

11 May 2019: UPSC Exam Comprehensive News Analysis

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A. GS1 Related

Category: GEOGRAPHY

1. Fani's fury creates four new mouths in Odisha's Chilika Lake

Context:

The extremely severe cyclone Fani has created four new mouths in Chilika Lake.

Details:

- Chilika lagoon had only two active mouths — the point where it meets the sea before Fani hit the Odisha coast.
- Four new mouths have opened due to wave energy with high tidal prism.
- In the meantime, a lot of sea water is entering Chilika Lake.
- If sea water ingression goes up, fish migration will increase and the biodiversity will get richer. But

its long term impact is something that has to be kept a watch on.

- Earlier last year, the cyclonic storms Titli and Daye also opened up natural mouths at the Chilika lagoon.

Chilika Lake:

- Chilika Lake, Asia's largest brackish water lake.
- It is the second largest coastal lagoon in the world.
- It is the largest wintering ground for migratory birds on the Indian sub-continent. The lake is home to a number of threatened species of plants and animals.
- In 1981, Chilika Lake was designated the first Indian wetland of international importance under the Ramsar Convention.
- The Irrawaddy dolphin is the flagship species of Chilika Lake. Chilika is home to the only known population of Irrawaddy dolphins in India and one of only two lagoons in the world that are home to this species.

B. GS2 Related

Category: POLITY AND GOVERNANCE

1. Karnataka law on SC/ST promotion quota upheld

Context:

- Multiple petitions challenged the Karnataka Extension of Consequential Seniority to Government Servants Promoted on the Basis of Reservation (to the Posts in the Civil Services of the State) Act, 2018.
- The Supreme Court upheld the law that grants reservation in promotion and consequential seniority to the Scheduled Castes and the Scheduled Tribes in government services in the State.

Background:

- The Reservation Act 2018 was preceded in time by the Karnataka Determination of Seniority of the Government Servants Promoted on the Basis of the Reservation (to the Posts in the Civil Services of the State) Act 2002 .
- The constitutional validity of the Reservation Act 2002 was challenged in B K Pavitra v Union of India, (2017) wherein it was held that Sections 3 and 4 of the Reservation Act 2002 to be ultra vires Articles 14 and 16 of the Constitution on the ground that an exercise for determining inadequacy of representation, backwardness and the impact on overall efficiency had not preceded the enactment of the law.
- Such an exercise was held to be mandated by the decision of a Constitution Bench of this Court in M Nagaraj v Union of India, (2006).
- The legislature in the State of Karnataka enacted the Reservation Act 2018 after this Court invalidated the Reservation Act 2002 in B K Pavitra I.
- The law protects consequential seniority from April 24, 1978.
- The grievance of the petitioners is that the state legislature has virtually re-enacted the earlier legislation without curing its defects.

What is consequential seniority?

- Consequential seniority means seniority with effect from the date of promotion in a promoted cadre.
- It means that the seniority attained due to some consequences will be retained, no matter what.

- Example: 2 individuals X and Y. Both are working at level-2 in a job. X is 3 years senior to Y and is in general Category. Y is from reserved category - Scheduled Caste. Both waiting to get promoted to Level-3. Despite X being, senior due to reservation, Y gets promoted first. Now Y is at level-3 and X at level-2. So Y becomes senior to X. The next year, X also gets promoted to level 3. But as per consequential seniority, Y will remain senior to X even when X had more experience than Y.

Details:

- Countering arguments that reservation in promotion would affect administrative efficiency and erode merit, Justice Chandrachud, who wrote the judgment, observed that “establishing the position of the SCs and STs as worthy participants in the affairs of governance is intrinsic to an equal citizenship.”
- **On selection based on merit:** The judge said “administrative efficiency is an outcome of the actions taken by officials after they are appointed or promoted. It is not tied to the selection method itself.”
- **On the issue on creamy layer:** the Court held that the concept of creamy layer has no relevance to the grant of consequential seniority. It said, “The Reservation Act 2018 adopts the principle that consequential seniority is not an additional benefit but a consequence of the promotion which is granted to the SCs and STs. In protecting consequential seniority as an incident of promotion, the Reservation Act 2018 constitutes an exercise of the enabling power conferred by Article 16 (4A).”
- Therefore, the benefit of consequential seniority has been extended from the date of the Reservation Order 1978 under which promotions based on reservation were accorded.

The court said special measures need to be adopted for considering the claims of SCs and STs in order to bring them to a level playing field. Centuries of discrimination and prejudice suffered by the SCs and STs in a feudal, caste-oriented societal structure poses real barriers of access to opportunity, it pointed out.

Category: INTERNATIONAL RELATIONS

1. Trump raises tariffs on Chinese goods

Context:

The trade war between the U.S. and China took a turn for the worse as the Trump administration increased tariffs on \$200 billion worth of Chinese goods. Tariffs on 5,700 categories of goods increased from 10% to 25%.

Details:

- While both sides indicated there would be future discussions, the toughened stance thrust the world’s two largest economies back into a trade war that had seemed on the cusp of ending.
- The tariff rate on machinery and technology imports from China, whose value is about \$50 billion, was already hiked to 25% last year in tit-for-tat tariff rounds between the two countries.
- China has said, via a Ministry of Commerce statement, that it “deeply regretted” the latest tariff development and has said it will take countermeasures.
- American agriculture has felt much of the heat of the tit-for-tat trade war with China.
- Tariff increases will also mean U.S. firms paying more for Chinese inputs and those costs will be, at least in partially, passed on to American consumers.

What will be the impact of the tariff raise?

- The US-China trade war has weighed on the global economy over the past year and created uncertainty for businesses and consumers.
- Even though Mr Trump has downplayed the impact of tariffs on the US economy, the rise is likely to

affect some American companies and consumers as firms may pass on some of the cost.

- Some in China see the trade war as part of an attempt by the US to curb its rise, with Western governments increasingly nervous about China's growing influence in the world.
- Both sides have already imposed tariffs on billions of dollars' worth of one another's goods. Both US and international firms have said they are being harmed.
- The IMF warned a full-blown trade war would weaken the global economy.
- Fears about a further escalation have rattled investors and hit stock markets.

Category: HEALTH

1. India facing critical shortage of healthcare providers: WHO

Context:

According to a World Health Organisation database, despite the health sector employing five million workers in India it continues to have low density of health professionals with figures for the country being lower than those of Sri Lanka, China, Thailand, United Kingdom and Brazil.

Issues:

- The workforce statistic has put the country into the “critical shortage of healthcare providers” category.
- Bihar, Jharkhand, Uttar Pradesh and Rajasthan are the worst hit while Delhi, Kerala, Punjab and Gujarat compare favourably.
- Data on the prevalence of occupational vacancies in the health care system in India overall is scarce. Government statistics for 2008, based on vacancies in sanctioned posts showed 18% of primary health centres were without a doctor, about 38% were without a laboratory technician and 16% were without a pharmacist.
- The president of Public Health Foundation of India said that “Southeast Asia needs a 50% increase in healthcare manpower to achieve universal health coverage by 2030. India faces the problem of acute shortages and inequitable distributions of skilled health workers as have many other low- and middle-income countries,”

Way forward:

Designing courses for different categories of non-physician care providers is the need of the hour. Competencies (and not qualification alone) should be valued and reform must be brought in regulatory structures to provide flexibility for innovations.

C. GS3 Related

Category: SCIENCE AND TECHNOLOGY

1. Chandrayaan-2 will carry 14 payloads from India

Context:

Chandrayaan-2, the lunar lander mission planned to be launched in July 2019

Details:

On the moon

Chandrayaan-2, a fully-indigenous mission, has three modules – an orbiter, a Lander named 'Vikram' & a Rover called 'Pragyan'



Payloads: 14 Indian payloads:
8 on Orbiter, 4 on Lander and
2 on Rover

▪ Chandrayaan-2 will be launched on board a GSLV-MkIII rocket. Chandrayaan-1 was launched on board a PSLV

Target launch: July 2019

▪ The Pragyan Rover will be used mostly for insitu experiments

Mission: Weighing around 3,290 kg, Chandrayaan-2 would orbit around the moon to collect scientific information on lunar topography, mineralogy, elemental abundance, lunar exosphere and signatures of hydroxyl and water-ice

- The orbiter alone will have eight payloads or instruments.
- The lander will carry four while the rover will be equipped with two instruments.
- ISRO has chosen a landing area at the hitherto unexplored lunar south pole, making it the first agency to touch down at the south pole if it succeeds in its first landing attempt.
- Chandrayaan-2 will be India's second outing to the moon.

Chandrayaan-1:

- In October 2008, the space organisation had launched its orbiter mission Chandrayaan-1 on its PSLV booster.
- The spacecraft had 11 payloads.
- One of the U.S. payloads shares credit with Chandrayaan-1 for confirming the presence of water ice on the moon.
- Before that, the Moon Impactor Probe carrying the Indian tricolour image was made to hard-land on the lunar south pole.

Category: ECONOMY

1. Missing firms: govt. says not much impact on GDP working

Context:

The Finance Ministry clarified that the 'missing' enterprises in the MCA-21 database did not have a significant impact on the calculation of growth rates of Gross Domestic Product (GDP) and Gross Value Added (GVA) as these companies still added to the total output of the economy.

MCA-21:

- MCA -21 is a Mission Mode Project under the Government of India's National e-Governance plan.
- It 21 has put the Ministry of Company Affairs on track to meet stakeholder needs in the 21st century.
- MCA21 is envisioned to provide anytime and anywhere services to businesses by Ministry of Company Affairs.
- It is a pioneering program being the first mission mode e-governance project being undertaken in the country.

- This program builds on the GoI vision to introduce a Service Oriented Approach in the design and delivery of Government services, establish a healthy business ecosystem and make the country globally competitive.
- It has ushered in global best practices that are based on experiences drawn from Australia, Canada, New Zealand, the United Kingdom and Singapore. The project harnesses information technology to provide stakeholders easy and secure access to the ministry's services.

Background:

The National Sample Survey Organisation (NSSO) in a recent survey report on the service sector found that, of a sample of 35,456 companies taken from the MCA-21 database, 38.7% were out-of-survey unit.

Details:

- Some sections of the media have misinterpreted these out-of-survey enterprises (as classified for the purposes of surveying the services sector) to be enterprises that do not exist in the economy,” the clarification by Finance ministry said.
- On the basis of this interpretation, the suggestion has emerged that by not removing out-of-survey enterprises from the MCA database, Central Statistics Office (CSO) over-estimates the gross domestic product of the country.
- The Finance Ministry explained that of the 38.7% out-of-survey enterprises in the NSSO report, out-of-coverage enterprises comprised 21.4%. These out-of-coverage enterprises were those that were not engaged in activities intended for inclusion in the service sector survey.
- The Ministry did acknowledge that the bulk of the remaining 17.3% out-of-survey enterprises were either closed or untraceable, but justified this by saying that this proportion was falling over the years and that their impact on the overestimation of GDP “in all likelihood” is marginal.
- In simpler terms, GDP estimates are affected by the share in the paid-up capital of the missing companies and not by their absolute number.

D. GS4 Related

Nothing here for today!!!

E. Editorials

Category: INTERNATIONAL RELATIONS

1. New clouds over the Persian Gulf (Partial Withdrawal of Iran from the JCPOA)

What's in the news?

- Iranian President Hassan Rouhani recently announced that Iran will withdraw partially from the landmark nuclear deal of 2015.
- Experts opine that Iran's decision to reduce its commitments to the Joint Comprehensive Plan of Action (JCPOA), known as the P5+1 agreement, comes as a reaction to the U.S.'s attempts in recent weeks to reduce Iran's oil exports to zero.

Editorial Analysis:

- As a response to U.S. sanctions, Iran is demanding that the remaining signatories of the deal — the U.K., China, France, Germany and Russia — ease the restrictions on its banking and oil sectors in

the next 60 days.

- Experts opine that in case the five endorsers of the deal decide not to act in favour of Iran, the Iranian authorities will remove the caps on uranium enrichment levels and resume work on the **Arak nuclear facility**.

A Geopolitical Hotbed:

Iran's Possible Actions and its consequences:

- Iran's plans are very clear, and they put an end to long and laborious multilateral negotiations which put strict limits on Iran's nuclear activities in return for lifting most international sanctions.
- Undoubtedly, Iran's decision comes as an expression of loss of patience with a deal that is providing very few of the promised economic benefits.
- As a matter of fact, by resuming its uranium enrichment operations, Iran could be taking a huge risk, putting at danger its diplomatic relations with Europe and playing the game of the Trump administration that has been taking a hard line against Tehran.
- Consequently, Iran might be economically isolated.

Russian Support:

- The message coming out from Russia is that Iran is not alone.
- The Kremlin has joined Tehran to accuse the U.S. of retreating from the nuclear deal, while approving Iran's rolling back of some of the terms of the deal due to pressure from the U.S.
- It is important to note that the Russian gesture is not without some long-term interests for the Kremlin.
- As a matter of fact, U.S. sanctions against Iran will certainly result in the development of cooperation between Moscow and Tehran, but also with countries like Turkey which are important to American foreign policy.

Economic Impact:

- The goal of the Trump administration in applying the new series of sanctions is likely to hit the earnings of Iran's major metals companies, such as **Mobarakeh Steel and the National Iranian Copper Industries Company**.
- This will have an immediate impact on the Iranian government's revenues, but it will also deteriorate the balance sheets of Iran's heavily indebted metals and mining companies.
- No doubt, this situation will be followed by mass unemployment, especially among blue-collar workers employed by state-owned enterprises who form the backbone of Iran's economy.

Stoking unrest: A Perspective

- It is no secret that last year (2018) the 2.5-million-strong government workforce did not get a raise while prices accelerated.
- To this end, the Trump administration's "**maximum pressure**" policy on Iran aims directly to stoke social unrest in Iranian cities by creating labour strikes (in the Polish style of Solidarity back in the 1980s) within the metals industry.

Trump's Aim:

- For Donald Trump and his aides, the outcome of their confrontation with Iran is clearly to deprive the Iranian regime of the funds it can use to impose its hegemony around West Asia, but also to put pressure on the everyday life of Iranian citizens.
- From the Trump administration's perspective, the economic malaise in Iran should stoke protests

sooner or later. **But does this mean the beginning of the end of the regime of the Ayatollahs?**

Violating the JCPOA- A worrisome decision:

- Things are more complex than they might appear.
- If we take a close look at the geostrategic situation of West Asia, Iran's threat to violate the JCPOA is a very worrisome decision.
- Let us not forget that from Iran's perspective, Mr. Trump's America is considered a rogue state.
- As for the Trump administration, it considers the Islamic regime in Tehran as its Enemy Number One in West Asia.

Washington's Intimidations:

- The recent announcement by John Bolton, Mr. Trump's National Security Adviser, that the U.S. was dispatching an aircraft-carrier strike group and bombers to West Asia to protect American allies and their interests is an unmistakable attempt to intimidate the Iranian regime.
- Over the past few weeks, the White House has intensified its campaign of pressure and threats against the authorities in Tehran and the Iranian Revolutionary Guard Corps (IRGC).
- In Washington's eyes, Iran is a rogue state because of its support of militant groups, its violations of human rights, and its pursuit of nuclear-related technologies.
- But despite the sanctions, Iran continues to fund its proxies in the region, prepare missile tests and support the Syrian regime of Bashar al-Assad.

Concluding Remarks:

- Thus, at the point where things stand, it is very hard to imagine a turn towards negotiations, although some European countries might continue encouraging a return to diplomatic management of the Iranian crisis.
- There is little likelihood of any flexibility towards the Iranian regime from the American side till the November 2020 U.S. presidential election.
- Iran will certainly look for ways to inflict a cost on the U.S. directly or through militia proxies in the region.
- In that case, experts opine that the scene will be set for military confrontation between Iran and the U.S.
- Last but not the least, if Iran's leadership is to successfully resist U.S. "maximum pressure", it must do more than choose the military path.
- Those who oppose any unilateral U.S. military action against Iran can only hope that the Ayatollahs and the IRGC will not react violently to U.S. forces in the region and to its allies.
- In case that happens, troubled times are ahead for Iran, West Asia and the global market.

2. A fraught moment (U.S. – China Trade War)

Editorial Analysis:

- The U.S.-China trade war has flared up again after a deceptive lull over the last few months, when both sides were trying to negotiate a deal.
- Out of nowhere, President Donald Trump tweeted that he would raise the 10% tariff imposed on \$200-billion worth of Chinese goods to 25%.
- Experts opine that the fact that the Trump administration pressed ahead with the increase even as China's Vice Premier Liu He was still in Washington for a second day of talks with U.S. trade officials only underscores the businessman-turned-President's 'take no prisoners' approach to negotiations.
- China promptly promised retaliatory action, but was yet to spell out the measures.

- With Mr. Trump tweeting that “the process has begun to place additional tariffs at 25% on the remaining” Chinese goods worth \$325 billion, the U.S. administration unambiguously signalled it was not going to be the first to blink.

Elevating signs of the global trade war:

- The latest revival in tensions between the world’s two largest economies elevates the risk of a global trade war to its highest level since the first signs emerged in 2018.
- The increase in tariffs imposed on goods crossing international borders essentially represents a new tax on a global economy already facing a slowdown.
- Recently, the International Monetary Fund trimmed its projection for global growth in 2019 to 3.3%, from a 3.5% forecast made in January, citing slowing momentum in “70% of the world economy”.
- IMF Chief Economist Gita Gopinath had projected a pick-up in global growth momentum in the second half, predicated substantially on the “improved” outlook for U.S.-China trade tensions.

Warnings from the IMF Chief:

- IMF chief Christine Lagarde and Ms. Gopinath, however, presciently warned that the world economy was poised at “a delicate moment”.
- As a matter of fact, were tensions in trade policy to flare up again, it could result in large disruptions to global supply chains and pose downside risks to global growth, the IMF warned.
- Experts opine that currently, the world economy faces the very real risk of an escalation in this trade war where other countries, including India, can largely only wait and watch as the U.S. and China raise the pitch.
- While the U.S. may have genuine concerns about Chinese protectionism, the overall economic logic behind Mr. Trump’s trade policy still remains weak.
- The cost of these tariffs will, after all, eventually be borne by American consumers and could result in U.S. job losses too as the import of Chinese parts become uneconomical for smaller businesses.

Concluding Remarks:

- Indian policymakers would do well to closely monitor how the latest escalation in trade tensions pans out for global demand and international energy prices, given that the RBI has flagged oil price volatility as a factor that would have a bearing on India’s inflation outlook.

Category: POLITY AND GOVERNANCE

1. For a full bench (Judicial Appointments)

What’s in the news?

- Jharkhand High Court Chief Justice Aniruddha Bose and Gauhati High Court Chief Justice A.S. Bopanna, were on April 12th, 2019 recommended for elevation to the Supreme Court.
- However, the government had sought a reconsideration of the two names.
- Recently, the collegium has now repeated its recommendations, emphasising that there is nothing adverse against the two judges in terms of their “conduct, competence and integrity” and that there is no reason to agree with the government.
- It is important to note that under the present procedure, the government is now bound to accept the recommendation.

Editorial Analysis:

- The government and the Supreme Court collegium seem to disagree on recommendations for judicial appointments quite frequently these days.
- It has become routine to hear that some recommendations for High Court appointments, as well as elevation to the Supreme Court, have met with disapproval from the government.
- In such instances, it requires reiteration by the collegium for the names to be cleared.
- This need not always be a cause for concern if it is a sign of some serious consultation on the suitability of those recommended.
- However, it acquires the character of a controversy if the government's objections suggest an oblique motive to thwart or delay the appointment of particular nominees.

Filling up vacancies in the Supreme Court:

- The Supreme Court is keen to fill up the current vacancies.
- As a matter of fact, apart from Jharkhand High Court Chief Justice Aniruddha Bose and Gauhati High Court Chief Justice A.S. Bopanna, the Supreme Court had also recommended two more judges, Justice B.R. Gavai of the Bombay High Court and Chief Justice Surya Kant of the Himachal Pradesh High Court, for appointment to the apex court.
- It is important to note that **if all these four recommendations go through, the court will have its full complement of 31 judges.**

Systemic Issues that Persist:

- While these developments will be welcome, some issues persist.
- In systemic terms, the advisability of retaining the collegium system of appointments is a major concern; and in terms of process, the huge number of vacancies in the various High Courts and lower courts is another.
- The process of filling up vacancies depends on the relative speed with which the collegium initiates proposals for appointments and makes its recommendations after internal deliberations, and the time the government takes to process the names.
- As on May 1, 2019 the total number of vacancies in all the High Courts is 396.

Concluding Remarks:

- It is true that the filling up of vacancies is a continuous and collaborative process involving the executive and the judiciary, and there cannot be a time frame for it.
- However, it is time to think of a permanent, independent body to institutionalise the process.
- The known inadequacies of the collegium system and the mystery over whether a new memorandum of procedure is in the offing are reasons why the proposal for a constitutionally empowered council to make judicial appointments ought to be revived — of course, with adequate safeguards to preserve the judiciary's independence.
- The time may have come for a systemic and processual overhaul.

Category: ECONOMY

1. Resolving India's banking crisis

Editorial Analysis:

- Experts opine that the government that assumes office after the general election will have to crack a serious and unresolved problem: India's banking sector.
- As a matter of fact, to do so, it needs clarity on how the problem arose in the first place.
- Only then can it discard simplistic and ideologically-driven solutions in favour of those that can be

Non-performing assets (NPAs): Some Specifics

- Non-performing assets (NPAs) at commercial banks amounted to ₹10.3 trillion, or 11.2% of advances, in March 2018.
- Public sector banks (PSBs) accounted for ₹8.9 trillion, or 86%, of the total NPAs.
- The ratio of gross NPA to advances in PSBs was 14.6%. **These are levels typically associated with a banking crisis.**
- In 2007-08, NPAs totalled ₹566 billion (a little over half a trillion), or 2.26% of gross advances.
- The increase in NPAs since then has been staggering. An important question arises: How did this come about?

The Origins of the crisis:

a. An Exuberant Phase:

- The answer lies partly in the credit boom of the years 2004-05 to 2008-09.
- In that period, commercial credit (or what is called 'non-food credit') doubled.
- It was a period in which the world economy as well as the Indian economy were booming.
- Indian firms borrowed furiously in order to avail of the growth opportunities they saw coming.
- Most of the investment went into infrastructure and related areas — telecom, power, roads, aviation, steel.
- Further, businessmen were overcome with exuberance, partly rational and partly irrational. They believed, as many others did, that India had entered an era of 9% growth.

b. A Turning Point:

- Thereafter, as the Economic Survey of 2016-17 notes, many things began to go wrong.
- Thanks to problems in acquiring land and getting environmental clearances, several projects got stalled. Their costs soared.
- At the same time, with the onset of the global financial crisis in 2007-08 and the slowdown in growth after 2011-12, revenues fell well short of forecasts.
- Financing costs rose as policy rates were tightened in India in response to the crisis.
- The depreciation of the rupee meant higher outflows for companies that had borrowed in foreign currency.
- This combination of adverse factors made it difficult for companies to service their loans to Indian banks.

c. Tightening norms:

- The year 2014-15 marked a watershed.
- The Reserve Bank of India (RBI), acting in the belief that NPAs were being under-stated, introduced tougher norms for NPA recognition under an Asset Quality Review.
- NPAs in 2015-16 almost doubled over the previous year as a result.
- It is not as if bad decisions had suddenly happened. **It's just that the cumulative bad decisions of the past were now coming to be more accurately captured.**

d. The Issue with Higher NPAs: The Vicious Cycle

- Higher NPAs mean higher provisions on the part of banks.
- Provisions rose to a level where banks, especially PSBs, started making losses.

- Their capital got eroded as a result.
- Capital from the government was slow in coming and it was barely adequate to meet regulatory norms for minimum capital.
- Without adequate capital, bank credit cannot grow. Even as the numerator in the ratio of gross NPAs/advances rose sharply, growth in the denominator fell.
- Both these movements caused the ratio to shoot up to a crisis level.
- Once NPAs happen, it is important to effect to resolve them quickly. Otherwise, the interest on dues causes NPAs to rise relentlessly.
- This, in brief, is the story of the NPA problem.

Is Public Ownership the Problem?

- Since the problem is more concentrated in PSBs, some have argued that public ownership must be the problem.
- Public ownership of banks, according to them, is beset with corruption and incompetence (reflected in poor appraisal of credit risk).
- The solution, therefore, is to privatise the PSBs, at least the weaker ones.
- There are problems with this formulation. There are wide variations within each ownership category. In 2018, the State Bank of India's (SBI's) gross NPA/gross advances ratio was 10.9%. This was not much higher than that of the second largest private bank, ICICI Bank, 9.9%.
- The ratio at a foreign bank, Standard Chartered Bank, 11.7%, was higher than that of SBI. Moreover, private and foreign banks were part of consortia that are now exposed to some of the largest NPAs.
- The explanation lies elsewhere. **PSBs had a higher exposure to the five most affected sectors — mining, iron and steel, textiles, infrastructure and aviation.**
- These sectors accounted for 29% of advances and 53% of stressed advances at PSBs in December 2014. (The RBI's Financial Stability Report does not provide similar data for the period thereafter.)
- For private sector banks, the comparable figures were 13.9% and 34.1%.
- Rough calculations by some experts have shown that PSBs accounted for 86% of advances in these five sectors. By an interesting coincidence, this number is exactly the same as the PSBs' share in total NPAs.
- **As mentioned earlier, infrastructure projects were impacted by the global financial crisis and environmental and land acquisition issues.**
- In addition, mining and telecom were impacted by adverse court judgments.
- Steel was impacted by dumping from China.
- Thus, the sectors to which PSBs were heavily exposed were impacted by factors beyond the control of bank management.

Plans to prevent such crises:

- It is important to note that wholesale privatisation of PSBs is thus not the answer to a complex problem.
- **We need a broad set of actions, some immediate and others over the medium-term and aimed at preventing the recurrence of such crises.**
- One immediate action that is required is resolving the NPAs.
- Banks have to accept losses on loans (or 'haircuts'). They should be able to do so without any fear of harassment by the investigative agencies.
- The Indian Banks' Association has set up a six-member panel to oversee resolution plans of lead lenders. To expedite resolution, more such panels may be required.
- An alternative is to set up a **Loan Resolution Authority**, if necessary through an Act of Parliament.
- Second, the government must infuse at one go whatever additional capital is needed to recapitalise banks — providing such capital in multiple instalments is not helpful.
- Over the medium term, **the RBI needs to develop better mechanisms for monitoring macro-prudential indicators.** It especially needs to look out for **credit bubbles**.

- True, it's not easy to tell a bubble when one is building up. Perhaps, **a simple indicator would be a rate of credit growth that is way out of line with the trend rate of growth of credit or with the broad growth rate of the economy.**
- Actions needs to be taken to strengthen the functioning of banks in general and, more particularly, PSBs.
- Governance at PSBs, meaning the functioning of PSB boards, can certainly improve.
- One important lesson from the past decade's experience with NPAs is that management of concentration risk — that is, excessive exposure to any business group, sector, geography, etc. — is too important to be left entirely to bank boards.
- The RBI has drawn this lesson to some extent. Effective April 1, 2019, the limit for exposure to any business group has been reduced from 40% of total capital to 25% of tier I capital (which consists of equity and quasi-equity instruments). The limit for a single borrower will be 20% of tier 1 capital (instead of 20% of total capital).

Risk management: The Way Forward

- Other aspects of concentration risk remain to be addressed.
- **Overall risk management at PSBs needs to be taken to a higher level.**
- This certainly requires strengthening of PSB boards. We need to induct more high-quality professionals on PSB boards and compensate them better.
- Succession planning at PSBs also needs to improve.
- Despite the constitution of the Banks Board Bureau to advise on selection of top management, the appointment of Managing Directors and Executive Directors continues to be plagued by long delays. This must end.
- In conclusion, the task of accelerating economic growth is urgent.
- This is not possible without finding a solution to the problems that confront the banking system.
- There is ample scope for improving performance within the framework of public ownership.
- It can be done. What is needed is a steely focus on the part of the government.

F. Tidbits

Nothing here for today!!!

G. Prelims Facts

1. 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.
- It helps us understand the growth of various sectors in Indian Economy.
- 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.
- It is compiled and published monthly by the central statistical organisation (CSO), Ministry of Statistics and Programme Implementation six weeks after the reference month ends.
- 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.

2. Competition Commission of India (CCI)

- Competition Commission of India is a statutory body of the Government of India responsible for

enforcing The Competition Act, 2002 throughout India and to prevent activities that have an appreciable adverse effect on competition in India.

- It was established on 14 October 2003
- CCI consists of a Chairperson and 6 Members appointed by the Central Government.
- It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India.
- The Commission is also required to give an opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

The Competition Act:

- The idea of Competition Commission was conceived and introduced in the form of The Competition Act, 2002.
- A need was felt to promote competition and private enterprise especially in the light of 1991 Indian economic liberalisation.
- The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, follows the philosophy of modern competition laws.
- The Act prohibits anti-competitive agreements, abuse of dominant position by enterprises and regulates combinations (acquisition, acquiring of control and Merger and acquisition), which causes or likely to cause an appreciable adverse effect on competition within India.

H. Practice Questions for UPSC Prelims Exam

Q1. Which of the following Tiger Reserves encompasses the Shivaliks near the foothills of the Himalayas?

- a. Rajaji Tiger Reserve
- b. Corbett Tiger Reserve
- c. Panna Tiger Reserve
- d. Satpura Tiger Reserve

Answer: a

Explanation:

- Rajaji National Park is an Indian national park and tiger reserve that encompasses the Shivaliks, near the foothills of the Himalayas. It is located in Uttarakhand.
- Jim Corbett National Park is the oldest national park in India and was established in 1936 as Hailey National Park to protect the endangered Bengal tiger. It is located in Uttarakhand and was named after Jim Corbett, a well-known hunter and naturalist. The park was the first to come under the Project Tiger initiative.
- Panna and Satpura Tiger Reserves are located in Madhya Pradesh.

Q2) Consider the following statements:

1. All the political parties registered under the Representation of the People Act are eligible to receive electoral bonds.
2. Electoral bonds are valid for a year from the date of issue.

Which of the given statement/s is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer: d

Explanation:

Only the political parties registered under Section 29A of the Representation of the People Act, 1951, and which secured not less than 1% of the votes polled in the last general election to the House of the People or the Legislative Assembly of the State, shall be eligible to receive the bonds. It may be noted that Electoral Bonds shall be valid for fifteen calendar days from the date of issue and no payment shall be made to any payee Political Party if the Electoral Bond is deposited after expiry of the validity period.

Q3) Consider the following statements:

- 1. Madhubani paintings originated in the Mithila region of Bihar.
- 2. Madhubani painting has been accorded the Geographical Indication status.

Which of the given statement/s is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer: c

Explanation:

Having originated in the Mithila region in Bihar, Madhubani painting, also known as Mithila art, has been in practice in areas around Bihar and Nepal. Madhubani painting has remained confined to a compact geographical area and the skills have been passed on through centuries, the content and the style have largely remained the same. And that is the reason for Madhubani painting being accorded the GI status.

Q4) Consider the following pairs:

- 1. Sampriti - Bangladesh
- 2. Hand in Hand – China
- 3. Yudh Abhyas – USA
- 4. Maitree – Thailand

Which of the given pairs are not matched correctly?

- a. 1 only
- b. 1 and 2 only
- c. 1, 2 and 4 only
- d. None of the above

Answer: d

Explanation:

All the given pairs are correctly matched. Given are the names of joint military exercises and the country that India partnered with to carry out the exercise.

I. UPSC Mains Practice Questions

1. India's public health system in a crisis. The shortage of health providers and infrastructure is the most acute in rural areas. Discuss. (15 Marks, 250 Words)
2. It is time to think of a permanent, independent body to institutionalise the process of judicial appointments addressing the inadequacies of the collegium system. Comment. (15 Marks, 250 Words)

