TOPIC 1

Recapitalization of Public Sector Banks

Relevancy

- GS Mains paper II
- Economy, NPAs
- Bank recapitalization, Recapitalization bonds, fiscal deficit

Introduction

- GOI plans to recapitalize Public sector banks to the extent of ₹2.11 trillion to enhance the flow of credit.
- It is the most effective way to provide fiscal stimulus to the economy and revive growth.

What are stressed advances or NPAs?

- Bad loads leading to non-performing assets (NPAs) or restructured loans are called stressed advances.
- This tends to erode bank capital and put the brakes on loan growth.
- Stressed advances have risen from a little over 10% in 2012-13 to 15% in 2016-17 which has caused capital adequacy at PSBs to fall.
- Inadequate capital at PSBs has taken its toll on the flow of credit in the economy over the last 3 years.
- Also, there is a problem with the supply of credit as PSBs' are unable to lend for want of adequate capital.

What is bank recapitalization?

- Bank recapitalization means recapitalizing the banks with new capital to improve their balance sheets.
- The government uses different instruments to infuse capital into banks undergoing credit crunch.
- Capital is the money invested by shareholders in the business.
- Since the government is the biggest shareholder in public sector banks, the Government infuses major capital into it.
- It is needed only when bank's liabilities and NPAs are comparatively higher than their assets.
- The liquidity with banks is a liability as it is the money deposited by customers, which needs to be paid sooner or later.
- Therefore their balance-sheet weakens and banks can't raise capital from the open market.
- The government then has to infuse capital in banks by either buying new shares or by issuing bonds.

How will be Recapitalization done?

- The government has bifurcated the entire Rs 2.11 lakh crore amount in two parts:
    - through budgetary allocation (Rs 76,000 lakh crore)
    - by issuing recapitalization bonds (Rs 1.35 lakh crore)

What are recapitalization bonds?

- A government bond is an instrument to raise money from the market with a promise to pay to repay the face value of the maturity date and a periodic interest.
- A bond issued for the purpose of recapitalization is called recapitalization bonds.
- The government will issue recapitalization bonds (Recap bonds), which banks will subscribe and enter it as an investment in their books.
- The banks will lend money to the government for subscribing the bonds.
- This money raised by the government through these bonds will go back to banks as capital.
- This will immediately strengthen the balance-sheet of the banks and show capital-adequacy.
- Benefit of these bonds:
    - Since the government is always solvent therefore, the money lent to the government for subscribing recap bonds is free from becoming a bad loan.

Benefits of recapitalizing PSBs

- Recapitalization package will enable banks to provide adequately for NPAs and support modest loan growth.
- Recapitalization will provide adequate supply of credit.
- Corporates are stuck with high levels of debt will be able to make fresh investments.
- PSBs when have enough capital will liquidate excess holding of government securities and use the cash to make more loans.
- It gives much needed funds to public sector lenders for them to increase the demand for loans from good-rated companies.
- This would mean better profitability for all stakeholders.
- It will make the investment run faster, leading to a more sustainable economic recovery.

Fiscal Impact of Recapitalization

- The fiscal deficit target for current year is 3.2% of GDP and there is doubt that Government will lose this target due to recapitalization.
- International norms allow borrowings for bank recapitalization not to be counted towards the fiscal deficit.
- Recapitalization bonds will add to the fiscal deficit.
- Therefore the government should look for alternates such as getting the Life Insurance Corporation of India or a separate holding company to issue the bonds.

Conclusion

- GOI has shown courage in opting for substantial recapitalization of banks.
- RBI Governor Urjit Patel has welcomed the move in of the GOI in safeguarding the country’s economic future.
- This recapitalization drive move promises to do more to quickly usher good results than any other measures taken in recent past.

TOPIC 2

Social Welfare schemes delivery problem

Relevancy

- GS Mains paper II
- Limited delivery problems
- Linkage to Aadhar

Recently

- An 11-year old girl in Jharkhand has died due to starvation her family was denied of government benefits (due to non-linkage of Ration card to Aadhar).
- Jharkhand has taken back order requiring the cancellation of ration cards not seeded with Aadhaar.

The problem of limited delivery options

- Mandatory digitization of documents and processes and their linkage with Aadhar, in social welfare delivery mechanisms is a great problem which renders a scheme to be ineffective overall.
- For example, pension forms in various states like Rajasthan, etc. being accepted only 'online' through 'e-mitra kendras' or licensed private sector operators.
- People have to first go to an e-mitra Kendra, with them Aadhaar and other documents, upload and submit their biometrics, pay fee and wait for verification and sanction, periodically re-verify themselves.
- The inability for poor and elderly to open and use bank accounts, seed them with Aadhaar, and then withdraw pension payments from their accounts is resulting in sanctioned beneficiaries being removed from pension lists.
- Many of them were alive when arbitrarily classified as "dead" in digital records.

What could be done to solve it?

- Better and alternate mechanisms should be made freely available.
- Beneficiaries should have the option to choose a payment mode that is convenient to them like choosing the panchayat route for pension applications.
- There could be an automatic pension sanction as soon as people becomes eligible for it which will justify the right to life for many.

- There should be consultation, transparency, accountability in regard for what systems people must know will suit them best.

Conclusion

- Schemes such as 'Digital India' are indeed progressive but what these schemes mean to a majority of the poor and the devastation they cause is lost on Government.
- Therefore for the Government schemes to yield better results should provide with necessary alternate delivery mechanisms for social welfare schemes to reach the beneficiary.

TOPIC 3

Taylor's rule in monetary policy

Relevancy

- GS Mains paper III
- Economy, John Taylor rule
- Monetary policy, inflation control
- Interest rates by central bank

Introduction

- The Taylor Rule is an interest rate forecasting model invented by an American economist John Taylor in 1992 in his study "Discretion vs. Policy Rules in Practice".
- This refers to a rule used by central banks to determine the right interest rate for the economy based on
    - changes in price inflation
    - other economic conditions
- It provides a formula to calculate how much a central bank should target a change in interest rates depending on the economy's health.

What Taylor rule suggests?

- He recommends the real interest rate should be 1.5 times the inflation rate.
- The product of the Taylor Rule is three numbers, based on an equilibrium rate to strike proper balance for an interest rate forecast by monetary authorities.
    - an interest rate
    - an inflation rate
    - a GDP rate
- This suggests policymakers to raise rates when inflation is above target or when GDP growth is too high and above potential.
- The central bank should lower rates when inflation is below the target level or when GDP growth is too slow and below potential.
- When inflation is on target and GDP is growing at its potential then the rates are said to be neutral.

Uses of Taylor's rule wrt monetary policy

- The Taylor Rule has held many central banks around the world in good stead since its inception in 1993.
- The Taylor rule is often proposed as a solution to the problem of discretion involved in the framing of monetary policy.
- It aims to stabilize the economy in the short term and to stabilize inflation over the long term.
- While the Taylor Rule has served economies in good economic times, it can also serve as a gauge for bad economic times.
- It serves as a gauge of
    - interest rates
    - inflation and output levels
    - proper levels of the money supply

  - melding of money supply levels and inflation
- It allows us to understand money vs. prices to determine a proper balance because inflation can erode the purchasing power of the currency if it's not leveled properly.

Demerits of Taylor's rule

- This is a backward-looking model which assumes that if workers, consumers and firms have positive expectations for the future of the economy, interest rates do not need an adjustment which is not correct to assume.
- Also, it doesn't take into account long-term economic prospects.

TOPIC 4

Ethics in Journalism

Relevancy

- GS Mains paper IV
- Ethics in media and journalism
- Ethics case studies

Introduction

- Press doesn't only gives expression to public opinion but also has the ability to modify and mould opinion according to circumstances.
- This educated section fills the gap between the governors and the governed.
- Newspapers and press should lay emphasis on being credible and trustworthy.

Unethical Journalism

- A policy brief by the National Endowment for Democracy talks about a "4D" offensive of disinformation by the journalists:
    - dismiss an opponent's claims or allegations
    - distort events to serve political purposes
    - distract from one's own activities
    - dismay those who might otherwise oppose one's goals
- If an information campaign uses falsehoods and emotional appeals not to persuade but to disrupt, divide, confuse then it more closely aligns with its undermining function.
- **Freedom of Press:**
    - Article 19(2), reasonable restrictions can be placed on this right, in the interest of the sovereignty and integrity of India, the security of the state, public order, decency or morality, or in relation to contempt of court, defamation or incitement to an offence.
    - Hence, freedom of the media is not an absolute freedom.
    - Freedom of press is important, so is responsibility.
- The media should avoid giving any slant to news, avoid sensationalism and yellow journalism.
- Only then will they gain the respect of the people and fulfil their true role in a democracy.

Importance of ethics in media

- **Empowerment of citizens:**
    - In countries like India the media have a responsibility to fight backward ideas such as casteism and communalism, etc.
    - Since a large section of the people is backward and ignorant, it is all the more necessary that modern ideas are brought to them and their backwardness removed so that they become part of enlightened India.

    - The media have a great responsibility in this respect.
- **Media and democracy:**
    - For democratic government to be accountable and transparent; effective communication paths must exist to their constituents.
    - And these paths consist primarily of the mass media.
    - In case this press freedom disappeared, so would most political accountability.
- **Shaping societal values:**
    - Entertainment media makes heavy use of stereotypes which may negatively affect people's perceptions of themselves or promote socially undesirable behavior.
    - Media should observe its ethical code of conduct at all times.
- **In formation of public opinion:**
    - Media ethics and code of conduct is very important for journalists as they play a key role in formation of public opinion on almost all issues in country and world.

Conclusion

- There is a great need to infuse civic consciousness, patriotism and discipline among the citizens through education and awareness.
- The members of all the communities including media should cooperate with each other to supply kinetic energy for modernization and development.