POLITY & GOVERNANACE

CHAMPAI SOREN SWORN IN AS 12TH CM OF JHARKHAND

CONTEXT: Champai Soren, Jharkhand Mukti Morcha (JMM) leader took oath as the twelfth Chief Minister of Jharkhand on Friday. Hemant Soren, former CM was remanded to five days in the custody of the Enforcement Directorate (ED).

Rashtriya Janata Dal (RJD) MLA Satyanand Bhokta and Congress MLA Alamgir Alam also took oath as Cabinet Ministers in a swearing-in ceremony that came two days after Mr. Hemant Soren's resignation and arrest in an alleged land scam case.

The new government seeks a vote of confidence on February 5. The JMM-led alliance has submitted letters of support from 47 MLAs to the Raj Bhavan.

POLITY & GOVERNANACE

HC REFUSES INTERIM RELIEF TO GYANVAPI MOSQUE PANEL

CONTEXT: The Allahabad High Court on Friday declined to give any immediate relief to the Anjuman Intezamia Masjid Committee that runs the Gyanvapi mosque, which had approached the court seeking an interim stay on the puja that is being observed in the mosque's basement on the orders of the district court.

On January 17, the District Court ordered appointing the Varanasi District Magistrate as the receiver of the southern cellar of the mosque. On the same application, the district court had, on January 31, allowed puja to be performed inside the Vyas Tehkhana, or cellar, of the mosque. Within hours of the order, the district administration ensured compliance, removing the barricades and fencing around the mosque to let a priest enter the cellar. Puja was then performed during the wee hours on February 1 and is continuing.

The mosque committee filed an application under Order 7 Rule 11 (Rejection of Plaint) before Allahabad High Court through senior advocate S.F.A. Naqvi. Justice Rohit Ranjan Agarwal pointed out that the applicants have not challenging the appointment of Varanasi District Magistrate as the receiver of the southern cellar of the mosque.

POLITY & GOVERNANACE

EXPOSING INDIA'S FINANCIAL MARKETS TO THE VULTURES

CONTEXT: In September 2023, J.P. Morgan unveiled its plan to include Indian local currency government bonds (LCGBs) in its Government Bond Index-Emerging Markets (GBI-EM) Global index suite, set to become effective from June 2024. About four months later, on January 8, 2024, Bloomberg Index Services mirrored J.P. Morgan's move by proposing the addition of India's "fully accessible route (FAR)" bonds to the Bloomberg Emerging Market Local Currency Index, set to take effect in September 2024.

A process that began in 2019

India commenced the process of incorporating its government bonds into global indices in 2019. By 2020, a part of government bonds became officially accessible to foreign investors without constraints. The recent moves by J.P. Morgan and Bloomberg indicate a potential inclusion of the Indian LC government and corporate bonds in more benchmark indices.

In October 2022, a report by the Inter-Departmental Group (IDG) of the Reserve Bank of India (RBI) detailed efforts to internationalise the rupee, particularly by integrating Indian Local Currency Government Bonds (LCGBs) into global indices. The document outlines various benefits, including diminishing dependence of public finance on domestic institutions, accessing the large international resources and a greater stability of funds tracking indices compared to other portfolio inflows. The report asserts that the perceived benefits outweigh the risks recognising potential risks such as heightened sensitivity of domestic monetary and financial conditions and policies to external factors.

Several observers have also pointed out that opening local bond markets would facilitate the financing of current account and fiscal deficits by engaging institutional investors with long-term investment horizons. Furthermore, it is argued that the cost of public borrowing would decline as the influx of funds into LCGBs lowers domestic interest rates. It is also expected that these funds would relieve the balance sheets of local financial institutions holding LCGBs, thereby increasing lending and private investment.

A key benefit of opening local bond markets to foreign investors emphasised by the mainstream, relates to the so-called “original sin” problem — that is, the inability of emerging economies to borrow internationally in their own currencies. Unlike local currency debt, external debt denominated in reserve currencies exposes debtors to the exchange rate risk. In times of sharp currency declines, this exposure could result in widespread private insolvencies and large public deficits — as seen in various instances of crisis in Asia, Latin America and elsewhere.

By opening bond markets and borrowing in local currency, the exchange rate risk is passed onto international lenders. However, this does not come free. It needs to be compensated. Furthermore, since these bonds are generally subject to domestic jurisdiction, lenders also face an additional default risk. This also needs to be compensated.

Thus, local currency bonds need to offer higher returns than forex bonds issued under foreign jurisdiction — in higher interest rates and/or capital gains. Indeed, even when large international investment in local bonds of emerging economies made after the global crisis in 2008 helped reduce local interest rates, the bond index in local currency terms outperformed the index in U.S. dollars, thanks to large capital gains from currency appreciations.

Loss of autonomy, greater risks

The internationalisation of bond markets in emerging economies also entails a significant loss of autonomy in controlling long-term rates and exposes them to greater interest rate risks. When global risk appetite and liquidity conditions deteriorate, and access to international capital markets is impaired, domestic bond markets too can get crippled due to adverse spill overs. This was seen after the Lehman collapse in September 2008 and when the US Federal Reserve revealed its intention to start reducing its bond purchases in May 2013. Again, after the recent normalisation of monetary policy in the U.S., local bond rates in emerging economies also shot up and continued moving with shifts in investors’ assessment of the possible course of policy stance of the Federal Reserve.

There is a misconception among proponents that foreign portfolio inflows into local currency bond markets (LCBM) provide stable and long-term funding. Unlike sovereign bonds of main reserve-currency countries such as the U.S. Treasuries, local currency sovereign debt of emerging economies is not held by central banks as international reserves, but fickle investors, primarily money managers from advanced economies, holding liabilities in their home currencies. As the adage suggests, everyone is a long-term investor until they recognise the impending end. When apprehensions emerge regarding short-term capital losses, be it due to rising interest rates, local currency depreciation, or a combination of both, stability tends to dissipate swiftly.

With the move to floating and increased exchange rate volatility, local currency bond inflows to emerging economies have become increasingly volatile because of the exchange rate risk borne by investors. There are significant variations over time in the share of foreigners in local bond markets and several instances of sudden stops and exits. In Malaysia, during 2014-15, the rapid exit of investors from local currency assets, including bonds, resulted in large reserve losses and sharp declines in the ringgit, pushing it to below the levels seen during the Asian crisis. In Türkiye, where macroeconomic imbalances were much more serious, foreigners totally left the bond market after Spring 2018, and reserve losses and currency declines were aggravated as unhedged local forex debtors joined in to avoid exchange rate losses.

In times of market distress, external debt in local currency plays a greater role in the drain of reserves and currency declines than forex debt because of investors’ exchange rate risk. Indeed, evidence shows that the volatility spillover for local currency bond funds is significantly larger than that for reserve-currency bond funds.

As per the October 2022 report from the IDG of the RBI, the opening of the LCBM to foreign investors and the inclusion of Indian LCGBs in global bond indices represent just one facet of the broader effort to internationalise the Indian rupee. Another crucial element involves permitting banking services in the rupee INR outside the country. The case of settling trade with Russia in the Indian rupee for crude oil resulted in an accumulation of the rupee in Russian banks.

Additionally, as reported by Bloomberg, the RBI has granted authorisation to 17 banks to settle trade in the Indian rupee across 18 countries and establish 65 offshore deposit accounts. This effectively creates an offshore INR market and introduces new avenues for speculation and potential instability, in addition to opening the LCBM to foreign investors.

The Malaysia and Türkiye experiences

Many of the woes of the Malaysian economy during 1997 Asian crisis were due to the offshore ringgit market in Singapore. As market confidence waned alongside the broader regional downturn, currency traders in the offshore market engaged in speculative activities in anticipation of a substantial devaluation. Offshore ringgit interest rates surged, exerting upward pressure on domestic interest rates, deepening downturn, exacerbating outflows of ringgit funds and compounding banks’ liquidity challenges and overall financial distress. The Malaysian authorities could only regain control after effectively closing the offshore ringgit market in September 1998 through the implementation of capital controls. Again, more recently in Türkiye in 2022, the offshore lira market in London became a major source of speculation against the Turkish currency, and the government took measures to curb it, including restrictions on bank lending to firms trading liras offshore.

To sum up, the internationalisation of bond markets and currencies of emerging economies is often presented as a recipe for overcoming the consequences of the original sin, enhancing the resilience to external shocks and improving the volume and allocation of investment. This is also encouraged by international investors and financial media which see large profit opportunities in unhindered access to markets of these economies, as is the case with India now. However, the risks involved are seriously underestimated. Given the inherently unstable international financial markets, a more likely outcome of such a step would be increased exchange rate instability and boom-bust cycles in capital flows. After several episodes of crisis in emerging economies, we should all know by now that when policies falter in managing financial integration, there is no limit to the damage that international finance can inflict on an economy.

POLITY AND GOVERNANCE

CENTRE LIKELY TO FOOT BILL FOR PM ROOFTOP SOLAR SCHEME

CONTEXT: The Centre is likely to bear the entire cost of setting up such systems for households that consume less than 300 units of electricity a month under Pradhan Mantri Suryodaya Yojana.

Under the existing approach to h-RTS, individual State-run power distribution companies — take up the responsibility of powering beneficiary households. The household rooftop solar systems (h-RTS) under Pradhan Mantri Suryodaya Yojana could potentially cost at least ₹1 lakh Cr.

Union Finance Minister Nirmala Sitharaman in her Budget speech announced 1 Cr. households would be enabled to obtain up to 300 units of free electricity every month, which would translate to benefits of ₹ 15,000 to ₹ 18,000 annually for households. About 85 % of Indian households, on average, use 100 to 120 units a month.

Hassle-free installation

PSUs of the Power Ministry such as the National Thermal Power Corporation (NTPC) will be charged with identifying households that consume less than 300 units a month in States. They will install RTS with eligible householders having to pay effectively nothing. Sixty per cent of the cost of installation will be subsidised by the Centre. The PSU will take a loan (from a bank) to bear the rest of cost and will repay from the cost of electricity (used by the household) over and above the 300 units.

Households with consumption of over 300 units can also use the scheme. However, they would be required to fund the 40 % themselves through a loan or self-financing. Each public sector unit will be tasked with reaching out to specific States. They will form Special Purpose Vehicles (SPV) with private companies to execute the programme.

A back-of-the-envelope calculation suggests that electrifying one crore households could cost at least ₹ 1.5 lakh crore. A 2 kilowatt to 3 Kilowatt (kw) system is sufficient to draw a minimum 300 units for a household. Currently, it costs about ₹50,000 per kw, implying ₹ 1,50,000 capital cost for a household. The Budget suggests that only ₹ 4,555 crore has been allocated this year, but being an interim Budget, this could change.

India currently has 6.7 lakh households with rooftop solar systems. Reaching one crore households is thus an exponential expansion. Uptake has been low so far because people were unaware of how to install RTS. From now on, people (PSU) will reach out to those households (<300 units). The speed of installation will go up four to five times faster.

POLITY AND GOVERNANCE

SOLAR PANEL SCHEME WILL BOOST BATTERY INDUSTRY, SAYS MODI

CONTEXT: Prime Minister Narendra Modi announced initiatives such as rooftop solar scheme and clean cooking mission would provide boost to the battery manufacturing industry and bring down the cost of batteries for electric vehicles.

Rooftop solar [panels] and provision for battery storage for 25 crore households will fuel clean cooking and demand for batteries will bring down the cost of car batteries. The solar panels for one crore households announced in the interim Budget would also help in charging vehicles.

Funds for research

There was also an allocation of ₹1 lakh crore in the interim Budget to encourage research and innovation as well as tax exemptions for start-ups, which will create new opportunities for the mobility sector. He urged the industry to conduct research to explore raw materials available in the country for battery manufacturing as well as in the areas of green hydrogen and ethanol. The Prime Minister said the tyre industry should also collaborate with farmers in order to reduce dependence on import of rubber.

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Facilities for drivers

He also announced that the government was working on a project to construct 1,000 buildings on National Highways for truck and taxi drivers with amenities such as food stalls, clean drinking water, toilets, parking and rest places. This will give a boost to both ease of living and ease of travelling for truck and taxi drivers, thereby improving their health and also help in preventing accidents.

POLITY & GOVERNANACE

LAW PANEL SUGGESTS RETAINING CRIMINAL DEFAMATION PROVISION

CONTEXT: The 22nd Law Commission has recommended that criminal defamation should be retained within the scheme of criminal laws in India.

The panel submitted its report to the Ministry on Thursday. In its report, the Law Commission argued that the right to reputation is derived from Article 21 of the Constitution that guarantees the right to life and personal liberty and that is why it has to be protected.

Reputation is something which can't be seen and can only be earned. It's an asset which is built in a lifetime and destroyed in seconds. The whole jurisprudence around the law on criminal defamation has the essence of protecting one's reputation and its facets.

The matter was referred to the law panel by the Ministry in August 2017. Noting that it could be argued that criminal prosecution for defamatory statements stands opposed to the freedom of speech and expression, the law panel advised exercising caution. Speech ought to be illegal only where it is meant to do substantial harm and when such harm materialises.

The Bharatiya Nyaya Sanhita has added a provision of community service as an additional punishment. This law gives a balancing approach, wherein it has safeguarded the interest of the victim and has also neutralised the scope of misuse by giving an alternate punishment of community service.

INTERNATIONAL RELATIONS

NAVY FOILS PIRACY ATTEMPT OFF EAST SOMALIA, RESCUES

CONTEXT: The Indian Navy foiled a piracy attempt on an Iranian-flagged fishing vessel off the east coast of Somalia on Friday and ensured the release of the crew — 11 Iranian and eight Pakistani nationals — along with the boat.

Information regarding piracy attempt on fishing vessel FV Omaril was monitored on January 31. The Indian naval remotely piloted aircraft (RPA), undertaking surveillance in the area, successfully located FV Omaril, and INS Sharda, deployed for anti-piracy mission in the region, was diverted to intercept the boat.

Seven pirates had boarded FV Omaril and taken the crew hostages, according to the Navy. INS Sharda intercepted the vessel in early hours of February 2 and used her integral helicopter and boats to coerce the pirates for safe release of crew along with the vessel. The ship also undertook "confirmatory boarding" on the vessel to sanitise it and check on the well-being of the crew.

Seven incidents of hijacking of vessels on high seas by pirates have been reported during the last three years, and the Indian Navy has been proactively engaging with the regional and extra-regional navies and maritime forces, Minister of State for Defence Ajay Bhatt informed Parliament on February 2. This does not include the latest incident.

INTERNATIONAL RELATIONS

INDIA WILL 'REPLACE' ITS MILITARY PERSONNEL BY MAY 10: MALDIVES

CONTEXT: India will "replace" its military personnel in the Maldives in two phases by May 10, the Government of Maldives has stated after the second meeting of the high-level core group between the two sides.

The decision came in the backdrop of Male's demand to end the presence of Indian military personnel in the archipelago nation, which was further complicated because of social media controversy over remarks by three Ministers of the Mohamed Muizzu government that were found to be disrespectful of Prime Minister Narendra Modi. The statement, however, did not clarify if the military personnel of India will be replaced by civilian operators or by another batch of armed forces personnel.

A statement from the Ministry of External Affairs (MEA) said that the two sides had "agreed on a set of mutually workable solutions to enable continued operation of Indian aviation platforms that provide humanitarian and medevac services to the people of Maldives." The Maldivian side reiterated that the two countries will continue cooperation in the fields of defence and security. The development came a day after the revised Indian Budget estimates for 2023-'24 gave Maldives a bigger financial allocation than it was previously granted in the current financial year.

ECONOMICS AND DEVELOPMENT

KYC, FUND LAUNDERING CONCERNS SAID TO SPUR RBI'S PAYTM UNIT BAN

CONTEXT: The Reserve Bank of India's (RBI) January 31 action directing Paytm Payments Bank Ltd. (PPBL) to cease all new business transactions by February 29 and settle all pipeline transactions by March 15, was triggered by major irregularities in the bank's compliance with Know Your Customer (KYC) norms, thus exposing customers, depositors and wallet holders to grave risk, said people aware of the developments.

RBI supervisors and external auditors are learnt to have found: KYC details missing for a very large number of customers (running into lakhs); PAN validation failures in lakhs of accounts; a single PAN used for multiple customers (in thousands of cases, the same PAN was linked to more than 100 customers and in some cases to more than 1,000 customers), the people, who spoke on condition of anonymity said.

The bank was also found to be involved in facilitating transactions running into crores of rupees and well beyond regulatory limits in prepaid instruments with minimal KYC requirements, raising money laundering concerns, the people added.

An unusually high number of dormant accounts were found to have been used as 'mule accounts' to facilitate transactions. The recent direction from RBI is a part of the ongoing supervisory engagement and compliance process," a Paytm Payments Bank spokesperson said, when asked to comment. The bank always upheld compliance with supervisory instructions in its interactions with regulator from time to time.

The Comprehensive System Audit report and subsequent compliance validation report of the external auditors revealed persistent non-compliances and continued material supervisory concerns in the bank, warranting further supervisory action.

The payments bank is accused of not adhering to the 'arm's length policy' while dealing with the Promoter Group Entities. Its financial and non-financial business were co-mingled with its promoter group companies in violation of licensing conditions and RBI directions on the matter, the people contended.

Auditors found the bank's reliance on the IT infrastructure of OCL (One97 Communications Ltd., the listed parent entity) remained absolute and there was no operational segregation. Many transactions were routed through the OCL owned apps, raising concerns on data privacy and data sharing.

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POLITY AND GOVERNANCE

POPULATION PRIORITIES

CONTEXT: Union Finance Minister Nirmala Sitharaman in her Interim Budget speech announced constitution of a High-Powered Committee (HPC) to consider the challenges arising from "fast population growth and demographic changes".

The Sample Registration System statistical report in 2020 and the National Family Health Survey-5 (2019-21) have shown that the total fertility rate (TFR) in India has fallen to 2 overall, with only a few States — Bihar (2.98), Meghalaya (2.91), Uttar Pradesh (2.35), Jharkhand (2.26) and Manipur (2.17) — having a TFR above 2.1. The TFR fell from 5.7 in 1950 to 2 in 2020, albeit differentially across regions. The population share of the southern States, reduced to 21 % in 2011 from 26 % in 1951, largely a consequence of a rapid reduction in TFR due to better socio-economic outcomes and education, and despite higher migration to these States.

The demographic shift in India and rising life expectancy have resulted in challenges and opportunities. The much-touted demographic dividend — the relatively high proportion of the working age population in the developing world — is meaningful only if there are sufficient jobs and if they enjoy some degree of social security that will help them when they age. With high unemployment and the creation of non-farm jobs, which will increase productivity and cater to skilled employment, relatively slack in the last few years, there is the possibility of the country squandering this dividend. The "high-powered" committee will be performing a crucial role if it engages meaningfully in addressing questions related to jobs and social security and the challenges citizens face due to rapid urbanisation and mechanisation of work.

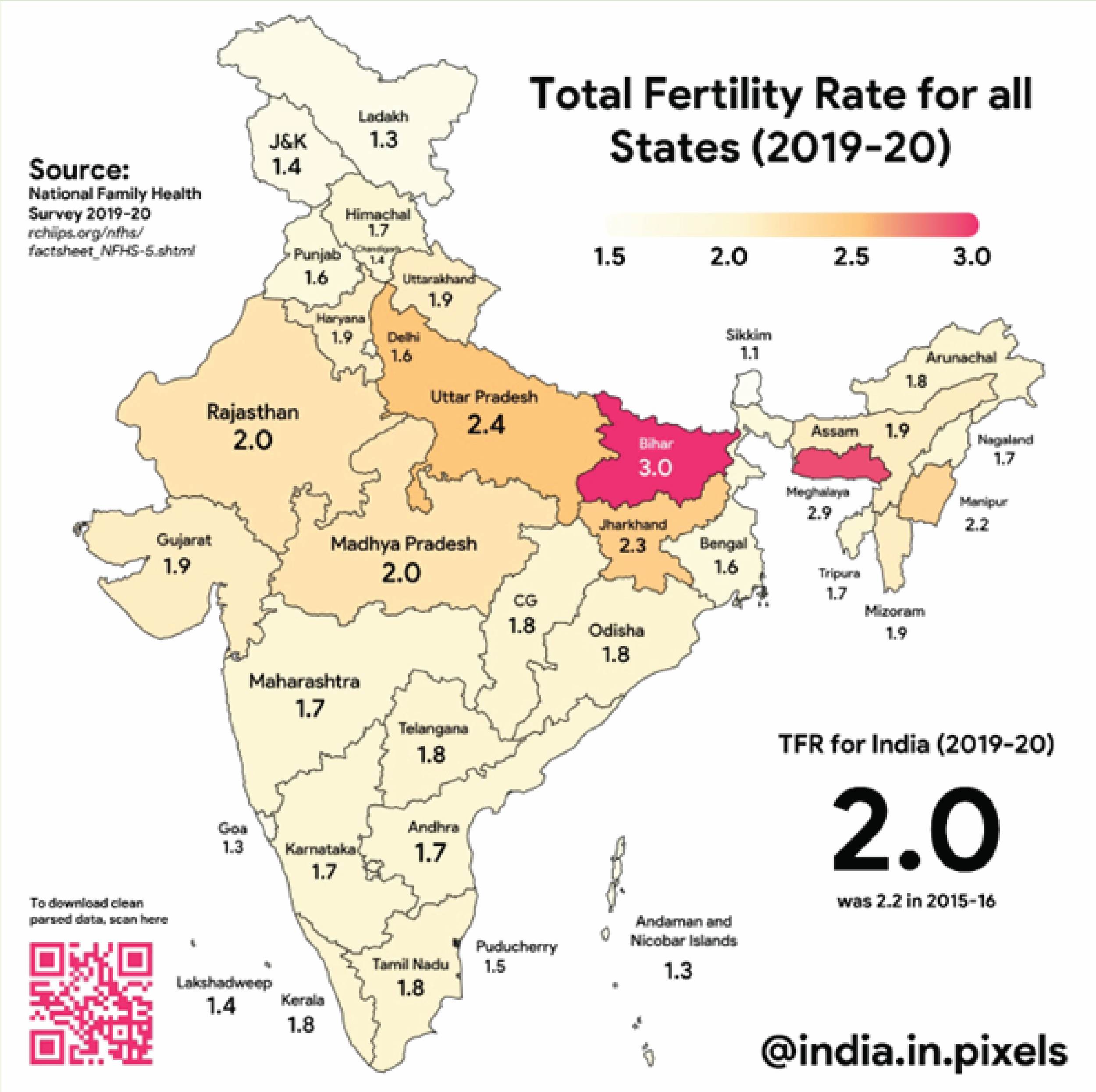

FIGURE: Bar chart representation of Total Fertility Rates.


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