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of Current Affairs by **SUCCESS MANTRA** (GTB Nagar)

ECONOMIC AFFAIRS

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IMPORTANT ECONOMIC AFFAIRS

#INDIA BECOMES WORLD'S 5TH LARGEST ECONOMY

Recently, India became the world's fifth largest economy by overtaking the United Kingdom. Now, the United States, China, Japan, and Germany are the only nations with economies larger than India's. The real Gross Domestic product (GDP) growth of 6-6.5% in a world full of uncertainties is the new normal and India is set to be the third largest economy by 2029.



What are the Key Highlights of this Achievement?

- **New Milestone:** Moving past one of the biggest economies in the world, especially one that ruled over the Indian sub-continent for two centuries, is a major milestone.
- **Size of Economy:** The size of the Indian economy in 'nominal' cash terms in the quarter through March, 2022 was USD 854.7 billion while for UK was USD 816 billion.

Comparison with United Kingdom:

- **Population Size:** As of 2022, India has a population of 1.41 billion while the UK's population is 68.5 million.
- **GDP Per capita:** GDP per capita provides a more realistic comparison of income levels because it divides a country's GDP by the population of that country. The per capita income in India remains very low, India is ranked 122 out of 190 countries in terms of per capita income in 2021.
- **Poverty:** The low per capita incomes often point to high levels of poverty. At the start of the 19th century, the UK's share in extreme poverty was considerably higher than India's.
- **Health:** The Universal Health Coverage (UHC) Index is measured on a scale from 0 (worst) to 100 (best) based on the average coverage of essential services including reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases and service capacity and access.
- **Human development Index:** The end goal of higher GDP and faster economic growth is to have better human development parameters. According to HDI (2019), the UK score is 0.932 and India's score is 0.645 which is comparatively far behind the UK. Despite its secular improvement, India might still take a decade to be where the UK was in 1980.

#IMF BAILOUT TO SRILANKA

Recently, The International Monetary Fund (IMF) approved a preliminary agreement with Sri Lanka on a four-year, USD 2.9 billion bailout package which is aimed at restoring economic stability and debt sustainability for the crisis-ridden south Asian nation.

What is the Bailout Package Offered to Sri Lanka?

- **Need:** The Economic Crisis of Sri Lanka with USD 51 billion debt which was caused due to various reasons: The Easter bomb blasts of April 2019 in churches in Colombo The government policy of lower tax rates and wide-ranging subsidies for farmers during their campaign. The Covid-19 pandemic in 2020 which impacted exports of tea, rubber, spices, garments and the tourism sector.

About:

- The IMF package is to be paid in tranches over the next four years, which is less than what India provided to Sri Lanka over four months.
- The package must be approved by the IMF's board of directors. The approval is contingent on Sri Lanka's international creditors - commercial lenders such as banks and asset managers, multilateral agencies, as well as bilateral creditors including China, Japan, and India agreeing to restructure its debt.

#FALL IN GLOBAL CRUDE OIL PRICES

Brent crude prices **have fallen sharply over the last ten days**, the prices have declined to under USD 90 per barrel. While they were trading at around \$110 per barrel in July, 2022.

What led to the fall in Global Crude Oil Prices?

- The crude prices fell sharply by around 4% and the decline has come **despite Organisation of the Petroleum Exporting Countries (OPEC+) plus announcement to cut supply by 100,000 barrels per day** beginning October, 2022 in a bid to prop up the prices.
- While the prices have been softening over the last couple of months, the recent sharp decline is **due to renewed fears of recession in Europe and decline in demand from China**, which brought in new Covid lockdown measures amid weakening factory activity.
- There is a concern that **these factors could dent the future demand of crude oil**.
- Market participants say OPEC's decision to cut production is in itself an indication that **it expects a decline in demand** and further softening in prices.



How would Global Crude Oil Price Impact India?

Impact of Rise in Global Oil Price:

- India imports **nearly 85% of its crude requirement** and in the year ended March 2022, the oil import bill doubled to USD 119 billion on account of rise in prices.
- The rise in import bill not only leads to inflation and rise in current account deficit and fiscal deficit, **but also weakens the rupee against the dollar** and hurts **stock market** sentiment.
- A rise in crude oil price **also has an indirect impact on India as it leads to a rise in edible oil prices**, coal prices and also that of fertilizers as they use gas as feedstock. Gas accounts for 80% of all fertilizer production costs. So, if a rise in crude oil prices could lead to a much-enhanced import burden, it also leads to reduction in demand in the economy which hurts growth.
- It could also lead to higher **fiscal deficit if the government chooses to bear the burden by way of subsidies**.

Impact of Fall in Global Price:

- **A softening in crude oil prices is a big relief for all stakeholders – the government, the consumers and even the corporates.**
- If oil continues to trade at lower levels, it will result in lower **inflation** levels, higher disposable incomes and thereby higher economic growth.
- If on the one hand it is a reflection of expectations of slowdown in global growth which may have its bearing on India's growth too, on the other it comes as a big respite for India.
- Softening crude oil price has also played a role in the **index rise on equity and debt markets as companies across sectors** are sensitive to crude oil prices.

#WHAT IS WINDFALL TAX?

Recently, the Ministry of Finance has justified the **imposition of Windfall Tax** on domestic **crude oil** producers in July 2022, saying that it was not an ad hoc (made or done suddenly) move but was done after full consultation with the industry.

Besides India, a wave of countries including the United Kingdom, Italy, and Germany have either already imposed a windfall profit tax on **super normal profits of energy companies** or are contemplating doing so.



What is a Windfall Tax?

- Windfall taxes are designed to tax the profits a company derives from an external, sometimes unprecedented event— for instance, the **energy price-rise as a result of the Russia-Ukraine conflict**.
- These are profits that cannot be attributed to something the firm actively did, like an investment strategy or an expansion of business.
- A windfall is defined as an **“unearned, unanticipated gain in income** through no additional effort or expense”.
- Governments typically levy a **one-off tax retrospectively over and above the normal rates of tax** on such profits, called **windfall tax**.
- One area where such taxes have **routinely been discussed is oil markets**, where price fluctuation leads to **volatile or erratic profits for the industry**.

Rationale:

There have been varying rationales for governments worldwide to introduce windfall taxes, from redistribution of unexpected gains when high prices benefit producers at the expense of consumers, to funding social welfare schemes, and as a **supplementary revenue stream** for the government.

Why is Countries Levying Windfall Taxes Now?

- Prices of oil, **gas**, and **coal** have seen sharp increases since late last year **and in the first two quarters of the current year**, although they have reduced recently.
- The increase stems from a combination of factors, **including a mismatch between energy demand and supply** during the economic recovery from **Covid-19**, further amplified by the **Russian war in Ukraine**.
- Pandemic recovery and supply issues resulting from the Russia-Ukraine conflict shore up energy demands, **in turn driving up global prices**.
- The rising prices meant huge and record profits for energy companies while **resulting in hefty gas and electricity bills for household bills** in major and smaller economies.
- The levies came as refiners made major gains by **boosting fuel exports to countries that were in a deficit like Europe**, which has now boycotted oil imports from Russia.
- The **U.N.(United Nations)** chief urged all **governments to tax these excessive profits** “and use the funds to support the **most vulnerable people** through these difficult times.”
- The calls to introduce windfall taxes also found support in organisations like the IMF, which released an **advice note as to how such a tax should be levied**.

#ETHEREUM MERGER

Recently, the **Ethereum** blockchain platform fully **transitioned** from 'proof of work' to a 'proof-of-stake' consensus mechanism and this revamp is known as the **Merge**.



What has Exactly Changed?

Old Method:

- As a decentralised platform, Ethereum doesn't have institutions like banks approving the transactions that happen on its network – the **approvals were earlier happening under the Proof of Work(PoW) consensus mechanism** which was essentially **done by miners**.
- Under it, the **miners would compete to solve complex mathematical puzzles** using a massive infrastructure of cutting-edge computer hardware, and the first one to solve the puzzle would be chosen as the validator.
- This method was almost **entirely dependent on crypto farms**, which are massive warehouses lined with rows of computers which would solve the puzzles.

New Method:

- **Proof of Stake:** It would **set aside the need for crypto miners and gigantic mining farms**, which had previously driven the blockchain under a mechanism called '**proof-of-work**' (PoW).
- Instead, it has now **shifted to a 'proof-of-stake' (PoS) mechanism** that assigns '**validators**' randomly to **approve transactions and earn a small reward**.
- Validators are people who **volunteer a computer to maintain the blockchain's integrity** by constantly computing the linkage from the first block to the last.
- **Benefits:**
- This would entirely **eliminate the need for miners** on the Ethereum network.
- It will **reduce ethereum's energy consumption** by nearly 99.95%.
- It will make **transactions on the Ethereum network extremely secure**.

What do we Know about Ethereum?

- Ethereum is one of the **most used platforms by developers to build decentralised apps (dApps)**, smart contracts, and even crypto tokens. The platform's currency, Ether is only second to Bitcoin in terms of market capitalisation. Some of the most popular applications of cryptocurrencies such as **non-fungible tokens (NFTs)** and **decentralised finance (DeFi)** are based on the Ethereum network.

What is Cryptocurrency?

- **Cryptocurrency**, sometimes called crypto-currency or crypto, is any form of currency that exists digitally or virtually and uses cryptography to secure transactions.
- Cryptocurrencies don't have a central issuing or regulating authority, instead using a decentralized system to record transactions and issue new units.
- It is supported by a decentralized **peer-to-peer network** called the **blockchain**.

What is Blockchain Technology?

- **Blockchain technology** ensures that **all transactions in cryptocurrencies are recorded** in a public financial transaction database.
- Bitcoin, Ethereum, and Ripple are a few notable **examples** of cryptocurrencies. Blockchain derives its name from the **digital databases or ledgers** where information is stored as "**blocks**" that are coupled together

to form “chains”.

- It offers a **singular combination of permanent and tamper-evident record-keeping**, real-time transaction transparency, and auditability.
- An exact copy of the blockchain is **available to each of the multiple computers** or users who are joined together in a network.
- Any new information added or altered via a new block is to be vetted and **approved by over half the total users**.

#WHAT IS DIGITAL RUPEE?

The **Reserve Bank of India (RBI)** will soon commence limited pilot launches of **e-rupee (₹)**, or Central Bank Digital Currency (CBDC) or **digital rupee**, for specific use cases. It has hinted at two broad categories for the use of e-rupee — retail and wholesale — for various transactions.



What is e-rupee?

- **Definition:** RBI defines the CBDC as the **digital form of currency notes issued by a central bank**. It is a sovereign or entirely independent currency issued by the central bank (in this case, RBI), in accordance with the country's monetary policy.
- **Legal Tender:** Once officially issued, CBDC **will be considered as a medium of payment and legal tender by all three parties** - citizens, government bodies, and enterprises. Being government-recognised, it can be freely converted to any commercial bank's money or notes.
- RBI is **not in favour of e-rupee with interest**. Because people might withdraw money from banks and convert it to digital rupee - causing banks to fail.
- **Global Scenario:** As of July 2022, 105 countries were exploring CBDC. **Ten countries have launched CBDC**, the first of which was the Bahamian Sand Dollar in 2020 and the latest was Jamaica's JAM-DEX.

What is RBI's Plan for CBDC?

- **Types of CBDC:** On the basis of **usage and the functions** performed by the digital rupee and considering the different levels of **accessibility**, CBDC can be demarcated into two broad categories — **general purpose (retail) (CBDC-R)** and **wholesale (CBDC-W)**.
- **Retail CBDC** is an **electronic version of cash primarily meant for retail transactions**. It will be used by all — private sector, non-financial consumers and businesses. However, the **RBI has not explained how e-rupee can be used in merchant transactions in the retail trade**.
- **Wholesale CBDC** is designed **for restricted access to select financial institutions**. It has the potential to transform the settlement systems for financial transactions undertaken by banks into government securities (**G-Sec**) segment, inter-bank market and capital market more efficiently and securely in terms of operational costs, use of collateral and liquidity management.

Model for Issuance:

- In the **direct model**, the **central bank will be responsible for managing all aspects of the digital rupee system** such as issuance, account-keeping and transaction verification.
- An **indirect model** would be **one where the central bank and other intermediaries (banks and any other service providers), each play their respective role**. The central bank will issue CBDC to consumers indirectly through intermediaries and any claim by consumers will be managed by the intermediary.

#WORLD ECONOMIC OUTLOOK: IMF

Recently, the **International Monetary Fund (IMF)** released the latest edition of World Economic Outlook 2022.

What are the Highlights of the World Economic Outlook?

Indian Scenario:

- It cut its forecast for India's **Gross Domestic Product (GDP)** growth in 2022 to **6.8%**, from **7.4%** for India in the fiscal year that started in April 2022.
- For 2023, India has been projected to grow at 6.1%.



Global Scenario:

- Global growth is forecast to slow from **6% in 2021 to 3.2% in 2022 and 2.7% in 2023**. This is the weakest growth profile since 2001, except for the global financial crisis and the acute phase of the Covid-19 pandemic.
- The global growth is expected to slow further in 2023. The worst is yet to come and, for many people 2023 will feel like a recession.
- A slowdown in the Euro area is expected to deepen in 2023, and growth in China is projected to hit its lowest rate in decades apart from during the initial coronavirus outbreak.

Inflation:

- Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024.
- The **slowdown in global economic activity is broad-based and sharper-than-expected**, with inflation higher than seen in decades. The economic outlook depends on a successful calibration of monetary and fiscal policies, the course of the war in Ukraine, and growth prospects in China.

What is the International Monetary Fund?

The IMF was set up along with the **World Bank** after the **Second World War** to assist in the reconstruction of war-ravaged countries.

The two organizations agreed to be set up at a **conference in Bretton Woods in the US**. Hence, they are

known as the **Bretton Woods twins**.

- **Created in 1944**, the IMF is governed by and **accountable to the 190 countries that make up its near global membership. India joined on 27th December 1945.**
- The IMF came into formal existence in December 1945.
- The IMF's primary purpose is to ensure the stability of the international monetary system — the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.
- The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

Reports by IMF:

- **Global Financial Stability Report.**
- **World Economic Outlook.**

World Economic Outlook

- It is a survey by the IMF that is usually published twice a year in the months of April and October.
- It analyzes and predicts global economic developments during the near and medium term.
- In response to the growing demand for more frequent forecast updates, the WEO Update is published in January and July, between the two main WEO publications released usually in April and October.

#INTERNATIONALISATION OF RUPEE

A deputy governor of the **Reserve Bank of India (RBI)** recently emphasized the advantages and risks of the internationalization of the rupee.

What is Internationalisation of Rupee?

- Internationalisation of the rupee is a **process that involves increasing use of the local currency in cross-border transactions**. It involves promoting the rupee for import and export trade **and then other** current account transactions **followed by its use in** capital account transactions. As far as the rupee is concerned, it is fully convertible in the current account, but partially in capital account.
- **Current and Capital account are the two components of Balance of payments**. While the current account deals mainly with the import and export of goods and services, the capital account is made up of the cross-border movement of capital by way of investments and loans.

What are the Steps taken for the Internationalisation of the Rupee?

- **In July, 2022** the RBI has **introduced a mechanism to facilitate international trade in rupees**.
- Enabling **external commercial borrowings** in Rupees (especially **Masala Bonds**). The Asian Clearing Union is also exploring a scheme of using domestic currencies for settlement. An arrangement, bilateral or among trading blocs, which offers importers of each country the choice to pay in domestic currency is likely to be favoured by all countries, and therefore, is worth exploring.

#RTI EXEMPTIONS FOR BANKS

Supreme agreed to examine a plea by various Banks for the exemption from **RTI (Right to Information)**. Various Public and Private Sector banks want to be exempted from disclosing an array of financial information relating to Non-Performing Assets (NPAs), losses from trading operations, show-cause notices, and penalties.

What is the Issue?

- The legal battle for the disclosure of inspection reports and defaulters list started when RTI activist Jayantilal Mistry sought information under RTI Act, 2005 from the RBI about a Gujarat-based cooperative bank in 2010. The matter went up to the SC as Mistry's appeals were not entertained by several layers of the RTI process.
- In 2015, the Supreme Court had come down on the RBI for trying **to keep the inspection reports and defaulters list confidential**, paving the way for the public disclosure of such reports of the RBI, much against the wishes of the banking sector.
- The SC had said the **RBI has no legal duty to maximize the benefit of any public sector or private sector bank**, and thus there is no relationship of 'trust' between them. It added that the RBI was duty-bound to uphold the public interest by revealing these details under RTI.
- The central bank then allowed **making such reports public following the Supreme Court order**.
- Now the SC says, the 2015 judgment did not take into consideration **the aspect of balancing the right to information and the right to privacy**, and thus, the court is duty-bound **to give banks an opportunity to argue their case on merits**.

What is the Argument Provided by Banks?

- As banks are involved in dealing in money, they fear any adverse remarks — especially from the regulator RBI — will **affect their performance and keep customers away**.
- **Banks are driven by the "trust and faith" of their clients** that should not be made public.
- Banks also argued that **privacy is a fundamental right**, and therefore, should not be violated by **making clients' information public**.

What is the RTI Act, 2005?

- Right to Information Act or RTI is a central legislation, which enables the citizens to procure information from a public authority.
- It provides **the mechanism for obtaining information under the control of public authority** so that transparency and accountability can be increased.
- **Sec 8 of the RTI ACT:** Sec 8 deals with **exemption from disclosure of information**.
- Information which would prejudicially affect the sovereignty and integrity of India
- Information which has been expressly forbidden to be published by any court of law
- Information, the disclosure of which would cause a breach of privilege of Parliament or the State Legislature.
- Information including commercial confidence, trade secrets or intellectual property, the disclosure of which would harm the competitive position of a third party, **unless the competent authority is satisfied that larger public interest warrants the disclosure of such information**
- Information available to a person in his fiduciary relationship, unless the competent authority is satisfied that the larger public interest warrants the disclosure of such information.

#REPORT BY RBI ON BIG TECH.

According to a new report by **Reserve Bank of India (RBI)**, large non-financial technology firms, referred to as “**big techs**,” pose challenges to financial stability owing to their technological advantages, large user base, wide-spread use by financial institutions and network-effects.

What are the Big Techs?

- Big techs include companies such as **Alibaba, Amazon, Facebook, Google, and Tencent**.
- They **usually hold service licenses through subsidiaries or Joint Ventures** with varying levels of ownership control and jurisdictional regulatory advantages.
- **Increasing Role of Big Techs:**
- Big techs, given their pervasive adoption as third-party service providers, generally become the underlying platform on which a host of services are offered.
- This uniquely positions the big techs to easily acquire cross-functional databases which can be exploited for generating innovative product offerings, making them dominant players in the market.
- The **pervasiveness of big techs provides them with a large client base** who are entrenched in using their platforms/ products with access to multiple facets of customers’ data, generating strong network effects.
- The **entry of big techs into finance also reflects strong complementarities** between financial services and their core non-financial services.
- Besides the technological advantages, the **big techs typically also have the financial muscle to withstand the competitive pressures**.

Related Steps taken by India:

- In India, **efforts have been made for local storage of payment data and to bring critical payment intermediaries** into the formal framework. Initiatives are also underway to **increase the payment acceptance infrastructure and create a data protection law**.

THE HINDU DAILY ARTICLES' ANALYSIS BY SUCCESS MANTRA SMART COACHING

In this competitive world, the demand for "authentic Current Affairs updates" from a reliable source has been increasing for the past few years, with the growth of awareness and aspirants' educational goals.

Keeping this in mind, Success Mantra Smart Coaching, via its YouTube Channel 'Success Mantra Digital', aims to make 'The Hindu Daily Articles Analysis' accessible to everyone and everywhere across the platform. It offers the latest important news with a minute update, especially for aspirants who are preparing for their dream entrance exams like CLAT, AILET, CUET, DU-LLB, MH-CET, IPU-CET, NCHM and many more.

https://www.youtube.com/watch?v=IHZTJwt8JFo&list=PLDrM_6OHOo1lcuxmRN-icOWj7UIhevkfl





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