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ECONOMIC DEVELOPMENT

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1. Ban on Cryptocurrency Trading Removed

Why in News?

Recently, the Supreme Court set aside a ban by the Reserve Bank of India (RBI) on banks and financial institutions from dealing with virtual currency holders and exchanges.

- In a circular in 2018, the RBI had banned banks from dealing with virtual currency exchanges and individual holders.

Cryptocurrency

- Cryptocurrencies have an **extra layer of security** in the form of encryption algorithms.
- Cryptographic methods are used to make the currency as well as the network on which they are being traded, secure.
- Most cryptocurrencies now operate on the blockchain or distributed ledger technology, allowing everyone on the network to keep track of the transactions occurring globally.
- **Reasons for banning Cryptocurrency by RBI**
 - Lack of any underlying fiat.
 - Episodes of excessive volatility in the value of cryptocurrency
 - Its anonymous nature which goes against global money-laundering rules
 - Risks and concerns about data security and consumer protection
 - Far-reaching potential impact on the effectiveness of monetary policy

Highlights of the judgement

- The Supreme Court held that the ban did not pass the **“proportionality” test**.
- The **test of proportionality** of any action by the government must pass the test of **Article 19(1)(g)**.
 - **Article 19(1)(g)** states that all citizens of the country will have the right to practise any profession, or carry on any occupation or trade and business.

Economic Impact of Lifting Ban on Cryptocurrency

- A vibrant cryptocurrency segment could add value to India’s financial sector.
- Blockchain technology forms a crucial part of Industrial revolution 4.0.
 - It is also estimated that blockchain will generate \$3.1 trillion in new business value by 2030.
- Cryptocurrencies act as alternative investments.
 - These currencies may enable savvy traders to hedge global volatility, as it did during the financial turmoil of 2012-13.

- There is a worldwide proposal for central-bank digital currencies, which could allow for money to be transferred between users without the involvement of a third-party (commercial bank).
 - Allowing cryptocurrency will enable India to be part of this global deal.
- For India, aiming to be a digital economy powerhouse, embracing emerging technologies like cryptocurrency and blockchain is a must.

Way Forward

- The Fintech industry needs to work jointly with the RBI and the government on a constructive policy framework for cryptocurrencies in India.
- There is a need for RBI to formulate a detailed regulatory framework to license virtual currency intermediaries like exchanges.
- These local cryptocurrency exchanges could be asked to adhere to the KYC norms followed by stock exchanges.
- One immediate step that could be taken by the government is to designate virtual currency intermediaries as reporting entities under the Prevention of Money Laundering Act (PMLA).

2. Coronavirus Impact on Economy

Why in News?

The economic impact of the coronavirus is mounting - with the OECD warning the virus presents the biggest danger to the global economy since the 2008 financial crisis.

Economic Fallout from COVID-19

- Sharp fall in economic activities globally has contributed to the panic in the financial markets worldwide.
- Large investment outflow by foreign institutional investors have contributed to the sharp selloff in Indian markets.
- Due to intercountry mismatch in production levels, the global crude oil prices have fallen sharply.
- Immediate impact is on the volatility in stock market due to perceived economic fallout from COVID-19 and steep fall in global crude prices.

Impact on Different Sectors

- Automobile Industry
 - China is one of the leading suppliers of auto components in India, accounting for 27% of the total imports.
 - The coronavirus is expected to have an impact on the Indian automotive industry and also on the automobile component and forging industries.

- Currency
 - Indian rupee is weakening as a result of the global economic slowdown and the increasing number of reported cases of coronavirus in India.
- Pharmaceuticals
 - The industry is deeply linked with China, as a result the supply chain of raw materials of drugs has taken a hit.
 - Active Pharmaceutical Ingredients (APIs), also called bulk drugs, are significant ingredients in the manufacture of drugs. The Hubei province of China, the epicentre of the coronavirus, is the hub of the API manufacturing industry.
- Stock Market
 - Market indices in India - Sensex and Nifty - are under stress as investor sentiment is dented by coronavirus spread.

Models to Estimate Cost of an Epidemic

- Such models for estimating these costs are prepared using past data on deaths and losses to production.
- This data is used to predict the cost of present and future epidemics.
- Some models like the **Stochastic risk-return models**, take into account the random nature of the virus outbreak, to arrive at a monetary value of the outbreak.
 - They aggregate the loss of income from individuals affected by the disease.
- Other **dynamic** models use **macroeconomic and microeconomic models** to capture the interlinked supply chains, incorporate information on the output of various sectors of production in multiple countries, labour market conditions, behavioural changes of consumers and other relevant factors.
 - These models assess losses incurred by each sector and then calculate the impact felt by each country.

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