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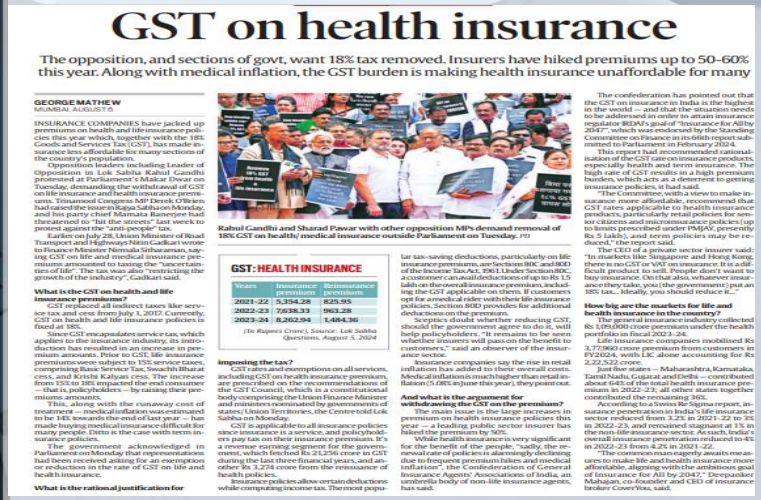
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INDIAN EXPRESS Page 25

GST ON HEALTH AND INSURANCE

(Syllabus: GS Paper 3 – Economy)



GST on health insurance

The opposition, and sections of govt, want 18% tax removed. Insurers have hiked premiums up to 50-60% this year. Along with medical inflation, the GST burden is making health insurance unaffordable for many

GEORGE MATHEW
MUMBAI, AUGUST 6

INSURANCE COMPANIES have jacked up premiums on health and life insurance policies this year which, together with the 18% Goods and Services Tax (GST), has made insurance less affordable for many sections of the country's population.

Opposition leaders including Leader of Opposition in Lok Sabha Rahul Gandhi protested at Parliament's Makar Dwar on Tuesday, demanding the withdrawal of GST on life insurance and health insurance premiums. Trinamool Congress MP Derek O'Brien had raised the issue in Rajya Sabha on Monday, and his party chief Mamata Banerjee had threatened to "hit the streets" last week to protest against the "anti-people" tax.

Earlier on July 28, Union Minister of Road Transport and Highways Nitin Gadkari wrote to Finance Minister Nirmala Sitharaman, saying GST on life and medical insurance premiums amounted to taxing the "uncertainties of life". The tax was also "restricting the growth of the industry", Gadkari said.

What is the GST on health and life insurance premiums?

GST replaced all indirect taxes like service tax and cess from July 1, 2017. Currently, GST on health and life insurance policies is fixed at 18%.

Since GST encapsulates service tax, which applies to the insurance industry, its introduction has resulted in an increase in premium amounts. Prior to GST, life insurance premiums were subject to 15% service taxes, comprising Basic Service Tax, Swachh Bharat cess, and Krishi Kalyan cess. The increase from 15% to 18% impacted the end consumer — that is, policyholders — by raising their premium amounts.

This, along with the runaway cost of treatment — medical inflation was estimated to be 14% towards the end of last year — has made buying medical insurance difficult for many people. Ditto is the case with term insurance policies.

The government acknowledged in Parliament on Monday that representations had been received asking for an exemption or reduction in the rate of GST on life and health insurance.

What is the rational justification for imposing the tax?

GST rates and exemptions on all services, including GST on health insurance premium, are prescribed on the recommendations of the GST Council, which is a constitutional body comprising the Union Finance Minister and ministers nominated by governments of states/ Union Territories, the Centre told Lok Sabha on Monday.

GST is applicable to all insurance policies since insurance is a service, and policyholders pay tax on their insurance premium. It's a revenue earning segment for the government, which fetched Rs 21,256 crore in GST during the last three financial years, and another Rs 3,274 crore from the reissuance of health policies.

Insurance policies allow certain deductions while computing income tax. The most popular tax-saving deductions, particularly on life insurance premiums, are Sections 80C and 80D of the Income Tax Act, 1961. Under Section 80C, a customer can avail deductions of up to Rs 1.5 lakh on the overall insurance premium, including the GST applicable on them. If customers opt for a medical rider with their life insurance policies, Section 80D provides for additional deductions on the premium.

Sceptics doubt whether reducing GST, should the government agree to do it, will help policyholders. "It remains to be seen whether insurers will pass on the benefit to customers," said an observer of the insurance sector.

Insurance companies say the rise in retail inflation has added to their overall costs. Medical inflation is much higher than retail inflation (5.08% in June this year), they pointed out.

And what is the argument for withdrawing the GST on the premium?

The main issue is the large increases in premium on health insurance policies this year — a leading public sector insurer has hiked the premium by 50%.

While health insurance is very significant for the benefit of the people, "sadly, the renewal rate of policies is alarmingly declining due to frequent premium hikes and medical inflation", the Confederation of General Insurance Agents' Associations of India, an umbrella body of non-life insurance agents, has said.

The confederation has pointed out that the GST on insurance in India is the highest in the world — and that the situation needs to be addressed in order to attain insurance regulator IRDAI's goal of "Insurance for All by 2047", which was endorsed by the Standing Committee on Finance in its 66th report submitted to Parliament in February 2024.

This report had recommended rationalisation of the GST rate on insurance products, especially health and term insurance. The high rate of GST results in a high premium burden, which acts as a deterrent to getting insurance policies, it had said.

"The Committee, with a view to make insurance more affordable, recommend that GST rates applicable to health insurance products, particularly retail policies for senior citizens and microinsurance policies (up to limits prescribed under PMJAY, presently Rs 5 lakh), and term policies may be reduced," the report said.

The CEO of a private sector insurer said: "In markets like Singapore and Hong Kong, there is no GST or VAT on insurance. It is a difficult position to be in. People don't want to buy insurance. On that also, whatever insurance they take, you [the government] put an 18% tax... Ideally, you should reduce it..."

How big are the markets for life and health insurance in the country?

The general insurance industry collected Rs 1,09,000 crore premiums under the health portfolio in fiscal 2023-24.

Life insurance companies mobilised Rs 3,77,960 crore premium from customers in FY2024, with LIC alone accounting for Rs 2,22,522 crore.

Just five states — Maharashtra, Karnataka, Tamil Nadu, Gujarat and Delhi — contributed about 64% of the total health insurance premium in 2022-23; all other states together contributed the remaining 36%.

According to a Swiss Re Sigma report, insurance penetration in India's life insurance sector reduced from 3.2% in 2021-22 to 3% in 2022-23, and remained stagnant at 1% in the non-life insurance sector. As such, India's overall insurance penetration reduced to 4% in 2022-23 from 4.2% in 2021-22.

"The common man eagerly awaits measures to make life and health insurance more affordable, aligning with the ambitious goal of Insurance for All by 2047," Deepanker Mahajan, co-founder and CEO of insurance broker CoverYou, said.

GST: HEALTH INSURANCE

Years	Insurance premium	Reinsurance premium
2021-22	5,354.28	825.95
2022-23	7,638.33	963.28
2023-24	8,262.94	1,484.36

(In Rupees Crore); Source: Lok Sabha Questions, August 5, 2024

Rahul Gandhi and Sharad Pawar with other opposition MPs demand removal of 18% GST on health/ medical insurance outside Parliament on Tuesday. PTI

Context: Insurance companies have raised premiums on health and life policies this year, exacerbating affordability issues due to the additional 18% Goods and Services Tax (GST).

Current Scenario

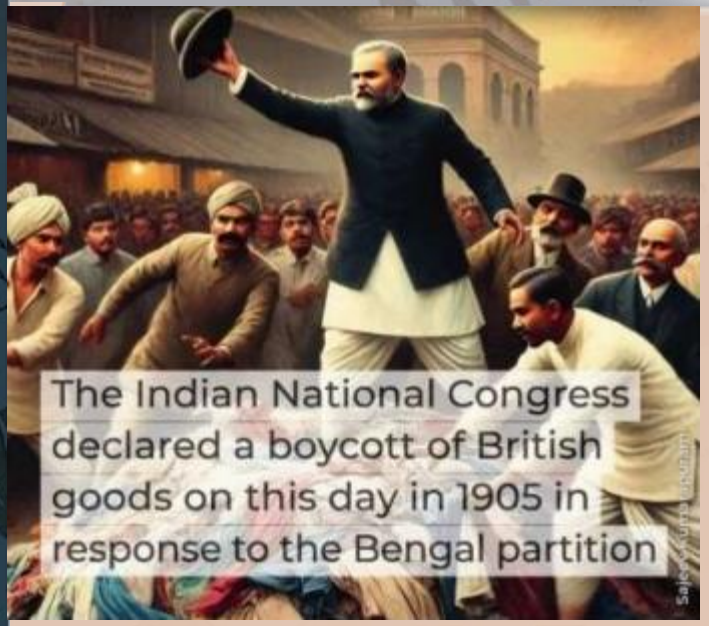
- **Life Insurance Market Size:** Life insurance companies mobilised Rs 3,77,960 crore in premiums in FY2024, with LIC contributing Rs 2,22,522 crore.
- **In 2022-23, five states**: Maharashtra, Karnataka, Tamil Nadu, Gujarat, and Delhi — contributed approximately 64% of the total health insurance premium, while the remaining 36% came from other states.
- **Insurance Penetration Trends**: Insurance penetration in India's life insurance sector decreased from 3.2% in 2021-22 to 3% in 2022-23, and non-life insurance penetration remained at 1%. Consequently, overall insurance penetration dropped to 4% in 2022-23 from 4.2% in 2021-22.

GST on Health and Life Insurance Premiums

- **GST Introduction and Rate**: GST replaced all indirect taxes from July 1, 2017, and is currently fixed at 18% for health and life insurance premiums.
- **Impact of GST on Premiums**: Before GST, insurance premiums were subject to 15% service taxes. The GST rate increase to 18% led to higher premiums for policyholders.
- **Medical Inflation Effect**: Rising medical costs, with medical inflation estimated at 14%, have further increased the difficulty of purchasing medical insurance.
- **Government Acknowledgment**: The government has received requests for a reduction or exemption from GST on life and health insurance premiums.
- **GST Council Role**: GST rates and exemptions are set based on the recommendations of the GST Council, which includes the Union Finance Minister and state/UT ministers.
- **Revenue from GST:** The insurance sector contributes significantly to government revenue, with Rs 21,256 crore from GST over the last three years and Rs 3,274 crore from reissued health policies.
- **Income Tax Deductions**: Tax-saving deductions on insurance premiums are available under Sections 80C and 80D of the Income Tax Act, 1961, including GST.
- **Scepticism about GST Reduction:** There is scepticism about whether a potential reduction in GST would benefit policyholders, with concerns about whether insurers would pass on the benefits.

PARTITION OF BENGAL

(Syllabus GS Paper 1 – History)



Context: On this day in 1905, the Indian National Congress declared a boycott of British goods in protest against the Bengal partition. This move marked a significant step in India's struggle for independence.

Partition of Bengal

- **Announcement:** The partition of Bengal was announced by Lord Curzon, the viceroy of India, on July 20th, 1905.
- **Effective Date**: The partition went into effect on October 16th, 1905.
- **Reversal:** The partition was reversed six years later.
- **Original States**: Bengal Presidency included Bengal, Bihar, parts of Chhattisgarh, Orissa, and Assam.
- **New Provinces:** Bengal was divided into two provinces: Bengal with a Hindu majority and Eastern Bengal and Assam with a Muslim majority.
- **Administrative Motives:**
  - **Justification**: The British government claimed the partition was necessary for better governance and administrative efficiency.
  - **Population**: Bengal was British India's largest province with a population of 78.5 million people.

Impact of the Bengal Partition

- **Political Turmoil**: The partition led to significant political unrest and strong opposition from various groups.
- **Unity vs. Division**: Bengalis sought unity, while the Indian National Congress criticized the division as religiously motivated.
- **Linguistic Concerns**: West Bengal's Bengali-speaking population opposed becoming a minority due to an influx of Odia and Hindi speakers.
- **Support from Bengali Muslims**: Some Bengali Muslims supported the partition, hoping for benefits in education, economy, and politics.

The Swadeshi Movement

- **Origins and Objectives**: Began as a backlash against the partition, emphasizing the use of Indian-made goods and boycotting foreign products.
- **Public Actions**: Involved mass meetings, public bonfires of foreign clothing, and picketing against foreign goods.
- **Support from Muslims**: Some prominent Muslims supported the movement, although others remained neutral or supported the partition.

DTE

Aug 6

OZONE POLLUTION

(Syllabus: GS Paper 3 – Env and Eco)

CSE report finds dangerous increase in ozone pollution across urban India

Context: A new study by Delhi-based think tank Centre for Science and Environment (CSE) has revealed a disturbing trend: Ground-level ozone pollution is on the rise across India's major cities.

Ozone

- **About:** The ozone in the stratosphere, known as the "ozone layer," forms a natural protective barrier.
- **Protection**: It prevents harmful ultraviolet sunlight (UV-B) from reaching the Earth's surface, safeguarding plant and animal life.
- **Termed "Good Ozone"**: This naturally occurring ozone is referred to as "good ozone" due to its essential protective role.

Ozone Needs Special Attention

- **Formation of Ground-Level Ozone**: Ground-level ozone is not directly emitted from any source; it is produced through a complex interaction between nitrogen oxides (NOx) and volatile organic compounds (VOCs) under sunlight.
- **Sources:** NOx and VOCs, the precursors of ozone, are emitted from vehicles, power plants, factories, and other combustion sources. VOCs can also originate from natural sources, such as plants.
- **Health Risks**: Ground-level ozone poses serious risks to those with respiratory conditions, such as asthma and chronic obstructive pulmonary disease (COPD), as well as children with premature lungs and older adults.

Key Highlights of Study

- **Analysis of Metropolitan Areas**: The researchers analyzed metropolitan areas of Bengaluru (Karnataka), Chennai (Tamil Nadu), Kolkata (West Bengal), Mumbai and Pune (Maharashtra). They also looked at data for Delhi-National Capital Region, Greater Ahmedabad (Gujarat), Greater Hyderabad (Telangana), Greater Jaipur (Rajasthan) and Greater Lucknow (Uttar Pradesh).
- **Exceedances**: All 10 areas studied witnessed exceedances of the national ozone standard, with Delhi being the most affected.
- **Rapid Increase in Smaller Cities**: Smaller cities like Ahmedabad and Pune are experiencing a particularly rapid increase in ozone pollution, the report further found.
- **Trade-Off Between Particulate Pollution and Ozone**: Global experience indicates a common trade-off: as particulate pollution is reduced, issues with nitrogen oxides (NOx) and ground-level ozone increase, the report pointed out.
- **National Ambient Air Quality Standard**: Due to its highly toxic nature, the national ambient air quality standard for ozone is set only for short-term exposures (one-hour and eight-hour averages), with compliance measured by the number of days that exceed these standards.

PIB

Aug 6

COMMEMORATIVE STAMPS

(Syllabus: GS Paper 2 – Governance)

Union Ministers Shri Jyotiraditya M Scindia and Dr Mansukh Mandaviya to release set of commemorative postage stamps to celebrate Paris Olympics

Context: Recently, the department of Posts released a set of commemorative postage stamps to celebrate the Paris Olympics.

Commemorative Stamps

- **About:** It honor important events, prominent personalities, aspects of nature, rare flora and fauna, environmental issues, agricultural activities, and national or international topics.
- **Issuing Authority**: Department of Posts, Ministry of Communications.
- **Availability**: These stamps can only be obtained from Philatelic Bureaux, counters, or through the Philatelic Deposit Account Scheme.
- **Rules for Issuing Commemorative Postage Stamps:**
  - **Proposal Submission**: Any citizen of India may submit a proposal for the issuance of commemorative postage stamps.
  - **Institutional Milestones**: Stamps are issued only for apex institutions or organizations celebrating significant anniversaries, such as the 100th, 125th, or 150th, and not for their branches.
  - **Significance**: The institution or organization honored must have national or international stature with notable contributions in their field.
  - **No Living Personalities**: Commemorative stamps cannot feature living individuals. Only personalities of national or international importance who are deceased can be commemorated.
  - **Heritage Sites:** Stamps can be issued for buildings or monuments on significant anniversaries (centenary, 125th, 150th) if they are recognized as Heritage sites of national or international importance.

ALL INDIA RADIO

Aug 6

TARANG SHAKTI 2024
(Syllabus: GS Paper 2 – IR)

India's First Multinational Air Defence Exercise, Tarang Shakti 2024 To Begin At Sulur In Tamil Nadu

Context: Tarang Shakti 2024, an international air exercise will begin from today at the Airbase at Sulur, Coimbatore.

Tarang Shakti 2024

- **About**: It is inspired by the Red Flag exercise hosted by the US.
- **Objectives**:
  - Strengthen international relations and mutual understanding of air operations.
  - Showcase India's defense capabilities and foster interoperability through professional exchanges and expertise sharing.
- **Phased Execution**: The exercise will be held in 2 phases, with the first phase in southern India and the second in the western sector.
- **Phase I:** The first part will be conducted in Sulur area in south India, and this phase will see four countries Germany, France, Spain and the UK with their assets.
- **Phase II**: It will be held at Jodhpur and that will see participation from Australia, Bangladesh, Greece, Singapore, the UAE and the US with their assets.
- **Confirmed Participation**:
  - **With Assets**: 10 countries
  - **As Observers**: 18 countries
- **Participating Nations:** 51 countries
- **Germany's Aircraft Showcase**: Germany will showcase the A-400M aircraft, which will be displayed for the Indian Air Force (IAF) as it is being considered as a potential option for the current open tender seeking medium transport aircraft.

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DISASTER MANAGEMENT (DM) ACT, 2005

(Syllabus: GS Paper 3 - Disaster Management)

Bill seeks to expand NDMA role, fails to strengthen its status

AMITABH SINHA
NEW DELHI, AUGUST 6

LAST WEEK, the government introduced a Bill in Parliament seeking to amend the Disaster Management Act, 2005. It proposes to make important changes in the Act, aimed mainly at improving the operational efficiencies in responding to a natural disaster.

The Bill seeks to significantly expand the role and responsibilities of the National Disaster Management Authority (NDMA), especially in guiding state governments and organs of the Centre in dealing with disasters.

However, it misses the opportunity to upgrade and strengthen the institutional status of NDMA. This would have empowered the body to coordinate better with state agencies, and provided it with more financial and human resources.

Significance of the DM Act

The DM Act was enacted in the aftermath of the devastating 2004 tsunami — the idea for such legislation was in the works at least since the 1998 Odisha super cyclone.

The Act led to the creation of the NDMA, SDMAs at the state level, a National Disaster Response Force (NDRF), and a National Institute of Disaster Management (NIDM) — an institute meant for disaster-related research, training, awareness, and capacity building. The Act was followed by a National Disaster Management Policy in 2009 and a National Disaster Management Plan in 2016.

This institutional framework has served India well in dealing with natural disasters. Over the years, it has saved thousands of lives, and provided relief, rescue and rehabilitation services. Growing incidents of natural disasters, exacerbated by climate change, have made agencies such as NDMA more important than ever, requiring the assignment of greater responsibilities and resources.

The proposed amendments

The amendment Bill acknowledges this fact and proposes to make a few important changes to make the Act more effective.

URBAN DISASTER MANAGEMENT AUTHORITIES: The institutional structure for disaster management extends to the district level, and district disaster management authorities are already functional. However, the Bill recognises the special requirements of large metropolitan cities that often comprise multiple districts. In such cities — all state capitals and cities with a municipal corporation — would now also have an Urban Disaster Management Authority, headed by the municipal commissioner. This can help in having a unified and coordinated approach towards city-level disasters such as urban flooding.

EXPLAINED POLICY

SDRF: Although most states have raised their disaster relief forces on the lines of NDRF over the years, an SDRF is not mandated in the 2005 Act. The size and capacity of the SDRFs in the states vary significantly. The Bill proposes to make it mandatory for every state to raise and maintain an SDRF.

NATIONAL CRISIS MANAGEMENT COMMITTEE: NCMC, headed by the Cabinet Secretary, is already functional for handling all kinds of national emergencies, including disasters. The Bill gives legal status to the NCMC, making it the nodal body to deal with disasters with "serious or national ramifications".

ENHANCED ROLE OF NDMA: The role and responsibilities of the NDMA are proposed to be significantly expanded. It has been asked to periodically take stock of the entire range of disaster risks to the country, including risks from emerging disasters.

DISASTER DATABASES: The NDMA is also being asked to create and maintain a national disaster database with information on the assessment of the disaster, fund allocation, expenditure, and preparedness and mitigation plans. The SDMAs will also need to create state-level disaster databases.

COMPENSATIONS: The Bill proposes that the NDMA should recommend guidelines for minimum standards of relief to be provided to people affected by disasters. This includes a recommendation on compensation amounts in case of loss of lives, damage to homes and property, and loss of livelihoods.

MAN-MADE DISASTERS: The Bill seeks to include an important clarification about the definition of disasters. The original Act defined disasters as any "catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man made causes...". The Bill says the phrase "man-made causes" does not include any law-and-order-related situation. Loss of lives, suffering, or property damage in a riot, for example, would not invoke provisions of this law.

ABSENCE OF VICE-CHAIRPERSON: The NDMA is headed by the Prime Minister as chairperson. A vice-chairperson, in the rank of a Cabinet Minister, is supposed to be responsible for day-to-day functioning. The post of vice-chairperson, however, has been vacant for about a decade. The amendment Bill legitimises this position by allowing for the day-to-day functioning to be carried out by any Member designated by the chairperson or the vice-chairperson.

Unaddressed issues in Bill

Considering its growing role and importance, it has been argued that NDMA be given more powers and elevated to the status of a government department, if not a full-fledged ministry in itself. The NDMA now remains active throughout the year, and has to regularly coordinate with state governments and their agencies. Currently, this is done through the Home Ministry, which is the nodal ministry for the NDMA.

Without a vice-chairperson, the NDMA has been deprived of not just leadership but also the political heft necessary to deal with states and other central government agencies.

The NDMA does not have any administrative financial powers. Routing every small decision through the Home Ministry is an inefficient and time-consuming process. The body is also severely short-staffed at the top, with just three members functioning. It used to once have six to seven members, each in charge of a specific type of disaster.

The amendment Bill ignores these deficiencies for the time being. Some of the other provisions are also likely to face opposition, particularly the ones that deal with changes at the state level.

Context: The government has introduced a Bill in Parliament to amend the Disaster Management Act, 2005.

Disaster Management (DM) Act, 2005

- **Establishment:** The National Disaster Management Act (NDMA) was formulated in response to significant natural disasters like the 1999 super-cyclone in Odisha, the 2001 earthquake in Gujarat, and the 2004 tsunami.
- **Creation of Authority:**
  - The National Disaster Management Authority (NDMA)
  - The National Executive Committee (NEC)
  - The National Institute of Disaster Management (NIDM):
  - National Disaster Response Force (NDRF)
  - State Disaster Management Authorities (SDMAs)
  - District Disaster Management Authority
- **Nodal Agency**: The Ministry of Home Affairs
- **Financial Provisions**: The Act includes provisions for setting up funds for disaster relief and other emergency situations, ensuring financial resources are readily available during crises.
- **Formation of Agencies**: The Act mandates the creation of various agencies and organizations at the national, state, and district levels. These entities are crucial for ensuring efficient disaster response and management.
- **Coverage**: It covers all man-made and natural disasters which are beyond the coping capacity of a community.
- **Punishment:** Anyone refusing to comply with orders is liable for punishment with imprisonment up to one year, or fine, or both.
- In case this refusal leads to the death of people, the person liable shall be punished with imprisonment up to two years.

Significance of DM Act

- The institutional framework has effectively saved thousands of lives through timely relief, rescue, and rehabilitation services.
- Increasing natural disasters, intensified by climate change, have heightened the importance of disaster management agencies.
- The National Disaster Management Authority (NDMA) plays a crucial role, necessitating more responsibilities and resources.

PIB

Aug 6

NATIONAL COASTAL MISSION SCHEME

(Syllabus: GS Paper 2 – Governance)

National Coastal Scheme

Context: Minister of State for Environment, Forest and Climate Change provided details about the National Coastal Scheme in the Lok Sabha.

National Coastal Mission Scheme (NCM)

- **Launched in**: July 2014.
- **Objective:** It aims to address the climate change impact on coastal areas and ensure sustainable development of coastal regions.
- **Implementing Authority:** Ministry of Environment, Forest and Climate Change
- **Framework and Focus:** It is part of India's National Action Plan on Climate Change (NAPCC), focusing on sustainable development and climate resilience in coastal areas.
- **Key Areas:**
  - Coastal Protection
  - Conservation of Coastal Ecosystems
  - Development of Sustainable Livelihoods
  - Enhancing Climate Resilience
- **Components:**
  - Management Action Plan on Conservation of Mangroves and Coral Reefs
  - Research & Development in Marine and Coastal ecosystem
  - Sustainable Development of Beaches under Beach Environment & Aesthetic Management Service
  - Capacity Building / Outreach Programme of Coastal States/UTs on conservation of marine and coastal ecosystem including beach cleaning drive.
- **Key Strategies:**
  - **Coastal Protection**: Building and maintaining infrastructure to prevent erosion and manage coastal disasters.
  - **Ecosystem Conservation**: Efforts to conserve and restore vital coastal ecosystems like mangroves and coral reefs.
  - **Sustainable Livelihoods**: Enhancing economic opportunities for coastal communities through skill development and capacity building.

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SARISKA TIGER RESERVE
(Syllabus: GS Paper 3 – Env and Eco)

Unchecked traffic seriously affecting wildlife in Sariska Tiger Reserve: Report

Context: The Central Empowered Committee, mandated by the Supreme Court, has highlighted severe wildlife damage in Rajasthan's Sariska Tiger Reserve caused by unchecked tourism and traffic.

Sariska Tiger Reserve

- **About:** A prominent wildlife sanctuary and national park located in the Alwar district of Rajasthan, India. The park is a part of the Aravalli Range.
- **Establishment:**
  - Sariska was declared a wildlife sanctuary in 1955.
  - Later, it was designated as a Tiger Reserve under Project Tiger in 1978.
  - The wildlife sanctuary was declared a national park in 1982.
- **Vegetation:** Dry deciduous forests, thorn scrubs, and grasslands.
- **Fauna:** Apart from Bengal tigers, Sariska Tiger Reserve is known for its rich biodiversity, including Indian leopards, jungle cats, caracals, sambar deer, chital, nilgai, and a variety of bird species.
- **Threat to reserve:**
  - Animal poaching.
  - Marble mining continue to threaten environment.
  - Habitat loss due to developmental activities.

Central Empowered Committee Suggestion

- The Central Empowered Committee (CEC) reported that heavy vehicular traffic within Sariska Tiger Reserve is impairing tiger breeding, causing tigers to avoid areas south of the roads leading to the temple.
- The CEC recommended establishing a specialized tiger force, addressing staff shortages, controlling cattle grazing, and relocating villages to enhance conservation efforts in Sariska Tiger Reserve.
- The CEC proposed that the state government explore options like a ropeway, elevated road, motorable twin tunnel, or electric tramway to balance wildlife protection with pilgrimage needs.

YEN CARRY TRADE

(Syllabus: GS Paper 3 – Economy)



YEN CARRY TRADE

Investors borrow in low-interest currencies like the yen and use the cash to invest in high-interest assets

UDIT MISRA
NEW DELHI, AUGUST 6

ON MONDAY, major global stock markets experienced sharp declines. The reasons for jittery investor sentiment ranged from the US economy facing increasing odds of a recession to geopolitical tensions in West Asia. There was also a new global trigger: the unwinding of the yen carry trade.

What is the yen carry trade?

Global investors always look for opportunities to make money. One way to do this is to borrow money in a country with low interest rates and invest that money (after converting the currency) in a country with much higher interest rates. This is called carry trade.

Such opportunities can exist because central banks of different countries try to set interest rates based on their specific economic conditions. So, the Bank of Japan kept interest rates at 0% between 2011 and 2016, and even below zero (–0.10%) since 2016 to stimulate economic activity.

But such a "cheap money" monetary policy has global ramifications, especially since Japan is the third-largest economy and its currency is trusted. Investors are incentivised to borrow cheaply in yen and invest in other countries (such as Brazil, India and the US) to earn better returns. Such carry trades are called yen carry trades.

The Bank of Japan kept interest rates low for long — even when central banks elsewhere rapidly raised interest rates in the wake of the Russia-Ukraine war — and incentivised billions of dollars of yen carry trades. These borrowings fuelled investments in several countries.

So, what changed?

Between mid-March and July-end this year, the Bank of Japan raised interest rates by 35 basis points, so the interest rate now is 0.25% instead of –0.1%. On the face of it, and especially as Indian lending rates are upwards of 6.5%, this may not look like a massive increase but in Japan's context, it was nothing short of a monetary earthquake. It is expected that the central bank may raise interest rates further.

This sharp reversal — a 25 basis point increase announced on July 31st — led to the "unwinding" of the yen carry trade. In other words, it led to investors who had borrowed in yen and invested, say in the Indian rupee, selling their assets in international markets.

Monitors display the Japanese yen exchange rate against the US dollar in Tokyo on Monday. *Kyodo via Reuters*

But why did investors sell?

Higher interest rates in Japan led to the yen gaining strength against the dollar and most other emerging economy currencies. Over the past week, the yen's exchange rate — how many dollars or rupees one gets for a yen — strengthened against currencies like the dollar, rupee, peso etc. Assets held in these currencies were worth relatively less if converted back into yen.

Not to mention the higher opportunity cost of yen carry trade because investing in yen now pays higher returns. This narrowing of returns (or yields) differential, and the likelihood of a further move in this direction, triggered the slide and led to investors selling off those assets bought using cheap yen.

Context: The so-called Yen carry trade has been in focus in the past few trading sessions in the wake of the selloff in shares of US technology giants.

Yen Carry Trade

- **About**: The Japanese yen is a widely used currency for carry trades.
- **Borrowing at Low Rates**: Investors, including Japanese retail investors, borrow yen at low interest rates.
- **Investing in Higher Return Assets**: They use the borrowed funds to purchase assets in other countries with higher returns, such as equities and bonds.
- **US Equities Preference**: Recently, US equities have been a favored choice due to the strengthening of the dollar.
- **Long-term Zero Interest Rate Policy**: Japan has maintained a zero-interest rate policy for over two decades, except for a brief period between 2006 and 2008, to combat persistent deflation.

Impact on Indian Equities

- **Unclear Flow of Funds**: It is unclear how much money has flowed into India from yen carry trades.
- **Assumed Participation**: It is assumed that some carry trades have involved Indian equities, given their strong performance in recent years.
- **Japanese FPIs:** As of June 30, Japanese foreign portfolio investors held ₹2.05 lakh crore in Indian equities, while US FPIs held the highest at ₹30 lakh crore.
- **Concerns for Indian Companies**: A stronger yen could worry Indian companies with yen-denominated debt, especially if they have not hedged against currency movements.

Carry Trade

- **About**: A carry trade is a hugely popular trading strategy where an investor borrows from a country with low interest rates and a weaker currency and reinvests the money in assets of another country with a higher rate of return.
- It has been one of the biggest sources of flows in the global currency market.

DTE Aug 6

NAWEGAON-NAGZIRA TIGER RESERVE

(Syllabus: GS Paper 3 – Env and Eco)

Maharashtra's first elephant reserve in Gondia & Gadchiroli districts awaits central nod, year after being proposed

Context: Maharashtra's first elephant reserve, proposed for the Gondia and Gadchiroli districts, has been awaiting central approval for a year.

Nawegaon-Nagzira Tiger Reserve

- **Location**: It is situated in Gondia and Shandara Districts of Maharashtra.
- **Link**: It is rich in biodiversity and has linkages with Kanha, Pench, and Tadoba Tiger Reserves.
- **Status**: It notified as the 46th tiger reserve of India on 12th December 2013, is the fifth tiger reserve in the state of Maharashtra.
- **NNTR composition:** It notified area of Nawegaon National Park, Nawegaon Wildlife Sanctuary, Nagzira Wildlife Sanctuary, New Nagzira Wildlife Sanctuary and Koka Wildlife Sanctuary.
- **Flora**: The forests are classified as "Southern Tropical Dry Deciduous" (Champion and Seth, 1968).
    - Major trees include Terminalia tomentosa, Lagerstroemia parviflora, Anogeisus latifolia, Pterocarpus marsupium, Diospyros melanoxylon, Ougeinia oogenesis.
- **Fauna**: Tiger, Panther, Small Indian Civet, Palm Civet, Wolf, Jackal, Wild Dog, Sloth Bear, Ratel, Common Giant Flying Squirrel etc.

Other Protected Areas in Maharashtra

- Sahyadri Tiger Reserve.
- Melghat Tiger reserve.
- Great Indian Bustard Sanctuary.
- Karnala Bird Sanctuary.
- Sanjay Gandhi National Park.
- Pench National Park.

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