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DAILY NEWS DIARY

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FOR PRELIMS AND MAINS

Warm Greetings.

- DnD aims to provide every day news analysis in sync with the UPSC pattern.
- It is targeted at UPSC – Prelims & Mains.
- Daily articles are provided in the form of Question and Answers

- To have a bank of mains questions.
- And interesting to read.
- Providing precise information that can be carried straight to the exam, rather than over dumping.

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GS 3

❖ INDIAN ECONOMY

Q) Explain the significance of the foreign exchange reserves. How Reserve Bank of India manages the foreign exchange reserves of the country?

Context:

The Indian rupee has been in free fall. Some commentators have pointed out that it has fallen less against the US dollar than a lot of other currencies.

Significance of foreign exchange reserves:

- Decline by 10 per cent: A large part of the current relative strength of the rupee vis-à-vis other currencies is due to the sale of dollars by the RBI — it has lost more than 10 per cent of its foreign reserves in the space of about nine months.
- Why country needs foreign exchange: A developing economy needs foreign exchange to finance its international transactions for both the current account (goods and services) and capital account (assets) transactions.
- Cost involved: The benefits of this stock are obvious, but there are also costs associated with the holding of these. The larger the stock, the more its reassuring value. Typically, because of their "liquid" nature, the returns on these are low.

How RBI manages the foreign exchange reserves?

- A country can accumulate reserves by running current account surpluses that is, keeping its total expenditure below its gross national product, and/or by interventions in the foreign exchange markets.
- India (usually) runs a current account deficit. Its reserves are then accumulated solely through "sterilised" interventions.
- When foreign entities want to invest in Indian assets (stocks and debt), the RBI gives them rupees in exchange for foreign exchange.
- Mindful of the fact that this may cause a surge in inflation, the RBI then sells government bonds, sucking out the additional rupees.
- The foreign exchange reserves rise, and are matched by an increase in government bonds outstanding.

How outflow of foreign financial capital affects foreign exchange reserves?

- When capital inflows were taking place, the RBI accumulated foreign exchange and allowed some currency appreciation.
- As long as capital flows were strong, foreign reserves kept piling up and the currency (in real terms) was strong.
- Depreciation of rupee: In recent months, we have witnessed an outflow of foreign financial capital, with reserves falling and the rupee depreciating.
- International capital flows tend to be pro-cyclical, that is, they move with the world economic activity.

- Unlikely to increase export: A depreciation of our currency is unlikely to see our exports rise very much because the world income levels are down.
- Inflation: What this depreciation will cause is imported inflation and bankruptcies.

Analysing the RBI's role:

1. Allowed outward remittances: The RBI threw caution to the winds and allowed outward remittances in foreign currency by Indian residents, with almost no questions asked (up to $2,50,000 annually). The RBI could have had a much larger supply of foreign exchange had they not generously handed out foreign currency to be frittered away.
2. While they have not restricted outward remittances, they are trying to shore up reserves by making FCNR (B) and FRE deposits more attractive. It is not in any individual's interest to bail out the RBI. The RBI has also committed to using reserves to ensure an orderly depreciation.
3. Futility of RBI's intervention: If the world financial markets want a depreciated rupee, the RBI's intervention would not be able to prevent it. But in spite of this, the RBI, with its commitment to inflation targeting, would try to prevent a depreciation (because it causes the price of imported goods to rise).
4. Possible impact on the poor: Having too open a capital account policy was always fraught with risks. When countries are confronted with a crisis, the IMF is asked to provide assistance. But assistance from IMF would involve a "structural adjustment", including cutting back on subsidies for the poor and vulnerable.

Conclusion:

We are standing at the edge of a precipice, but, hopefully, the world will pull back in the nick of time. If not, it would be the chronicle of a death foretold.

Source: Indian Express

Q) What is the International Bullion Exchange (IIBX)? Elaborate its functionality and significance.

Context:

Prime Minister has launched India's first International Bullion Exchange (IIBX) at the Gujarat International Finance Tec-City (GIFT City) near Gandhinagar.

Bullion:

Bullion refers to physical gold and silver of high purity that is often kept in the form of bars, ingots, or coins. It can sometimes be considered legal tender and is often held as reserves by central banks or held by institutional investors.

When was the IIBX announced?

- During her 2020 budget speech, Finance Minister announced the setting up of India International Bullion Exchange (IIBX) at International Financial Services Center (IFSC) at GIFT City in Gandhinagar.
- The International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020, was notified in December 2020 for trading of precious metals, including gold and silver.

- These regulations also cover bullion exchange, clearing corporation, depository and vaults.

IIBX:

- India for the first time had liberalised gold imports through nominated banks and agencies in the 1990s.
- Now, the eligible qualified jewellers in India have been allowed to directly import gold through IIBX.
- For this, jewellers will have to become a trading partner or a client of an existing trading member.
- In addition, the exchange has set up necessary infrastructure to store physical gold and silver.
- The exchange will sell physical gold and silver and aims to be set up on the lines of the Shanghai Gold Exchange and Borsa Istanbul in order to make India a key regional hub for bullion flows.

Its functionality:

The thought process behind setting this up is to enable the trading of commodities on an exchange. Since this is international exchange, trading can take place in US dollars as well. India has positioned itself as one of the biggest trading hubs in Asia. Because of the competitive pricing on IIBX, international players will be happy to use our vaulting services. Moreover, with this being a free trade zone, no duty will be paid.

What was the practice up until now?

- Currently, gold in India is imported on a consignment model into different cities by nominated banks and agencies approved by the RBI and then supplied to traders/jewellers.
- The banks and other agencies get a fee from the gold exporter for handling, storage, etc, and also add a premium to the gold while transacting with domestic buyers.
- The buyer passes this charge on to the value chain until it reaches the end customer.

What change did IIBX bring?

With the IIBX becoming operational today, qualified domestic buyers can, through a branch in Gift City, purchase the bars and coins. This purchase can be done from an international supplier who is a member of the IIBX.

Advantage of the exchange:

- Through the dis-intermediation by facilitating transactions through an anonymously traded exchange platform, bullion is made available across special economic zones (SEZs) at International Financial Services Centres Authority (IFSCA)-approved vaults.
- This means the growth of IIBX is not just limited to GIFT City but across jewellery manufacturing hubs nationwide.
- The qualified jeweller allowed to import gold through IIBX, or a jeweller who is a client of an IIBX member, can view the available stock and place the order.
- This shall nudge jewellers towards just-in-time inventory management.
- It will also result in greater transparency in pricing, and order sequencing, thereby removing any room for unfair preference by supplier, importing or logistics agency.

What products does IIBX offer?

1. IIBX offers a diversified portfolio of products and technology services at a cost which is far more competitive than the Indian exchanges as well as other global exchanges in Hong Kong Singapore, Dubai, London and New York.
2. Gold 1 kg 995 purity and gold 100 gm 999 purity with a T+0 settlement (100% upfront margin) are expected to trade at IIBX initially.
3. All contracts will be listed, traded and settled in US Dollar.
4. The exchange will have three vaults – one operated by Sequel Global (ready and approved), the second one to be operated by Brinks India is ready and awaiting final approval and the third is under construction.
5. Once the gold is imported by the authorised entities it will be deposited at one of the vaults which will issue bullion depository receipts.
6. These receipts will then be traded in dollars on the exchange.

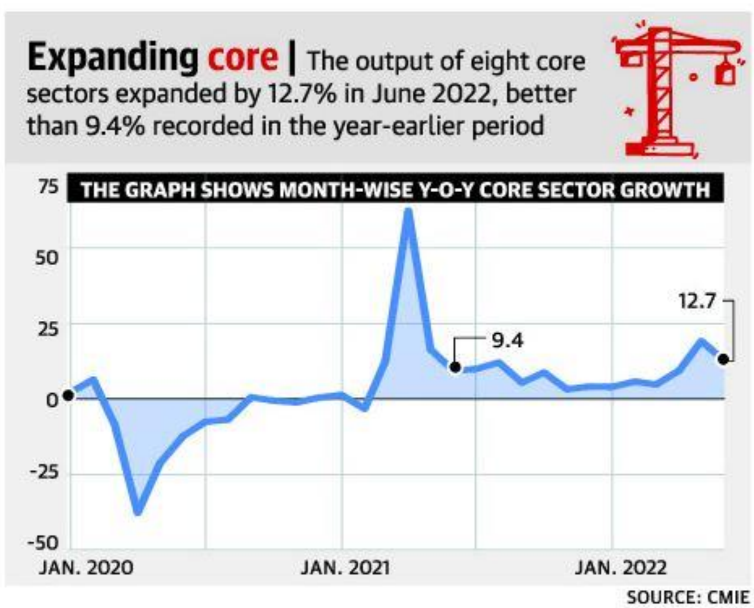
Significance of IIBX:

- ✓ The IIBX shall be the "Gateway for Bullion Imports into India", wherein all the bullion imports for domestic consumption shall be channelized through the exchange.
- ✓ The exchange ecosystem is expected to bring all the market participants to a common transparent platform for bullion trading.
- ✓ It would provide efficient price discovery, assurance in the quality of gold, and enable greater integration with other segments of financial markets.

Source: The Hindu

Q) Analyse and compare the effectiveness of the Index of Eight Core Industries (ICI) and Index of Industrial Production (IIP).

Context: India's eight core sectors' output growth moderated to 12.7% in June, from 18.1% in May, with all sectors except crude oil registering an uptick in production.



Core Industries in India:

The main or the key industries constitute the core sectors of an economy. In India, there are eight sectors that are considered the core sectors. They are electricity, steel, refinery products, crude oil, coal, cement, natural gas and fertilizers.

Index of Eight Core Industries (ICI) and Index of Industrial Production (IIP):

1. Index of Eight Core Industries
   The monthly Index of Eight Core Industries (ICI) is a production volume index. ICI measures collective and individual performance of production in selected eight core industries viz. Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement and Electricity. Prior to the 2004-05 series six core industries namely Coal, Cement, Finished Steel, Electricity, Crude petroleum and Refinery products constituted the index basket.
   Two more industries i.e. Fertilizer and Natural Gas were added to the index basket in 2004-05 series. The ICI series with base 2011-12 will continue to have eight core industries. Components covered in these eight industries for the purpose of compilation of index are as follows:
   - Coal – Coal Production excluding Coking coal.
   - Crude Oil – Total Crude Oil Production.
   - Natural Gas – Total Natural Gas Production.
   - Refinery Products – Total Refinery Production (in terms of Crude Throughput).
   - Fertilizer – Urea, Ammonium Sulphate (A/S), Calcium Ammonium Nitrate (CAN), Ammonium chloride (A/C), Diammonium Phosphate (DAP), Complex Grade Fertilizer and Single superphosphate (SSP).
   - Steel – Production of Alloy and Non-Alloy Steel only.
   - Cement – Production of Large Plants and Mini Plants.
   - Electricity – Actual Electricity Generation of Thermal, Nuclear, Hydro, imports from Bhutan.
2. Index of Industrial Production
   The Index of Industrial Production (IIP) is an index for India which details out the growth of various sectors in an economy such as mineral mining, electricity and manufacturing.
   The all India 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 with respect to that in a chosen base period.

Difference between the two:

- IIP is compiled and published monthly by the National Statistics Office (NSO), Ministry of Statistics and Programme Implementation six weeks after the reference month ends.
- However, ICI is compiled and released by Office of the Economic Adviser (OEA), Department of Industrial Policy & Promotion (DIPP), and Ministry of Commerce & Industry.
- The Eight Core Industries comprise nearly 40.27% of the weight of items included in the Index of Industrial Production (IIP).
- These are Electricity, steel, refinery products, crude oil, coal, cement, natural gas and fertilisers.

Importance of Core Industries:

- ✓ The core sectors have a major impact on the Indian economy and significantly affect most other industries as well.
- ✓ Their measures help account for the physical volume of production in India.
- ✓ Their analysis offers a clearer and more realistic assessment of what's happening in the economy
- ✓ Their progress is used by government agencies for policy-making purposes.
- ✓ They remain extremely relevant for the calculation of the quarterly and advanced Gross Domestic Product (GDP) estimates.
- ✓ The core sector is also known as Infrastructure output as they represent the basic industries that form the base of the economy.

Source: The Hindu

❖ ENVIRONMENT & BIODIVERSITY

Q) "Every person on the planet has the right to live in a clean, healthy environment, as declared United Nations (UN) in a historic resolution." Explain its significance.

Context:

Every person on the planet has the right to live in a clean, healthy environment, as declared United Nations (UN) in a historic resolution.

Access to Clean, Healthy Environment:

- The resolution recognizes the right to a clean, healthy and sustainable environment as a human right essential for the full enjoyment of all human rights and, among others.
- It calls upon States and international organizations to adopt policies and scale up efforts to ensure a clean, healthy and sustainable environment for all.
- The landmark development demonstrates that the member states can unite in the collective fight against the triple planetary crisis of climate change, biodiversity loss and pollution.
- The declaration sheds light on almost all the rights connected to the health of our environment.
- The declaration adopted by over 160 UN member nations, including India, is not legally binding.

Importance of such move:

This right was not included in the Universal Declaration of Human Rights, 1948. So, this is a historic resolution that will change the very nature of international human rights law.

The resolution will help to reduce environmental injustices and protection gaps. It can empower people, especially those in vulnerable situations, including environmental human rights defenders, children, youth, women and indigenous people.

Issues over this declaration:

- ✓ The words' 'clean', 'healthy' and 'sustainable' lack an internationally agreed definition.
- ✓ The text fails to refer to the foundational principle of equity in international environmental law.

- ✓ Nevertheless, this has given more power in the hands of environmental activists to question environmentally destructive actions and policies.

Source: Down to Earth

Q) Which of the following are the initiatives for the welfare and upliftment of the minority Communities?

a) Hamari Darohar
b) Nai Manzil
c) Nai Udaan
d) Naya Savera
e) USTAAD

Hey from Yesterday –

Q) Which of the following statements is/are correct with respect to millet cultivation in India?

1) India accounts for over 50% of global millet production.
2) India's average yield of millets is higher than the global average yield.
3) Finger millet accounts for the largest share of millets crop grown in India.

Options:

a) 1 only
b) 2 and 3 only
c) 2 only
d) 1 and 3 only

Answer: c

Explanation:

- India is a major producer of Millets, accounting for 80% of Asia's production and 20% of global production.
- India's average yield of Millets (1239 kg/hectare) is higher than the global average yield (1229 kg/hectare).
- Major Millets grown in India are
  - Pearl Millet (Bajra) – 61% share
  - Jowar (Sorghum) – 27%
  - Finger Millet (Mandua/Ragi) – 10%