 lakh sellers on the network, enabling 730 crore additional purchases.

INDEX OF EIGHT CORE INDUSTRIES

1. Background

- Core sectors of an economy are the main or the key industries in the economy. In India, there are 8 sectors which are considered the Core Sectors.
- Coal, crude oil, natural gas, steel, cement, fertilizers, electricity, and refinery products are all included in the Index of Eight Core Industries.
- These core sectors are regarded as the economy's primary or essential industries, and they serve as the foundation for all other Sectors.
- The Index of Industrial Production (IIP) is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period concerning that in a chosen base period.
- The Office of Economic Adviser, Department for Promotion of Industry and Internal Trade releases the Index of Eight Core Industries (ICI)
- ICI measures combined and individual performance of production in selected eight core industries viz. Coal, Crude Oil, Natural Gas, Refinery Products, Fertilisers, Steel, Cement and Electricity.
- The Eight Core Industries comprise 40.27 per cent of the weight of items included in the Index of Industrial Production (IIP).

2. Weightage given to eight core industries

- **Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilizers**

Industry	Weight (In percentage)
Petroleum & Refinery production	28.04
Electricity generation	19.85
Steel production	17.92
Coal production	10.33
Crude Oil production	8.98

Natural Gas production	6.88
Cement production	5.37
Fertilizers production	2.63

3. NOTE- INDEX OF INDUSTRIAL PRODUCT

- Index of industrial product is an indicator that measures the changes in the volume of production of industrial products during a given period.
- Index of industrial product details the growth of various sectors in an economy such as mining, electricity and manufacturing.
- Index of industrial products is published monthly by the National Statistical Office (NSO), Ministry of Statistics and Programme Implementation.
- Index of industrial product is used by government agencies for policy-making

PUBLIC-PRIVATE PARTNERSHIP (PPP)

1.Context

The Department of Economic Affairs, Ministry of Finance has empanelled 12 Transaction Advisers for Public-Private Partnership (PPP) Projects to provide the necessary support to Projects Sponsoring Authorities in the transaction of PPP projects.

2.Key points

- In the Union Budget 2022-23, the Government of India has announced its intention to create an enabling environment for stepping up private investment in infrastructure.
- The Government also launched a Scheme (VGF Scheme) for financial support to Public-Private Partnerships (PPPs) for infrastructure projects which are economically justified but commercially unviable.
- This endeavour requires **Central, State and Local Government level**, Project Sponsoring Authorities to have access to quality advisory support for viable PPP transactions.

- There has also been a demand from State Governments and their agencies for an enabling framework to eliminate delays in the appointment of transaction advisors or consultants for preparing a shelf of bankable projects.

To create an enabling environment for stepping up private investment in infrastructure to cater to state Government's demands the TA panel is made available to all Central Ministries, State governments, statutory Bodies, Public Sector Enterprises (PSE) and other such undertakings within the purview of Ministries or Departments of Government of India and State Governments either undertaking or intending to undertake PPP Transactions.

The Panel will help to make the process of appointment of transaction advisors or consultants

Effortless

By smooth the tendering process for the engagement of transaction advisors for PPPs.

Efficient

By enabling fast access to firms that have been pre-qualified against relevant criteria.

Effective

Ensuring transparency and accountability through a clear definition of the processes, roles and responsibilities of the agencies and the private sector, leads to the preparation of bankable PPP projects.

3.Public-Private Partnership

- It involves collaboration between a government agency and a private-sector company that can be used to finance, build and operate public transportation networks, parks and convention centres.

- Financing a project through a public-private partnership can allow a project to be completed sooner or make it a possibility in the first place.
- Cost overruns, technical defects and the inability to meet quality standards are the risks for private enterprises.
- Agreed-upon fees may not be supported by demand for the public partners for example toll roads or bridges.

4. Advantages

- Improves the operational efficiency of providing public services.
- Provides Incentives for the private sector to deliver projects on time and within budget.
- Creating economic diversification makes the country more competitive in facilitating its infrastructure base and boosting associated construction, equipment, support services and other businesses.

5. Disadvantages

- Physical infrastructure such as roads or railways involves construction risks for the private partner.
- If the product is not delivered on time exceeds cost estimates or has technical defects, the private partner typically bears the burden.

6. Types

Build Operate Transfer (BOT)

The Government handed over all construction and operation to a private party for some time and after it was transferred to the government.

Build Operate Own (BOO)

The same as a BOT, but the Private entity is not required to ever transfer the project to the government.

Design-Build (DB)

The Government contracts with a private party to design and construct a project for a fee.

The government retains ownership and may either operate it or contract out operations.

Buy Build Operate (BBO)

The government sells a pre-existing project that has already been completed and operated by the government for some time to a private party and will take it over fully.

The private party may need to invest in rehabilitating or expanding the project.

STABLECOINS

1.Context

In early July, the Financial Stability Board (FSB), a body which advises major economics on global finance, promised to push for stablecoin regulation, citing "**recent turmoil**" in the cryptocurrency market.

2.Key Points

- The international body said it is "Working to ensure that crypto-assets are subject to strong law and supervision".
- The group is slated to report to G20 Finance Ministers and Central bank governors on regulatory and supervisory procedures for stablecoins and different crypto-assets in October.
- The FSB is not the only organisation seeking to regulate stablecoins.
- The European Commission and EU-based lawmakers agreed on the Markets in Crypto-Assets or MiCA law, to enforce strict controls on the companies distributing cryptocurrencies classified as stablecoins.

3.What are stablecoins?

- A stablecoin is a digital currency whose value is pegged to a stable asset, such as the U.S dollar or gold.

- The best-known stablecoin in the crypto ecosystem today is arguably Tether (USDT), Whose market cap is close to \$66 billion, putting it below Ethereum, the Second largest cryptocurrency in existence.
- 1 USDT is meant to be worth 1 USD, though market factors can take prices slightly above or below this mark.
- Other stablecoins such as USD Coin (USDC) and Binance USD (BUSD) are also pegged to the U.S. dollar and are known for their high market cap values.
- Tether also recently launched a stablecoin pegged to the British pound.
- Stablecoins are not authorised for use by country lawmakers or central banks, which means that investors take on considerable legal and financial risk to hold them.

4.Roles of Stablecoins in the crypto ecosystem

- For Cryptocurrency traders, tracking stablecoin flows can help them gauge the state of the market or even make educated guesses about future cryptocurrency price movements.
- For example, When the stablecoin supply on crypto exchanges spikes, it might be a sign that investors are cashing in their stablecoins to buy cryptocurrencies such as Bitcoin (BTC), Ether (ETH) or even other altcoins.

Stablecoins are not authorised for use by country lawmakers or central banks, which means that investors take on legal and financial risks to hold them.

- Many traders believe this can lead to upward price moves.
- On the other hand, if the stablecoin supply on crypto exchanges suddenly drops, one might conclude that traders are buying relatively steadier assets.
- This could mean traders want to hedge against future risk and volatility or are driven by fear.

5.The use cases for stablecoins

- Across the world, stablecoins can serve as lifelines.
- In countries such as Turkey, Nigeria and Argentina where the local currency is rapidly losing value, converting funds to stablecoins is one way for residents to try and safeguard their earnings.
- In Taliban-occupied Afghanistan, with remittance channels choked by U.S. Sanctions, stablecoin transfers have helped a few cryptos users live to see another day.
- For this reason, a large section of the crypto community does not want stablecoins to be controlled by centralised laws or standards.

6.Stability

- Stablecoins are only as stable as their investors fait in the peg.
- Tether has been dragged through the American legal system as investigators struggled to ascertain whether the top stablecoin company backed every USDT against the U.S. dollar. This type of peg is called a "fiat collateralised" stablecoin.
- Tether's market cap, shooting up by billions of dollars in the past year and potentially threatening the balance of the U.S. Dollar itself, did not help allay these fears.
- In October 2021, the U.S. Commodity Futures Trading Commission (CFTC) ordered Tether to pay over \$40 million, "for making untrue or misleading statements and omissions of material fact in connection with the U.S. Dollar tether token (USDT) stablecoin.
- Tether's market cap totalling more than \$80 billion in April this year has slipped down to around \$66 billion in July.

7.Terra fallout linked to Stablecoins

- TerraUSD (UST) is an algorithmic stablecoin. It is linked to another token's supply.
- The other cryptocurrency, LUNA, is adjusted to help UST maintain its peg.
- This method of linking with another token helps keep crypto firms from buying reserve assets such as dollars, crypto, or even gold.
- Yet shortly before its May crash, founder Do Kwon announced his plan to buy billions in Bitcoin and other assets to further strengthen the UST Stablecoin an ambition which did not pan out as expected.
- Soon afterwards, a multitude of market factors and company failures collided, resulting in the UST Stablecoin coming loose from its peg before losing nearly 100 per cent of its value.
- Billion of dollars were blown up in the May 2022 crash, partially due to UST, Several other stablecoins like USDT also lost value temporarily as investors panicked.
- Crypto analytics show a rising demand for USDT's rival USDC, Which comes just below it in market cap.
- Roughly \$11 billion divides between the two Stablecoins and many are watching to assess how USDT faces its legal hurdles.

8. Conclusion

- The risks within the stablecoin ecosystem are very high. Now as regulators step in, the market is expected to make traders more fearful.
- Terra is not the first or only fault line in the stablecoin market and it won't be the last.

FISCAL POLICY

1. Background and Contemporary Scenario

- Before the 2008 global financial crisis, the consensus was that monetary policy should take the lead in dealing with ordinary business cycles.

- Fiscal policy should play a supporting role, except in the event of wars and natural catastrophes such as pandemics.
- When systemic financial crises occurred, the thinking went, monetary policy could respond immediately but fiscal policy should quickly follow and take the lead over time.
- Taxation and government expenditure are intensely political, but successful economies could navigate this problem in emergencies.

2. The dilemma of fiscal policy and monetary policy

- Expansionary fiscal policy can directly create jobs and economic activity by injecting demand into the economy. Keynes argued that expansionary fiscal policy is necessary for a recession because of the excess private sector saving which arises due to the paradox of thrift.
- Expansionary fiscal policy enables unused savings to be used and idle resources to be put into work.
- In a deep recession and liquidity trap, fiscal policy may be more effective than monetary policy because the government can pay for new investment schemes, creating jobs directly – rather than relying on monetary policy to indirectly encourage businesses to invest.
- The drawback of expansionary fiscal policy is that it increases the budget deficit. Some argue this can lead to higher interest rates as markets require higher interest rates to fund borrowing.
- However, in many instances, government borrowing can increase recessions without increasing bond yields. But, it is a balancing act, if borrowing increases too much, markets may fear borrowing is out of control.

3. Objectives of Fiscal policy

- **To promote economic growth:** Government promotes economic growth by setting up basic and heavy industries like steel, chemical, fertilizers, machine tools, etc. It also builds infrastructure like roads, canals,

railways, airports, education and health services, water and electricity supply, telecommunications, etc. that foster economic growth. Both basic and heavy industries and infrastructure require a huge amount of investment which normally the private sector does not take up. Since these industries and infrastructure facilities are essential for economic growth in the country, the burden to set up and develop them falls on the government.

- **To reduce income and wealth inequalities:** Government reduces inequalities in income and wealth by taxing the rich more and spending more on the poor. Further, it provides employment opportunities for the poor that help them to earn.
- **To provide employment opportunities:** Employment opportunities are increased by the government in various ways, One, jobs are created when it sets up public sector enterprises. Two, it provides subsidies and other incentives like tax holidays, low rates of taxes etc. to the private sector that encourage production and employment. It also encourages the setting up of small-scale, cottage and village industries by people who are employment oriented. This it does by providing them tax concessions, subsidies, grants, loans at low rates of interest, etc. Finally, it creates jobs for the poor when it undertakes public works programmes like the construction of roads, bridges, canals, buildings, etc.
- **To ensure stability in prices:** Government ensures the stability of prices of essential goods and services by regulating their supplies. Hence, it incurs expenditure on ration and fair price shops that keep sufficient stock of food grains. It also subsidizes cooking gas, electricity, water and essential services like transport and maintains its prices at a low level affordable to the common man.
- **To correct balance of payments deficit:** The balance of payments account of a country records its receipts and payment with foreign countries. When payments to foreigners are more than receipts from foreigners, the balance of the payments account is said to be in deficit. Quite often this deficit is caused when a country imports more than it exports. Consequently, the payments on imports to foreigners are more than the receipts from exports. In such a situation, to reduce the deficit in the balance of payment account, the government discourages imports by increasing taxes on them and encourages exports by increasing subsidies and other export incentives. However, it should be noted that import tax is

not a popular measure now as it is treated as an obstacle to the free flow of goods and services between countries.

- **To provide for effective administration:** Government incurs expenditures on police, defence, legislatures, judiciary, etc. to provide effective administration

4. Political costs of monetary and fiscal policy

- In theory, the deflationary policy can reduce inflation.
- Higher income tax would reduce inflation.
- However, changing tax rates and government spending is highly political.
- Neither politicians nor voters are likely to accept higher taxes on the basis that it is necessary to reduce inflation.
- Interest rates set by an independent Central Bank help to take the political calculations out of demand management.
- In theory, a Central Bank would ignore political considerations and target low inflation.
- A government may be tempted to encourage an economic boom – just before an election.

5. Which is the best monetary or fiscal policy?

Monetary policy is most widely used for ‘fine-tuning’ the economy. Making minor changes to interest rates is the easiest way to influence the economic cycle. Deflationary fiscal policy is highly politically unpopular. However, in some circumstances, monetary policy has its limitations. In serious recessions, a combination of two policies may be needed.

However, in some circumstances, monetary policy has its limitations. In serious recessions, a combination of the two policies may be needed.

- Monetary policy involves changing the interest rate and influencing the money supply.
- Fiscal policy involves the government changing tax rates and levels of government spending to influence aggregate demand in the economy.

They are both used to pursue policies of higher economic growth or control inflation.

6. Monetary policy

Monetary policy is usually carried out by the Central Bank/Monetary authorities and involves:

- Setting base interest rates (e.g. Bank of England in the UK and Federal Reserve in the US)
- Influencing the supply of money. E.g. Policy of quantitative easing to increase the supply of money.

6.1. How monetary policy works

- The Central Bank may have an inflation target of 2%. If they feel inflation is going to go above the inflation target, due to economic growth being too quick, then they will increase interest rates.
- Higher interest rates increase borrowing costs and reduce consumer spending and investment, leading to lower aggregate demand and lower inflation.
- If the economy went into recession, the Central Bank would cut interest rates.

7. Fiscal policy

Fiscal policy is carried out by the government and involves changing:

- Level of government spending
 - Levels of taxation
1. To increase demand and economic growth, the government will cut taxes and increase spending (leading to a higher budget deficit)
 2. To reduce demand and reduce inflation, the government can increase tax rates and cut spending (leading to a smaller budget deficit)

7.1. Example of expansionary fiscal policy

- In a recession, the government may decide to increase borrowing and spend more on infrastructure spending. The idea is that this increase in government spending creates an injection of money into the economy and helps to create jobs. There may also be a multiplier effect, where the initial injection into the economy causes a further round of higher spending. This increase in aggregate demand can help the economy to get out of recession.
- This shows that in 2009/10 the UK ran a budget deficit of 10% of GDP. This was caused by the recession and also the government's attempt to provide a fiscal stimulus (VAT tax cut) to try and get the economy out of recession.
- See more at Expansionary fiscal policy
- If the government felt inflation was a problem, they could pursue deflationary fiscal policy (higher tax and lower spending) to reduce the rate of economic growth.

8. Which is more effective monetary or fiscal policy?

In recent decades, monetary policy has become more popular because:

- Monetary policy is set by the Central Bank, and therefore reduces political influence (e.g. politicians may cut interest rates in the desire to have a booming economy before a general election)
- Fiscal policy can have more supply-side effects on the wider economy. E.g. to reduce inflation – higher tax and lower spending would not be popular, and the government may be reluctant to pursue this. Also, lower spending could lead to reduced public services, and the higher income tax could create disincentives to work.
- Monetarists argue expansionary fiscal policy (a larger budget deficit) is likely to cause crowding out – higher government spending reduces private sector expenditure, and higher government borrowing pushes up interest rates. (However, this analysis is disputed)
- Expansionary fiscal policy (e.g. more government spending) may lead to special interest groups pushing for spending which isn't really helpful and then proves difficult to reduce when the recession is over.

- Monetary policy is quicker to implement. Interest rates can be set every month. A decision to increase government spending may take time to decide where to spend the money.

However, the recent recession shows that monetary policy too can have many limitations.

- Targeting inflation is too narrow. During the period 2000-2007, inflation was low but central banks ignored an unsustainable boom in the housing market and bank lending.
- Liquidity trap. In a recession, cutting interest rates may prove insufficient to boost demand because banks don't want to lend and consumers are too nervous to spend. Interest rates were cut from 5% to 0.5% in March 2009, but this didn't solve the recession in the UK.
- Even quantitative easing – creating money may be ineffective if banks just want to keep the extra money on their balance sheets.
- Government spending directly creates demand in the economy and can provide a kick-start to get the economy out of recession. Thus in a deep recession, relying on monetary policy alone, may be insufficient to restore equilibrium in the economy.
- In a liquidity trap, expansionary fiscal policy will not cause crowding out because the government is making use of surplus saving to inject demand into the economy.
- In a deep recession, expansionary fiscal policy may be important for confidence – if monetary policy has proved to be a failure.

RBI SURVEYS

1.Context

Recently the RBI raised the repo rate-the interest rate at which it lends money to the banking system by 50 basis points (BPS), Taking it to 5.4 per cent.

2.Key points

- The RBI routinely conducts surveys to assess the health of the economy, while business sentiment remains upbeat even as capacity utilisation keeps rising, consumer confidence remains a worry.
- RBI expects inflation to be 6.7 per cent for the current financial year, and most analysts expect the repo rate to rise to the 6 per cent level by the end of the year.

3.Implications

- Since the repo rate is the base interest rate, a hike will lead to borrowing rates of all kinds going up by the same degree or more.
- Consumers will have to shell out more as EMIs for their home and car loans.
- Producers will have to pay more to borrow money for new investments. In other words, this will create a drag on India's economic recovery.

4.The state of India's economic recovery

- The RBI expects India's GDP to grow by 7.2 per cent in 2022-23.
- To understand how the different components of the economy are doing, the RBI routinely conducts surveys.
- Last week, the RBI released seven such surveys.

Consumer Confidence Survey (CCS)

1. Introduction

The CCS asks over 6, 000 people across 19 cities about their current perceptions and one-year head expectations on the general economic situation, employment scenario, overall price situation and own income and spending.

Based on the responses, the RBI comes up with two indices;

1. The current situation Index (CSI) and
 2. the Future Expectations Index (FEI).
- An index below the 100 mark implies people are pessimistic and a value higher than 100 conveys optimism.
 - As the CCS chart shows, the CSI (Red dotted line) has been recovering but, despite the improvement, it is still in the negative territory.
 - The FEI is in positive territory, but even now it stays below the pre-pandemic levels.
 - In short, consumer confidence is improving but there is still some way to go for people to recover from the Covid shock.

2. Inflation Expectations Survey (IES)

- This survey tracks people's expectations of inflation.
- The biggest worry during phases of rapid inflation is that if inflation is not controlled quickly, it can lead to people getting into the habit of expecting high inflation; that in turn, alters people's economic behaviour.
- Often central bankers can be found saying they want to prevent people's inflation expectations from becoming "**Unanchored**".

- This survey provides an answer to whether that is happening in India or not.
- The Survey found that households' inflation perception for the current period has moderated by 80 bps to 9.3 per cent in the latest survey round.
- "Their three months and one-year ahead median inflation expectations also declined by 50 bps and 60 bps, respectively, from the May 2022 round of the Survey," finds the RBI.
- In short, even though inflation is high at present, people expect it to come down soon.

3. OBICUS Survey

- **Order Books Inventories and Capacity Utilisation Survey** covered 765 manufacturing companies to provide a snapshot of demand conditions in India's manufacturing sector from January to March 2022.
- The Key variable here is Capacity Utilisation (CU). A low level of CU implies that manufacturing firms can meet the existing demand without needing to boost production.
- In turn, has negative implications for job creation and the chances for private sector investments in the economy.
- Here again, the news is heartening. The CU is well above, the Pre-pandemic level suggesting India's aggregate demand is recovering steadily.

4. Industrial Outlook Survey (IOS)

- Just like the CCS tries to suss out consumer confidence, this survey tries to track the sentiments of businessmen and businesswomen.
- The survey encapsulates a qualitative assessment of the business climate by Indian manufacturing companies for Q1:2022-23 (April, May and June) and their expectations for Q2: 2022-23 (July, August and September).

- As the second chart shows, businesses were optimistic (Above the 100 level) in Q1, although not as much as they were in the recent past.
- But, they do expect things to improve as the months roll by.
- This tallies with the steadily improving capacity utilisation from the OBICUS.
- In short, Unlike consumer confidence, business sentiments are already in the optimistic terrain and are expected to improve further.

5. Services and Infrastructure Outlook Survey (SIOS)

- Again, Much like the CCS and IOS above, this survey does a qualitative assessment of how over 750 Indian Companies in the services and infrastructure sectors view the current situation (Q1) and the future prospects (Q2).
- The questions are on parameters relating to demand conditions, price situations and other business conditions.
- The survey found that the companies in the services space are far more optimistic than companies in the infrastructure sector.
- The key takeaway from this survey is that the net responses to the difference between the percentage of respondents reporting optimism and those reporting pessimism are positive for both sectors.

6. Bank Lending Survey (BLS)

- This survey captures the mood qualitative assessment and expectations of major scheduled commercial banks (SCBs) on credit parameters (Viz., loan demand and terms and conditions of loans) for major economic sectors.
- The BLS found that the banker's assessment of loan demand in Q1: 2022-23 remained positive for all major sectors though the sentiments were somewhat toned down from the level reported in the previous quarter.
- Sentiments on overall loan demand in the second, third and fourth quarters also remained upbeat.
- In short, while banks remain upbeat, they are not as optimistic as they were just a couple of quarters ago.

7. Survey of Professional Forecasters (SPF)

- There is a survey of 42 professional forecasters (Outside the RBI) on key macroeconomic indicators such as GDP growth rate and inflation rate in the current year and the next financial year.
- India's real GDP is expected to grow by 7.1 per cent in 2022-23.
- Projections revised down by 10 basis points from the last survey round and it is expected to grow by 6.3 per cent in 2023-24.

8. Conclusion

There is considerable unanimity among observers that India's GDP will grow at around 7 per cent in the current year.

CANTILLON EFFECT

1. About Cantillon Effect

Cantillon effect refers to the idea that changes in the money supply in an economy cause redistribution of purchasing power among people, disturb the relative prices of goods and services and lead to the misallocation of scarce resources.

The Cantillon effect is named after the 18 th century French economists Richard Cantillon who published his ideas in the 1755 book Essay on the Nature of Trade in General.

2. Uneven Distribution

An increase in the overall money supply in an economy causes a proportionate rise in the prices of goods and services over the long run.

The total amount of money in an economy plays a crucial role in determining the general price level.

3.Cantillon:

- When the money supply is expanded, the fresh money does not get evenly distributed across the economy all at once
- The fresh money is injected into particular sections of the economy first and thus people in these sections of the economy are enriched when compared to people in the rest of the economy
- In other words, when the money supply is expanded, the purchasing power of people who first receive the freshly created money is enhanced at the cost of the rest of society.
- When the first recipients of freshly created money spend their money on certain goods and services, the prices of these goods and services begin to rise before the prices of other goods and services.
- This is because the freshly created money takes time to percolate through the wider economy and causes the prices of all goods and services to rise proportionately.
- Thus there is a disturbance in relative prices of goods as fresh money is injected into the economy and contrary to what economists have traditionally assumed.

4.Impact of relative prices

- Relative prices play a crucial role in the allocation of scarce resources in an economy.
- Prices act as important signals to entrepreneurs in the allocation of scarce resources towards various ends of society and changes in relative prices can thus affect how scarce resources are allocated.
- Changes in money supply can also lead to the misallocation of savings in the credit market as investors may allocate savings based on the signals sent by relative prices that are outdated and false.
- The Cantillon effect has been widely cited by economists who are critical of expansionary central bank policy to tackle economic downturns.
- Mainstream economists believe that recessions are the result of a drop in aggregate spending, which can be sorted out by expansionary monetary policy that compensates for the drop in aggregate demand.

- Critics argue that when a central bank increases the money supply, it can have a real effect on the economy
- Cantillon's contributions to monetary theory encouraged economists to see that changes in money supply even by central banks can have real effects on the economy.

NON FUNGIBLE TOKENS (NFT)

1. Background

- NFTs (non-fungible tokens) are unique cryptographic tokens that exist on a blockchain and cannot be replicated.
- NFTs can represent real-world items like artwork and real estate.
- "Tokenizing" these real-world tangible assets makes buying, selling, and trading them more efficient while reducing the probability of fraud.
- NFTs can also function to represent individuals' identities, property rights, and more.
- Collectors have sought NFTs as their value initially soared, but has since moderated.

2.Key features of NFT

- **Digital Asset** - NFT is a digital asset that represents Internet collectables like art, music, and games with an authentic certificate created by blockchain technology that underlies Cryptocurrency.
- **Unique** - It cannot be forged or otherwise manipulated.

- **Exchange** - NFT exchanges take place with cryptocurrencies such as Bitcoin on specialist sites.

3. The importance and prominence of NFTs

- Non-fungible tokens are an evolution of the relatively simple concept of cryptocurrencies. Modern finance systems consist of sophisticated trading and loan systems for different asset types, ranging from real estate to lending contracts to artwork. By enabling digital representations of physical assets, NFTs are a step forward in the reinvention of this infrastructure.
- To be sure, the idea of digital representations of physical assets is not novel nor is the use of unique identification. However, when these concepts are combined with the benefits of a tamper-resistant blockchain of smart contracts, they become a potent force for change.
- Perhaps, the most obvious benefit of NFTs is market efficiency. The conversion of a physical asset into a digital one streamlines processes and removes intermediaries. NFTs representing digital or physical artwork on a blockchain remove the need for agents and allow artists to connect directly with their audiences. They can also improve business processes. For example, an NFT for a wine bottle will make it easier for different actors in a supply chain to interact with it and help track its provenance, production, and sale through the entire process. Consulting firm Ernst & Young has already developed such a solution for one of its clients.
- Non-fungible tokens are also excellent for identity management. Consider the case of physical passports that need to be produced at every entry and exit point. By converting individual passports into NFTs, each with its unique identifying characteristics, it is possible to streamline the entry and exit processes for jurisdictions. Expanding this use case, NFTs can serve an identity management purpose within the digital realm as well.

4. NFTs in the real and virtual world

- NFTs can also democratize investing by fractionalizing physical assets like real estate. It is much easier to divide a digital real estate asset among multiple owners than a physical one.
- That tokenization ethic need not be constrained to real estate; it can extend to other assets, such as artwork.
- Thus, a painting need not always have a single owner. Its digital equivalent can have multiple owners, each responsible for a fraction of the painting.
- Such arrangements could increase its worth and revenues.
- The most exciting possibility for NFTs lies in the creation of new markets and forms of investment.
- Consider a piece of real estate parcelled out into multiple divisions, each of which contains different characteristics and property types.
- One of the divisions might be next to a beach while another is in an entertainment complex, and yet another is a residential district.
- Depending on its characteristics, each piece of land is unique, priced differently, and represented with an NFT. Real estate trading, a complex and bureaucratic affair, can be simplified by incorporating relevant metadata into each unique NFT.
- Decentraland, a virtual reality platform on Ethereum's blockchain, has already implemented such a concept.
- As NFTs become more sophisticated and integrate into the financial infrastructure, it may become possible to implement the same concept of tokenized pieces of land (differing in value and location) in the physical world.

QUIET QUITTING –BETTER WORK PRACTICES

1.Context

The phrase has been gaining currency in the recent scenario, the young workers are its advocates, they are taking time out of work and doing something outside of the office.

2. Why opting for Quiet Quitting

- Over a quarter of the respondents were not confident they would retire comfortably.
- Amid this financial unease, many of them are changing their working pattern, opting for a second part or full-time paying job in addition to their primary job.

3. GO SLOW MOVEMENT

- The Go Slow idea goes back to the late nineteenth century when the organized dock workers of Glasgow, Scotland demanded a 10% hike in wages
- Their demand was refused by the owners, making the workers go on strike
- To counter the budding movement, dock owners employed agricultural labourers to work for them. The dockers acknowledge defeat and returned to work under the old wage.
- The dockers observed their replacement closely and found them to be inefficient.
- McHugh, founder of the National Union of Dock Labourers that was, heading the protest for higher wages, the dockers followed his orders and after a few days the owners asked the union to tell workers to complete a task as before and that they would be granted and that they would be granted the 10% pay increase.

4. Go Slow Strike

- Go Slow is a form of industrial action in which work or progress is deliberately delayed or slowed down
- Mostly raised by labour unions a century ago, workers resorted to this form of a strike to pressurize to improve working conditions and increase daily wages in factories and industrial units.

5. Changes in the Way of Working

- Working days expanded

- A significant amount of time goes into responding to emails and connecting with others over collaboration tools

6. Companies in the Information Age

- A company engaged in a single activity branched out, this results in a focus on new customer segments or on entering new geographies
- Now employees are required to connect with diverse colleagues to discuss and execute the organisation's critical functions.
- Collaboration workload-collaboration technologies in the workplace, and the proliferation of initiatives to create a “one firm “culture.

7. Impacts of Collaboration

- Excessive collaboration harms organizational performance
- Overworking employees for only marginal gains.

8. Burnout

- The duo's research revealed that white-collar workers spend 70-85% of their time attending meetings, dealing with e-mails, talking on the phone, or otherwise dealing with a barrage of requests for their input.
- Many spend so much time interacting that they end up carrying much of their work back home to be completed at night resulting in employees burnout.

9. Quiet Quitting

- It simply means that regular day-to-day tasks will be done .while there are always the ambitious, over-achieving few in an organization, a large proportion of employees prefer to do the tasks they have agreed to do as a part of their job description.

10. Crunch Culture

- In the gaming industry, crunch is the word used for time. During a crunch period before an important deadline for a game's launch, developers put in about 60+ hours a week.
- According to section 51 of the Act, the spread over should not exceed 10.5 hours.

10. Impacts

- Collaboration overload
- Compensation stagnation
- Poor work-life balance

US INFLATION AND ITS IMPACT ON INDIA

1. Context

The United States Labour Department reported that retail inflation had spiked to 6.2 per cent in October.

India's National Statistical Office (NSO) data showed that retail inflation rose to 4.5 per cent for the same month.

2. Inflation rate

- It is the rate at which prices increase over a given period. Typically, in India, the inflation rate is calculated on a year-on-year basis.

In other words, if the inflation rate for a particular month is 10 per cent, it means that the prices in that month were 10 per cent more than the prices in the same month a year earlier.

If in the same month of the coming year, the inflation rate was to go up to 15 per cent, it implies that something that was priced at RS 100 in the same month last year and at Rs 110 this year, will be priced at Rs 126.5 next year.

- A high inflation rate erodes the purchasing power of people.
- Since the poor have less money to withstand fast-rising prices, high inflation hurts them the hardest.

3. Concern over US inflation

- Indians may not find a 6.2 per cent inflation rate a very sharp increase in prices.
- In the US, this data is the largest year-on-year increase in the last three decades.
- Another way to put this data in perspective is that the Federal Reserve (or Fed), the US central bank targets an inflation rate of just 2 per cent.
- Seen in that context, it is clear why the US inflation rate has become a massive concern for its citizens.
- As the chart shows, retail inflation in the US has been rising sharply almost every passing month since May 2020.
- This has been a surprise for most policymakers and economists all of whom were more focused on staving off a prolonged recession.

The trajectory of inflation rates (**percentage**)

4. Causes of the inflation surge in the US

- Typically, inflation spikes can be assigned to either an increase in demand or a decrease in supply.
- In the US, both factors are at play. Thanks to a rapid rollout of the Covid-19 vaccination drive, the US economy posted a sharp recovery.
- Part of the inflationary spike came from this unexpectedly fast recovery in all-around demand from consumers.

- This recovery was further fuelled by billions of dollars pumped by the government to not only provide relief to consumers and those who lost their jobs but also to stimulate demand.
- Some experts are now wondering if this help from the government is worsening inflation.
- That's because while demand has recovered swiftly, supply has not.

5. Major economics situation

- This is not a US-Specific phenomenon while the US has seen the sharpest increase in prices, inflation has surprised policymakers across most of the major economies, be it Germany, China or Japan.
- In Japan, for example, according to Bloomberg, the producer price index is at a 40-year high.

6. India situation

- While most other economies were surprised by a spike in inflation in the wake of the pandemic, India was one of those rare major economies where high inflation predates the pandemic.
- As the chart shows, retail inflation had frequently been above the comfort zone of the Reserve Bank of India between 2 to 6 per cent for an extended period since late 2019.
- The pandemic did make matters worse because of supply constraints even when in India demand has not yet recovered to pre-Covid levels.
- It is quite instructive that despite India entering a "**Technical**" economic recession in September 2020, the RBI has not once lowered its benchmark interest rates since May 2020.
- That's because India's retail inflation has stayed worrying above or near the RBI's upper limit for the better part of the last two years.
- It is only in the last couple of months that the headline retail inflation rate has sobered down to below 5 per cent.

7. India's inflation worries

- India's inflation worries are far from it.

- This is partly because India's inflation has stayed high even when the demand has not recovered. This means more inflation when it does.
- Moreover, while the overall inflation average appears quite manageable at present, it is the "**core**" inflation that is worrying observers now.
- The core inflation rate is the rate of inflation when we ignore the prices of food and fuel.
- Typically, food and fuel prices tend to fluctuate a lot. As such, looking at core inflation gives a more robust measure of what is happening to the general price level.
- The worry for India is that core inflation is now over 6 per cent.
- It was always high and now threatens to breach the RBI's comfort zone.
- What's worse, India's inflation may worsen in light of the global increase in prices.

8.US inflation rate hits 30-year high

- There is a bigger worry, High inflation in the advanced economies, especially the US, Will likely force their central banks, especially the Fed, to abandon their loose monetary policy.
- A tight money policy by the Fed and the rest would imply higher interest rates.
- That will affect the Indian economy in two broad ways.
- Indian firms trying to raise money outside India will find it costlier to do so.
- The RBI will have to align its monetary policy at home by raising interest rates domestically.

MOONLIGHTING POLICY

1.Context

Swiggy recently announced an “industry-first” policy of allowing its employees to take up gigs or projects outside of their regular employment at the company, during their hours away from work. Swiggy calls these new norms the “moonlighting” policy

2. About Moonlighting

Moonlighting is the act of working at an extra job beyond regular working hours, usually without the knowledge of the employer. Since the side job was mostly at nighttime or on weekends, it was referred to as moonlighting. The term gained popularity when workers in the US started seeking a second job beyond their regular 9-to-5 work for additional income

3. Quiet Quitting

Quiet quitting doesn't refer to employees leaving their jobs, but instead, doing the bare minimum required of them. This could entail leaving work exactly at the end of one's shift, demanding additional pay for extra work, not signing up for ambitious projects, separating one's identity from their job, and/or setting clear work-life boundaries

While some acknowledge the need to strike a healthy work-life balance through quiet quitting, others consider it to be lazy, disloyal, and potentially indicative of an overall downward spiral

4. Hustle Culture

Hustle culture is defined as one that encourages employees to work more than normal working hours. Work is on their minds even when they have free time on holidays. The major requirement of this culture is to complete a job on target at a faster pace than usual

5. Reason for Opting for Moonlighting

- Additional income The main reason for going above and beyond an existing job is earning more money.
- New skills - working in a different role can allow a person to develop new skills, explore related domains and connect with more people.

6. Causes for increase in Moonlighting

- **Covid Induced lockdowns**- increased the tendency to moonlight among workers in certain industries.

- **Financial insecurity**- at the time, working from home allowed a few categories of workers to get more work done, freeing up time for a second job.
- **The gig economy concept**-it has gained greater legitimacy in recent years, too

7. Whether it is legal or illegal?

Software Services Company Wipro and Infosys have taken a stance on moonlighting. Companies have warned their employees that dual employment is not permitted and that any violation of the contract clauses will trigger disciplinary action “which could even lead to termination of employment”.

While Swiggy allowed its employees to take up side gigs as long as they didn't affect their full-time work at the company.

8. WHO Study on long working hours

In the first global study of the loss of life associated with longer working hours, the paper in the journal Environment International showed that 745,000 people died from a stroke and heart disease associated with long working hours in 2016. That was an increase of nearly 30 percent from 2000

Working 55 hours or more per week is a serious health hazard.

It also showed that people living in Southeast Asia and the Western Pacific region, a WHO-defined region that includes China, Japan, and Australia, were the most affected

HUMAN DEVELOPMENT REPORT

1.Context

United Nations Development Programme (UNDP) released its latest Human Development Report (HDR).

2.Key points

- It is enough to look at a country's score on the Human Development Index (HDI) and compare it to the global average and the score of some other comparable countries.
- The HDI is a composite of three broad parameters: Longevity, education and income per capita.
- This year's HDR is quite different because for the first time in its history the HDR has been compiled since 1990.
- The global HDI value has declined two years in a row, erasing the gains of the preceding five years.
- It is not just a matter of the global HDI declining; over 90 per cent of countries experienced a decline in 2020 or 2021.

3.India's score

1. India's life expectancy at birth was recorded at 67.2 years
2. The Expected years of schooling at 11.9 years
3. The mean years of schooling at 6.7 years and
4. The gross national income per capita (2017 PPP) is \$6, 590.

On all these four parameters, India was behind the world averages in 2021;

4.World's averages

1. Life expectancy at 71.4 years,
2. Expected years of schooling at 12.8 years,
3. Mean years of schooling at 8.6 years and
4. Gross national income per capita (2017 PPP\$) at \$16,752.

India's rank on the Human Development Index has slipped from 130 in 2020 to 132 in 2021, in line with a global fall in HDI scores in the wake of the Covid-19 pandemic, shows the Human Development Report 2021-22.

5. India's HDI value

- According to the report, released by the UNDP, India's HDI value stood at 0.633 in 2021, which was lower than the world average of 0.732.
- In 2020, too, India recorded a decline in its HDI value (0.642) in comparison to the pre-Covid level of 2019 (0.645).
- The drop in HDI from 0.645 in 2019 to 0.633 in 2021 can be attributed to a falling life expectancy of 69.7 to 67.2 years.

India has also been ranked 122 on the Gender Inequality Index.

6. Reduction in HDI Value

Ninety per cent of countries have registered a reduction in their HDI value in 2020 or 2021, reversing much of the progress toward the Sustainable Development Goals.

- A large contributor to the Human Development Index's recent decline is a global drop in life expectancy, down from 72.8 years in 2019 to 71.4 years in 2021.
- The last two years have had a devastating impact on billions of people worldwide when crises like Covid-19 and the war in Ukraine hit back to back and interacted with sweeping social and economic shifts and dangerous planetary changes.
- HDI is a composite index that measures average achievement in human development taking into account four indicators:
 1. Life expectancy at birth (Sustainable Development Goal 3)
 2. Expected years of schooling (SDG 4.3)
 3. Mean years of Schooling (SDG 4.4) and
 4. Gross National Income per capita (2017 PPP\$) (SDG 8.5).

WINDFALL TAX

1. Context

The central government on July 1 introduced a windfall profit tax on domestic crude oil production. Finance Minister defended the windfall tax imposed by the centre on domestic crude oil producers.

2. Windfall tax

- It is designed to tax the profits a company derives from an external, sometimes unprecedented event—for instance, the energy price rise as a result of the Russia–Ukraine conflict.
- These are profits that cannot be attributed to something the firm actively did, like an investment strategy or an expansion of business.
- The U.S. Congressional Research Services (CRS) defines a windfall as an unearned, unanticipated gain in income through no additional effort or expense.
- Government typically levies this as a one-off tax retrospectively over and above the normal rates of tax.
- Finance Minister explained the introduction of the windfall tax as a way to rein in the “**phenomenal profits**” made by some oil refineries who chose to export fuel to reap the benefits of skyrocketing global prices which affected domestic supplies.

3. Rationale behind tax

- Pandemic recovery and supply issues resulting from the Russia–Ukraine conflict shored up energy demands, which in turn have driven up global prices.
- The rising prices meant huge and record profits for energy companies while resulting in hefty gas and electricity bills for households in major and smaller economies.
- The UN chief urged all governments to tax these excessive profits and use the funds to support the most vulnerable people through these difficult times.

4. Windfall tax in India

- In July, India announced a windfall tax on domestic crude oil producers who it believed were reaping the benefits of the high oil prices.
- It also imposed an additional excise levy on diesel, petrol, and air turbine fuel (ATF) exports.
- India's case was different from other countries, as it was still importing discounted Russian oil.

Windfall tax was targeted mainly at Reliance Industries Ltd and Russian Oil major Rosneft –backed Nayara Energy, who the government believed were making a killing on exporting large volumes of fuel made from discounted Russian oil at the cost of the domestic market.

5. Purpose tax

5.1. Reducing trade deficit

Analysts also saw the windfall tax as a way for the centre to narrow the country's widened trade deficit.

5.2. Funding welfare schemes

It will also be led to the redistribution of unexpected gains when high prices benefit producers at the expense of consumers, to funding social welfare schemes, and as a supplementary revenue stream for the government.

6. Issues in imposing tax

- Since windfall taxes are imposed retrospectively and are often influenced by unexpected events, they can brew uncertainties in the market about future taxes.
- German economist Andreas Peichl said that such taxes are populist and politically opportune in the short term.
- IMF said that taxes in response to price surges may suffer from design problems given their expedient and political nature.

- It will reduce future investment because prospective investors will internalize the likelihood of potential taxes when making investment decisions.
- There is another argument about what exactly constitutes true windfall profits, how it can be determined, and what level of profit is normal or excessive.

Another issue is who should be taxed only the big companies responsible for the bulk of high-priced sales or smaller companies as well as raising the question of whether producers with revenues or profits below a certain threshold should be exempt.

INSTANT LOAN APPS

1.Context

Several Indians have ended their lives owing to harassment by recovery agents of unregulated digital lending apps mostly linked to entities based in China.

Probe agencies are now cracking the whip on such apps that lure customers into debt traps by offering quick loans.

2. Key points

- Their high-interest rates, short repayment windows, coercive recovery methods and misuse of personal information have prompted the Reserve Bank of India (RBI).
- Central probe agencies to crack down on the entities that run these loan apps and the payment gateways and crypto exchanges used by them to transfer overseas the money extracted from borrowers.

3. Deals inked with defunct NBFCs

- As per the law, a lending company needs to be either a bank or a non-banking financial company (NBFC) that is registered with the RBI.

- When the RBI refused to provide these Chinese entities with an NBFC licence to start their digital lending business, they identified 38 defunct NBFCs with meagre capital ranging from ₹3.50 crore to ₹1 crore.
- Deals were inked between the fintech firms and the NBFCs, providing security deposits worth over ₹100 crores and bringing in more funding through the Foreign Direct Investment route.
- The NBFCs then registered separate merchant IDs with various payment gateways for the fintech firms to start their lending business using loan apps.

4. Money trail

- The ED also gathered evidence showing that cryptocurrency exchanges were used by the masterminds to transfer funds.
- The amount was allegedly deposited by different entities, including the accused NBFCs and fintech firms, into the wallets of the agencies that were held with the exchange.
- After initiating the probe, most of the apps were closed and the funds diverted.

5. Shell entity

- It was set up by Chinese nationals in connivance with chartered accountants and company secretaries.
- Bank accounts were opened in the name of dummy directors.
- The internet banking credentials and digital signatures of dummy directors and other particulars were shipped abroad and used by Chinese nationals to launder the proceeds of crime.

6. Money transferred into Crypto

- The exchange has not been able to share all the details of suspect transactions with the ED as it allegedly had lax KYC norms, no due diligence mechanism, no check on the source of funds of depositors and no mechanism for raising suspicious transaction reports.

- The agency owns cryptocurrency exchanges as part of the probe against the NBFCs and their fintech partners.
- These companies and their virtual assets are untraceable at the moment. the maximum amount of funds was diverted to exchange and the crypto assets purchased have been diverted to unknown foreign wallets.
- Crypto exchange also could not give any account for the missing assets.
- By encouraging obscurity and having Anti-Money laundering norms, and assisted accused fintech firms in laundering the proceeds of crime using the crypto route.

7.The Way Forward

- The RBI issued its first set of guidelines to crack down on illegal activities in the digital lending industry.
- As per the new norms, all loan disbursements and repayments will be required to be executed only between the bank accounts of the borrower and the regulated entities such as a bank or an NBFC without any pass-through or pool account of the lending service providers or any third party.
- The central bank asked the industry to implement the norms by November.
- The norms are designed to end regulatory arbitrage and protect customers and put the onus on the regulated entities on behalf of whom the apps do the lending.
- The passage of a law banning lending by unauthorised entities and the creation of a self-regulatory organisation for digital lenders will bring transparency to the industry.

FOREIGN CONTRIBUTION REGULATION ACT (FCRA)

1. Context

The Ministry of Home Affairs has canceled the Foreign Contribution (Regulation) Act (FCRA) license of the Rajiv Gandhi Foundation (RGF) and Rajiv Gandhi Charitable Trust (RGCT), organizations that are associated with the Nehru-Gandhi family, for alleged violations of the provisions of the act.

2. Foreign Contribution Regulation Act

- The law sought to regulate foreign donations to individuals and associations so that they functioned "in a manner consistent with the values of a sovereign democratic republic".
- Foreign funding in India is regulated under the FCRA act. Individuals are permitted to accept foreign contributions without the permission of MHA. However, the monetary limit for acceptance of such foreign contributions shall be less than Rs. 25,000.
- It is implemented by the Ministry of Home Affairs. The FCRA was enacted during the Emergency in 1976 amid apprehensions that foreign powers were interfering in India's affairs by pumping money into the country through independent organizations. These concerns were, in fact, even older- they had been expressed in Parliament as early as 1969.

3. Provisions of the Act

- The FCRA requires every person or NGO wishing to receive foreign donations to be registered under the act, to open a bank account for the receipt of foreign funds in the statute Bank of India, Delhi, and to utilize those funds only for which they have been received, and as stipulated in the act.
- They are also required to file annual returns, and they must not transfer the funds to another NGO.
- The Act prohibits the receipt of foreign funds by candidates for elections, journalists or newspapers and media broadcast companies, judges and government servants, members of the legislature and political parties or their office-bearers, and organizations of a political nature.

4. Key Highlights of the 2020 Amendment

- It bars public servants from receiving foreign contributions. It prohibits the transfer of foreign contributions to any other person.
- Aadhar number is mandatory for all office bearers, directors, or key functionaries of a person receiving foreign contributions, as an identification document.

- The foreign contribution must be received only in an account designated by the bank as an FCRA account in such branches of the State Bank of India, New Delhi.
- No funds other than foreign contributions should be received or deposited in this account.
- It allowed the government to restrict the usage of unutilized foreign contributions. This may be done if, based on an inquiry the government believes that such a person has contravened provisions of the FCRA.
- While NGOs earlier could use up to 50 percent of funds for administrative use, the new amendment restricted this use to 20 percent.

5. Registration under FCRA

- NGOs that want to receive foreign funds must apply online in a prescribed format with the required documentation. FCRA registrations are granted to individuals or associations that have definite cultural, economic, educational, religious, and social programs.
- Following the application, the MHA makes inquiries through the Intelligence Bureau into the antecedents of the applicant and accordingly processes the application. The MHA is required to approve or reject the application within 90 days-failing which is expected to inform the NGO of the reasons for the same.
- Once granted, FCRA registration is valid for five years. NGOs are expected to apply for renewal within six months of the date of expiry of registration. In case of failure to apply for renewal, the registration is deemed to have expired.

6. Cancellation of Approval

The government reserves the right to cancel the FCRA registration of any NGO if it finds it to violate the Act. Registration can be cancelled for a range of reasons including, if "in the opinion of the Central Government, the public interest must cancel the certificate". Once the registration of an NGO is canceled, it is not eligible for re-registration for three years. All orders of the government can be challenged in the High court.

DIGITAL BANKING UNITS

1. Context

Prime Minister Narendra Modi on Sunday (October 16) dedicated 75 digital banking units to the nations, taking forward an announcement that was made in the 2022-23 Union Budget by Finance Minister Nirmala Sitaraman.

2. What are Digital Banking Units?

A digital banking unit is a specialized fixed point business unit or hub, housing a certain minimum digital infrastructure for delivering digital banking products and services as well as servicing existing financial products and services digitally in self-service mode at any time.

The DBUs are being set up to ensure the benefits of digital banking reach every nook and corner of the country and will cover all the States and Union territories.

3. Who will set up these DBUs

Commercial banks (other than regional rural banks, payments banks, and local area banks) with past digital banking experience are permitted to open DBUs in tier 1 to tier 6 centers unless otherwise specifically restricted, without needing to take permission from the RBI in each case.

4. Services provided by DBUs

- As per the RBI, each DBU must offer a certain minimum of digital banking products and services. Such products should be on both liabilities and assets side of the balance sheet of the digital banking segment. Digitally value-added services to conventional products would also qualify as such.
- The services include saving bank accounts under various schemes, current accounts, fixed deposit, and recurring deposits accounts, digital kits for customers, mobile banking, Internet banking, debit cards, credit cards, mass transit system cards, digital kits for merchants, UPI QR codes, BHIM Aadhaar and point of sale (POS).
- Other services include making applications for and onboarding customers for identified retail, MSME, or schematic loans. This may also include end-

to-end digital processing of such loans, starting from the online application to disbursal and identified government-sponsored schemes that are covered under the national portal.

5. Difference between DBU and Traditional Banks

- DBU will provide banking services including cash deposit & withdrawal 24 x 7. Services of DBU will be provided digitally.
- People not having connectivity or computing devices can do banking transactions from DBU in a paperless mode. Bank staff will be available to help and guide users for banking transactions in assisted mode.

6. Significance of Digital Banking Units

1. The flow of credit will improve in rural areas.
2. The establishment of these units will be cheaper than the conventional brick-and-mortar units.
3. They will provide better technical support to customers.
4. Poor will get easier access to money and loans. Digital units will decrease the manpower requirement.

7. Disadvantages of Digital Banking

- Huge investment is needed and banking institutions are investing a lot in their security systems.
- Digital banking forums are prone to vulnerabilities and hacks such as phishing, pharming, identity theft, and keylogging.
- The limitations of DBU include low public awareness and internet penetration in lower-tier cities.

8. DBUs VS Fintechs

Fintechs operating as neobanks offer digital banking services but they do so in partnership with non-banking financial companies (NBFCs). Some of the neobanks offering services in India are Jupiter, Fi Money, Niyto, and Razorpay X.

Compared to conventional banks with online and mobile banking facilities, neobanks or digital banks excel at product innovation and offer far better digital solutions.

TOKENISATION ADVANTAGES

1. Context

The Reserve Bank of India (RBI) has mandated the tokenisation of credit/debit cards for online merchants from October 1.

Till then, the card details for online purchases were stored on the servers of these merchants to help customers avoid keying in their details every time they shopped with that merchant.

2. Tokenisation

As per the RBI's FAQ on tokenisation updated late month, tokenisation "refers to the replacement of actual card details with an alternative code called the '**token**', which shall be unique for a combination of card and the token requestor (i.e. the entity which accepts the request from the customer for tokenisation of a card and passes it on to the card network to issue a corresponding token)."

If you use a mobile app or a website for online purchases, the merchant can, on your behalf but only with your explicit consent, raise a request for a token with the card issuing bank or the card network such as MasterCard.

3. Necessity of Tokenisation

- When you visit a restaurant or even an ATM, card thieves can clone your card with a skimmer, a gadget that quietly reads the magnetic strip at the back of your card.
- Similarly, hackers can also break into online websites and mobile apps that store your credit card details.

- Con artists can access millions of cards in one go and sell them on the dark web as a result of such breaches.
- To help lessen the chances of such fraud, some banks have mandated the use of an OTP delivered to your registered mobile number to withdraw cash at ATMs.
- Other banks have enabled services on their mobile app to allow cash withdrawals without the physical use of cards.
- Some credit card-issuing banks allow limits that you can set up yourself, per day, per transaction, etc on the bank's app.
- The Tokenisation mandate of the RBI is a similar exercise in caution.

4. Card Fraud

- As per the RBI annual report 2021-22, in FY20 there were a reported 2, 677 cases of card fraud via the internet involving ₹129 crores.
- While in FY21, the number of cases decreased to 2, 545, further increased to 3, 596 cases in FY22 with the amount involved being ₹155 crores.

5. Advantages

- The RBI says that a tokenised card transaction is safer than the actual card details are not shared with the merchant.
- Even if a hacker/scammer were to get their hands on one's token number, they would not be able to make indiscriminate use of it.

The token generated upon request for a specific merchant is unique to a specific card number and is usable only on that particular site or mobile app. The token is useless outside of that merchant's ecosystem.

The new mandate is only for the use of credit/ debit cards online. For offline merchants, users would continue to swipe the cards on the POS machines as per previously existing guidelines.

- The concept of tokenisation through the example of a metro train ticket. It is useful only for that route and not for any other.

- Similarly, the unique token generated for a specific site is only applicable on that site and nowhere else.
- If an undesirable third-party gains access to that specific token and shops within that specific website, the chances of identifying the party are more as their login and phone details would be with the site.
- However, regardless of whoever you shop with, be it Amazon or Ola or Swiggy, the app should ask your permission to use your credit card details for it to tokenise your card.

CREDIT SUISSE CRISIS (CDS)

1. Context:

Over the past few days, the share price of Credit Suisse, one of the oldest and historically one of the most influential banks in the world, has hit an all-time low. Since the beginning of 2022, Credit Suisse's share price has fallen close to 60 per cent.

2.What are CDS?

CDS is an insurance instrument. If an investor who has lent money to a firm (say Credit Suisse) is unsure about the firm's ability to repay, the investor can buy a CDS on Credit Suisse's bond. A CDS promises that if Credit Suisse fails to pay back, the insurer would pay the amount.

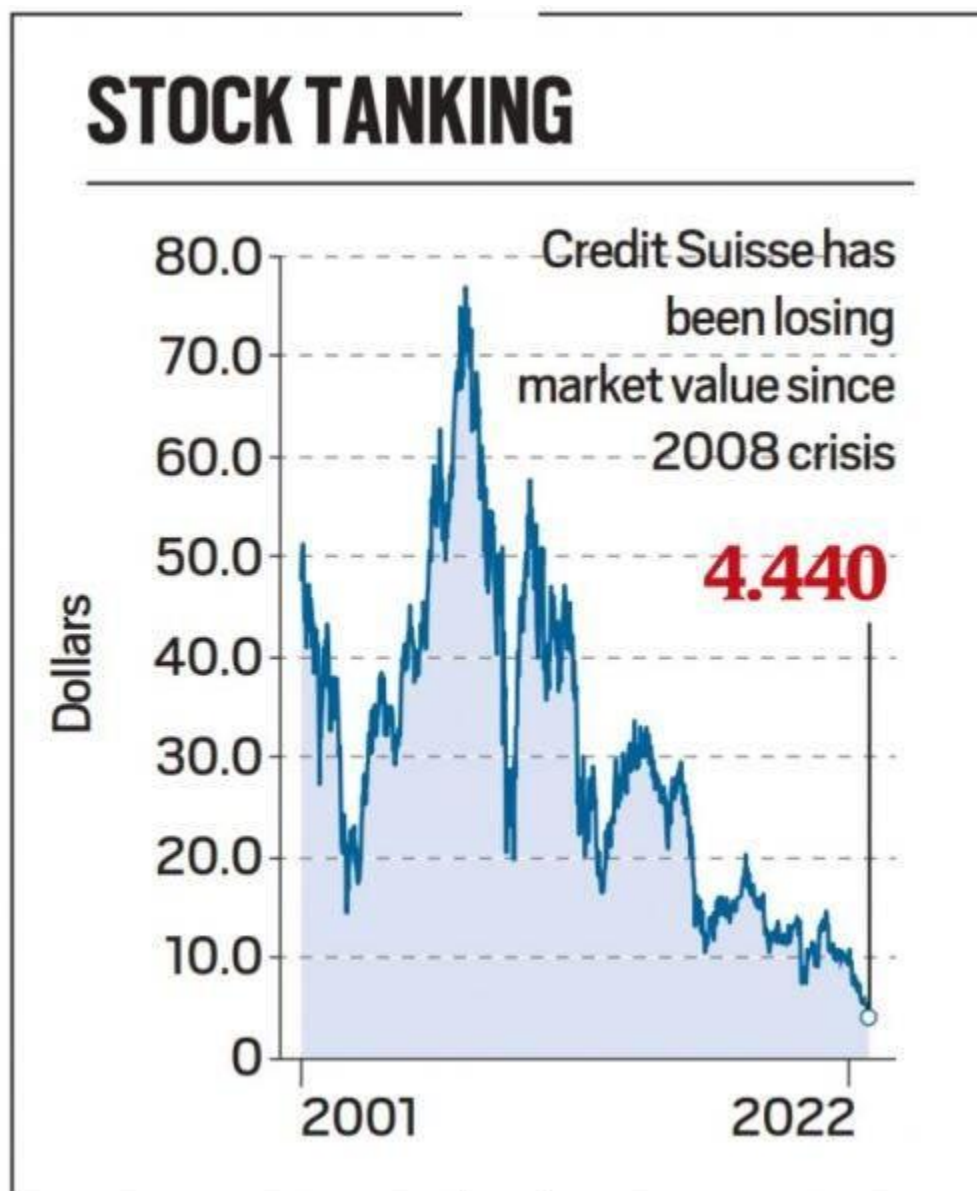
In return, the insurance firm selling the CDS gets a certain interest. This interest is called the spread of CDS. When these spreads rise, they signal the rising probability that a particular bond will fail. For Credit Suisse bonds, CDS spreads have spiked to 14-year highs.

3.Concerns around Credit Susie

Reportedly, Credit Suisse had just over 50,000 employees and 1.6 trillion Swiss francs (\$1.62 trillion) in assets under management at the end of 2021

However, it has been losing its market value since the 2008 global financial crisis (see chart). The share price has witnessed almost a secular decline. The reason for this is fairly straightforward

Credit Suisse has made several risky bets and ended up losing a lot of investor money. That, in turn, has hurt its profitability, eroded investor confidence, and has made raising fresh capital costlier



Such losses were punctuated by high-profile managerial malpractices and exits, further undermining investor confidence

Example: In 2020, then CEO Tidjane Thiam had to quit after it became clear that he had been spying on Credit Suisse's wealth management executive Iqbal Khan.

4. How did it impact Credit Suisse?

- The secular decline in Credit Suisse's share price is one good way to understand how investors have progressively shrugged away from the iconic bank.
- Further, Credit Suisse bonds have increasingly become cheaper because fewer people want to lend money to it and this has resulted in the yields rising quite sharply.
- Higher yields essentially imply that the bank would have to pay higher returns for every dollar or euro it borrows from the market.
- This becomes a problem, especially in the current scenario facing the developed economies, when growth prospects are tanking and central banks are raising interest rates to contain inflation

LOAN WRITE-OFF

1. Context

Banks wrote off more than Rs 10 lakh crore in loans over the last five years, according to the RBI data. They have been able to recover only 13% (Rs 1,32,036 crore) of the Rs 10,09,510 crore (\$123.86 billion) they wrote off. While public sector banks reported the lion's share of write-offs at Rs 734,738 crore, private sector banks were not far behind in bringing down their non-performing assets

(NPAs). Private banks accounted for 27.28 percent of the total banking sector write-offs over the last five years, the RBI's reply shows.

2. What is a loan Write-off?

Writing off a loan essentially means it will no longer be counted as an asset. By writing off loans, a bank can reduce the level of non-performing assets (NPAs) on its books. An additional benefit is that the amount so written off reduces the bank's tax liability.

3. Why do Banks resort to Write-offs?

The bank writes off a loan after the borrower has defaulted on the loan repayment and there is a very low chance of recovery. The lender then moves the defaulted loan, or NPA, out of the assets side and reports the amount as a loss.

After the Write-off, banks are supposed to continue their efforts to recover the loan using various options. They have to make provisioning as well. The tax liability will also come down as the written-off amount is reduced from the profit.

However, the chances of recovery from written-off loans are very low- as the RTI reply shows-which raises questions about the assets or collateral against which the banks lent funds to these defaulters.

4. What is the amount written off by Private Banks?

Private banks wrote off loans worth Rs 2,74,772 crore in the last five years in their effort to bring down NPAs and whitewash their balance sheets. This works out to 27.28 percent of the total write-off of Rs 10,09,510 crore of the banking sector. Private banks wrote off Rs 53,000 crore in 2018-19 and Rs 58,293 crore in 2019-20 when the entire banking sector witnessed the maximum loan write-offs.

5. Who is at the forefront of write-offs?

Among private banks, ICICI Bank's reduction in NPAs due to write-offs was Rs 50,514 crore in the last five years. Axis Bank wrote off Rs 49,715 crore and HDFC Bank Rs 34,782 crore during the period, according to the RBI. The loans written off by the banks are the depositor's money.

6. How much did PSU banks write off?

Public sector banks reported the lion's share of write-offs at Rs 734,738 crore accounting for 72.78 percent of the exercise. Among individual public sector banks, reduction in NPAs due to write-offs in the case of State Bank of India Rs 204,486 crore in the last five years, Punjab National Bank Rs 67,214 crore, and Bank of Baroda Rs 66,711 crore.

7. Write-off loans advantages in India

It helps a bank or lender to set free the money originally blocked for a borrower. The money can be now utilized by banks for doing their business.

Clean balance sheet: Writing off a bad loan does not mean that the bank will lose the legal right to recover the due amount, So, any recovery made against a bad loan after writing it off is considered a profit for the bank in the year of recovery.

It helps the bank to make its balance sheet clean.

Generate revenue: When a loan is written off, the lender or bank receives a tax deduction on the loan value. But the lender is still legally allowed to pursue the debt and generate revenue from it.

SEBI

1. Context

The Securities and Exchange Board of India (SEBI) on November 12 floated a consultation paper proposing measures to tackle market rumours.

It reviewed disclosure requirements for material events and information under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

2. Need for Review

- The Central Premise of the proposal is to ensure timely disclosure of significant events that may have a bearing on the price of a scrip.

- SEBI notes that while regulatory actions against non-disclosure of events do act as a deterrent for listed entities to withhold details of material events or information, timely disclosure is still very important.
- SEBI also seeks to ensure unverified rumours do not shake investor confidence and affect decision-making.
- Listed entities have sought that the regulator institute a certain uniformity in its guidance for disclosures to help them better determine what constitutes a material event or information.
- In a related context, the market regulator pointed to provisions that require companies to put forth specific and adequate replies to all rumour verification queries raised by the exchanges.
- This could be concerning certain information circulating on social media or any other platform.
- It proposes entities should confirm or deny any such reported event or information.

3. Proposed Disclosures

- The Proposed measures are directed towards preventing any false market sentiment or impact on the securities of a company.
- Recognising the "**growing influence**" of print, television and digital news media, it argues that companies to keep and ensure that any rumours are verified or refuted.
- Thus, it is proposed that the top 250 listed entities, based on market capitalisation at the end of the previous assessment year, would have to deny or refute such rumours.

It proposes companies disclose all information whose expected impact in terms of value exceeds 2 per cent of either its turnover or net worth as per the last audited financial statement or 5 per cent of the three-year average of the absolute value of profit/ loss after tax.

- To avoid information asymmetry, SEBI has proposed that the listed entities need to also disseminate any communication with regards to the company

made by its directors, promoters, key managerial personnel or senior management individually and not through the company.

- It recognises that it is difficult for an investor to keep track of multiple newsworthy announcements from diverse avenues.
- To this effect, it proposes that companies inform about any rating actions, even if it was not requested by the company or if a request was withdrawn.

Further, companies also need to disclose any actions initiated by a regulatory, statutory, enforcement or judicial authority against any of its directors, key managerial personnel, senior management, promoter or subsidiary about the entity.

These may include investigation, suspension, imposition of penalty or fine, settlement of proceedings, debarment, sanctions, warnings, search, seizure and default on the payment of fines, penalties and dues among others.

- The mentioned measure would thus prevent information asymmetry as it would streamline access to verified information.

4. Material Importance

- The material importance of key personnel, senior management and directors to investors.
- They instil confidence in the functioning and affairs of the company.
- To this effect, it proposes that entities inform the exchange about their resignations within seven days.
- Along similar lines, companies must also disclose if the MD/CEO is not available to discharge their duties for greater than a month.

5. Are timelines being revised?

- The regulator observed that there was a need for quicker disclosure of material events since information permeates very fast on social media and digital media.
- It makes a note of several instances where the disclosures were made only after the news had already circulated in the media.

- At times, the information was disclosed only after the exchange raised a query to the company.
- Therefore, SEBI proposes that disclosures about events or information emanating from within the company be made within twelve hours instead of the existing mandate of twenty-four hours.
- To cut-off remains unchanged for events emanating from external occurrences.
- Moreover, all decisions taken in Board of Directors meetings are to be disclosed within thirty minutes from when it concludes.
- Companies must also inform two days in advance if any investor or analyst meeting is scheduled.

6. SECURITIES AND EXCHANGE BOARD OF INDIA

6.1. Background

- Before SEBI came into existence, the Controller of Capital Issues was the regulatory authority; it derived authority from the Capital Issues (Control) Act, of 1947.
- In April 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.
- Initially SEBI was a non-statutory body without any statutory power.
- It became autonomous and given statutory powers by SEBI Act 1992.

6.2. Structure of SEBI

- SEBI Board consists of a Chairman and several other whole-time and part-time members.
- SEBI also appoints various committees, whenever required to look into the pressing issues of that time.
- Further, a **Securities Appellate Tribunal (SAT)** has been constituted to protect the interest of entities that feel aggrieved by SEBI's decision.
- SAT consists of a Presiding Officer and two other
- It has the same **powers as vested in a civil court**. Further, if any person feels aggrieved by SAT's decision or order can **appeal to the Supreme Court**.

6.3. Aims associated with SEBI

- To protect the interests of investors in securities and to promote the development of, and regulate the securities market.
- It is the regulator of the securities and commodity market in India owned by the Government of India.

6.4. Functions

- SEBI is primarily set up to protect the interests of investors in the securities market.
- It promotes the development of the securities market and regulates the business.
- SEBI provides a platform for stockbrokers, sub-brokers, portfolio managers, investment advisers, share transfer agents, bankers, merchant bankers, trustees of trust deeds, registrars, underwriters, and other associated people to register and regulate work.
- It regulates the operations of depositories, participants, custodians of securities, foreign portfolio investors, and credit rating agencies.
- It prohibits insider trading, i.e. fraudulent and unfair trade practices related to the securities market.
- It ensures that investors are educated on the intermediaries of securities markets.
- It monitors substantial acquisitions of shares and take-over of companies.
- SEBI takes care of research and development to ensure the securities market is efficient at all times.

6.5. Powers of SEBI

- **Quasi-Judicial:** SEBI has the authority to deliver judgements related to fraud and other unethical practices in terms of the securities market. This helps to ensure fairness, transparency, and accountability in the securities market.
- **Quasi-Executive:** SEBI is empowered to implement the regulations and judgements made and to take legal action against the violators. It is also authorized to inspect Books of accounts and other documents if it comes across any violation of the regulations.

- **Quasi-Legislative:** SEBI reserves the right to frame rules and regulations to protect the interests of the investors. Some of its regulations consist of insider trading regulations, listing obligations, and disclosure requirements. These have been formulated to keep malpractices at bay. Despite the powers, the results of SEBI's functions still have to go through the Securities Appellate Tribunal and the Supreme Court of India.

6.6. Other Powers and Functions of SEBI

- SEBI is a **quasi-legislative and quasi-judicial body** which can draft regulations, conduct inquiries, pass rulings and impose penalties.
- It functions to fulfil the requirements of three categories –
 - **Issuers** – By providing a marketplace in which the issuers can increase their finance.
 - **Investors** – By ensuring the safety and supply of precise and accurate information.
 - **Intermediaries** – By enabling a competitive professional market for intermediaries.
- By **Securities Laws (Amendment) Act, 2014**, SEBI is now able to regulate any money pooling scheme worth Rs. 100 cr. or more and attach assets in cases of non-compliance.
- SEBI Chairman has the authority to order “**search and seizure operations**”. SEBI board can also seek information, such as telephone call data records, from any persons or entities concerning any securities transaction being investigated by it.
- SEBI perform the function of registration and regulation of the working of venture capital funds and collective investment schemes including mutual funds.
- It also works for promoting and regulating self-regulatory organizations and prohibiting fraudulent and unfair trade practices relating to securities markets.

BLUE ECONOMY

1. Background

- The ocean is one of Earth's most valuable natural resources. Mankind exploits the ocean to meet his energy, food, recreational, military and other needs.
- Oceans are used for transportation-both travel and shipping. Today around 80 per cent of world trade is seaborne.
- Among the world's oceanic divisions, the Indian Ocean is the third largest, covering an area of more than 70 million sq km that includes extensive Exclusive Economic Zones (EEZ) of different countries and large High seas.
- The economic and sustainable development issues in the Indian Ocean rim are particularly challenging since a majority of littorals are developing countries.
- These countries are home to one-third of the world's population that rely extensively on marine resources for livelihood and food security.
- The sheer size of this population subjects the Indian Ocean's resources to pressures from pollution, habitat degradation and over-exploitation.
- As the population of the region is projected to increase significantly in the coming decades its impact on food security and the economy from marine resources would become more substantial.

2. Maritime Governance and Blue Economy

- With its geographic and geostrategic position in and critical dependence on the Indian Ocean, India has been leading the Blue Economy discourse at the highest level of the Government, with a greater focus on the Indian Ocean region.
- The essence of this approach was spelt out by Government for seeking **“Security And Growth for All in the Region” (SAGAR)**.
- The Indian Ocean is vital to the economies, security, and livelihoods of its littoral states.

India is focusing on overall maritime governance including economies based on marine resources assured, advancing the blue economy through sustainable management and utilization of the ocean's resources, food security and livelihoods

for achieving Sustainable Development Goals.

- The Current Governance Framework of Marine resource management in the Indian Ocean explores the challenges in Blue economy development to ensure sustainable development in the region.
- Maritime security is essential to ensure a holistic approach toward the governance, use and maintenance of Oceans.

3. Concept of Blue Economy

- The Blue Economy encompasses a wide range of economic activities about the sustainable development of resources and assets in the oceans, related rivers, water bodies, and coastal regions in a manner that ensures equity, inclusion, innovation and modern technology.
- Subtly distinguishable from the “**Ocean Economy**” in terms of nuance and emphasis, the blue economy is a newer and more contemporary term, popular with Small Island Developing States (SIDS) as well as international organisations, media, experts and governments in a growing number of countries.
- The Blue Economy is viewed as an integral element of Sustainable Development Goals.

4. Importance of Blue Economy

- It would as Indian Ocean Rim Association (IORA) points out, “Contribute to food security, poverty alleviation, the mitigation of and resilience to the impacts of climate change, enhanced trade and investment, enhanced maritime connectivity, enhanced diversification, job creation and socio-economic growth”.
- From the Business perspective, Blue Economy requires innovative and dynamic business models, forming business connections between India and other relevant countries, especially those located in the Indian Ocean region.

5. India's Blue Economy

- India's Blue Economy concept is multi-faceted and plays an important role in the country's economic growth because of its enormous maritime interests. It accounts for roughly 4 per cent of the GDP.
- The sector has stood strong despite the challenges caused by the Covid-19 Pandemic and has recorded exports worth US\$ 7.2 billion between April 2021-February 2022.

6. Ocean resources

- Ocean resources, Physical infrastructure for maritime economic development, marine amenities and coastal management services are all part of the plan to ensure economic growth and sustainability, as well as national security.
- Fisheries and minerals are the two most viable components of the blue economy in India.
- The two mineral deposits of commercial significance to developers in the Indian Ocean are Polymetallic nodules, which are golf-to-tennis-ball-sized nodules containing nickel, cobalt, iron and manganese that grow over millions of years on the seafloor, are often discovered at 4-5 Kms in water depth.
- In 1987, India was granted exclusive rights to explore polymetallic nodules in the Central Indian Ocean Basin.
- It has explored four million square miles and established two mine locations since then.

7. Coastal Economy

- The Coastal Economy sustains over 4 million fishermen and coastal towns. India is the second largest fish-producing nation in the world and has a fleet of 2, 50, 000 fishing boats.
- India comprises 200 ports of which 12 are major ports that handled 541.76 million tonnes in FY 2021, the highest being Mormugao Port located in Goa, which handled 62.6 per cent of the total traffic.
- Shipping and shipbuilding are also important aspects of the blue economy in India.

- The model share of coastal shipping has the potential to increase to 33 per cent by 2035.
- Most of the country's oil and gas are supplied by sea, leading to making the Indian Ocean region critical to India's economic growth. This reliance is expected to increase dramatically by 2025.
- India has significant diplomatic interests in the Indo-Pacific and international commitments in the region under the UNCLOS, such as Search and Rescue, seabed mining and counter-piracy.

8. Blue Revolution: Integrated development and Management of Fisheries

- **Centrally Sponsored Scheme (CSS)** was established in 2015-16 with a five-year budget of Rs. 3, 000 crores.
- **The Fisheries and Aquaculture Infrastructure Development Fund (FIDF)** was established in 2018-19 with a fund size of Rs. 7, 522. 48 crores to provide concessional credit to state / UT governments, their entities and the private sector to fill significant gaps in the fisheries infrastructure.
- **Pradhan Mantri Matsya Sampada Yojana (PMMSY)** was launched in May 2020, with the highest investment of Rs. 20, 050 crores to bring about a Blue Revolution through sustainable and responsible development of the country's fisheries sector.

9. Maritime Security Strategy

- India's maritime security strategy focuses on all aspects of the challenges including the ocean economy that are affecting the health and the future of oceans and countries.
- As it combines the traditional and non-traditional security paradigms of maritime security, it provides a cohesive definition that is apt to address prevalent challenges such as environmental degradation, ocean trade security, migration, climate change, energy security, drug trafficking and privacy among other non-traditional challenges.
- Climate change, environmental degradation, access to resources, expanding sea lanes, and the evolving international ocean regime highlight the need to focus on maritime security.
- With nations committed to fulfilling the Sustainable Development Goals towards Blue Economy, the role of oceans in this is significant.

- Addressing the strategic, environmental and ocean ecosystem challenges is one of the greatest challenges for India and the world.
- Maritime security is an enabler of the Blue Economy, for example through safeguarding navigation routes, providing important oceanographic data to marine industries and protecting rights over valuable marine resources and activities within claimed zones of maritime jurisdiction.
- The non-traditional security threats affect the military and strategy, policy, operations, training, capacity building and environmental protection.
- The Security issues have also seen a transition as maritime security moved from military and traditional issues to non-traditional security threats.
- Today, minerals are significant drivers of economic development. India and China are the most active nations in the Indian Ocean Region. China is already exploring minerals at the South-West Indian Border.
- There are huge opportunities but uncertainty still looms over mineral exploration with the possibility of large-scale pollution.
- There is a need to conduct further research to understand the impacts of deep-sea mining on the ocean ecosystem and ecology.
- Unregulated and illegal fishing is another aspect that endangers the ocean ecology and while checks and balances have been established to address illegal, unreported and unregulated fishing (IUU), the current international law regime still lacks rigid barriers and stringent mechanisms to address the rising problem.

10. Indian Coast Guard (ICG)

- Indian coast Guard plays a far bigger role in averting major pollution incidents, anti-poaching and Search and Rescue, its importance as an essential actor in non-traditional security is well established.
- The role of Indian Maritime Forces and the definitions of maritime security have changed especially in the Indian context, highlighting the myriad challenges and opportunities of the current maritime global order that would be faced by India in the coming decades while pursuing a Blue Economy.

10.1 Duties of ICG

- As India is all set to achieve the goals of the Blue Economy, the role of ICG becomes very crucial. The duties of ICG as enshrined align with the Blue economy vision of the Government.
- Indian Coast Guard is one of the major maritime law enforcement agencies in the Indian Ocean Region.
- India focuses on the development of sectors viz. fisheries, shipping, port and maritime logistics, marine coastal tourism and leisure, conventional minerals exploration and production and marine construction activities.
- Other emerging sectors are renewable ocean offshore extraction of oil and gas in deep-sea and other extreme locations, seabed mining for metals and minerals, marine aquaculture, marine biotechnology, ocean monitoring, control and surveillance and education and research which can be harnessed to our advantage.
- Indian Coast Guard is the Nation's premier maritime agency. They provide a broad array of services to protect people and the maritime environment.
- The Indian Coast Guard has been carrying out duties such as oil spill response, helping mariners in distress at sea, warning vessels during bad weather offering assistance during scientific experiments and augmenting the national defence resources.

11. Strait of Hormuz and the Strait of Malacca

- India has a 7517 km coastline, 1197 islands and an Exclusive Economic Zone (EEZ) spanning 2.01 million sq km, which is expected to go up to almost 3 million sq km after the delimitation of the continental shelf.
- India is strategically located between two important choke points namely the Strait of Hormuz and the Strait of Malacca, through which most of the trade in commercial shipping moves in the Indian Ocean.
- These straits and rime of the Indian Ocean are laced with a large number of countries from four continents-Asia, Africa, Australia and Antarctica.
- It is a large mass of water that has deep-lying resources and dense traffic. The traffic of hazardous and noxious substances for industrial and energy purposes is constantly increasing.
- Many of the nations in the rim have political problems and regional stability is therefore only transitory.

- Privacy and other transnational crimes support militant activism and homemade insurgencies.

12. Conclusion

- In pursuit of the SDGs of Blue Economy, revolutions in maritime transportation and information systems, growth of ports and shipping, mineral research and exploitation, emerging threats to the marine environment and changing national security concerns will shape the course of the Nation.
- With mindful responsibilities the ICG has charted its course and embarked on an ambitious plan to renew assets and increase capabilities, by matching its high-performing people with modern equipment and technologies, the Indian Coast Guard will remain always ready to meet the challenges ahead.

FIAT MONEY VS TENDER MONEY

1. Fiat Money

- Fiat money is not backed by physical commodities, such as gold. Instead, it is government-backed. Most paper currencies today are fiat currencies. Fiat money value is based on the relationship between supply and demand. Fiat holds value because of people's faith in that nation's currency.
- The benefit of fiat money is that it gives central banks greater control over the economy, as they can control how much money is printed
- Inflation may occur when a government creates too much of a fiat currency, and the money supply increases too rapidly as a result. Governments printing too much money can create hyperinflation.

2. Legal Tender

- Legal tender is any form of payment recognized by a government, used to pay debts or financial obligations, such as tax payments. National currencies, such as the U.S. dollar, are legal tender.
- National currencies, such as the U.S. dollar, are legal tender. In the U.S., the Treasury is authorized to create and issue dollars to the public.
- Federal Reserve notes and coins are recognized legal tender in the U.S.
- Laws ensure nothing other than official legal tender gains enough traction to be used as money in the economy
- Notably, checks and credit cards aren't legal tender—rather, they are money substitutes
- The U.S. dollar is both fiat money and legal tender. In 1933, the U.S. federal government stopped allowing citizens to exchange currency for government gold.
- Dollars are now backed by the U.S. government itself.
- As legal tender, the dollar is accepted for both public and private debts.
- The dollar's value fluctuates with economic conditions and the federal government's management of interest rates.

Cryptocurrencies are not considered money in most parts of the world, as it does not have legal tender.

El Salvador became the first country in the world to accept bitcoin as legal tender in June 2021.

INTEREST-FREE BANKING

1.Context

State Bank of Pakistan (SBP) and the National Bank of Pakistan (NBP) would withdraw the appeals it had earlier filed in the Supreme Court against the Federal

Shariat Court's (FSC) order to replace the conventional banking system with an interest-free one that would fulfill the injunctions of Islam within five years

While the government had made significant progress towards developing an Islamic financial system between 2013 and 2018, it was unable to sustain the speed of transformation over the last few years

2.About Islamic Banking

- Islamic banking refers to banking activity that conforms to laws and values laid down by Islamic law or Sharia.
- The basis of Islamic finance is the rejection of usury (the levying of unreasonable high-interest rates) while lending money, along with the requirement that there must not be any engagement with immoral businesses.
- Interest-free banking is a narrow concept within this system that denotes the number of banking operations that avoid interest.
- Riba is the Islamic term for interest charges on loans, and according to the current interpretation, covers all interest, not just excessive interest.
- Under Islamic law, a Muslim is prohibited from paying and accepting interest on a predetermined rate.
- As per Islamic banking, money can only be parked in a bank without interest and cannot be used for speculative trading, gambling, or trading in prohibited commodities such as alcohol or pork.
- Riba is the Islamic term for interest charges on loans, and according to the current interpretation, covers all interest, not just excessive interest.
- Under Islamic law, a Muslim is prohibited from paying and accepting interest on a predetermined rate

3.How Islamic Banking Works

- Various instruments are available for those who want to take credit from a Sharia-compliant bank.
- In an Ijarah contract, a bank purchases the asset on behalf of the client and allows its usage for a fixed rental rate. After a mutually agreed time, the ownership of the asset is transferred to the client

- In this financing technique, an asset is purchased by the bank at a market price and sold to the customer at a mutually-decided marked-up cost. The client is allowed to repay in installments.
- Musharaka refers to a joint investment by the bank and the client. Under the agreement, an Islamic bank provides funds, which are mixed with the funds of the business enterprise and others. The bank and the client both contribute to the funding of an investment of purchase and agree to share the profit or loss in agreed-upon proportions.

4.Federal Shariat Court's (FSC) ruling

A three-judge bench of the FSC said that Riba in all its forms was prohibited by Islam, and asked the government to replace the conventional banking system with an interest-free one by December 31, 2027.

5.About Federal Shariat Court's (FSC)

- Established in 1980 during the government of General Muhammad Zia-ul-Haq, the FSC has the authority to determine whether Pakistan's laws comply with the Sharia.
- The FSC gave the verdict this April after the Supreme Court had referred the case back to a religious court for its reconsideration in 2002 after the FSC in 1922 held Riba to be repugnant to Islam
- While directing the government to establish an interest-free banking system and facilitate all loans accordingly, the FSC also stated that all forms of interest, either in banking or private transactions, are considered Riba, and thus against the teachings of Islam

6.Interest-free banking in India

- A committee headed by Raghuram Rajan, a report submitted to the government in 2008 suggested the need to have interest-free banking in India.
- “The non-availability of interest-free banking products (where the return to the investor is tied to the bearing of risk, in accordance with the principles of that faith) results in some Indians, including those in the economically

disadvantaged strata of society, not being able to access banking products and services due to reasons of faith.

- This non-availability also denies India access to substantial sources of savings from other countries in the region
- The Reserve Bank of India (RBI) in 2016 suggested that given the complexities of Islamic finance and various regulatory challenges involved, Islamic banking could be gradually introduced through the opening of an "Islamic window" in conventional banks

DEMONETIZATION

1. What is Demonetization?

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change in national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with a new currency.

1.1 Key Takeaways

- Demonetization is a drastic intervention into the economy that involves removing the legal tender status of a currency.
- Demonetization can cause chaos or a serious downturn in an economy if it goes wrong.
- Demonetization has been used as a tool to stabilize the currency and fight inflation, facilitate trade and access to marks, and push informal economic activity into more transparency and away from black and gray markets.
- A famous example of demonetization occurred in 2016 when India demonetized 86% of its nation's currency.
- Demonetized may also refer to social media or digital content that formerly qualified for revenue distribution but has since been denied income proceeds.

2. Understanding Demonetization

- Removing the legal tender status of a unit of currency is a drastic intervention in an economy because it directly affects the medium of exchange used in all economic transactions. It can help stabilize existing problems, or it can cause chaos in an economy, especially if undertaken suddenly or without warning. That said, demonetization is undertaken by nations for several reasons.
- Demonetization has been used to stabilize the value of a currency or combat inflation. The Coinage Act of 1873 demonetized silver as the legal tender of the United States, in favor of fully adopting the gold standard, to stave off disruptive inflation as large new silver deposits were discovered in the American West. Several coins, including a two-cent piece, three-cent piece, and half-dime were discontinued.
- In a more modern example, the Zimbabwean government demonetized its dollar in 2015 as a way to combat the country's hyperinflation.
- Some countries have demonetized currencies to facilitate trade or form currency unions. An example of demonetization for trade purposes occurred when the nations of the European Union officially began to use the euro as their currency in 2002.

3. Pros and Cons of Demonetization

Pros

- Often resulting in decreased tax evasion and decreased tax revenue.
- Often results in higher long-term GDP due to higher tax revenue being reinvested in the nation.
- Fosters innovation by converting currency to digital currency and promoting digital transactions.
- Reduces overall crime by enhancing transparency and discouraging the circulation of black money.

Cons

- Imposes a burden on citizens, especially those who must convert one currency to another.
- It likely stalls a nation's GDP during the conversion process.

- Incurs expensive administration costs including printing, adjusting ATMs, and marketing the changes.
- Negatively impacts and even stops cash-driven sectors.
- Introduces new types of currency risk such as cybercrime.

4. Demonetization example in India

- Lastly, demonetization has been tried as a tool to modernize a cash-dependent developing economy and to combat corruption and crime (counterfeiting, tax evasion). In 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash.
- India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8, 2016, that those notes were worthless, effective immediately- and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

5. Why could a country Demonetize?

Demonetization has been used to stabilize the value of a currency or combat inflation. Some countries have demonetized currencies to facilitate trade or form currency unions.

Lastly, demonetization has been tried as a tool to modernize a cash-dependent developing economy and to combat corruption and crime (counterfeiting, tax evasion).

6. Advantages of Demonetization

The main benefit of demonetization is to curtail criminal activity as their supply of money is no longer legal tender. This affects counterfeiters as well as they cannot exchange their "merchandise" for fear of discovery. It can prevent tax evasion as those who were evading taxes must come forward to exchange their existing currency at which time the authorities can retroactively tax them. Finally, it can

usher in the digital currency age by slowing down the circulation of physical currency.

7. Disadvantages of Demonetization

The chief disadvantage is the costs involved in printing and minting the new currency. Also, demonetization may not have the intended effect of reducing criminal activity as these entities might be savvy enough to hold assets in other forms other than physical currency. Finally, this process is risky as it can plunge the nation into utter chaos if not handled with the utmost competence.

8. Impact of Demonetization on GDP

In the short term, demonetization usually stunts economic growth and causes GDP to decline.

During the conversion process, many industries and sectors may temporarily come to a halt. Some industries may not be able to pay laborers as the demonetization process occurs.

Once demonetization is finished, it often creates long-term economic benefits that increase GDP in the long run. Demonetization attempts to fight financial crime; by making transactions more transparent or discouraging the trade of illegal bills, a government is usually able to collect more tax revenue and invest heavier in their country.

MONEY LAUNDERING

1. Money laundering

- Money laundering is the illegal process of making large amounts of money.
- This money is generated by criminal activity but may appear to come from a legitimate source.

- Criminal activities include drug trafficking, terrorist funding, illegal arms sales, smuggling, prostitution rings, insider trading, bribery and computer fraud schemes that produce large profits.

2. Different stages in money laundering

Generally, money laundering is a three-stage process:

1. **Placement:** The crime money is injected into the formal financial system.
2. **Layering:** Money injected into the system is layered and spread over various transactions and book-keeping tricks to hide the source of origin.
3. **Integration:** Laundered money is withdrawn from the legitimate account to be used for criminal purposes. Now, Money enters the financial system in such a way that the original association with the crime is disassociated. The money now can be used by the offender as legitimate money.

All three sources may not be involved in money laundering. Some stages could be combined or repeated many times.

3. Different methods of money laundering

- Smurfing (the Criminal breaks up large chunks of cash into multiple small deposits, often spreading them over many different accounts, to avoid detection.)
- Use of currency exchanges
- Mules (Cash smugglers, who sneak large amounts of cash across borders and deposit them in foreign accounts, where money-laundering enforcement is less strict.)
- Investing in commodities such as gems and gold can be moved easily to other jurisdictions.
- Discreetly investing in and selling valuable assets such as real estate, cars and boats
- Gambling and laundering money at casinos
- Counterfeiting
- Using shell companies (inactive companies or corporations that essentially exist on paper only.)

- Hawala transactions

4. National and global efforts to combat money laundering

4.1 National Efforts

The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976, Narcotic Drugs and Psychotropic Substances Act, 1985 and Prevention of Money-Laundering Act, 2002 (PMLA), PMLA (Amendment) Act, 2012.

Other than these efforts two important agencies/Units involved are

4.1.1 Financial Intelligence Unit-IND

It is an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

4.1.2 Enforcement Directorate (ED)

- It is a law enforcement agency and economic intelligence agency responsible for enforcing economic laws and fighting economic crime in India.
- The main function of the ED is to Investigate offences of money laundering under the provisions of the Prevention of Money Laundering Act, of 2002 (PMLA).

India is a full-fledged member of the FATF and follows its guidelines.

4.2 Global efforts

The Vienna Convention, The 1990 Council of Europe Convention, The International Organisation of Securities Commission (IOSCO), The Financial Action Task Force (Which has been set up by the government of the G-7 Countries), IMF, and The United Nations Office on Drugs and Crime.

EARNEST MONEY

1. What is Earnest Money?

Earnest money is a deposit made to a seller that represents a buyer's good faith to buy a home. Simply put, it is a deposit a buyer makes on a home they want to purchase.

A contract is written up during the exchange of earnest money that outlines the conditions for refunding the amount.

2. The benefit of Earnest Money

The money gives the buyer extra time to get financing and conduct the title search, property appraisal, and inspections before closing. The buyer might be able to reclaim the earnest money deposit if something that was specified ahead of time in the contract goes wrong.

3. Can Earnest Money be Returned?

- Earnest money is always returned to the buyer if the seller terminates the deal. Earnest money gets returned if something goes wrong during the appraisal that was predetermined in the contract.
- The earnest money would be returned if the house doesn't appraise for the sales price or the inspection reveals a serious defect. This could include an appraisal price that is lower than the sale price, or if there is a significant flaw with the house. But the point to note is that these contingencies must be listed in the contract.

4. When is Earnest Money not Refundable?

The earnest money would be returned if the house doesn't appraise for the sales price or the inspection reveals a serious defect. This could include an appraisal price that is lower than the sale price, or if there is a significant flaw with the house.

But the point to note is that these contingencies must be listed in the contract.

5. Terms related to Earnest Money

Joint Account: The account shared by two individuals is called a joint account

Escrow agreement: A legal agreement that elucidates the terms and conditions applicable to the participants involved is called an escrow agreement.

Warranty Deed: A document that offers the buyer of property the greatest amount of insurance is known as a warranty deed.

MULTIDIMENSIONAL POVERTY INDEX

1. Context

Recently, the Global Multidimensional Poverty Index (MPI) 2022 was released by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI).

2. Global Multidimensional Poverty Index

The global multidimensional poverty index (MPI) is an international measure of acute multidimensional poverty covering over 100 developing countries.

2.1 Reports and indicators:

- The Global MPI constructs a deprivation profile of each household and person through 10 indicators spanning health, education, and standard of living.
- All indicators are equally weighted within each dimension.
- The most common profile, affecting 3.9 percent of poor people, includes deprivation in four indicators: Nutrition, Cooking fuel, Sanitation, and Housing.

2.2 Calculating multidimensionally poor:

- The global MPI identifies people as multidimensionally poor if their deprivation score is $\frac{1}{3}$ or higher.

- The MPI is calculated by multiplying the incidence of poverty and the average intensity of poverty.
- The MPI ranges from 0 to 1, and higher values imply higher poverty.
- By identifying who is poor, the nature of their poverty (their deprivation profile), and how poor they are (deprivation score), the global MPI complements the international \$1.90 a day poverty rate, which was revised by the World Bank last month to \$2.15 per day.

3. SDG target:

The Sustainable Development Goal target 1.2 is for countries to reduce at least by half the production of men, women, and children of all ages living in poverty in all its dimensions by 2030.

4. What are the key highlights of the Index?

4.1 Global Data:

- 1.2 billion people are multidimensionally poor.
- Nearly half of them live in severe poverty.
- Half of the poor people (593 million) are children under the age of 18
- The number of poor people is highest in Sub-Saharan Africa (579 million), followed by South Asia (385 million). The two regions together are home to 83% of poor people.

5. About India

India has by far the largest number of poor people worldwide at 22.8 crores, followed by Nigeria at 9.6 crores. Two-thirds of these people live in a household in which at least one person is deprived of nutrition.

5.1 Poverty reduction:

- The incidence of poverty fell from 55.1% in 2005/06 to 16.4% in 2019/21 in the country. The deprivation in all 10 MPI indicators saw significant reductions as a result of which the MPI value and incidence of poverty more than halved.
- As many as 41.5 crore people moved out of poverty in India during the 15 years between 2005-06 and 2019-21. Improvement in MPI for India has

significantly contributed to the decline in poverty in South Asia. South Asia now has not the lowest number of poor people than Sub-Saharan Africa.

5.2 Relative Reduction in Poverty:

The relative reduction from 2015/2016 to 2019/2021 was faster: 11.9 % a year compared with 8.1 % from 2005/2006 to 2015/2016.

5.3 Performance of states:

- Bihar, the poorest state in 2015-16, saw the fastest reduction in MPI value in absolute terms.
- The percentage of poor in Bihar fell from 77.4% in 2005-06 to 52.4% in 2015-16 and further to 34.7% in 2019-21.
- However, in relative terms, the poorest states have not quite caught up. Of the 10 poorest states in 2015/16, only one (west Bengal) emerged from the list in 2019-21. The rest (Bihar, Jharkhand, Madhya Pradesh, Uttar Pradesh, Assam, Odisha, Chhattisgarh, and Rajasthan) remain among the 10 poorest.

Across states and union territories in India, the fastest reduction in relative terms was in Goa, followed by Jammu Kashmir, Andhra Pradesh, Chhattisgarh, and Rajasthan.

5.4 Poverty among children:

Poverty among children fell faster in absolute terms, although India still has the highest number of poor children in the world.

More than one in five children in India is poor compared with around one in seven adults.

5.5 Reduction of poverty Region Wise:

The incidence of Poverty fell from 36.6% in 2015-2016 to 21.2% in 2019-2021 in rural areas and from 9.0% to 5.5 % in urban areas.

6. Challenges for India

6.1 Level of nutrition:

While poverty levels have not worsened, levels of undernutrition are still very high.

There is no marked acceleration in the rate of improvement between NFHS-3 and NFHS-4 and NFHS-5.

And the MPI mainly captures the pre-Covid situation because 71% of the NFHS-5 interviews were pre-Covid

6.2 Recent World Bank Estimates:

According to the World Bank's recently released report on global poverty, India is the country with the highest number of poor people.

The report stated that "economic upheavals brought on by Covid-19 and later the war in Ukraine" had produced "an outright reversal" in poverty reduction across the planet.

INCOME TAX

1.Income Tax

The term “income tax” refers to a type of tax that governments impose on income generated by businesses and individuals within their jurisdiction. By

law, taxpayers must file an income tax return annually to determine their tax obligations.

2. History of Tax

- The United States imposed the nation's first income tax in 1862 to help finance the Civil War. After the war, the tax was repealed, but it was reinstated after the passage of the Revenue Act of 1913. That same year, Form 1040 was introduced.
- Most countries, including the U.S., employ a progressive income tax system in which higher-income earners pay a higher tax rate compared with their lower-income counterparts. The idea behind the progressive tax is that those who earn high incomes can afford to pay more taxes. In 2022, federal income tax rates range from 10% to 37%.

3. Purpose of Tax

Income taxes are a source of revenue for governments. They are used to fund public services, pay government obligations, and provide goods for citizens.

The personal income tax that the government collects can help fund government programs and services, such as Social Security, national security, schools, and roads

Investment exempted from Income Tax

Certain investments, like housing authority bonds, tend to be exempt from income taxes

4. Types of Income Tax

4.1. Individual Income Tax

Individual income tax is also referred to as personal income tax. This type of income tax is levied on an individual's wages, salaries, and other types of income. This tax is usually a tax that the state imposes.

4.2. Business Income Tax

Businesses also pay income taxes on their earnings. Depending on the business structure, the corporation, its owners, or shareholders report their business income and then deduct their operating and capital expenses.

4.3.State and Local Income Tax

State income tax is a direct tax levied by a state on income earned in or from the state

4.4.What percent of income is taxed

The percent of your income that is taxed depends on how much you earn and your filing status. In theory, the more you earn, the more you pay.

STOCK EXCHANGE ROUTE

1. Context

The Securities and Exchange Board of India (SEBI) has decided to phase out the buyback of shares of listed companies through the exchange route.

The regulator favours the repurchase of shares by companies from shareholders on a proportionate basis through the tender offer because that is considered more equitable, transparent and fair.

2. Share buyback

- When a listed company buys its shares from the existing shareholders, it is known as a share buyback, which is also called share repurchase.
- The process reduces the number of outstanding shares in the open market over a period which can lead to better valuation and Earnings Per Share (EPS).

- Currently, a company can buy back its shares from shareholders on a proportionate basis through a tender offer, from the open market via a book-building process or from the odd-lot holders.
- The maximum limit of any buyback is 25 per cent or less of the aggregate of paid-up capital and free reserves of a company.

3. Stock exchange route

- Under the stock exchange route, a company can buy back shares only on the stock exchanges having nationwide trading terminals.
- The buyback of shares is made only through the order-matching mechanism.
- In this method, the promoters or persons in control of a company are not allowed to participate.
- Paytm, which witnessed a 76 per cent crash in share prices after its IPO last year, recently decided to opt for the open market route through the stock exchanges method for share buyback, which is to be completed within a maximum period of 6 months.
- While TCS, which came out with share buybacks recently, used the tender route, Infosys opted for the stock exchange method for its recent buyback.

4. SEBI opposing the exchange route

- As per the recommendations of the Keki Mistry-headed committee, set up by Sebi to review the buyback regulations, under the stock exchange route, there is a possibility of one shareholder's entire trade getting matched with the purchase order placed by the company, thus depriving other shareholders of availing the benefit of buyback.
- This runs contrary to the principle of equitable treatment, which forms the basis of all corporate actions.
- The tender route is the more equitable route for buybacks.

The other routes are vulnerable to favouritism because nobody knows in the exchange mechanism when the company is going to come to buyback shares and only a few people may be aware of it and benefits may flow to those few people. So, it (Buyback through exchange) is not an equitable mechanism.

5. Phased out of exchange route

- As recommended by the Keki Mistry Committee, Sebi will phase out buyback through the stock exchange route with effect from April 1, 2025.
- Many experts termed Sebi's decision to phase out stock buyback through the exchange route as positive as it will allow all the shareholders to participate.
- This move aims to make the buyback process more robust, efficient, transparent and shareholder-friendly.

6. Benefit to shareholders

- The entire process of buyback via stock markets may or may not have benefitted smaller investors as they may not have known when the buyback was taking place.
- With the tender offer process being the only process going forward, all shareholders would now be provided with an opportunity to participate in the buyback.
- Especially as tender offers also require a reservation for small shareholders.
- In a way, it democratises the process and creates a fair and equitable platform.

7. Buyback via a tender offer

- A tender offer means an offer by a company to buy back its shares or other specified securities through a letter of offer from the holders of the shares or other specified securities of the company.
- The buyback is done on a proportionate basis as per the buyback ratio and the additional shares tendered over and above the prescribed buyback ratio get accepted if there are any unaccepted shares. It is a fixed-price buyback offer.

8. Changes in the tender system

- Sebi has reduced the timeline for completion of the buyback through a tender offer by 18 days, by removing the requirement of filling a draft letter of offer with it.

- It also permitted an upward revision of the buyback price until one working day before the record date.
- The process of offering shares under the tender process is similar to buying shares through an online Demat account.
- When the company launches a buyback, shareholders will find an option of "**offer for sale**" when they log into their Demat account.
- Shareholders who wish to sell their shares can submit them to the Company for sale.
- The price under this mechanism is fixed and is offered higher than the market price to attract a large number of shareholders to sell their shares.
- Fifteen per cent of the buyback size is reserved for small shareholders.
- All shareholders as on the record date are eligible to participate in the process.

GLOBAL MINIMUM TAX RATE

1. Context

Members of the European Union agreed in principle to implement a minimum tax of 15% on big businesses. Last year, 136 countries agreed on a plan to redistribute tax rights across jurisdictions and enforce a minimum tax rate of 15% on larger multinational corporations.

2. What is Global Minimum Tax Rate?

- The Organisation for Economic Cooperation and Development (OECD) has stated that 136 nations have reached an agreement on a global pact to ensure that large corporations pay a Global Minimum Tax (GMT) rate of 15 percent. This rate will be referred to as the "GMT" (including India).
- Together, the economies of the countries that supported the deal amounted to more than 90 percent of the total world GDP. The Global minimum corporate tax arrangement was supported by the G20 leaders for implementation beginning in 2023. The Organisation for Economic Cooperation and Development (OECD) reports that Kenya, Nigeria, Pakistan, and Sri Lanka have not yet signed the pact.
- If an agreement on a global minimum tax rate is reached, India may be required to remove the equalization levy and the digital services tax, as well

as make a commitment not to implement new taxes of this kind in the future. The international tax system is undergoing a significant overhaul, and as part of this process, 136 countries including India, have agreed to a revamp of global tax norms.

- The goal of this reform is to ensure that multinational corporations pay taxes whenever they operate, at a rate of at least 15 percent.
- EU members have agreed to implement a minimum tax rate on big business by Pillar 2 of the global tax agreement framed by the Organisation for Economic Cooperation and Development (OECD) last year. This is to ensure that big businesses with global operations do not benefit by domiciling themselves in tax havens to save on taxes.

3. Need for a Global Minimum Tax Rate?

3.1 Financial diversion to tax heavens:

Income from intangible sources such as drug patents, software, and royalties on intellectual property has increasingly migrated to Tax havens, allowing companies to avoid paying higher taxes in their traditional home countries.

The GMT targets to stop this outflow of tax revenue from the origin countries.

3.2 Mobilizing Financial Resources:

The OECD has estimated that the minimum tax will generate \$150 billion in additional global tax revenues annually.

3.3 Global Tax Reforms:

After the inception of the Base Erosion and Profit Shifting (BEPS) program, the proposal for GMT is another positive step towards global taxation reforms.

BEPS refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. OECD has issued 15 action items to address this.

4. Future Concerns

- Some governments, particularly those of traditional tax havens, are likely to disagree and stall the implementation of the OECD's tax plan. High-tax jurisdictions like the EU are more likely to fully adopt the minimum tax plan as it saves them from having to compete against low-tax jurisdictions.
- Low-tax jurisdictions, on the other hand, are likely to resist the OECD's plan unless they are compensated sufficiently. Since the OECD's plan essentially tries to form a global tax cartel, it will always face the risk of losing out to low-tax jurisdictions outside the cartel and cheating by numbers with the cartel.
- After all, countries both within and outside the cartel will have the incentive to boost investments and economic growth within their respective jurisdictions by offering lower tax rates to businesses.

5. What good will the OECD's tax plan do to the global economy?

- Many believe that the plan will also help counter rising global inequality by making it tougher for large businesses to pay low taxes by availing the services of tax havens.
- Critics of the OECD's proposal, however, see the global minimum tax as a threat. They argue that without tax competition between governments, the world would be taxed a lot more than it is today, thus adversely affecting global economic growth.

BRETTON WOODS TWINS

1.Context

Bangladesh reached out to the International Monetary Fund (IMF) seeking help.

According to an IMF press release, Bangladesh will receive economic assistance worth \$4.5 billion (around Rs 37, 000 crores).

2.About bretton woods twins

The International Monetary Fund (IMF) was set up along with the World Bank after the Second World War to assist in the reconstruction of war-ravaged countries.

Leaders felt that financial stability was best achieved when countries worked in an environment of interdependence.

The two organisations were agreed to be set up at a conference in Bretton Woods in the US. Hence, they are known as the Bretton Woods twins.

IMF was supposed to oversee and monitor the economic performance of member countries and warn them of any developing economic crisis. There are 147 members in IMF.

If any crisis does develop and a country approaches IMF for help, the organisation chalks out a recovery plan which includes imposition of conditions for keeping the economies on a particular path

3.India and IMF bailout package

- The Indian government faced with a balance of payment crisis in 1991, took a loan and agreed to the reform process
- The liberalisation of the economy is part of the concomitant of the that need
- The IMF report is part of its mandate under Article IV of its constitution
- The fund holds consultations with finance ministries and central banks of each member countries annually for its spring meeting in washington
- The decision of the IMF to intervene in any country is based on the governing board's decision
- The voting rights are determined historically by the economic strength of the countries
- India, because of its rapidly growing economic clout, has demanded re-drawing of the voting rights but that did not happen

4.Role of World bank

It works to provide soft loans for the development of social and economic infrastructure to countries

It also has a set of conditions that it often follow and broadly follows the IMF prescription

REMITTANCES TO INDIA

1. Context

India is expected to receive a record \$100 billion in remittances in 2022, the top recipient this year. India is expected to receive a record \$100 billion in remittance in 2022, the top recipient this year, the World Bank has said. In its Migration and Development Brief, the World Bank has said India's remittance will grow 12 per cent from 7.5 per cent last year, resulting in a \$100 billion flow as compared to \$89.4 billion in 2021. It attributed the feat to the large share of Indian migrants earning relatively high salaries in the United States, United Kingdom, and East Asia.

2. What is Remittance?

The World Bank defines it as "the sum of worker's remittances, compensation of employees, and migrants' transfers as recorded in the IMF Balance of payments. Worker Remittances are current transfers by migrants who are considered residents in the source".

Remittances are a vital source of household income for low-and middle-income countries.

3. Types of Remittances

The RBI has segregated remittances into two main types:

3.1 Inward Remittances

- Inward remittances are funds transferred from abroad to India.

- These transfers are typical of a personal nature and are sent to support a family.
- For example, if you are an NRI in the United States and send money to your parents in India, this is considered an inward remittance.
- In most cases, remittances are sent through a bank, money transfer agents, or more recently, online money transfer specialists.
- Sending money to India is simple, quick, and painless if you do it online through a reputable money transfer service provider.

3.2 Outward Remittances

- Outward remittances are funds transferred from India to countries outside of India.
- Sending money from India to your Children Studying in the United States is an example of outward remittances.
- Indian individuals can transfer up to USD 2,50,000 per fiscal year under the Liberalised Remittance Scheme (LRS).
- The industry of outward remittances is not as competitive as the industry of inward remittances.
- However, there are now a few online money transfer companies that offer money transfer services from India to the United States at a faster and cheaper rate than traditional methods of sending money.

4. Why are Remittances in India so high this year?

- According to World Bank, there's been a "gradual shift in destinations" for Indian migrants aided by a "structural shift in qualifications" that helped them move into the "highest-income-earner-category", especially in services.
"Higher education mapped onto high-income levels with direct implications for remittance flows," the World Bank says. Migrants moved "from largely low-skipped, informally employment in the Gulf Cooperation Council (GCC) countries to the dominant share of high-skilled jobs in high-income countries such as the United States, the United Kingdom, and East Asia (Singapore, Japan, Australia, New Zealand)."
- During the Covid-19 pandemic, Indian migrants in high-income countries benefited from work-from-home and large fiscal stimulus packages, the

report said. As the pandemic eased, the wage hikes and “record-high employment conditions” helped migrants send money home despite high global inflation, the report added.

Despite Indian migrants in the Gulf Cooperation Council returning to India during the pandemic, “price support policies kept inflation at bay and demand for labour increased with higher oil prices, which in turn increased remittances to Indian labourers.”

- Depreciation of the Indian rupee to the US dollar - it fell 10 per cent between January and September 2022 - may have also proven to be advantageous for Indian migrants and increased remittance flow, according to the brief. In 2022, vaccinations and the resumption of travel helped migrants resume work, increasing remittance to the country.

5. Global Remittances: What's predicted in 2023?

The growth of remittance flows into South Asia in 2023 is expected to slow to 0.7 per cent. This year will stand as a test of the resilience of remittances from white-collar South Asian migrants in high-income countries.

E-RUPEE

1. Context

The Reserve Bank of India launched the Central Bank Digital Currency (CBDC) digital rupee or e-rupee (e-₹) for the common man.

2. Digital Rupee

- It is a legal tender issued by the RBI in digital form.
- It is the same as the fiat currency and is exchangeable one-to-one with the fiat currency.
- Only its form is different it is not paper (or Polymer) like physical cash.
- It is a fungible legal tender for which holders need not have a bank account.
- CBDC will appear as a liability (currency in circulation) on the RBI's balance sheet.

The e-rupee will be in the form of a digital token representing a claim on the central bank and will effectively function as the digital equivalent of a banknote that can be transferred electronically from one holder to another.

- A token CBDC is a bearer instrument like a banknote, meaning whoever "holds" the tokens at a given point in time will be presumed to own them.

3. Introducing the Digital Rupee

- The pilot launched on Thursday will initially cover four cities-Mumbai, New Delhi, Bengaluru and Bhubaneswar and will be later extended to Ahmedabad, Gangtok, Guwahati, Hyderabad, Indore, Kochi, Lucknow, Patna and Shimla.
- The Pilot will work in a closed user group (CUG) comprising participating customers and merchants.
- Selected customers from the selected cities will get CBDC wallets with notes printed digitally with the RBI Governor's signature.
- Eight banks will participate in the Pilot pilot the State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank in the first phase in the first four cities and subsequently, Bank of Baroda, Union Bank of India, HDFC Bank and Kotak Mahindra Bank.
- The scope of the pilot may be expanded gradually to cover more banks, users and locations.

4. Individuals use the e-rupee

- E-rupees will be issued in the same denominations as paper currency and coins and will be distributed through the intermediaries, that is banks, Transactions will be through a digital wallet offered by the participating banks and stored on mobile phones and devices.
- Transactions can be both person-to-person (P2P) and Person-to-merchant (P2M).
- For P2M transactions (Such as shopping), there will be QR codes at the merchant location.

- A user will be able to withdraw digital tokens from banks in the same way she will be able to keep her digital tokens in the wallet and spend them online or in person or transfer them via an app.

5. Different from other wallets

- Not very different in terms of how it will be used. However, UPI-based apps like Google Pay and Paytm have a daily and per-transaction spending limit.
- The RBI has not fixed any limit on holding digital rupees in wallets.
- Digital rupee transactions above Rs 2 lakh are likely to be reported for tax matters.

6. Types of e-rupee

Based on usage and the functions performed by the digital rupee and considering different levels of accessibility, the RBI has demarcated the digital rupee into retail and wholesale categories.

6.1 Retail e-rupee

Retail e-rupee (launched on Thursday) is an electronic version of cash primarily meant for retail transactions, which can potentially be used by almost everyone and can provide access to safe money for payment and settlements.

6.2 Wholesale CBDC

- Wholesale CBDC is designed for restricted access to select financial institutions.
- It has the potential to transform the settlement systems for financial transactions undertaken by banks in the government securities (G-Sec) segment and inter-bank market and make the capital market more efficient and secure in terms of operational costs, use of collateral and liquidity management.

7. Need to introduce the e-rupee

- Leveraging blockchain technology for the e-rupee is a stepping stone for India to become a \$1 trillion digital economy.

- India is witnessing massive growth in digital transactions the volume and value of UPI transactions increased by 118 per cent and more than 98 per cent respectively in Q2 2022 compared to Q2 2021.
- The digital rupee based on transparent and efficient technology will provide customers with continuous access to the payment system, whether wholesale or retail.

8. CBDC differ from Cryptocurrency

- Being backed by the RBI, the e-rupee is not comparable to private virtual currencies like Bitcoin which have mushroomed over the last decade.
- Private virtual currencies sit at substantial odds with the historical concept of money.
- They are not commodities or claims on commodities as they have no intrinsic value: claims that they are akin to gold seem opportunistic.
- Usually, certainly for the most popular ones now, they do not represent any person's debt or liabilities.
- There is no issuer. They are not money certainly not currency as the word has come to be understood historically.

Cryptos are not backed by the central bank in fact, the RBI wants the government to ban cryptocurrencies in India. The inherent design of cryptocurrencies is more geared to bypass the established and regulated intermediation and control arrangements that play the crucial role of ensuring the integrity and stability of the monetary and financial ecosystem.

9. Benefits of e-rupee

- CBDC has the potential to provide significant benefits such as reduced dependency on cash, higher seigniorage due to lower transaction costs and reduced settlement risk.
- To the extent large cash usage can be replaced by CBDCs, the cost of printing, transporting, storing and distributing currency can be reduced.
- The digital rupee has some clear advantages over other digital payment systems: Payments are final and thus reduce settlement risk in the financial system.

- When CBDC is transacted instead of bank balances, the need for interbank settlement disappears.
- It can also enable more real-time and cost-effective globalisation of payment systems.

Along with reducing operational costs associated with physical cash management, it will also enhance settlement efficiency and spur innovation in cross-border payments and offer the public the same uses as any private virtual currency without the risks associated with it.

10. Offline transactions

- The offline functionality will allow CBDC transactions in regions with poor or no Internet connectivity and create digital footprints of the unbanked population in the financial system, the RBI feels that a risk of "**double spending**" exists in offline mode because it will be technically possible to use a CBDC unit more than once without updating the common ledger.
- The RBI has said this can be mitigated to a large extent by technical solutions and appropriate business rules including a monetary limit on offline transactions.

11. Is it vulnerable to cyber-attacks?

- The CBDC ecosystems may be at similar risk for cyber-attacks as existing payment systems.
- Cybersecurity considerations will need to be taken care of both for the item and the environment.

GDP AND GVA

1. Context

The Ministry of Statistics and Programme Implementation (MoSPI) released India's economic growth data for the second quarter of the current financial year (2022-23 or FY 23).

The Second Quarter or Q2 refers to July, August and September.

2. Key Points

- India's gross domestic product or GDP grew by 6.3 per cent in Q2 on a year-on-year basis.
- In other words, it was 6.3 per cent more than the GDP in the same months in 2021.
- MoSPI also reported that India's Gross Value Added (or GVA) in Q2 grew by 5.6 per cent on a year-on-year basis.

3. GDP and GVA

- GDP and GVA are two main ways to ascertain the country's economic performance. Both are measures of national income.
- The GDP measures the monetary measure of all "**final**" **goods and services** that are bought by the final user produced in a country in a given period.
- The GDP does this by adding up the total expenditures in the economy; in other words, it looks at who spent how much. That is why GDP captures the total "**demand**" in the economy.

Broadly speaking there are four key "**engines of GDP growth**". These are

1. All the money Indians spent on their private consumption (that is, Private Final Consumption Expenditure or PFCE).
 2. All the money the government spent on its current consumption, such as salaries (Government, Final Consumption Expenditure or GFCE).
 3. All the money is spent towards investments to boost the economy's productive capacity. This includes business firms investing in factories or the governments building roads and bridges (Gross Fixed Capital Expenditure).
 4. The net effect of exports (What foreigners spent on our goods) and imports (what Indians spent on foreign goods) (Net Exports or NE).
- The GVA calculates the same national income from the supply side.
 - It does so by adding up all the value added across different sectors.

According to the RBI, the GVA of a sector is defined as the value of output minus the value of its intermediary inputs. This "**value added**" is shared among the primary factors of production, labour and capital.

- By looking at GVA growth one can understand which sector of the economy is robust and which is struggling.

4. How are the two related?

- When looking at quarterly it is best to look at GVA data because this is the observed data.
- The GDP is derived by looking at the GVA data.

The GDP and GVA are related by the following equation; $GDP = (GVA) + (\text{Taxes earned by the Government}) - (\text{Subsidies provided by the government})$.

- As such, if the taxes earned by the government are more than the subsidies it provides, the GDP will be higher than GVA.
- Typically, that is how it is. For the second quarter too, the GDP (at 38, 16, 578 crores) is much higher than the GVA (Which is at Rs 35, 05, 5999 crores).
- The GDP data is more useful when looking at annual economic growth and when one wants to compare a country's economic growth with its past or with another country.

5. GVA data

5.1 Manufacturing sector

- It is a contraction in the manufacturing sector. In Q2, manufacturing GVA declined by 4.3 per cent.
- This is significant because manufacturing carries a huge potential for job creation and can soak up excess labour from the agriculture sector.

- The contraction has meant that manufacturing GVA has grown by just 6.3 per cent over the three years since the Covid pandemic; look at the change between FY23 and FY20 in the Chart.
- However, it would be a mistake to believe that only Covid and its after-effects are responsible for the lacklustre manufacturing performance.
- The fact is, as borne by the data, manufacturing GVA grew by just 10.6 per cent between FY 17 and FY20.
- For perspective, it is important to remember that between FY14 and FY17, manufacturing GVA grew by 31.3 per cent.
- In other words, Indian manufacturing has been struggling to add value for the past six years.
- This would explain why data from the Centre for Monitoring Indian Economy (CMIE) shows that jobs in the manufacturing sector halved between 2016 and 2020.

5.2 Trade and hotels

- Almost 15 per cent growth in services such as trade and hotels etc.
- This is also a huge sector for job creation. But again, if one looks at the Q2FY23 level and compares it to the pre-Covid level (Q2 of FY20), the growth is barely over 2 per cent.
- That this sector grew by over 26 per cent in the three years between FY17 and FY20 when India was experiencing a serious economic declaration shows how badly it has been affected by the Covid disruption.

5.3 Mining and quarrying

- Another sector crucial for job creation, even though it is smaller in terms of overall contribution to India's GVA, is mining and quarrying it, too, has contracted by almost 3 per cent.
- Looking back over the past six years, it has contracted by 3.5 per cent between FY17 and FY20 and grown by just 2.5 per cent since then.

5.4 Agriculture

- One positive story emerging from the GVA pertains to agriculture (along with forestry and fishing), which has done better than expected by growing at 4.6 per cent.
- Typically, this is a good growth rate for this sector and has happened despite some worries that the sowing of crops did not happen in time.
- Overall, while the GVA has grown by 5.6 per cent year-on-year, the growth is just 7.6 per cent when compared to the pre-Covid level set in FY20.

6. GDP data

6.1 Private Consumption Expenditure

- GDP is the biggest engine of growth in private consumption expenditure.
- It typically contributes over 55 per cent of India's total GDP.
- This component is also crucial because if this is depressed, it robs the business of any incentive to make fresh investments; and expenditures towards investments are the second biggest contributors to the GDP, accounting for around 33 per cent of the total.
- Data shows that private consumption has grown by a healthy 9.7 per cent over the past year.
- However, the growth is relatively modest just 11 per cent when compared over the last three years.
- That between FY 14 and FY17, this component grew by almost 28 per cent providing some perspective.

6.2 Investment expenditure

- The investment expenditures have grown by 10.4 per cent over FY21 and by almost 21 per cent between FY20 and FY23.
- This is the best growth over any three years going back to FY14.
- This suggests brighter prospects for the economy over the medium term.

6.3 Government final consumption expenditures

- The biggest surprise though from the GDP is the contraction in government final consumption expenditures.
- While these types of expenditures account for just about 10-11 per cent of the GDP, they can prop up an economy during tough times when people and businesses hold back spending.
- Oddly enough, data shows that not only did government consumption expenditure contract by 4.4. per cent in Q2 (Over the Q2 of 2021), but that it is almost 20 per cent below the pre-covid level.

6.4 Net Exports data

- The last component of the GDP equation is the Net Exports data.
- Typically, since India imports far more than it exports, the NX value is negative.
- In Q2, this negative value swelled by 89 per cent.
- Over the past three years, this drag on GDP has also increased in size by almost 150 per cent.

Economic Sanctions

1. What are Economic Sanctions?

Economic Sanctions are Restrictions or penalties that are being levied upon any Country to modify their Decisions

This Includes withdrawal of Customary Trades and Financial Relations for Security and Foreign Policy Necessities Result of Economic Sanction: Sanctions could result in cutting down Most of the Financial Activities

Such as Financial Support, Terms of Trade, Travel Bans, and Assets Freezing as well as Trade restrictions These Sanctions can be Targeted Economic Groups, Certain Businesses as well as Individual People which can cause serious Trouble to the Sanctioned Country (Targeted)

2. How can Sanctions affect the Economy of a Country?

Can a Country sustain being a Closed Economy for Long? Can a Country like Russia contribute 34% of the World's GDP? The food chain gets disrupted as well as Services get Disrupted. Exports will see No light with the sanctions Even the

Domestic economy gets Affected Seriously if it depends upon the Raw Material in their Business Production Risk Element is higher for the Domestic economy especially when a Country Faces Curbs from Organizations like Organization for Economic Cooperation and Development (OECD) and North Atlantic Treaty Organization (NATO)

3. Economic Sanctions against Russia:

All Major Russian Banks have been Banned from SWIFT Financial Messaging Services and frozen their Assets Sanctions have been issued on the Russian Direct Investment Fund and Some Important (Rich) People have been banned. Accessing to Air Space has been denied

4. India Stand On this:

Russia cannot be ignored as an Ordinary Economy because it has Rich Oil Reserves and it supplies Major defence Products to India So India is keeping itself Distant from Voting against Russia

Sanctions Against Russia from Financial messaging Platform like SWIFT could Affect the Foreign Institution Participation in the share sale of Life Insurance Corporation of India (LIC) US Investors who have Investments in Russian Banks are not willing to withdraw any Securities and Invest in something else like LIC Government of India is planning to sell 55 shares of Largest Insurer of the Country LIC, With this Government can Raise worth of 75,000 Crores

India Currency Trade with Sri Lanka- Sri Lankan Crisis

1. Context:

Sri Lanka is going through an unprecedented Economic Crisis since its Independence in 1948

India does not find Local Currency trading Feasible with Sri Lanka under Present Circumstances

This is because there is no demand for Indian Goods at present except for essential goods which India is supplying on Humanitarian grounds

2. Ban on Russia

India is contemplating local currency trading with Russia as Western Nations Imposed bans on Russia due to Russia Invaded Ukraine

Most of the Russian banks have been cut off from the Network of Society for Worldwide Interbank Financial Telecommunication (SWIFT)

However, unlike Russia, India has a Trade Surplus of 3.9\$ billion Surplus Trade with Sri Lanka in 2021

3. Sri Lankan Crisis

- Tourism was the third biggest income for Sri Lanka through remittances and apparel exports
- Since COVID hit badly Tourism is at its worst shape in Sri Lanka.
- Government has taken Organic Farming Decision by Stopping Chemical Fertilisers which disrupted traditional farming resulting in skyrocketing inflation
- Russian Invasion of Ukraine made only worst for Sri Lanka since Many Tourists to Sri Lanka are from Russia
- India has responded to an urgent request from Sri Lanka with the assistance of 2.4 billion since January.
- A line of credit of 500 million has been provided by EXIM Bank
- One Billion for food and Medicines and Essential Food Items
- RBI has also extended currency trade of 400\$million and deferred 500\$million due for settlement through the Asian Clearance union

India FTA with GCC

1. India-GCC

After making trade pacts with UAE, Australia and India are now making deeper engagements with Gulf Cooperation Council

India is making FTA (Free Trade agreements) with Gulf cooperation Council Countries

2. Gulf Cooperation Council:

It's a regional, economic political and Intergovernmental Organisation comprising 6 countries which are-Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates (UAE)

India- UAE Comprehensive Economic Partnership Agreement (CEPA) will also be implemented by them

India-UAE trade agreement is signed in February and it is expected to come into effect in May

GCC is the Fourth largest trading country for India following North America, the EU and North-East Asia

Asian Development Bank (ADB)

1. Context: Asian development bank forecasts India's GDP growth will be around 7.5% in 2022-2023. However, it sees the pace picking up by 8% in 2023-2024

ADB has factored in the Russia-Ukraine conflicts Impact on India, especially higher Oil Prices and has assumed that COVID_19 severity would subside with a rise in the vaccination rate in India

2. About ADB:

- Asian Development Bank is a regional development Bank
- It was established in 1966 December 19
- It has Observer status in United Nations
- Asian development bank has Headquarters in Manila, Philippines

Members:

- Non-regional Developed Countries

- Total of 68 Shareholding Countries including 49 from Asia and others from the Pacific region
- India is a Founding Member of the Bank

Shares of the countries:

Japan Holds the highest share of 15.677% followed by the USA! 5.567%, China at 6.473% and India at 5.812%

ADB invests in Infrastructure, health, public administration and helping nations to reduce Climate Change

Purchasing Manager's Index (PMI)

1.Context:

India's service sector recorded the strongest growth since December, as per the survey based S&P Global India services Purchasing Managers Index (PMI), which rose to 53.6 in March from February's 51.8

About Purchasing Managers Index:

Purchasing Managers index is a an Economic Indicator derived from monthly survey of the Private Companies

PMI is an Indicator of business activities in the Manufacturing and Services sector

2.Calculation of PMI:

- Purchasing Managers Index is a number which will be from 0 to 100
- PMI is calculated on the basis of five Surveys of following
- 1-Employment 2-New Orders 3-Production 4-Inventory Levels 5-Supplier Deliveries
- Institute for Supply management (ISM) will calculate PMI and releases every Month

3.Important Observations from the PMI ratings

- Ratings will be from 0 to 100
- If PMI is Above 50 that means it has expanded from the earlier month
- If PMI is 50 that means there is no change
- If PMI is below 50 that means its Contraction from the earlier month

NARCL and IDRCL

1.Context:

Banks Miss 50k-crore bad loan transfer the deadline to NARCL. The March 31st deadline was set by The State Bank of India within which Banks have to Transfer 50,000 Crore of Bad Loans to the National Asset Reconstruction Company Limited (NARCL).

A Total of 38 Non-performing accounts amounting to 82,845 Crores which were have been identified to transfer in a Phased Manner. In Phase-I about 15 Accounts total 50,335crores.

2.About National Asset Reconstruction Company Limited (NARCL):

NARCL has been incorporated under the Companies Act. It's a bad bank created by the Government in the mould of an asset reconstruction Company

NARCL will pick up bad loans above a Certain Threshold from Banks and would aim to sell them to Perspective buyers of distressed debt

NARCL will also be responsible to value the bad loans decide on what price they would be sold

Bad Bank would provide government receipts to banks as it takes on Non-Performing Assets from their Banks

3.Indian Debt Resolution Company Limited (IDRL)

It's another Entity which will try to Sell Stressed Assets Acquired by NARCL

State-Owned Banks will hold a 51% stake in IDRL and Financial Institutions (FI) and Debt Management Companies hold a 49% stake

Indian Bank's Association had proposed to create a bad bank for a swift resolution to Non-Performing Assets (NPA) following this Finance Minister has put up these two

Insurance Regulatory and Development Authority of India (IRDA)

The insurance regulatory and Development Authority of India IRDA is a Government agency responsible for regulating and developing the insurance industry in India

It is an Apex body responsible for regulating and developing the insurance industry in India

It is a statutory body established under IRDA Act 1999

Functions of IRDA

- Protecting the rights of the Policy Holders
- Give registration certificates to Insurance Company
- Engages in the renewal, modification, cancellation, etc. of this registration
- Creates regulations to protect Policyholders' Interests in India

IRDA is to protect the interests of the policyholders, to regulate, promote and ensure growth in the Insurance Industry and the matters which are connected to it

Infrastructure Debt Funds (IDF)

The Central Board of Direct Taxes (CBDT) has amended Income Tax rules to allow Infrastructure debt funds (IDF) to issue **Zero-coupon Bonds**

Infrastructure Debt Funds (IDF):

- IDF are bodies which can be sponsored by Commercial Banks and non-bank lenders in India in which domestic or offshore institutional investors, especially insurance and pension funds can invest through units and bonds
- IDF can act as a vehicle for refinancing existing debt of infrastructure companies, which allows banks to exit a project and free up capital for financing fresh projects
- IDF can be set up either as a trust or a company and are regulated by either SEBI or RBI depending upon whether they are Mutual funds or bank lender
- IDF's taking over Infrastructure lending from banks is a way of lowering the Infrastructure related risks
- Income Tax rules 2022 issued by CBDT show that IDFs can Issue Zero-Coupon Bonds

Zero-Coupon Bonds do not pay any interest to the subscriber but are issued at a discount on the face value of the bond. The subscriber receives face value when it matures



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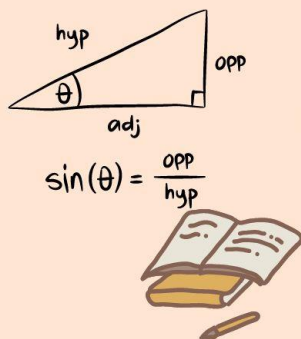
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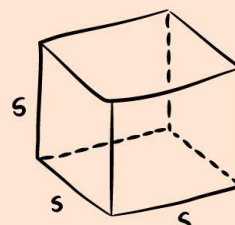
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