05 APRIL 2019

Govt. Defends electoral bonds scheme in SC

In News?

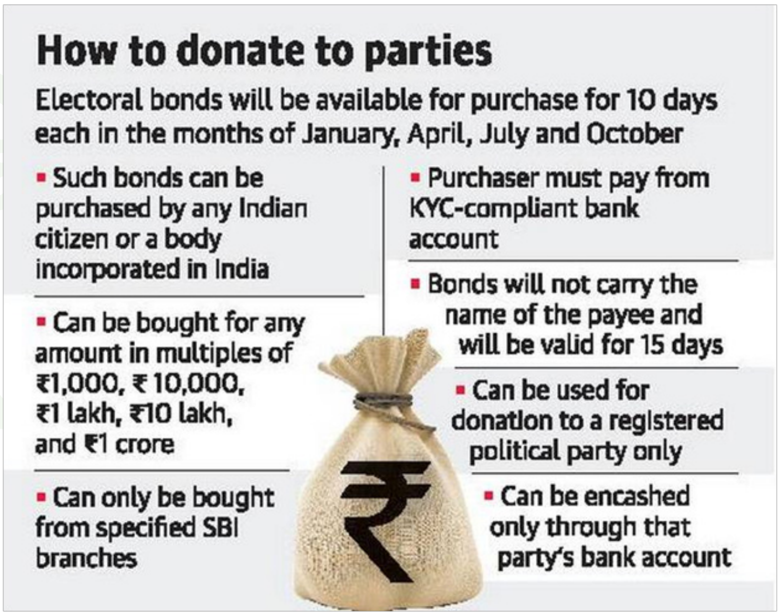
- Govt. defends electoral bonds scheme in SC. It claimed that it ensures transparency and checks misuse.
- Electoral bonds have been introduced to promote transparency in funding and donation received by political parties, the government told the Supreme Court.

In Brief:

1. The bonds can be encashed by an eligible political party only through their accounts with authorised banks.

2. The bonds do not have the name of the donor or the receiving political party and only carry unique hidden alphanumeric serial numbers as an in-built security feature.

3. The government described the scheme as an "electoral reform" in a country moving towards a "cashless-digital economy."



Why strike down the provision?

The government was responding to a petition filed to strike down the 'Electoral Bond Scheme 2018' and amendments in the Finance Act, 2017, which allow for "unlimited donations from individuals and foreign companies to political parties without any record of the sources of funding."

Government's Justification:

1. Denying the charge, the government said "the scheme envisages building a transparent system of acquiring bonds with validated KYC and an audit trail."

2. It said a limited window and a very short maturity period would make misuse improbable.

3. The electoral bonds will prompt donors to take the banking route to donate, with their identity captured by the issuing authority. This will ensure transparency and accountability and is a big step towards electoral reform.

Note

About the Electoral Bonds:

1. An electoral bond is designed to be a bearer instrument like a Promissory Note — in effect, it will be similar to a bank note that is payable to the bearer on demand and free of interest.

2. It can be purchased by any citizen of India or a body incorporated in

India.

What are the characteristics of electoral bonds?

1. The bonds will be issued in multiples of 1,000, 10,000, 1 lakh, 10 lakh and 1 crore and will be available at specified branches of State Bank of India.

2. They can be bought by the donor with a KYC-compliant account. Donors can donate the bonds to their party of choice which can then be cashed in via the party's verified account within 15 days.

3. Every party that is registered under section 29A of the Representation of the Peoples Act, 1951 (43 of 1951) and has secured at least one per cent of the votes polled in the most recent Lok Sabha or State election will be allotted a verified account by the Election Commission of India.Electoral bond transactions can be made only via this account.

4. The bonds will be available for purchase for a period of 10 days each in the beginning of every quarter, i.e. in January, April, July and October as specified by the Central Government.

5. An additional period of 30 days shall be specified by the Central Government in the year of Lok Sabha elections.

Bill to prevent no-deal Brexit squeaks through

In News:

- MPs' vote by one vote a Bill that can force Prime Minister to ask for an extension to Article 50, and avoid a no-deal scenario
- A British Minister has said that a no-deal Brexit was now "very unlikely," after MPs by a majority of one passed an emergency legislation that instructs Theresa May to seek an extension to Article 50, and avoid a no-deal Brexit.
- The Bill, which was opposed by the government, received support from 313 MPs with 312 voting against it.
- The Bill will still have to pass through the House of Lords before it comes into force.

Alternative date

- The Prime Minister would then be obliged to request the extension from the European Council. Were Europe to propose an alternative date, then the process would revert back to Parliament again.
- The push by Parliament to attempt to stave off a no-deal Brexit came as May said she would seek a short extension beyond April 12, though has insisted she wants the UK to be able to leave the EU before May 22 – the day before European Parliamentary elections are due to take place.

Note

BREXIT (BRitain Exit):

In a momentous decision, UK voted to leave EU in a referendum on June 23, 2016. The "leave" side prevailed 52 percent to 48 percent which had a turnout of 72 percent. Out of 12 regions, only three, Scotland, Northern Ireland, and London voted to remain in the EU, while the others led the "Leave" vote to win by a narrow margin.

Process of BREXIT:

- For the UK to leave the EU it has to invoke Article 50 of the Lisbon Treaty which gives the two sides two years to agree the terms of the split.
- The government will also enact a Great Repeal Bill which will end the

primacy of EU law in the UK

- EU law still stands in the UK until it ceases being a member. The UK will continue to abide by EU treaties and laws, but not take part in any decision-making.

Cuban crocodile

Why in news?

- Days just earlier, a critically endangered Cuban crocodile died at the Madras Crocodile Bank, near Chennai.
- It is alleged that the reason for its death was due to the stress created by the noise pollution from a nearby resort.

In Brief:

- The critically endangered Cuban crocodile is a small species of crocodile found only in Cuba.
- But it is bred in different countries under controlled conditions.
- The 3 types of crocodile species present in India are

1. Gharial (Critically Endangered)
2. Mugger Crocodile (Vulnerable)
3. Salt Water Crocodile (Least Concern)

CUBAN CROCODILE (CRITICALLY ENDANGERED)

Note

GHARIAL (CRITICALLY ENDANGERED)

MUGGER CROCODILE (VULNERABLE)

SALTWATER CROCODILE (LEAST CONCERN)

Note

RBI cuts benchmark interest rate again, lowers GDP forecast 7.2%

In News:

The monetary policy committee of the Reserve Bank of India (RBI) for the second consecutive time cut the benchmark lending rate by 25 basis points to 6%.

In Brief:

What is Monetary Policy Committee?

- It is the committee which will decide India's Monetary Policy.
- The formation of the monetary policy committee was mooted by the Urjit Patel committee.
- The committee suggested that monetary policy be rule-based and not discretion-based. The final decision on monetary policy should not lie with the RBI governor alone but on a group of people.
- Targeting inflation is to be the core objective of the central bank, and it will be answerable to law-makers if it failed to achieve the target.

Composition of MPC

MPC will be a 6 member committee:

- 3 members will be from RBI. These 3 members would include the governor who will also be the ex-officio chairperson of the committee.
- 3 members will be appointed by the central govt. These members should be experts in the field of finance or banking or economics or monetary policy. They will have a tenure of 4 years and will not be eligible for reappointment.
- The members appointed by the govt. will be appointed based on the recommendations by the search-cum-selection committee which will be headed by the cabinet secretary.
- Decisions will be taken by majority vote with each member having a vote
- The governor will not enjoy a veto power to overrule the other panel members, but will have a casting vote in case of a tie.
- No government official will be nominated to the MPC

MPC will meet four times in 1 year and will announce its decisions publicly after each meeting. MPC replaces previous arrangement where RBI Governor along with a Technical Advisory Committee (TAC) taking decisions on monetary policy including setting interest rates. In the previous arrangement TAC was only having advisory functions and the RBI Governor enjoyed veto power over the committee in setting interest rates.

Note

Reserve Bank of India is the central banking institution, which regulates the monetary policy of the Indian rupee. Under the Reserve Bank of

India Act, 1934, RBI was established on 1st April 1935. RBI is not a Commercial Bank. The Central Office of RBI was primarily established in Calcutta and then permanently moved to Mumbai in 1937.

RBI is an institution of national importance and the pillar of surging Indian economy. It is a member of IMF.

Concept of RBI:

- The concept of Reserve Bank of India was conceptually based on the strategies formulated by Dr. Ambedkar in his book named "The Problem of the Rupee – Its origin and its solution".
- This central banking institution was established based on the suggestions of "Royal Commission on Indian Currency & Finance" in 1926. This commission was also known as Hilton Young Commission.
- In 1949 the Reserve Bank of India was nationalized and is a member bank of the Asian Clearing Union.
- RBI regulates the credit and currency system in India.

Functions of RBI:

- Monetary Authority
- Regulator and administrator of the financial system
- Managing Foreign Exchange
- Issuer of currency
- Developmental role

Composition of RBI:

- Reserve Bank of India is controlled by a central board of directors. The directors are appointed for a 4-year term by the Government of India in keeping with the Reserve Bank of India Act.
- The Central Board consists of:
- Governor
- 4 Deputy Governors
- 2 Finance Ministry representatives
- 4 directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi
- The executive head of RBI is Governor.
- The Governor is accompanied by 4 deputy governors.
- The First Governor of RBI was Sir Osborne Smith and the First Indian Governor of RBI was CD Deshmukh.
- The First women deputy Governor of RBI was KJ Udeshi.
- The only Prime Minister who was the Governor of RBI was Manmohan Singh.

Note

Monetary Policy in India

Monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit.

What are the goals?

1. Price Stability along with growth

2. The agreement on Monetary Policy Framework between the Government and the Reserve Bank of India in 2015 defines the price stability objective explicitly in terms of the target for i.e.,

(a) below 6 per cent by January 2016

(b) (b) 4 per cent (+/-) 2 per cent for the financial year 2016-17 and all subsequent years.

Instruments Cash Reserve Ratio (CRR) The share of net demand and time liabilities (deposits) that banks must maintain as cash balance with the Reserve Bank.

Statutory Liquidity Ratio (SLR) The share of net demand and time liabilities (deposits) that banks must maintain in safe and liquid assets, such as, government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

Refinance facilities Sector-specific refinance facilities aim at achieving sector specific objectives through provision of liquidity at a cost linked to the policy repo rate. The Reserve Bank has, however, been progressively de-emphasising sector specific policies as they interfere with the transmission mechanism.

Liquidity Adjustment Facility (LAF) Consists of overnight and term repo/reverse repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected in the LAF through term-repos.

Term Repos Since October 2013, the Reserve Bank has introduced term repos, to inject liquidity over a period that is longer than overnight. The aim of term repo is to help develop inter-bank money market, which in turn can set market based benchmarks for pricing of loans and deposits, and through that improve transmission of monetary policy.

Marginal Standing Facility (MSF) A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their SLR portfolio up to a limit (currently two per cent of their net demand and time liabilities deposits) at a penal rate of interest (currently 100 basis points above the repo rate). This provides a safety valve against unanticipated liquidity shocks to the banking system. MSF rate and reverse repo rate determine the corridor for the daily movement in short term money market interest rates.

Open Market Operations (OMOs) These include both, outright purchase/sale of government securities (for injection/absorption of liquidity)

Bank Rate It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

Market Stabilisation Scheme (MSS) This instrument for monetary

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management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The mobilised cash is held in a separate government account with the Reserve Bank. The instrument thus has features of both, SLR and CRR.

Stressed assets circular to be revised soon

As Supreme Court quashing the February 12 circular of the Reserve Bank of India (RBI) on stressed asset resolution, RBI governor Shaktikanta Das said that the central bank would come up with revised norms.

What is a Non-Performing Asset (NPA)?

- You may note that for a bank, the loans given by the bank is considered as its assets. So if the principle or the interest or both the components of a loan is not being serviced to the lender (bank), then it would be considered as a Non-Performing Asset (NPA).
- Any asset which stops giving returns to its investors for a specified period of time is known as Non-Performing Asset (NPA).
- Generally, that specified period of time is 90 days in most of the countries and across the various lending institutions. However, it is not a thumb rule and it may vary with the terms and conditions agreed upon by the financial institution and the borrower.

Impact of NPAs:

- Lenders suffer a lowering of profit margins.
- Stress in banking sector causes less money available to fund other projects, therefore, negative impact on the larger national economy.
- Higher interest rates by the banks to maintain the profit margin.
- Redirecting funds from the good projects to the bad ones.
- As investments got stuck, it may result in it may result in unemployment.
- In the case of public sector banks, the bad health of banks means a bad return for a shareholder which means that the government of India gets less money as a dividend. Therefore it may impact easy deployment of money for social and infrastructure development and results in social and political cost.
- Investors do not get rightful returns.
- Balance sheet syndrome of Indian characteristics that is both the banks and the corporate sector have stressed balance sheet and causes halting of the investment-led development process.
- NPAs related cases add more pressure to already pending cases with the judiciary.

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Measures taken by Government:

1. PROMULGATION OF BANKING REGULATION (AMENDMENT) ORDINANCE: This is a healthy step towards the resolution of this grave problem as it helps in the following ways:

It empowers the RBI to direct Banks to initiate insolvency resolution, wherever such need arises.

It also gives advice to banking agencies on ways of combating with its stressed asset problems.

It aims to check this menace in a time bound manner and helps in timely recovery of the stressed assets.

2. INCORPOTATION IF SARFAESI ACT: The Securitization and Reconstruction of Financial assets and Enforcement of Security Interest Act 2002 empowers the banking systems to auction residential or commercial properties (except agricultural land) to recover their loans.

- Strategic Debt Restructuring(SDR): Creditors could take over the assets of the firms and sell them to new owners
- 5/25 refinancing of infrastructure: Scheme focused on rescheduling amortisations to give firms more time to repay their loans
- Sustainable Structuring of Stressed Assets (S4A): An independent agency hired by the banks will decide on how much of the stressed debt of a company is sustainable. The rest (unsustainable) will be converted into equity and preference share.
- The Public-Sector Asset Rehabilitation Agency (PARA) colloquially called "Bad Bank" is a proposed agency to assume the Non-Performing Assets (NPA) of public sector banks in India

Govt plans 'Indradhanush 2.0' for recapitalisation of public sector banks

3. IMPLEMENTATION OF DEVT RECOVERY ACTS: These laws establish debt recovery tribunals with the power to recover debts of Banks and Financial Institutions.

4. CONCEPT OF BAD BANKS: In this the banking institution sell their bad loans to an intermediary and thus they write off their bad loan and the intermediary has to recover the loan from the defaulter.

5. MEDIATION FOR LOAN RECOVERY: This concept has been introduced so that , genuine defaulters , who are unable to pay off their loans , but are not able to put forward their situations with the banking authorities , hire a mediator , who discusses this with the banking officers and come to a solution , be it decreasing the rate of interest or repayment holiday.

SEBI panel for more players in commodities

In news:

The Commodity Derivatives Advisory Committee (CDAC), constituted by the Securities and Exchange Board of India (SEBI) has submitted its recommendations.

Highlights of the recommendations:

- A substantial number of investors, including retail investors, are not able to directly access the commodity derivatives markets due to lack of knowledge and expertise.
- It recommended opening the commodity derivatives segment to all categories of institutional investors in a phased manner, to enhance the depth and liquidity of the commodity market.
- The capital markets regulator should adopt a 'calibrated approach'

Note

before opening up the segment to overseas investors.

- In the next phase, institutional investors like foreign portfolio investors, banks, insurance companies and pension funds should be allowed in the commodity derivatives segment.

According to SEBI, Commodity derivatives would be a new asset class for the investors and can be used as hedge against inflation. Investment in commodity derivatives in a portfolio may also benefit the investors in terms of better portfolio diversification.

What is a Derivative?

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes and stocks.

What is Commodity derivative?

Commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials make the business environment erratic, unpredictable and subject to unforeseeable risks.

Ability to manage or mitigate risks by using suitable hedging in commodity derivative products, can positively affect business performance. Futures & Options, are by far the most common Commodity Derivatives products offered on an Exchange, that are well structured and regulated through robust mechanisms and controls.

Recent changes:

In March, 2019, the regulator gave the final go-ahead to mutual funds and portfolio managers to participate in the commodity segment.

In October 2018, the so-called eligible foreign entities (EFE) that have an exposure in the Indian physical commodity market were allowed to trade in the commodity derivatives segment.

Vultures on the brink of extinction

In news:

The population of vultures has declined so drastically in Andhra Pradesh that the scavenging bird is on the verge of extinction.

The number of vultures has dwindled from around 8,500 in 1997 to a few now.

Non-availability of cattle carcasses on which vultures feed is the main cause of decline.

Conservationists suggested to the Andhra Pradesh State government to start at least two "vulture restaurants" (feeding facility) – one each in Adilabad and at Srisailam Tiger Reserve to provide diclofenac-free carcasses regularly as part of urgent conservation measures.

Reasons for decline:

Unlike in North India, people who own cattle in the South sell the animal

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to slaughter houses if it was not found to be useful. This pattern had increased in the recent past because of the presence of mechanised slaughter houses.

In the mid-1990s India experienced a precipitous vulture decline, with more than 95 per cent of vultures disappearing by the early 2000s. Diclofenac, a veterinary anti-inflammatory drug that relieved pain in cattle, but proved highly toxic to vultures.

Several inherent ecological traits also likely contribute to vultures' extinction risk, including their large body masses, slow reproductive rates and highly specialised diets

Efforts:

The government has planned to set up of 8 vulture safe zones, which are diclofenacfree areas with a radius of 100 km and at least one nesting colony.

The Maharashtra forest department has set up vulture 'restaurants' in Gadchiroli, Nashik and Raigad.

There are nine species of vulture found all over India, they are mostly concentrated in Gujarat, Rajasthan, Madhya Pradesh and Maharashtra.

Critically endangered vultures in India:

1. White-backed Vulture
2. Slender billed Vulture
3. Red headed Vulture
4. Indian Vulture

PRELIMS TIT BITS

Zayed medal

- UAE President Khalifa bin Zayed Al Nahyan has awarded Prime Minister Narendra Modi the highest civilian award, 'the Order of Zayed' on April 4.
- This has been awarded to Prime Minister for forging strong friendly relations between the two countries.

Note