Prelim Bits 05-03-2022 | Daily UPSC Current Affairs

Second Part of the IPCC's Sixth Assessment Report

Recently, the latest report of the Intergovernmental Panel on Climate Change (IPCC) was released.

Parts of the Sixth Assessment Report	Purpose
First Part (Released in 2021)	Centered around the scientific basis of climate change.
Second part	Talks about climate change impacts, risks and vulnerabilities, and adaptation options.
Third and final part (To be released soon)	Looks into the possibilities of reducing emissions, is expected to come out.

- The second and latest part of the report has warned of **multiple Climate Change-induced disasters** in the next two decades even if strong actions are taken to reduce the greenhouse gas emissions.
- These strong actions would substantially reduce the threats, and the projected damages, but they would not eliminate them all.
- The ability of human beings, and natural systems, to cope with the changing climate was already being tested, and further rise in global warming would make it even more difficult to adapt.
    - The gaps in adaptation were a result of lack of funds and political commitment, and also the absence of reliable information and a sense of urgency.
- If the temperature rise crossed the threshold of 1.5°C from pre-industrial times, then many changes could be irreversible.
- The need to take adaptation measures is therefore very important.

> The report has said, "Adaptation is essential to reduce harm, but if it is to be effective, it must go hand in hand with the reductions in greenhouse gas emissions because with increased warming, the effectiveness of many adaptation options declines."

- Over 3.5 billion people, over 45% of the global population, were living in areas highly vulnerable to climate change.
- **India** - The report identifies India as one of the vulnerable hotspots, with several regions and important cities facing very high risk of climate disasters such as flooding, sea-level rise and heat-waves.
- In India, rice production may decrease 30% instead of 10% if global warming over pre-industrial levels rises to 4°C from 1°C.
- Maize production will decrease 70% instead of 25% in this scenario.

Reference

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2. https://www.downtoearth.org.in/news/climate-change/climate-change-induced-droughts-major-driver-of-food-insecurity-ipcc-report-81741

Dollar-Rupee Swap Auction

The Reserve Bank of India has announced a two-year sell/buy swap auction of $5 billion.

- Dollar-Rupee Swap Auction is a forex tool whereby the central bank uses its currency to buy another currency or vice versa.
- There are two types of Dollar-Rupee Swap Auction
  - Dollar-Rupee buy/sell swap - The RBI buys US dollars (USD) from banks in exchange for Indian Rupees (INR) and immediately gets into an opposite deal with banks promising to sell dollars at a later date.
  - Dollar-rupee sell/buy swap - The RBI sells the USD in exchange for INR and promises to buy dollar from banks after some years.
- **Benefits** - Forex swaps help in liquidity management.
- In a limited way, it also helps in keeping the currency rates in check.
- A dolla-rupee buy/sell swap injects INR into the banking system while sucking out the USD, while the reverse happens in a sell/buy swap.
- **Reasons why RBI is resorting to Swap Auction -** Presently, the surplus liquidity of Rs 7.5 lakh crore in the banking system needs to be curbed to keep a tab on inflation.
- With two sell auctions at play, nearly Rs 75,000 crore of surplus liquidity could be sucked out of the system.
- Usually, the RBI will resort to traditional tools such as increasing the repo rate or increasing the cash reserve ratio (CRR), but this can have a negative implication on the economy.
- Therefore, the RBI used a different toolkit - variable rate reverse repo auction (VRRR) last year.
- However, the recent VRRR auctions were undersubscribed by banks, as the cash market offered instant and better yields, forcing the RBI to consider a longer-term liquidity adjustment tool such as forex auctions.
- **Impact on the rupee -** Forex swaps are intended for liquidity management. So, their impact on currency is only incidental.
- The RBI resorting to selling USD in two tranches will keep a check on Rupee's volatility and help curb its depreciation to some extent.
- **Impact on the bonds** - Liquidity intervention through swaps indicates the RBI's plan to use a different toolkit rather than the traditional ones.
- This leaves room for the central bank to buy bonds when needed.
- Consequently, the strategy will contain bond yields.
- **Dollar assets -** Recently, the LIC's initial public offering is attracting the forex inflow into the Indian capital markets.
- This foreign money could hit Indian equities, possibly having a near-term bearing on INR.
- So, the two USD sell auctions scheduled could likely take care of this temporary rupee volatility.
- **Government's gain from the swaps -** Just like how companies gain or lose from forex swaps, RBI's may benefit or otherwise too.
- With the sale of USD, the government will gain significantly.

Reference

https://www.thehindubusinessline.com/blexplainer/bl-explainer-rbis-dollarrupee-swap-auctionand-its-rationale/article65186125.ece

Kuki

- Kuki tribes are an ethnic group including multiple tribes originally inhabiting,
    1. The North-Eastern states of India such as Manipur, Mizoram and Assam, especially Manipur;
    2. Parts of Burma (now Myanmar), and
    3. Sylhet district and Chittagong hill tracts of Bangladesh.
- While Kuki is not a term coined by the ethnic group itself, the tribes associated with it came to be generically called Kuki under colonial rule.
- The main festival of the Kuki tribe is the 'Mim Kut'.
- In Manipur, the various Kuki tribes, living mainly in the hills, currently make up 30% of the total population of the State.
- The Naga tribes, historically at loggerheads with the Kukis, also live in the hilly areas of the State.

Kuki insurgencies in Manipur

- Resentment over the forceful inclusion into India and delay in granting statehood to Manipur led to the rise of various insurgent movements.
- The problem was intensified after Manipur was declared a 'distubed area' in 1980, under the Armed Forces Special Powers Act (AFSPA), which gives sweeping powers to the military and has led to excesses.
- But, the roots of Kuki militancy lie in **conflicts of ethnic identity**. The reasons are,
    - Demand for self-determination solely for groups belonging to their ethnic fabric, meaning the dream to form a **Kukiland** (Kuki inhabited regions of Myanmar, Manipur, Assam and Mizoram.)
    - Insurgency lies in the **inter-community conflicts** between the Kukis and the Nagas in Manipur.
- Kuki insurgent groups have been under Suspension of Operation (SoO) since 2005, when they signed an agreement for the same with the Indian Army.
- Later, in 2008, the groups entered a tripartite agreement with the State government of Manipur and the Central government to temporarily suspend their operations and give political dialogue a chance.

Reference

1. https://www.thehindu.com/news/national/other-states/the-history-of-the-kuki-insurgency-in-manipur/article65143720.ece?homepage=true
2. https://indianexpress.com/article/explained/explained-suspension-operation-pact-kuki-militants-7801135/

e-Bill Facility

Finance Minister unveiled a new e-bill facility for government suppliers.

- The e-Bill facility is the new 'faceless' and 'paperless' bill submission and processing system.

- It has been developed by the Public Financial Management System (PFMS) Division in the office of the Controller General of Accounts in the Department of Expenditure, Ministry of Finance.
- The objectives of the e-Bill facility are to
    1. Provide convenience to all vendors/suppliers of the government to submit their bills/claims online digitally,
    2. Eliminate physical interface between suppliers and government officers,
    3. Enhance efficiency in processing of bills/claims, Reduce discretion in processing of bills through "First-In-First-Out"(FIFO) method.
- **Implementation** - Ministry of Finance
- E-bill system is part of the 'Ease of Doing Business and Digital India eco-system' to bring in broader transparency and expedite the payment process.

Reference

1. https://www.thehindu.com/todays-paper/tp-business/e-bill-facility-to-help-govt-suppliers-fm/article65185326.ece
2. https://www.livemint.com/news/india/fm-launches-e-bill-processing-system-to-bring-transparency-and-expedite-process-of-payments-11646228399634.html

Monetary Policy Committee

- Under Section 45ZB of the amended RBI Act, 1934, the central government is empowered to constitute a six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI).
- The first such MPC was constituted in 2016.
- Section 45ZB says "the MPC shall determine the Policy Interest Rate required to achieve the inflation target", and that "the decision of the Monetary Policy Committee shall be binding on the Bank".
- The MPC fixes the benchmark interest rate - or the base or reference rate that is used to set other interest rates - in India.

An accommodative stance of the RBI indicates the willingness on the part of the central bank to expand money supply and cut interest rates.

- **Members of MPC -** Section 45ZB says the MPC shall consist of,
    1. The RBI Governor (ex officio chairperson),
    2. The Deputy Governor in charge of monetary policy,
    3. An officer of the Bank to be nominated by the Central Board, and
    4. Three persons to be appointed by the central government.
- The last category of appointments must be from "persons of ability, integrity and standing, having knowledge and experience in the field of economics or banking or finance or monetary policy". (Section 45ZC)

Monetary Policy

- The primary objective of the RBI's monetary policy is to **maintain price stability** while keeping in mind the objective of growth.
- In 2016, the RBI Act was amended to provide a legislative mandate to the central bank to operate the country's monetary policy framework.
- The framework aims at setting the policy (repo) rate based on

1. Assessment of the current and evolving macroeconomic situation; and
2. Modulation of liquidity conditions to anchor money market rates at or around the repo rate.

- Repo rate changes transmit through the money market to the entire financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth.
- Other Monetary Policy instruments - Reverse Repo Rate, Liquidity Adjustment Facility, Marginal Standing Facility, Corridor, Bank Rate, Cash Reserve Ratio, Statutory Liquidity Ratio, Open Market Operations, Market Stabilisation Scheme

Reference

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2. https://www.rbi.org.in/scripts/FS_Overview.aspx?fn=2752