Current Affairs of the Day

GS Paper - III

- Govt. to spell out production linked plan for autos soon: Goel
- Govt. mulls bad bank to boost the banking sector
- India mulls E20 fuel to cut vehicular emissions

Govt. to spell out production linked plan for autos soon: Goel

Highlights:

1. The Heavy Industries Ministry is engaged in close coordination with stakeholders on the Production Linked Incentive (PLI) scheme which also covers the automobile sector.
2. The Union Cabinet last month approved a Production Linked Incentive scheme worth ₹1.46 lakh crore for 10 sectors to boost domestic manufacturing, create jobs and reduce the dependence on imports.
3. The scheme will be offered to white goods manufacturing, pharma, auto, telecom, textile, food products, solar photovoltaic and cell battery, among others, with a total outlay of ₹1,45,980 crore spread over five years.
4. The scheme aims to make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies; create economies of scale; enhance exports and make India an integral part of the global supply chain.
5. Industry chambers welcomed the move and called for similar ideas to help more sectors. The sectors covered under the PLI scheme are strategic, technology-intensive and also important from the perspective of employment generation

Govt. mulls bad bank to boost the banking sector

Highlights:

1. The government is exploring all options, including setting up a bad bank, to improve the health of the country's banking sector. The government has recapitalised public sector banks and continues to pump in the capital as per requirements.
2. The government is considering setting up a bad bank for reducing the burden of non-performing assets (NPAs) of the public sector banks.

Background:

What is a Bad Bank?

A bad bank is a bank set up to buy the bad loans and other illiquid holdings of another financial institution. The entity holding significant nonperforming assets will sell these holdings to the bad bank at market price. By transferring such assets to the bad bank, the original institution may clear its balance sheet—although it will still be forced to take write-downs. Bad banks are typically set up in times of crisis when long-standing financial institutions are trying to recuperate their reputations and wallets. While shareholders and bondholders generally stand to lose money from this solution, depositors usually do not. The 2017 Economic Survey examined this idea, suggesting the creation of a Public Sector Asset Rehabilitation Agency (PARA).

Concern

1. Some criticize the setup of bad banks, highlighting how if states take over non-performing loans, this encourages banks to take undue risks, leading to a moral hazard.
2. The bad bank will require significant capital to purchase stressed loan accounts from public sector banks.
3. The chances of private participation are low unless investors are allowed a major say in the governance of the new entity.
4. The bad bank will not address more serious corporate governance issues plaguing public sector banks that led to the NPA problem.
5. Setting up a new institution would be very time-consuming.
6. Challenges on its ownership structure as well as the pricing of bad loans taken over from banks.

Benefits:

1. This helps banks or FIs clear-off their balance sheets by transferring the bad loans and focus on its core business lending activities.
2. Large debtors have many creditors. Hence a bad bank could solve the coordination problem since debts would be centralised in one agency.
3. It can affect speedier settlements with borrowers by cutting out individual banks.
4. It can drive a better bargain with borrowers and take more stringent enforcement action against them.
5. It can raise money from institutional investors rather than looking only to the Government.

India mulls E20 fuel to cut vehicular emissions

Highlights:

1. The government on Friday proposed the adoption of E20 fuel — a blend of 20% of ethanol and gasoline — as an automobile fuel in order to reduce vehicular emissions as well as the country's oil import bill.
2. It will also help in reducing emissions of carbon dioxide, hydrocarbons, etc. It will help reduce the oil import bill, thereby saving foreign exchange and boosting energy security.
3. The Ministry of Road Transport and Highways has published a draft notification and invited comments from the public for the adoption of the fuel. The current permissible level of blending is 10% of ethanol though India reached only 5.6% of blending in 2019.
4. Ethanol is a biofuel and a common by-product of biomass left by agricultural feedstock such as corn, sugarcane, hemp, potato, etc.
5. The compatibility of vehicles with the percentage of ethanol in the blend would be defined by the vehicle manufacturer, which would have to be displayed on the vehicle with a sticker.