



Current Affairs of the Day

PAPER 2:

➤ Polity & Governance:

1. Bru-Reang Refugee crisis
2. Who are Brus?

➤ International Relations:

1. India invites Israeli defence companies to strengthen ties
2. India, Sri Lanka seek to reset ties in the time of polls and pandemic
3. About East Container Terminal
4. RBI signs \$400 mn currency swap facility for Sri Lanka

PAPER 3:

➤ Economy:

1. Financial Stability Report, July 2020:
2. What is NPA?



India invites Israeli defence companies to strengthen ties

- India on Friday invited greater participation from Israeli defence companies under the new liberalised foreign direct investment (FDI) regime in defence manufacturing.
- This was conveyed during a telephonic conversation between Defence Minister Rajnath Singh and his Israeli counterpart Lieutenant General Benjamin Gantz.

Significance:

- The conversation took place as the Indian Armed Forces are undertaking a series of emergency defence purchases, including from Israel, amid ongoing tensions with China on the border.
- In May, the government increased the limit for **FDI in defence** through the **automatic route from 49% to 74%**.
- The Army has already taken a decision to order another batch of 12 launchers and around 250 missiles of **Spike Anti-Tank Guided Missiles (ATGM)** and additional **Heron Undermanned Aerial Vehicles (UAV)**, among others, from Israel through the emergency procurement route.

India, Sri Lanka seek to reset ties in the time of polls and pandemic

- Early July, Prime Minister Mahinda Rajapaksa told a media conference that there was no final decision on the East Container Terminal (ECT) project at the Colombo Port, which Sri Lanka, India and Japan in 2019 agreed to jointly develop.
- His remark came while unions and some opposition parties were protesting “giving away national assets” to India, though Sri Lanka’s Port Authority was to retain 100% ownership of the facility, as per the 2019 tripartite Memorandum of Cooperation.



Value Added Information

About East Container Terminal:

- Sri Lanka, Japan and India will jointly build the East Container Terminal at the Port of Colombo.
- As per the agreement the Sri Lanka Ports Authority (SLPA) retains 100% ownership of the East Container Terminal (ECT), while the Terminal Operations Company is jointly owned.
- Sri Lanka will hold a 51% stake in the project and the joint venture partners will retain 49%.
- Japan is likely to provide a 40-year soft loan with a 0.1% interest rate, details of India's contribution to the initiative are awaited.

Importance of the Project for India:

- Over 70% of the trans-shipment business at the strategically located ECT is linked to India.
- The involvement of India and Japan in the project is being seen as a big development aimed at neutralising the growing influence of China, which has poured money into the South Asian island nation under its mammoth Belt and Road Initiative (BRI) infrastructure plan.

Banks' gross NPAs may climb to as much as 14.7% by March: RBI

Financial Stability Report, July 2020:

- The Reserve Bank of India (RBI) on Friday said stress tests indicated that gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) could worsen to as high as 14.7% by the end of the current financial year, from 8.5% in March 2020, if the adverse economic impact of the COVID-19 pandemic was 'very severe'.
- The macro stress tests for credit risk indicate that the GNPA ratio of all SCBs may increase... to 12.5% by March 2021 under the baseline scenario.
- Bank credit which had considerably weakened during the first half of 2019-20, slid down further to 5.9% by March 2020 and remained muted up to early June 2020. This moderation was broad-based across all bank groups.



- In terms of inter-sectoral exposures, asset management companies/mutual funds, followed by insurance companies, were the biggest fund providers in the system, while non-banking financial companies (NBFCs) were the biggest receivers, followed by housing finance companies (HFCs).

Financial system 'stable'

- On the assessment of systemic risk, the RBI said in its report that the Indian financial system remained stable, notwithstanding the significant downside risks to economic prospects.
- The central bank said the near-term economic prospects appear severely impacted by lockdown induced disruptions to both supply and demand side factors, diminished consumer confidence and risk aversion.
- Full restoration in economic activity would be contingent upon the support for robust health infrastructure, recovery in demand conditions and fixing of supply dislocations.

Value Added Information

What is NPA?

- **The assets of the banks which don't perform** (that is – don't bring any return) are called Non Performing Assets (NPA) or bad loans. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan.
- According to RBI, terms loans **on** which interest or instalment of principal remain **overdue for a period of more than 90 days** from the end of a particular quarter is called a Non-performing Asset.
- **However, in terms of Agriculture / Farm Loans; the NPA is defined as under:** For short duration crop agriculture loans such as paddy, Jowar, Bajra etc. if the loan (installment / interest) is not paid for 2 crop seasons, it would be termed as a NPA. For Long Duration Crops, the above would be 1 Crop season from the due date.



Types of NPA

- ▶ **Sub-standard** : The account holder belonging to this category don't pay three installment continuously after 90 days and up to 1year. Bank has made 10% provision of funds for this category to meet the losses generated from NPA from their profit.
- ▶ **Doubtful NPA** : Doubtful NPA are classified into three sub categories :
 - 20% provision is made by the banks for D1 i.e. up to 1 year
 - 30% provision is made by the bank for D2 i.e. up to 2 year
 - 100% provision is made by the bank for D3 i.e. up to 3 year.
- ▶ **Loss Assets** : When account holder belongs to this category 100% provision is made by the banks to write off their accounts. After this the assets are delivered to recovery agents for the purpose of sale.

Impact of NPA on Economy:

The problem of NPAs in the Indian banking system is one of the foremost and the most formidable problems that had impact the entire banking system. **Higher NPA leads to following adverse impact on Economy:**

- Depositors do not get rightful returns and many times may lose uninsured deposits. Banks may begin charging higher interest rates on some products to compensate Non-performing loan losses
- Bank shareholders are adversely affected
- Bad loans imply redirecting of funds from good projects to bad ones. Hence, the economy suffers due to loss of good projects and failure of bad investments
- When bank do not get loan repayment or interest payments, liquidity problems may ensue.



Reasons for the rise in NPA in recent years:

- **GDP slowdown:** Between early 2000's and 2008 Indian economy were in the boom phase. During this period Banks especially Public sector banks lent extensively to corporates. However, the profits of most of the corporate dwindled due to slowdown in the global and domestic economy, bans in mining projects, delays in environmental related permits, Land acquisition hurdles and volatility in prices of raw material. This has adversely affected their ability to pay back loans and is the most important reason behind increase in NPA of public sector banks.
- **Relaxed lending Norms:** One of the main reasons of rising NPA was the relaxed lending norms especially for corporate honchos when their financial status and credit rating was not analyzed properly. Also, to face competition banks were hugely selling unsecured loans.
- **Priority Sector Lending:** There is a myth that main reason for rise in NPA in Public sector banks was Priority sector lending as according to the findings of Standing Committee on Finance, NPAs in the corporate sector are far higher than those in the priority or agriculture sector. However, even if PSL is not the main cause but it is still a cause for rising NPA which can be seen from the fact that As per the latest estimates by the SBI, education loans constitute 20% of its NPAs.
- **The Lack of Bankruptcy code** in India and sluggish legal system makes it difficult for banks to recover these loans from both corporate and noncorporate.

RBI signs \$400 mn currency swap facility for Sri Lanka

- The Reserve Bank of India has agreed to a \$400 million currency swap facility for Sri Lanka till November 2022, the Indian High Commission tweeted on Friday.
- The Central Bank of Sri Lanka had sought the swap facility to help bolster the pandemic hit island nation's foreign exchange reserves.
- The RBI's action comes in the wake of a recent bilateral 'technical discussion' on rescheduling Colombo's outstanding debt to India.



Bru-Reang Refugee crisis

- Non-Brus of Tripura have proposed six places for settling the displaced Brus from Mizoram.
- They also proposed the State government to set a limit for the number of families to be accommodated.

Value Added Information

Who are Brus?

- Brus, also known as **Reangs**, are **ethnically different from the Mizos**, with their own distinct language and dialect and form one of the 21 scheduled tribes of Tripura.
- Displaced Bru tribals from Mizoram are living as refugees in Tripura since 1997.
- In 1997, roughly half the Bru population fled to Tripura, following violent clashes with the Mizo population.
- Recently, the union home ministry finally inked the tripartite pact which now paves the way for these displaced Bru tribals from Mizoram to permanently settle in Tripura.
- The Brus—spread across Tripura, Mizoram and parts of southern Assam—are the most populous tribe in Tripura.