UPSC Syllabus Topic : GS paper3- security- money-laundering and its prevention.

Prevention of Money Laundering Act (PMLA): Overview and Supreme Court Observations

PMLA Act: Overview

Prevention of Money Laundering Act (PMLA): Enacted in 2002, the PMLA is aimed at preventing money laundering and the generation of black money. It provides legal measures to combat these financial crimes, including the attachment and confiscation of the proceeds of crime.

Supreme Court's Observations on PMLA:

1. **Proceeds of Crime Definition:**
   - *Observation:* In Vijay Madanlal Choudhary vs Union of India (2022), the Supreme Court clarified that only property derived from criminal activity related to a scheduled offence qualifies as "proceeds of crime" under Section 2(1)(u) of the PMLA Act, 2002.
2. **ED's Style of Functioning:**
   - *a) ED's Overreach:* The Supreme Court, in Pankaj Bansal vs Union of India, criticized the Enforcement Directorate (ED) for overreach.
   - *b) Need for Fairness:* Emphasizing fairness, the Court highlighted issues with the ED's approach, including inconsistencies and lack of transparency.
3. **Violations of Procedure:**
   - *Judicial Misuse:* In cases like Pavana Dibbur vs The Directorate of Enforcement (2023 INSC 1029), the Supreme Court observed procedural violations and misuse. It emphasized the need for strict adherence to legal standards by the ED and other authorities.

Concerns Related to Misuse of PMLA Act:

1. **Impact on Federal Structure:**
   - *Concern:* Actions perceived as biased or overreaching by central agencies like the ED are seen as eroding the federal structure and democratic principles of the country.4

Way Forward:

Addressing concerns related to the PMLA Act requires a balanced approach. The authorities, especially the ED, need to operate with transparency, fairness, and strict adherence to legal standards. This ensures the effective functioning of the PMLA while safeguarding individual rights and upholding democratic principles.

UPSC Syllabus Topic : GS paper 3 – Economy – Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment

IIMF's Observations on India's Currency and Government Debt: Analysis

Observation on India's Currency:

IMF's Observation:

- The IMF observed the stability of the Indian rupee against the dollar, experiencing a narrow fluctuation range between 81.04 and 83.29 per US dollar, leading to its reclassification from "floating" to a "stabilized arrangement."

India's Response:

- India, especially the Reserve Bank of India (RBI), contends that the rupee is market-determined, with interventions only for excessive volatility. It challenges the IMF's short-term view.

Observation on Government Debt:

IMF's Warning:

- The IMF warns of the potential for India's debt to exceed 100% of GDP in the medium term if past economic shocks recur. Long-term risks are highlighted due to the substantial investment required for meeting India's climate change mitigation targets.

India's Position:

- India counters by arguing that sovereign debt risk is low as it is predominantly in domestic currency.
- Despite economic shocks, India maintains that its general government debt level has been relatively stable, barely increasing from 81% in 2005-06 to around 81% in 2022-23.
- India suggests that the IMF's assessment might overlook the historical stability and resilience of India's debt management.

Reasons for the Narrow Decline of the Indian Currency (December 2022 to October 2023):

Internal Factors:

1. **Trade Deficit Improvement:** India's monthly trade deficit averaged $20 billion, a slight improvement from the previous year.
2. **Current Account Deficit:** The current account deficit decreased to $27.3 billion, nearly half of the previous year's figure.
3. **Foreign Investment:** Net foreign investment increased to $30.7 billion, driven by a surge in Foreign Portfolio Investment (FPI).
4. **Forex Reserves:** Forex reserves modestly rose from $563 billion to $586 billion, indicating improved currency health.

External Factors:

1. **Global Dollar Strength:** The US Federal Reserve's policy funds rate increase strengthened the dollar, impacting global currencies, including the Rupee.
2. **Rupee Volatility vs. Dollar:** The Rupee's narrower movement (2.8%) compared to major currencies like the Euro (7.3%) indicates active central bank management amid global volatility.

Conclusion:

The IMF's observations and India's responses reflect a nuanced dialogue on currency stability and government debt management. While the IMF raises concerns, India emphasizes its resilience and the unique challenges it faces. Striking a balance between global economic trends and domestic priorities is crucial for navigating these complexities.

UPSC Syllabus Topic : GS Paper 3 – Economy – Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment..

Positive Findings and Concerns in the IMF Report on India's Economy: Insights

Positive Findings:

1. **Strong Growth Amid Global Challenges**:
    - India exhibited robust economic growth in the face of global challenges, showcasing resilience.
2. **Financial Sector Resilience**:
    - India's financial sector demonstrated resilience with:
        - Low non-performing assets.
        - Increased domestic credit.
        - Adequate capital and liquidity buffers.

Concerns Highlighted in the Report:

1. **High Public Debt**:
    - The report expresses concern about the high public debt levels, projected to reach 82.3% of GDP by 2024-25 due to pandemic relief efforts. This poses risks to both growth and financial stability.
2. **Public Debt Impact on Net-Zero Target**:
    - Additional investments required to achieve India's net-zero target by 2070 could further contribute to increasing public debt.
3. **RBI's Currency Interventions**:
    - The IMF raises concerns about the Reserve Bank of India's (RBI) frequent interventions in the currency market. The rupee's stable trading range is seen as a "stabilized arrangement" rather than a "floating" exchange rate.

Recommendations by the IMF:

1. **Fiscal Reforms**:
    - The IMF recommends a review of the Fiscal Responsibility and Budget Management Act and the implementation of a medium-term fiscal framework (MTFF) to manage debt and rebuild buffers.
    - Balancing public investment for growth with overall fiscal sustainability is crucial.
2. **Maintaining Adequate Foreign Exchange Reserves**:
    - Emphasis is placed on the importance of the RBI maintaining adequate foreign exchange reserves, considering their role in preventing pressure on the rupee during global interest rate hikes in 2022.

Conclusion:

The IMF report reflects a balanced assessment, acknowledging India's economic strengths while expressing concerns about specific areas, particularly high public debt. The recommendations underscore the importance of fiscal reforms and prudent management of foreign exchange reserves for sustained economic stability. Achieving a delicate equilibrium between growth objectives and fiscal sustainability is crucial for India's economic trajectory.