PRELIMS SAMPOORNA

GS SCORE

An Institute for Civil Services

THEMATIC #4

CURRENT AFFAIRS

for IAS PRELIMS 2024

ECONOMY

THEME # 1

MONEY, FINANCE & INSTITUTIONS

- Banking Reforms and initiatives
- Reserve Bank of India (RBI)
- Credit Institutions & Other Regulators
- Non-Performing Assets (NPAs)
- Financial Systems
- Infrastructure
- Taxation
- Financial Inclusion
- Digital Money And Economy
- Miscellaneous

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Content

THEMATIC CURRENT AFFAIRS

UPSC CSE Prelims exam requires a candidate to link and interlink Current Affairs with the syllabus and the static concepts.

It's important to note that simply compiling current affairs won't suffice; it's crucial to learn how to utilize and link them effectively.

To aid in this process, we have categorized the entire UPSC prelims syllabus into actionable and easy-to-understand themes, and current affairs have been blended into these themes.

Thematic Current Affairs will help you in:

- Division of entire syllabus- theme wise
- Revision of concepts and current affairs together
- developing the skill to interlink theory and contemporary developments
- Concise and precise information for quick coverage

1

Banking Reforms and Initiatives

1. ACCOUNT AGGREGATOR (AA)

CONTEXT

In 2021, India unveiled the Account Aggregator (AA) network, a system for sharing financial data.

What is an Account Aggregator (AA)?

- AA is a framework that facilitates the distribution of financial information in real time and Data Blind Manner (AA data flow encrypted) between regulated entities (Banks and NBFCs).
- The **RBI (Reserve Bank of India)** in 2016 approved the AA as a new component of NBFC (Non-Banking Financial Companies), whose main responsibility is to facilitate the transfer of user financial data with their explicit consent.
- AAs enable data flow between **financial information providers (FIPs)** and **financial information users (FIUs).**
- The structure of AA is based on the **Data Empowerment and Protection Architecture (DEPA) framework.**
  - DEPA is an organization that allows users to securely access their data and share it with third-party users.

2. RETAIL DIRECT SCHEME

CONTEXT

The Reserve Bank of India's (RBI) Retail Direct Scheme was recently launched by the Prime Minister to open up the Government bond market to retail investors.

What is retail direct scheme?

- The scheme allows retail investors to buy and sell **government securities (G-Sec)** online, both in the primary and secondary markets.
- The retail investors can now invest in G-Secs by opening a gilt securities account called **Retail Direct Gilt (RDG) Account** with the RBI.
- Only one bid per security is permitted and payment to the aggregator/receiving office can be made through using the net-banking or UPI facility from the linked bank account.
- Registered investors can access the secondary market transaction link on the online portal to buy or sell government securities through NDS-OM.
- For buying of government bonds, payment can be made by transfer of funds to the designated account of **CCIL (Clearing Corporation of India NDS-OM)**

3. DOLLAR–RUPEE SWAP AUCTION

CONTEXT

The Reserve Bank of India (RBI) conducted a $ 5 billion dollar-rupee swap auction as part of its liquidity management initiative. This lead to infusion of dollars and sucking out of the rupee from the financial system.

What is dollar- rupee swap?

- It's a forex tool whereby the central bank uses its currency to buy another currency or vice versa.
- In a Dollar–Rupee buy/sell swap, the central bank buys dollars (US dollars or USD) from banks in exchange for Indian Rupees (INR) and immediately gets into an opposite deal with banks promising to sell dollars at a later date.
- It is the tool used by RBI to infuse capital/suck out liquidity in the economy and manages the currency pressure. It is operated through an exchange between the US dollar and the rupee.

How it works?

- Under dollar rupee sell/buy swap auction, Banks shall buy US dollars from the Reserve Bank of India.
- Against these INR rupees, Reserve Bank of India gives US Dollar to the banks.
- Also, RBI immediately gets into an opposite deal with banks promising to sell dollars at a later date (say after some years).
- In this way, RBI tries to increase the US dollar liquidity in the market as there is a mismatch.

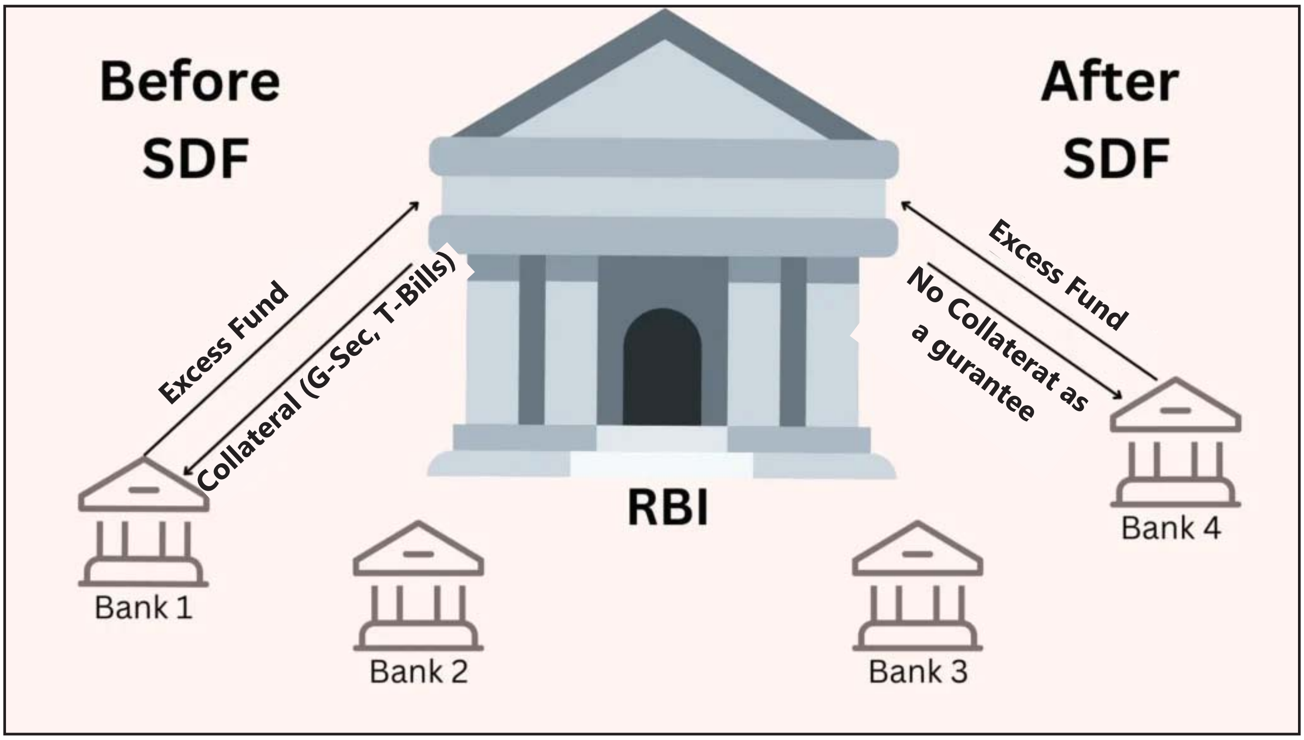
4. STANDING DEPOSIT FACILITY (SDF)

CONTEXT

While retaining the reverse repo rate at 3.35 per cent, the **Reserve Bank of India (RBI)** recently introduced the **Standing Deposit Facility (SDF).**

Standing Deposit Facility (SDF):

- This concept was first recommended by the **Urjit Patel committee report** in 2014.
- Standing deposit facility is a **remunerated facility that will not require the provision of collateral for liquidity absorption.**



- Banks, at different points in time, may be short of funds or flush with money. When they need money for the short-term, they borrow from the bankers' bank—RBI.
- **Repo rate** — that RBI sets at every monetary policy — is the rate at which banks borrow funds, for which they pledge government securities.
- In the situation of excess funds, Banks lend it to the RBI at the **reverse repo rate** that is lower than the repo rate. Here too, government securities act as collateral.
- Standing Deposit Facility will **allow the RBI to absorb surplus funds from banks without collateral.**
- Banks too continue to earn interest (though possibly lower than the existing reverse repo rate).
- In effect, it will empower the RBI to suck out as much liquidity as needed.

This concept was first recommended by the **Urjit Patel committee report** in 2014.

- The SDF rate will be **25 bps below the policy rate (Repo rate**), and it will be applicable to overnight deposits at this stage.
- It would, however, retain the flexibility to absorb liquidity of longer tenors as and when the need arises, with appropriate pricing.
- The RBI's plan is to restore the size of the liquidity surplus in the system to a level consistent with the prevailing stance of monetary policy.

How is SDF different from reverse repo facility?

Reverse Repo Rate	SDF
Objective: The central bank employs **reverse repo rate** and **SDF** to remove **excess liquidity** from the system.	
• In contrast to SDF, reverse repo operations require the RBI to **deposit collateral** in the form of **government assets** in order to borrow money from commercial banks. ➤ Under the current liquidity system, the Reserve Bank has discretion over liquidity absorption through **reverse repos, open market operations, and the cash reserve ratio.**	• SDF will allow banks to store surplus liquidity with the Reserve Bank at their discretion.

5. DAKSH

CONTEXT

The Reserve Bank of India has launched a new 'SupTech' initiative DAKSH – the bank's Advanced Supervisory Monitoring System.

About DAKSH:

- DAKSH is a **web-based end-to-end workflow application**.
- Its literal meaning is '**efficient' & 'competent'**, reflecting the underlying capabilities of the application.
- Using this application, the RBI can **monitor compliance requirements** in a more focused manner.
- This will improve the compliance culture in Supervised Entities (SEs) like Banks, NBFCs, etc.
- **It will make the supervisory processes more robust.**
- The application will enable **seamless communication**, inspection planning, and execution, cyber incident reporting, and analysis, provision of various MIS reports, etc.

6. TOKENIZATION

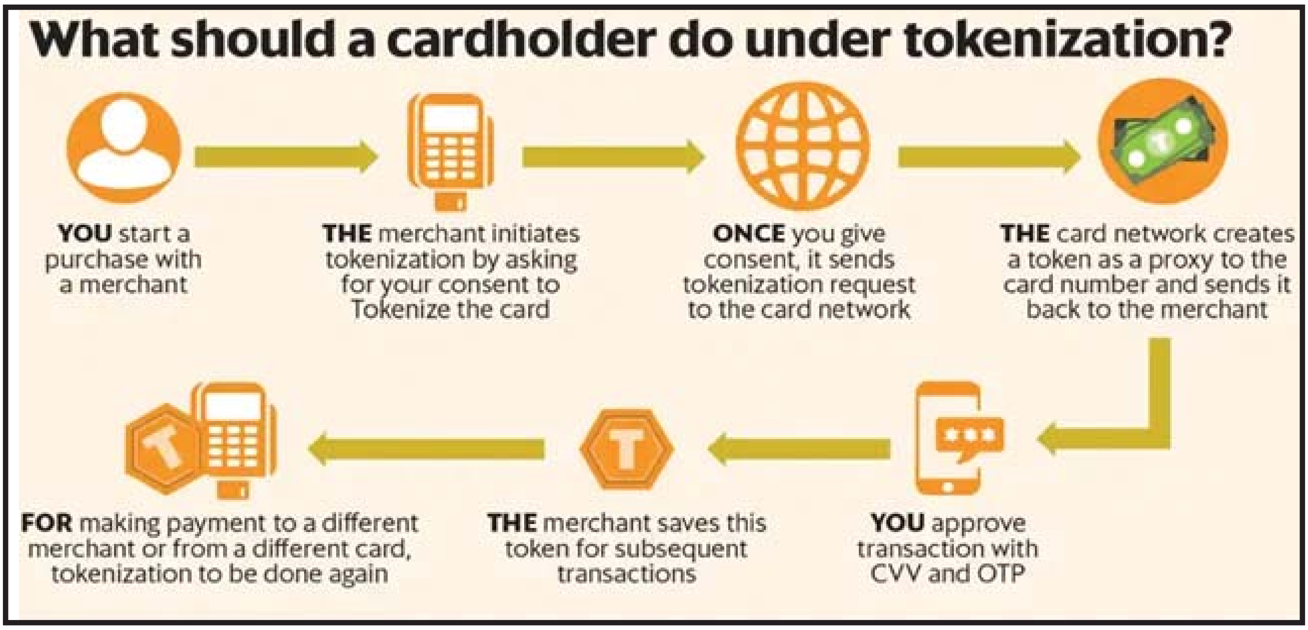
CONTEXT

The Reserve Bank of India (RBI) has mandated the tokenization of credit/debit cards for **online merchants** from October 1st, 2022.

What is tokenization?

- Tokenization refers to the **process of replacement of actual card details** with a unique alternate code known as the 'token', which shall be unique for a combination of card, token requestor, and identified device.
  - A tokenized card transaction is considered safer as the actual card details are not shared with the merchant during transaction processing.
  - Customers who do not have the tokenization facility, will have to key in their name, 16-digit card number, expiry date, and CVV each time they order something online.
  - As of now, about 19.5 crore tokens have been created. Opting for **Card-on-File Tokenization (CoFT) services** (creating tokens) is voluntary for cardholders.

Reserve Bank of India (RBI) has permitted authorized card payment networks to offer card tokenization services to consumers requesting it, in an effort to improve the safety and security of card transactions.



What is Card-on-File (CoF)?

- A CoF transaction is a transaction where a cardholder has authorized a merchant to store the cardholder's Mastercard or Visa payment details.
- The cardholder then authorizes that same merchant to bill the cardholder's stored Mastercard or Visa account.

7. COUNTERCYCLICAL CAPITAL BUFFER

CONTEXT

The Reserve Bank of India said it has decided **not to activate the countercyclical capital buffer** at this point in time as it is not required.

What is countercyclical capital buffer?

- Counter Cyclical Capital buffer is the capital to be kept by a bank to meet business cycle related risks.
- It is aimed to protect the banking sector against losses from changes in economic conditions.
- Banks may face difficulties in phases like recession when the loan amount doesn't return.
- To meet such situations, banks should have own additional capital.
- This is an important theme of the Basel III norms.
  - **Following Basel-III norms**, central banks specify certain capital adequacy norms for banks in a country.
  - The CCCB is a part of such norms and is calculated as a fixed percentage of a bank's risk-weighted loan book.

8. VOSTRO ACCOUNTS AND FUNCTIONING

CONTEXT

Recently, the government informed that 20 Russian banks, including **Rosbank, Tinkoff Bank, Centro Credit Bank and Credit Bank of Moscow** have opened **Special Rupee Vostro Accounts (SRVA)** with partner banks in India.

About

- A vostro account is an account that **domestic banks** hold for foreign banks in the former's domestic currency.
- Domestic banks use it to provide **international banking services** to their clients who have global banking needs.
- It is an **integral offshoot** of correspondent banking that entails a bank (or an intermediary) to facilitate wire transfer, conduct business transactions, accept deposits and gather documents on behalf of the other bank.
- It helps **domestic banks gain wider access to foreign financial markets** and serve international clients without having to be physically present abroad.
- The SRVA is an **additional arrangement** to the existing system that uses freely convertible currencies and works as a complimentary system.

Freely convertible currencies refer to currencies permitted by rules and regulations of the concerned country to be converted to major reserve currencies (like U.S. dollar or pound sterling) and for which a fairly active market exists for dealings against major currencies.

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2

Reserve Bank of India (RBI)

1. RBI UPDATE ITS LIST OF SCHEDULED BANKS

CONTEXT

The Reserve Bank of India (RBI) has announced the inclusion of **Airtel Payments Bank Ltd.** in the **Second Schedule to the Reserve Bank of India Act, 1934.**

What are Scheduled Banks?

- Any bank which is listed in the **2nd schedule of the Reserve Bank of India Act, 1934** is considered a **scheduled bank.**
- "Banks which have been included in **the second schedule of the RBI Act, 1934".** The banks included in this category should fulfil two conditions-
  - **The paid up capital and collected fund** of the **bank should not be less than Rs. 5 lac.**
  - Any activity of the **bank will not adversely affect the interests of the depositors.**
- The Schedule consists of those banks which **satisfy various parameters, criteria under clause 42 of this act.**
- The list includes-
  - **The State Bank of India and its subsidiaries (like State Bank of Travancore)**
  - **All nationalised banks (Bank of Baroda, Bank of India etc)**
  - **Regional rural banks (RRBs)**
  - **Foreign banks (HSBC Holdings Plc, Citibank NA)**
  - **Some co-operative banks**
- These also include **private sector banks, both classified as old (*Karur Vysya* Bank) and new (HDFC Bank Ltd).**
- To qualify as a scheduled bank, **the paid-up capital and collected funds of the bank must not be less than Rs5 lakh.**

- Scheduled banks are e**ligible for loans from the Reserve Bank of India at bank rate,** and are given membership to clearing-houses.
- Scheduled Commercial Banks in India are categorised in **5 different groups according to their ownership / nature of operation.** These bank groups are:
  - State Bank of India
  - Nationalised Banks
  - Regional Rural Banks
  - Foreign Banks
  - Other Indian Scheduled Commercial Banks (in the private sector).

Payment Banks

- **Payment banks** were established to **promote financial inclusion** by offering; **'modest savings accounts and payments/remittance services** to **migratory labour workforce, low-income households, small enterprises, other unorganised sector entities, and other users.'**
- These banks can accept a **restricted deposit, which is now capped at Rs 200,000 per person** but could be raised in the future.
- These banks are **unable to provide loans or credit cards.** Banks of this type can **handle both current and savings accounts.**
- Payments banks can **provide ATM and debit cards, as well as online and mobile banking.**
- They will not lend to customers and will have to deploy their funds in government papers and bank deposits.

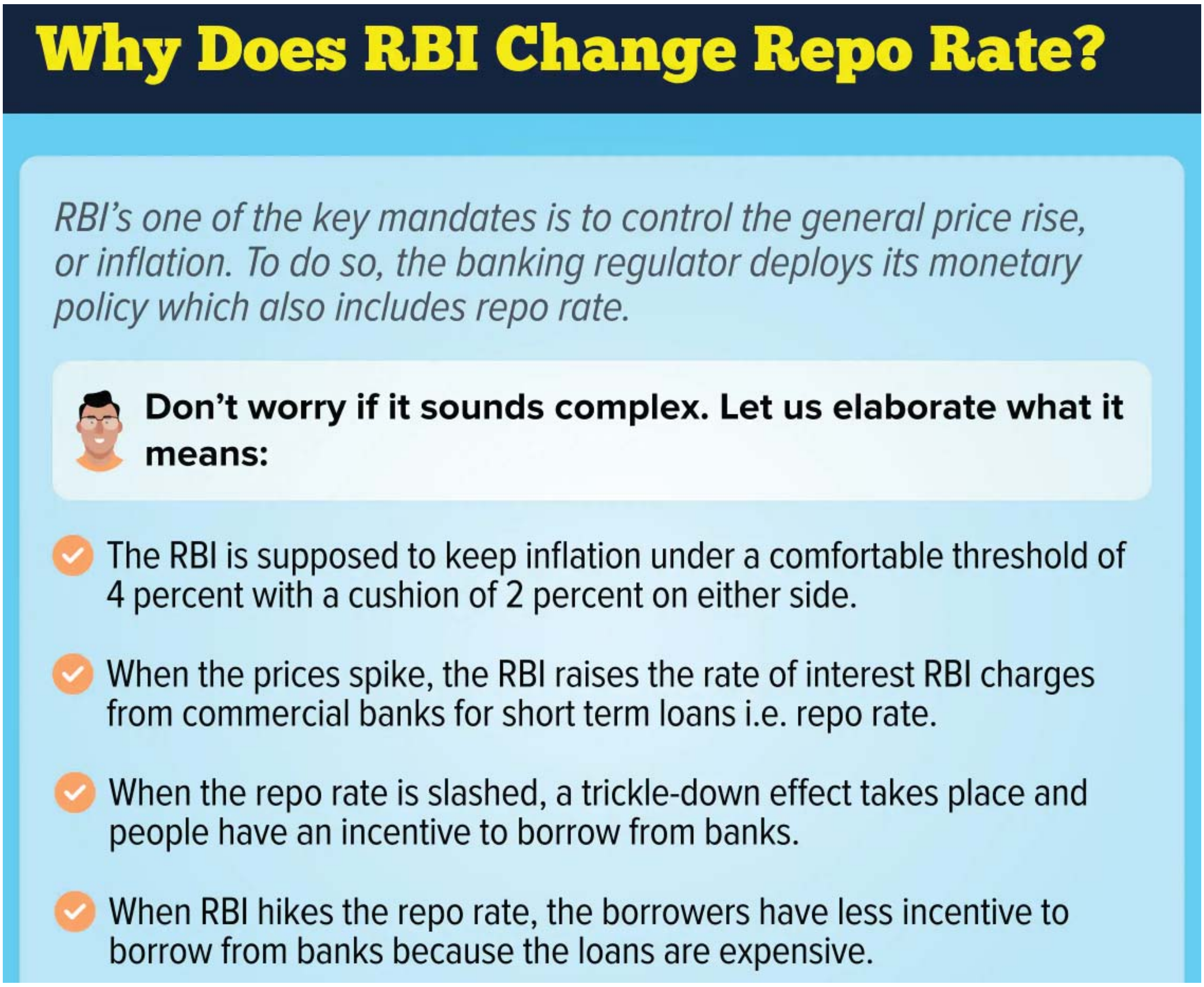
2. RBI SURPLUS TRANSFER

CONTEXT

RBI approved the transfer of Rs 99,122 crore as surplus to the central government for the accounting period ending on March 31, 2021.

What is RBI surplus transfer?

- RBI is **not a commercial organisation** like banks and other companies owned or controlled by the government to pay a dividend to the owner out of the profit generated.
- RBI transfers the surplus — **excess of income over expenditure** —to the government.
- Under **Section 47 of the RBI Act**, "after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and for all other matters for which provision is to be made by or under this Act or which are usually provided for by bankers, the balance of the profits shall be paid to the Central government".
- This is done in early by the Central Board.



3. RESERVE BANK INNOVATION BANK

CONTEXT

In order to promote and facilitate an environment that accelerates innovation across the financial sector, the Reserve Bank Innovation Hub (RBIH) has been set up as a wholly owned subsidiary of the RBI.

What is RBIH?

- The RBI has set up the RBIH as a **Section 8 company under Companies Act, 2013**, with an initial capital contribution of Rs 100 crore to encourage and nurture financial innovation in a sustainable manner through an institutional set-up.

A company is referred to as **Section 8 Company** when it registered as a **Non-Profit Organization (NPO)** i.e. when it has motive of promoting arts, commerce, education, charity, protection of environment, sports, science, research, social welfare, religion and intends to use its profits (if any) or other income for promoting these objectives.

- **Initial capital contribution:** Rs 100 crore
- **Objective:** To create an ecosystem that focuses on promoting access to financial services and products for the low-income population in the country.
- The Hub would bring convergence among various stakeholders (BFSI Sector, Start-up ecosystem, Regulators and Academia) in the financial innovation space.
- This is in line with the objective behind the establishment of RBIH i.e., to bring world-class innovation to the financial sector in India, coupled with the underlying theme of financial inclusion."

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3

Credit Institutions & Other Regulators

1. DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBS)

CONTEXT

The Reserve Bank of India (RBI) announced that the State Bank of India (SBI), ICICI Bank and HDFC Bank will continue to be identified as **Domestic Systemically Important Banks (D-SIBs).**

About D-SIBs:

- Some banks acquire this status as a result of their scale, cross-border operations, complexity, lack of substitutability, and interconnection.
- The idea of SIBs being "Too Big To Fail (TBTF)" banks is prevalent.
- Since these banks are perceived to be TBTF, people anticipate government assistance when they are in trouble.
- The systemic dangers and moral hazard issues that SIBs present are addressed by additional governmental measures.
- A moral hazard occurs when one party participates in a risky activity while aware that it is protected from the risk and the other party will bear the expense.

2. NATIONAL BANK FOR FINANCIAL INFRASTRUCTURE AND DEVELOPMENT (NABFID)

CONTEXT

The NaBFID has been established as a **statutory body** to address market failures that stem from the long-term, low margin and risky nature of infrastructure financing. It will help fund about 7,000 infra projects under the NIP, which envisages an investment of Rs 111 lakh crore by 2024-25.

Objectives:

- **Objective:** to establish the **National Bank for Financing Infrastructure and Development (NaBFID)** to support the development of long term non-recourse infrastructure financing in India.
- It includes development of the bonds and derivatives markets necessary for infrastructure financing and to carry on the business of financing infrastructure.

Functions of NaBFID:

- Extending loans and advances for infrastructure projects. Taking over or refinancing such existing loans.
- Attracting investment from private sector investors and institutional investors for infrastructure projects. Organising and facilitating foreign participation in infrastructure projects.
- Facilitating negotiations with various government authorities for dispute resolution in the field of infrastructure financing.
- Providing consultancy services in infrastructure financing.

NaFBID may borrow money from:

- Central government
- Reserve Bank of India (RBI)
- Scheduled commercial banks
- Mutual funds
- Multilateral institutions such as World Bank and Asian Development Bank

3. POST OFFICE RECURRING DEPOSIT SCHEME

CONTEXT

Regarding the deposit schemes for small savings in India, there are nine savings schemes that India Post offers in which recurring deposit or RD accounts offer an interest rate of 7.2 per cent per annum.

What is recurring Deposit (RD)?

- A recurring deposit is a type **of term-deposit**.
- Unlike a fixed deposit account, a recurring deposit account allows the investor to park a fixed amount of funds at regular intervals; for instance, every month.

Benefits

- The maturity period of post office RD account is 5 years. However, it can be continued for another five years on a year-to-year basis.
- It can be opened with a minimum of **Rs 10 per month** any amount in **multiples of Rs 5.**
- There is **no maximum limit on investment in post office recurring** deposit (RD).
- One withdrawal up to **50 per cent of the balance is** allowed after one year.
- The monthly deposits should be credited on any day of the month.

4. SBI RAISES MARGINAL COST OF FUNDS-BASED LENDING RATES (MCLR)

CONTEXT

State Bank of India (SBI), India's largest commercial bank, recently raised the **marginal cost of funds-based lending rates (MCLR)** for the first time in three years, signalling that the soft rates regime that has prevailed since 2019 may be over.

About Marginal Cost of Funds-Based Lending Rates (MCLR):

- The marginal cost of funds-based lending rate (MCLR) is the **minimum interest rate** that a bank can lend at.
- MCLR is determined **internally by the bank** depending on the period left for the repayment of a loan.
- The **RBI introduced the MCLR methodology for fixing interest rates** from 1 April 2016. It replaced the base rate structure, which had been in place since July 2010.
- It is **applicable to fresh corporate loans and floating rate loans** taken before October 2019.
- RBI then **switched to the external benchmark linked lending rate (EBLR) system** where lending rate is linked to benchmark rates like repo or Treasury Bill rates.

Other important rates

- **Repo rate:** The interest rate that the RBI charges when commercial banks borrow money from it is called the repo rate.
- **Reverse repo rate:** The interest rate that the RBI pays commercial banks when they park their excess cash with the central bank is called the reverse repo rate
- **Base rate:** Base Rate is the lending rate calculated based on the total cost of funds of the banks and is the minimum interest rate at which a bank can lend except for loans to its own employees, its retired employees and against bank's own deposits.
- **PLR:** PLR (Prime Lending Rate) is the internal benchmark rate used for setting up the interest rate on floating rate loans sanctioned by **Non-Banking Financial Companies (NBFC) and Housing Finance Companies (HFC).**
  - PLR rate is calculated based on average cost of funds.
  - NBFC and HFC generally price their loan at discount on their existing PLR.
- **Treasury bills or T-bills: They are money market instruments, are short term debt instruments issued by the Government of India.**

5. IRDAI EASES CAPITAL REQUIREMENT FOR PMJJBY TO BRING IN MORE INSURERS

CONTEXT

The **Insurance Regulatory and Development Authority of India (IRDAI)** recently relaxed capital requirement norms significantly for insurers to encourage their participation in the government's flagship programme **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).**

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):

- **Launched in:** 2015
- **PMJJBY** is a **one-year life insurance scheme** renewable from year to year offering coverage for death.
- The scheme is administered through both public and private sector insurance companies in tie-up with scheduled commercial banks, regional rural banks and cooperative banks.
- The government has stressed heavily on the insurance sector as previously a larger section of the populace did not have access to insurance coverage.
- The scheme is being offered by **Life Insurance Corporation** and all other life insurers who are willing to offer the product on similar terms with necessary approvals and tie up with banks for this purpose.

Pradhan Mantri Suraksha Bima Yojana (PMSBY):

- The Scheme is available to people in the age group 18 to 70 years with a bank account.
- The risk coverage under the scheme is Rs. 2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability.

Insurance Regulatory and Development Authority of India (IRDAI)

- It is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India.
- It was constituted by the **Insurance Regulatory and Development Authority Act, 1999**, an Act of Parliament passed by the Government of India.
- IRDAI is a **10-member body** including the chairman, five full-time and four part-time members appointed by the government of India.
- It was created based on the recommendations of the **Malhotra Committee.**
- Its headquarters is in **Hyderabad.**

6. FINANCIAL STABILITY AND DEVELOPMENT COUNCIL (FSDC)

CONTEXT

The Union Minister of Finance and Corporate Affairs chaired the 26th Meeting of the **Financial Stability and Development Council (FSDC).**

About Financial Stability and Development Council

- The FSDC is an autonomous body which deals with the financial regularities in the entire financial sector of India.
- It is an apex regulatory body constituted on the recommendations of the **Raghuram Rajan Committee on Financial Sector Reforms in 2008**.
- FSDC was created after the global financial crisis of 2008 when some similar institutions were created in some other countries.
- FSDC has replaced the High-Level Coordination Committee on Financial Markets, which was facilitating the regulatory coordination functions prior to setting up of FSDC, though it was not a formal body.

Functions of FSDC

- Financial stability and the development of financial sector in India
- Inter-regulatory coordination, financial literacy and financial inclusion within the country
- No funds are allocated separately to the council for undertaking its activities.

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4

Non- performing Assets (NPAs)

1. INDIA AND THE PROBLEM OF BAD LOANS

CONTEXT

In December 2022, Finance Minister has informed the Parliament that bank had bad loans worth Rs 10, 09,511 crores during the last five financial years.

What are Bad Loans?

- A bad loan is one that has not been 'serviced' for a certain period.
- Servicing a loan is paying back the interest and a small part of the principal — depending on the agreement between bank and borrower; to begin with so that over time, you pay back the principal as well as the interest accrued in the duration.
- In 2009, the RBI brought out norms that set out categories of **Non-Performing Assets (NPAs)** and what banks must do as these bad loans age.
- **According to RBI**, Bad loans are a problem, for, with time, there is less and less certainty that the loan would be paid back in full.

Types of NPA:

- **Standard Assets:** It is a kind of performing asset which creates continuous income and repayments as and when they become due. These assets carry a normal risk and are not NPA in the real sense of the word. Hence, no special provisions are required for standard assets.
- **Sub-Standard Assets:** Loans and advances which are non-performing assets for a period of 12 months fall under the category of Sub-Standard Assets.
- **Doubtful Assets:** The Assets considered as non-performing for a period of more than 12 months are known as Doubtful Assets.
- **Loss Assets:** All those assets which cannot be recovered by the lending institutions are known as Loss Assets.

What is a Non-Performing Asset?

- They are loans or advances that are in default or in arrears.
- In other words, these are those kinds of loans wherein principal or interest amounts are late or have not been paid.

When a loan is classified as NPA?

- Non-Performing Assets are basically Non-Performing Loans.
- In India, the timeline given for classifying the asset as NPA is 180 days. As against 45 to 90 days of international norms.

A **National Asset Reconstruction Company Ltd. (NARCL)** was announced in the Union Budget for 2021-2022 to resolve stressed loans amounting to about **Rs 2 lakh crore** in phases**.**

2. NARCL ACQUIRES FIRST STRESSED ACCOUNT

CONTEXT

Recently, the National Asset Reconstruction Company Ltd (NARCL) acquired its first stressed asset — Jaypee Infratech — from lenders.

- It acquired its exposure aggregating about Rs 9,200 crores at a 55 per cent haircut.

What is National Asset Reconstruction Company Ltd (NARCL)?

- NARCL has been incorporated under the Companies Act and has applied to the Reserve Bank of India for a license as an Asset Reconstruction Company (ARC).
- NARCL has been set up by banks to aggregate and consolidate stressed assets for their subsequent resolution. PSBs will maintain 51% ownership in NARCL.
- NARCL will house bad loan accounts of Rs.500 crores and above.
- Establishing NARCL is part of the government's efforts to clean up the financial system, which is sitting on one of the biggest piles of bad assets in the world.
- It is expected that the warehousing of bad loans by NARCL will allow banks to cut losses and renew lending.

About Asset Reconstruction Company (ARC)

- ARC is a special type of financial institution that buys the debtors of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself.
- The asset reconstruction companies or ARCs are registered under the RBI and regulated under the **Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002).**
- The ARCs take over a portion of the debts of the bank that qualify to be recognized as Non-Performing Assets.
- Thus ARCs are engaged in the business of asset reconstruction or securitization or both.

3. INDIA'S EMERGING TWIN DEFICIT PROBLEM

CONTEXT

RBI in its '**Monthly Economic Review'** report highlighted two key areas of concern for the Indian economy: **the fiscal deficit and the current account deficit (or CAD).**

What is the twin deficit challenge?

- **Twin deficit** refers to the **fiscal and current account deficit**.
  - **Fiscal deficit** means higher expenditure over income. The gap between expenditure and income is bridged through borrowing from market.
  - **Current account deficit** is derived from current account balance. According to the OECD, the current account balance of payments is a record of a country's international transactions with the rest of the world.
- The current account includes all the transactions (other than those in financial items) that involve economic values and takes place between resident and non-resident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo.
- This indicator is measured in million USD and percentage of GDP.

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5

Financial Systems

1. SHORT SELLING IN INDIA

CONTEXT

After Hindenburg Research, a US-based short seller, released a report on the Adani Group, several questions have been raised on short selling – if it's ethical, how it's done, is it legal in India.

What is short selling?

- Short selling involves borrowing stock you do not own, selling the borrowed stock, and then buying and returning the stock only if and when the price drops.
- It's completely opposite to how a bullish transaction takes place.
- In such transactions, you buy a stock hoping the price will go up. You wait until it goes up to a certain extent.
- However, short selling is mostly done to earn in a falling market. In this case, the investor is bearish on the markets.

Naked Short Selling

- In naked short selling, **stocks are not borrowed.**
- Therefore, in times of panic, more people could dump their holdings, without any obligation to fulfil their settlements, thereby pushing the prices of the stock further down.
- **It is illegal.**

Example:

For instance, an investor borrows a certain number of shares from a broker, and sells these shares in the market for Rs 100. In the future, when the price of the shares fall to Rs 80, then the investor can buy them at a lesser price, return them to the broker, thereby making a profit of Rs 20.

Is it legal?

- Securities market regulators in most countries, particularly in all developed securities markets, recognise short selling as a **legitimate investment activity.**

2. SWAMIH INVESTMENT FUND I

CONTEXT

The government of India has invested over Rs 5,000 crore in the **SBICAP Ventures-backed SWAMIH Investment Fund I,** set up under the **Special Window for Affordable and Mid-Income Housing**, taking its final close to Rs 15,530 crore.

About

- SWAMIH Investment Fund I is India's largest social impact fund aiming to provide priority debt financing for the completion of stressed, brownfield and RERA registered residential projects that fall in the affordable, mid-income housing category.
- The fund is sponsored by the Ministry of Finance, Government of India and is managed by SBICAP Ventures, a State Bank Group co.

'SWAMIH' Scheme

- In 2019, the central government launched the 'Special Window for Funding Stalled Affordable and Middle-Income Housing Projects' or 'SWAMIH' Scheme.
- The objective of the scheme is to provide priority debt financing for the completion of stalled housing projects falling under the affordable and middle-income housing categories.

3. RBI ISSUES DRAFT NORMS FOR LENDING OF GOVERNMENT SECURITIES

CONTEXT

The Reserve Bank of India came out with draft norms (**Reserve Bank of India (Government Securities Lending) Directions, 2023**) for lending and borrowing of government securities with wider participation in the securities lending market.

About

- **Government Securities Lending (GSL) transactions** shall be undertaken for a minimum period of one day and a maximum period of ninety days.
- Government securities issued by the central government excluding **Treasury Bills** would be eligible for lending/borrowing under a GSL transaction.
- Government securities issued by the central government (including Treasury Bills) and the state governments would be eligible for placing as collateral under a GSL transaction.

- An entity eligible to undertake repo transactions in government securities, and any other entity approved by the Reserve Bank would be eligible to participate in GSL transactions as lender of securities.

What is Government Security (G-Sec)?

- A Government Security (G-Sec) is a **tradable instrument** issued by the Central Government or the State Governments.
- It acknowledges the **Government's debt obligation.**

> **Treasury Bill**
>
> - Treasury bills are money market instruments issued by the Government of India as a **promissory note** with **guaranteed repayment** at a later date.

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6

Infrastructure

1. INDIA INFRASTRUCTURE PROJECT DEVELOPMENT FUND SCHEME (IIPDF SCHEME)

CONTEXT

The **Department of Economic Affairs (DEA)**, Ministry of Finance, Government of India, has notified the Scheme for Financial Support for Project Development Expenses of PPP Projects – India **Infrastructure Project Development Fund Scheme (IIPDF Scheme).**

About

- It is a **central sector scheme.**
- It will aid the development of quality PPP projects by providing necessary funding support to the project sponsoring authorities in the central and state governments.
- Funding under IIPDF Scheme is in addition to the already operational **Viability Gap Funding Scheme** that provides Financial Support to PPPs in Infrastructure that is economically justified, but commercially unviable.
- **Aim**
  - To improve the country's quality and pace of infrastructure development by encouraging private sector participation.
  - The Scheme is for creating a shelf of bankable viable PPP projects to achieve the country's vision of modern infrastructure.

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7

Taxation

1. TAX INSPECTORS WITHOUT BORDERS (TIWB)

CONTEXT

The Tax Inspectors Without Borders (TIWB) has launched its programme in Seychelles. India has been chosen as the Partner Administration for this programme.

About TIWB

- Launched in: **2015**
- Tax Inspectors without Borders (TIWB), is a joint initiative of the:
  - United Nations Development Programme (UNDP)
  - Organisation for Economic Cooperation and Development (OECD)
- **Aim:** to strengthen developing countries' auditing capacity and multinationals' compliance worldwide.
- The TIWB initiative facilitates the transfer of tax audit knowledge and skills to developing country tax administrations using a practical, "learning by doing" approach.
- Experienced tax auditors work on real tax audit cases and international tax issues alongside local tax officials.
- It works in assistance requesting countries under a TIWB programme whereby they share their expertise and skills.

About Organisation for Economic Co-operation and Development

- Founded in: 1961
- The Organisation for Economic Co-operation and Development is an intergovernmental organisation to stimulate economic progress and world trade.

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8

Financial Inclusion

1. DIGITAL LENDING APPS

CONTEXT

Recently, the **Reserve Bank of India (RBI)** received as many as 13,000 complaints against **banks and non-banking financial institutions (NBFCs)** regarding digital lending apps and recovery agents harassing customers.

- The users can register complaints against banks and NBFCs via the **Reserve Bank-Integrated Ombudsman Scheme, 2021.**

The Reserve Bank-Integrated Ombudsman Scheme, 2021:

- Under the scheme, the RBI would be able to award up to **INR 20 Lakh** for any losses suffered by the customer, along with **INR 1 Lakh to compensate** for the waste of the customer's time, expenses incurred and/or mental anguish suffered.
- Speaking on digital lending and the menace of illegal digital apps, the Department of Supervision, RBI, has formed a **nodal department** to handle the complaints against such unauthorised lending apps.
- Also, RBI has established a portal named as "**Sachet**" under State Level Coordination Committee mechanism for registering complaints by the public.
- The Sachet portal registers complaints against lending apps which are promoted by unregulated entities.

What are Digital lending apps (DLAs)?

- They are Mobile and web-based applications with user interface that facilitate digital lending services.
- DLAs will include apps of the Regulated Entities (REs) as well as those operated by Lending Service Providers (LSPs) engaged by REs for extending any credit facilitation services in conformity with extant outsourcing guidelines issued by the Reserve Bank.

2. NEO BANKS

CONTEXT

RBI (Reserve Bank of India) is taking a hard look at the neo bank business model where FINTECH plug into a conventional bank's network and become **customer-facing banking service providers.**

What are neo banks?

- A neobank is a kind of digital bank without any branches. Rather than being physically present at a specific location, neobanking is entirely online.
- Neobanks are financial institutions that give customers a cheaper alternative to traditional banks.
- They leverage technology and artificial intelligence to offer personalised services to customers while minimising operating costs.
- Neobanks entered the financial system with the tag of 'challenger banks' because they challenged the complex infrastructure and client onboarding process of traditional banks.
- In India, these firms don't have a bank licence of their own but rely on bank partners to offer licensed services.
- That's because the RBI doesn't allow banks to be 100% digital yet.
- The RBI remains resolute in prioritising banks' physical presence, and has spoken about the need for digital banking service providers to have some physical presence as well.

3. RBI SETS NORMS FOR DIGITAL BANKING UNITS

CONTEXT

The Reserve Bank of India (RBI) recently laid down norms to allow commercial banks to open digital banking units (DBU) while mandating minimum products and services that must be offered in these units.

About Digital Banking Units (DBU):

- A digital banking unit (DBU) is **a specialised business unit** of a bank that houses certain **minimum digital banking products and services.**
- A **bank can offer specialised digital products** at any time **all year** from these units and also provide existing financial services products.
- The aim DBU is to **enable customers to have cost effective and convenient acces**s and enhanced digital experience of such products and services in "an efficient, paperless, secured and connected environment with most services being available in self-service mode at any time, all year round."

The Union Budget of 2022-23 had announced the **setting up of 75 Digital Banking Units** (DBUs) in 75 districts to commemorate the 75 years of independence of our country.

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9

Digital Money and Economy

1. NFT BUBBLE

CONTEXT

People are increasingly investing in NFTs in hope to get rich quickly without assessing risks and taking any due consideration.

What is NFT?

- Unlike, a fungible asset that can be readily interchanged - like money, a non-fungible token or NFT is unique **digital asset** that cannot be interchanged.
- NFTs can really be anything digital like drawings, music etc. but a lot of the current excitement is around using the tech to sell digital art.
- NFTs, can help artwork in getting “tokenized” thus creating a digital certificate of ownership that can be bought and sold.
- NFTs may also contain smart contracts that can give the artist, for example, a cut of any future sale of the token.
- It is backed by **Blockchain technology.**
- For the uninitiated, Blockchain is a distributed ledger where all transactions are recorded. It is like your bank passbook, except all your transactions are transparent and can be seen by anyone and cannot be changed or modified once recorded.
- However NFT’s does not prevent people from copying the digital art.

Fungible items, on the other hand, can be exchanged because their value defines them rather than their unique properties.

- Most NFTs are part of the Ethereum blockchain. However, other blockchains can have their own versions of NFTs.

How is an NFT different from cryptocurrency?

- NFTs and cryptocurrencies are very different from each other. While both are built on Blockchain, that is where the similarity ends.
- Cryptocurrency is a currency and is fungible, meaning that it is interchangeable.
  - **For instance**, if you hold one crypto token, say one **Ethereum**, the next Ethereum that you hold will also be of the same value.
- But NFTs are non-fungible that means the value of one NFT is not equal to another. Every art is different from other, making it non fungible, and unique.

2. WORLD'S FIRST CRYPTO-BACKED PAYMENT CARD LAUNCHED

CONTEXT

London-based Cryptocurrency lender, Nexo has joined hands with global payments company Mastercard to launch the world's first "crypto-backed" payment card.

About the card:

- Nexo's zero-cost credit will be available to eligible Nexo clients in Europe.
- The Card is linked to a Nexo-provided, crypto-backed credit line that allows cardholders to use their digital assets as collateral rather than selling them.
- The credit line is dynamic and can use multiple assets as collateral, including **Bitcoin, Ethereum, and Tether.**
- The Card also comes with direct **Apple Pay** and **Google Pay integrations**. Cardholders can add it to their preferred mobile wallet from the **Nexo Wallet App.**

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10

Miscellaneous

1. INDIA, SINGAPORE LAUNCH UPI-PAYNOW LINKAGE

CONTEXT

India and Singapore has announced to link their payment apps, namely **UPI and PayNow** which will allow instantaneous and low-cost money transfers between the two countries.

- The linkage is set to ease **financial transactions** for the **Indian diaspora**.

About the move:

- **Background**: UPI payments through **QR codes** are already taking place in Singapore, though at a limited number of outlets.
- The announcement was done via a **virtual address** by both India and Singapore's Prime minister.
- **Aim:** This move will aid the Indian diaspora in Singapore, especially **students and migrant workers**, by allowing instantaneous and low-cost money transfers between the two countries.

Singapore has now become the **first country** with which cross-border Person to Person (P2P) payment facilities have been launched.

Unified Payments Interface (UPI):

- Unified Payments Interface (UPI) is a system that powers **multiple bank accounts** into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.
- It also caters to the "**Peer to Peer**" collect request which can be scheduled and paid as per requirement and convenience.
- Currently, UPI payments are made using the digital equivalent of existing currency notes. That means every rupee transferred via UPI is backed by physical currency.

PayNow:

- PayNow is a **fast payment system** in Singapore.

- It enables peer-to-peer funds transfer service, available to retail customers through participating banks and **Non-Bank Financial Institutions (NFIs)** in Singapore.
- It allows users to send and receive instant funds from one bank or e-wallet account to another in Singapore by using just their mobile number**, Singapore National Registration Identity Card (NRIC)/Foreign Identification Number (FIN), or VPA.**

2. INTEREST FREE BANKING

CONTEXT

Pakistan announced that the government would introduce interest-free banking in the country.

What is interest free banking?

- "Interest-Free Banking" is a fundamental concept derived from the Islamic form of banking.
- It operates with primitive professional and ethical standards that exclude the "Muslims" from paying or receiving any kind of interest.
- Interest-Free Banking was introduced in *Muhammad Zia-ul-Haq* regime in the 80s. Since then, it has developed very rapidly.

- 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.

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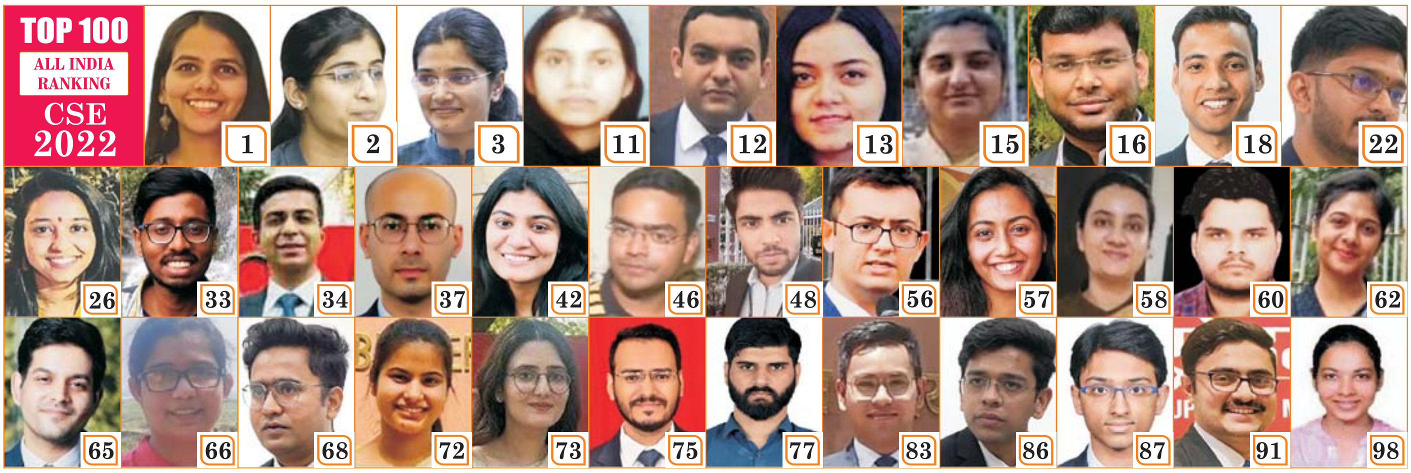

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