

## Economy and Social Development

### Fully Accessible Route (FAR)

#### Why in the news?

- The **Reserve Bank of India (RBI)** has introduced a separate channel, namely '**Fully Accessible Route**' (**FAR**), to enable **Non-Resident Indians (NRIs)** to invest in specified government bonds.
- These **special securities** will attract no **foreign portfolio investor (FPI) limits** until maturity and are **the first step towards Indian G-Secs** being listed on **global bond indices** as the **Centre looks to attract access cheap liquidity** in the overseas markets.



#### About Fully Accessible Route

- **Eligible investors** can invest in **specified government securities** without being subject to any investment ceilings.
- This scheme shall operate along with the two existing routes, viz.
  - the **Medium-Term Framework (MTF)**
  - the **Voluntary Retention Route (VRR)**

#### Background

- The move follows the **announcement made** in the **Union Budget 2020-21** that **certain specified categories of Central Government securities** would be **opened fully for non-resident investors** without any restrictions.
- Accordingly, a separate route viz., **Fully Accessible Route (FAR)** for investment by **non-residents in securities** issued by the **Government of India**.
- **This will substantially ease access of non-residents to Indian** government securities markets and **facilitate inclusion** in global bond indices.
- This would facilitate **the inflow of stable foreign investment** in government bonds.

**Topic- GS Paper 3–Economics**  
**Source- Business standard**



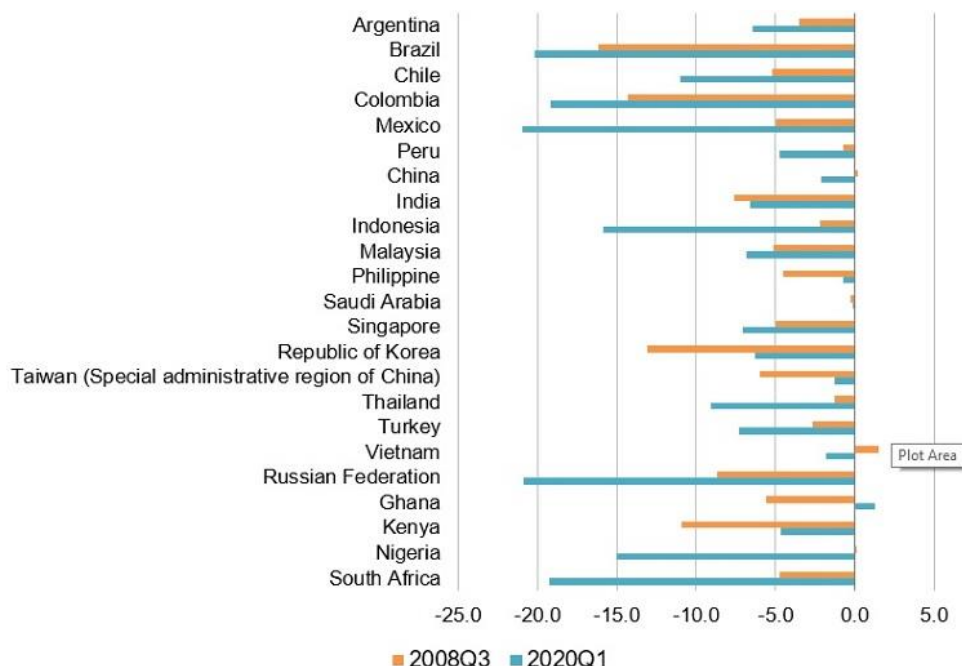
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## UNCTAD report

### Why in the news?

- The **United Nations Conference on Trade and Development** has released a report titled '**The COVID-19 Shock to Developing Countries: Towards a 'whatever it takes' programme**'.



**Source:** UNCTAD secretariat calculations based on Thomson Reuters Eikon database.

**Notes:** Negative values refer to a depreciation of the domestic currency against the dollar. Data for 2020Q1 go until 25 March.

### Highlights of the report

- The consequences of a **combined health pandemic** and a **global recession** will be **catastrophic for many developing countries** and halt their **progress towards the Sustainable Development Goals**.
- The report shows that in the two months since the virus began spreading beyond China, **developing countries have taken an enormous hit** in terms of
  - capital outflows
  - growing bond spreads
  - currency depreciation
  - lost export earnings,
  - falling commodity prices
  - declining tourist revenues.
- The values of their currencies against the **dollar have fallen between 5% and 25% since the beginning of this year** – faster than the early months of the global financial crisis (see the chart below).
- The **prices of commodities**, on which many developing countries heavily depend on their foreign exchange, have also **dropped precipitously since**



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**the crisis began.** The overall price decline has been 37% this year, according to the report.

- **Currency movements against the dollar 2008Q3 vs 2020Q1 (percentage)**

The UNCTAD report has suggested a “Four-pronged strategy” to **translate expressions of international solidarity** into concrete action:

**a. \$1 trillion liquidity injection**

- It is a kind of **helicopter money drop** for those **left behind through reallocation of existing special drawing rights** at the **International Monetary Fund**.
- **Helicopter drop** refers to the last resort type of monetary stimulus strategy to spur inflation and economic output. Milton Friedman coins it.

**b. Debt jubilee for distressed economies**

- An **immediate debt standstill** on **sovereign debt payments** should be followed by significant debt relief.
- So, **around \$1 trillion debt** of such economies should be cancelled by an **independently created body**.

**c. Marshall Plan for a health recovery**

- An **additional \$500 billion** should be allocated largely in the form of grants for **emergency health services** and **related social relief programmes**.

**d. Capital controls**

- Capital control represents **any measure taken by a government, central bank or other regulatory bodies to limit the flow of foreign capital** in and out of the domestic economy.
- They should be given in **any policy regime** to **reduce illiquidity** driven by sell-offs in **developing country markets** and to **arrest declines in currency and asset prices**.

**About the United Nations Conference on Trade and Development**

- The United Nations General Assembly established UNCTAD in **1964**, and it reports to the **UN General Assembly and United Nations Economic and Social Council**.
- The **Headquarters of the UNCTAD** is located at the **Palais des Nations in Geneva**. The **primary objective** of UNCTAD is to **formulate policies** relating to all aspects of development **including trade, aid, transport, finance and technology**.

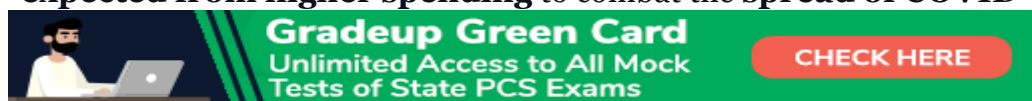
**Topic- GS Paper 3– Economics**

**Source- ET + UNCTAD**

**Ways and Means Advance**

**Why in the news?**

- The government has recently increased the **ceiling on its temporary loan facility** with the **Reserve Bank of India** — known as **Ways and Means Advance by 60%**. It helps to tide over the cash flow mismatch in **FY21** expected from **higher spending** to combat the **spread of COVID-19**.



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### About Ways and Means Advances (WMA) Scheme

- These are temporary loan facilities provided by **the Reserve Bank of India (RBI)** to the central and state government which was **introduced in 1997**.
- Under this, the government can **avail immediate cash from the RBI**, but it has to return the amount within 90 days.
- **Interest is charged** at the **existing repo rate**.
- The limits for **Ways and Means Advances (WMA)** are decided by the government and **RBI mutually and revised** periodically.

### Types of Ways and Means Advances

#### a) Special WMA

- It is extended against the **collateral of the government securities** held by the **State Government**.

#### b) Normal WMA

- It is based on a **three-year average of actual revenue and capital expenditure** of the state.
- It is not **collateral based**.

### Topic- GS Paper 3–Economics

Source- ET

### Certificate of origin

#### Why in the news?

- Commerce Ministry has recently created an **online platform for the issuance of 'certificate of origin' for exporters**.

#### What is Certificate of Origin?

- A certificate of origin (CO) is a **document declaring in which country a commodity or goods was manufactured**. The certificate of origin **contains information regarding the product, its destination, and the country of export**.
- Required by many treaty agreements for **cross-border trade**, the CO is an important form because it can **help determine whether certain goods are eligible for import, or whether products are subject to duties**.

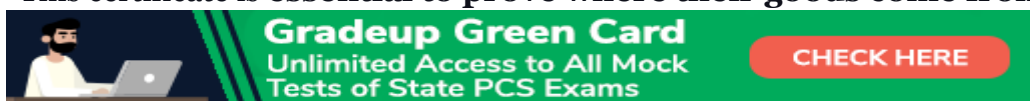
### Two Types of Certificate of Origin

The two types of COs are: **non-preferential** and **preferential**.

- **Non-preferential COs**, also known as "**ordinary COs**" indicates that the **goods do not qualify for reduced tariffs or tariff-free treatment** under trade arrangements between countries. At the same time, **preferential COs** declare that they do.

### Significance

- The document is **important to claim duty concessions** under **free-trade agreements (FTAs)**.
- This certificate is **essential to prove where their goods come from**.



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**Topic- GS Paper 3–Economics**  
**Source- ET**

### **Bancassurance agreements**

**Why in news?**

- Insurance regulator **Insurance Regulatory and Development Authority of India (IRDAI)** has allowed the **four banks**, emerging from the **recent mega bank merger exercise**, to **continue for a year with existing bancassurance agreements** of the lenders that amalgamated with them.

**About Bancassurance**

- It means **selling insurance product through banks**. Banks and insurance company come up **in a partnership** wherein the bank sells the **tied insurance company's insurance products to its clients**.

**Twin-Benefits**

- On the one hand, the **bank earns fee amount (non-interest income)** from the **insurance company** apart from the **interest income** whereas on the other hand, the **insurance firm increases its market reach and customers**.

**Regulations**

- Government of India notification (**Banking Regulation Act**) dated **August 3<sup>rd</sup>, 2000**, laid out the **Bancassurance clearance**.
- As per **bancassurance regulations**, a bank can only market three life, **general and health insurance companies' products**.

**About Insurance Regulatory and Development Authority**

- It is an **autonomous, statutory body** tasked with **regulating and promoting the insurance and re-insurance industries** in India.
- It was **constituted by the Insurance Regulatory and Development Authority Act, 1999**, an **Act of Parliament** passed by the Government of India.
- IRDAI is a **10-member body** including the **chairman, five full-time and four part-time members** appointed by the government of India.

**Topic- GS Paper 3–Economics**  
**Source- The Hindu**

### **Helicopter money**

**Why in news?**

- **Telangana Chief Minister** has recently suggested **RBI to adopt the concept of Helicopter Money to help state governments tide over the current crisis** and kickstart economic activity in India.

**About the Helicopter money**



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- The term **Helicopter Money** was coined by American Economist **Milton Friedman** in his paper “**The Optimum Quantity of Money**”.
- It refers to an **unconventional monetary policy tool** which is aimed at bringing the **economy back on track** by printing large sums of money and distributing it to the public.

### Benefits

- Increase in Demand Growth
- Increase in inflation among others.

### Challenges

- It may lead to Hyperinflation
- Devaluation of currency among others.

### Topic- GS Paper 3–Economics

Source- ET

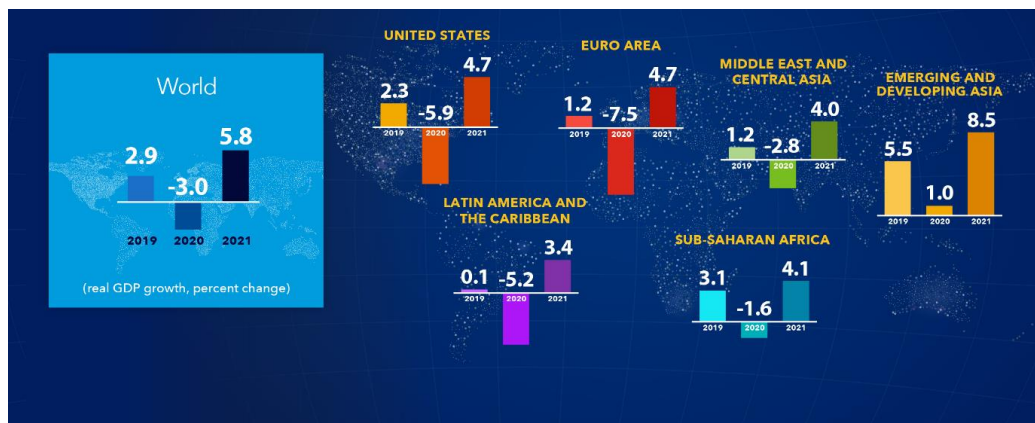
### World Economic Outlook Report 2020

#### Why in the news?

- The **International Monetary Fund** has recently released the **World Economic Outlook Report**.

#### About the World Economic Outlook Report

- The report is **published twice a year**.
- It aims to **provide analysis and forecasts of economic developments** of member countries and highlights risks and uncertainty.



#### Highlights of the report

- The report highlights that **as a result of the pandemic**; the global economy is projected to **contract sharply by –3 percent in 2020**, much **worse than during the 2008–09 financial crisis**.
- The IMF, in its **2020 World Economic Outlook**, predicted a **partial rebound in 2021**, with the world economy growing at a **5.8 per cent rate**.

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- The **US economy will contract 5.9 per cent in 2020**, with a **rebound to 4.7 per cent growth in 2021** under the Fund's best-case scenario.
- **Eurozone economies will contract by 7.5 per cent in 2020**, with hard-hit **Italy seeing its GDP fall 9.1 per cent** and **contractions of 8.0 per cent in Spain, 7.0 per cent in Germany and 7.2 per cent in France.**
- It predicted euro-area economies as a whole would match **US growth of 4.7 per cent in 2021.**
- China's economy is **forecast to grow by 9.2 per cent in 2021.**
- **India's 2020 fiscal-year growth** also is expected to stay in **positive territory**, but **Latin American economies**, which are still experiencing growing coronavirus outbreaks, will see a **contraction of 5.2 per cent.**

### About International Monetary Fund

- The **IMF** is an organization of **189 countries.**
- It is headquartered in **Washington, US.**
- The official language of IMF is – **Chinese, English, French, Russian, Spanish, Arabic.**

### Objective

It continually **seeks to ensure the stability of the International monetary system** by:

- a. Fostering global monetary cooperation
- b. Securing financial stability
- c. Facilitating international trade
- d. Promoting high employment and sustainable economic growth
- e. reducing poverty around the world

### Other Reports published by IMF

- a. Global Financial Stability Report
- b. Fiscal Monitor



**Topic- GS Paper 3–Economics**  
**Source- [IMF](#) Webpage**

### Currency Swap for the uncertain times



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### Why in the news?

- **India is working with the United States** to secure a **dollar swap line** that would **help in better management of its external account** and provide an extra cushion in the event of an abrupt outflow of funds.

### India's Scenario

- India already has a **\$75 billion bilateral currency swap line with Japan**, which has the **second-highest dollar reserves after China**.
- The **Reserve Bank of India** also offers similar **swap lines to central banks** in the **SAARC region** within a total corpus of \$2 billion.

### What is a Currency Swap?

- A **Currency swap** between two countries is an **agreement or contract to exchange currencies** (of the two countries or any hard currency) with **predetermined terms and conditions**. It is always **done between two central banks**.
- Currency swap agreement can be **bilateral or multilateral**.

### What is the purpose of a currency swap?

- The main purpose of currency swaps is to **avoid turbulence** and other risks in the **foreign exchange market and exchange rate**.
- **Central banks and governments engage in currency swaps** with foreign counterparts to **ensure adequate foreign currency** during the **time of foreign currency scarcity**.

Usually, **currency swap agreements are of five types** depending upon the **nature and the status of the currencies swapped**.

- a. Exchange cash for cash vs cash for securities.
- b. Exchange conditional vs unconditional swaps.
- c. Exchange reserve currencies on both sides.
- d. Exchange reserve currency for non-reserve currency
- e. Exchange non-reserve currencies on both sides

### What the associated benefits?

- These **swap operations** carry **no exchange rate or other market risks**, as transaction terms are set in advance.
- The **absence of an exchange rate risk** is the major benefit of such a facility.
- It **reduces the risk of volatility against the third currency** and does away with the charges involved in multiple currency exchanges.
- The **swap agreements will help address possible short-term liquidity mismatches** and supplement existing international financial arrangements.
- Availability of such **swap line to tide over difficulties arising out of Balance of Payment (BOP)** would **deter speculative attacks** on the **domestic currency** and greatly enhance the RBI's ability to manage exchange rate volatility.



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**Note:** The earliest **currency swap** was between **U.S. Federal Reserve** and the **Central Bank of France** signed on **February 28, 1962**.

**Topic- GS Paper 3–Economics, Source- The Hindu**  
**Plenary Meeting of the International Monetary and Financial Committee**

**Why in the news?**

- Recently, the **Union Minister of Finance** attended through **videoconference** the **Plenary Meeting of the International Monetary and Financial Committee (IMFC)**, the Ministerial-level committee of the **International Monetary Fund (IMF)**.

**What is a Plenary Session?**

- A **plenary session** or plenum is a **session** of a **conference** which all members of all parties are to attend.
- Such a **session** may include a **broad range of content**, from **keynotes to panel discussions**, and is not necessarily related to a specific style of presentation or deliberative process.



**Background**

- The **IMFC meets twice a year**, **once** during the **Fund-Bank Annual Meetings in October**, and **again** during the **Spring Meetings in April**.
- The **Committee discusses matters of common concern** affecting the **global economy** and **advises the IMF** on the **direction of its work**.

**Agenda of the meeting**

- The discussions at the meeting were based on **IMF Managing Director's Global Policy Agenda** titled, "**Exceptional Times – Exceptional Action**".
- The members also remarked on **IMF's crisis-response package** to address **global liquidity** and **members' financing needs**.

**Measures were taken in India:**

- The **Union Minister of Finance** outlined **various measures taken in India** to **respond to the health crisis** as well as to **mitigate its impact**. In this regard, **about the allocation of \$2 Billion (Rs 15,000 crore)** by the **Government of India** for **strengthening the healthcare system**.



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- Announcement of a scheme of **social support measures** amounting to **\$23 Billion (Rs 1.70 lakh crore)** to **alleviate the hardship of the poor and the vulnerable**.
- Provision of relief to firms in **statutory and regulatory compliance matters**.
- **Easing of monetary policy by the RBI and three-month moratorium on loan instalments**.

**Topic- GS Paper 3–Economics**  
**Source- PIB**

### **The reverse repo rate, the becoming of benchmark interest rate in the economy**

#### **Why in the news?**

- The recent **policy moves by RBI** are testifying to the fact that the **Reverse Repo rate** has now become the **new benchmark rate amid the Covid 19 crisis**.

#### **About Repo and Reverse Repo Rate:**

- The **repo (short for Repurchase agreement) rate** is the rate at which the RBI lends money to the **banking system (or banks) for short durations**.
- The **reverse repo rate** is the rate at which **banks can park their money with the RBI**.
- In both the **scenarios transactions happen via bonds** – one party sells bonds to the other with the promise to buy them back (or repurchase them) at a later specified date.
- Repo rate is a crucial option for commercial banks for raising funds.

#### **Normal Scenario:**

- Under normal circumstances, that is **when the economy is growing; the repo rate is the benchmark interest rate in the marketplace** because it is the **lowest rate of interest** at which funds can be borrowed.
- It forms the floor rate for all **other interest rates in the economy** – for instance, the **interest rate consumers** would have to pay on a **car loan or the interest rate** they will earn from a **fixed deposit etc**.

#### **Reverse repo becoming the benchmark rate:**

- The **excess liquidity in the banking system** has meant that **during March and the first half of April, banks have been using only the reverse repo (to park funds with the RBI) instead of the repo (to borrow funds)**.
- As of April 15, RBI had close to Rs 7 lakh crore of banks' money parked with it.
- In other words, the **reverse repo rate has become the most influential rate in the economy**.
- Due to this **issue, the central bank** has cut the **reverse repo rate more than the repo (see graph) twice in the spate of the last three weeks**.



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### Efficacy of the move:

- It all depends on the **revival of consumer demand in India**.
- If the **disruptions induced by the outbreak of novel coronavirus disease** continue for a long time; **consumer demand will stay muted, and businesses** would feel no need to borrow heavily to make fresh investments.
- If consumer **demand revives quickly**, the **demand for credit will build up** as well.
- From the **banks' perspective**, it is also important for them to be confident about new loans, not **turning into NPAs** and adding to their already high levels of bad loans.
- Until banks feel confident about the prospects of an economic turnaround, cuts in reverse repo rates may have little impact.

### Topic- GS Paper 3–Economics

Source- Indian Express

### Priority sector relief for banks under TLTRO 2.0

#### Why in the news?

- The **Reserve Bank of India** has recently **provided priority sector relief to banks investing in papers** issued by **small and medium-sized NBFCs and microfinance institutions** under the revised targeted long-term repo operations (TLTRO) 2.0.
- These investments would not be calculated as **part of a bank's adjusted non-food bank credit** while assessing the **priority sector commitment**.



#### RBI Guidelines

- RBI had specified that **under the TLTRO 2.0 scheme, banks would have to invest at least half the total funds** in bonds of small NBFCs of **asset size of ₹500 crores and below, mid-sized NBFCs of asset size between ₹500 crores and ₹5,000 crores, and MFIs**. Banks currently have to **allocate 40% of their total loans to sectors like agriculture, small businesses, education, social infrastructure**, among others, collectively known as **priority sectors**.

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- This exemption is **only applicable to funds availed under TLTRO 2.0** and RBI expects that this will **incentivize banks investment in these NBFCs and MFIs**.

### About Long-Term Repo Operations

- It is a **tool** under which the RBI **provides one-year to three-year loans to banks** at the **prevailing repo rate**.

### Objective

- To keep **short-term interest rates in sync with the policy repo rate**.

### About Targeted long-term repo operations (TLTRO)

- It was **introduced by the RBI** under which **banks can access three-year funding** and use it to **invest in investment-grade corporate bonds, commercial paper, and debentures**.
- Of this, **banks are required to buy up to 50% of their incremental holdings** of eligible instruments from **primary market issuances** and the **rest from the secondary market**, including from **mutual funds and NBFCs**.
- LTROs are conducted on the **e-KUBER platform** that is the **Core Banking Solution of RBI**.

### Significance of TLTRO

- It was introduced by the **RBI to help companies**, including **financial institutions**, resolves their **cash flow problems in the wake of the coronavirus outbreak and imposed lockdown**.

Topic- GS Paper 3–Economics

Source- Economics Times

### Operation Twist

#### Why in the news?

- The **Reserve Bank of India (RBI)** has recently **announced simultaneous purchase and sale of government bonds** in a bid to **soften long-term yields**.

#### Objective:

- It is aimed at **managing liquidity and market conditions**: On a **review of current and evolving liquidity** and market conditions, which are **impacted by COVID-19**, RBI has decided to **conduct simultaneous purchase and sale of government bonds**.

#### Open Market Operations:

- RBI will buy **₹10,000 crores of bonds** maturing **between 2026 and 2030** and sell the same number of T-bills.
- Such **open market operations** are known as **‘Operation Twist,’**.
- **Operation Twist** was used by the **central bank in December last year** for the first time.



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### Impact of the RBI's move

- The yields on the **10- year bonds** dropped by **20 basis points**.
- The move will also aid the **process of monetary transmission** by **prompting banks** to pass on **interest rate cut benefits** to their **customers**.
- The RBI had also recently **reduced key policy rate or the repo rate** by **75 bps** to **4.4%** in the **monetary policy review**.

### Topic- GS Paper 3–Economics

Source- The Hindu

### Special liquidity facility for mutual funds (SLF-MF)

#### Why in the news?

- The **Reserve Bank of India** has recently **announced a special liquidity window** called **special liquidity facility** for **mutual funds** of **Rs 50, 000 crore** to **bail out mutual funds** hit by the turmoil in the debt fund segment that led to the **closure of six credit risk funds** by **Franklin Templeton Mutual Fund**.

#### How does this special liquidity facility for mutual funds window work?

- Under the **SLF-MF**, the **RBI shall conduct repo operations** of **90 days tenor** at the fixed repo rate.
- The **SLF-MF is on-tap and open-ended**, and banks can submit their bids to **avail the funding till May 11** or up to utilization of the allocated amount, whichever is earlier.

#### What will banks do with this money?

- **Banks can extend loans to mutual funds** and **undertake the outright purchase of and/or repos against the collateral** of investment-grade corporate bonds, commercial papers (CPs), debentures and certificates of Deposit (CDs) held by MFs. **Liquidity support** availed under the **SLF-MF** would be **eligible to be classified as held to maturity (HTM)** even in **excess of 25 per cent of total investment** permitted to be **included in the HTM portfolio**.

#### Features of the offer:

- **Exposures under this facility** will not be reckoned under the **Large Exposure Framework**.
- The **face value of securities acquired** under the **SLF-MF** and kept in the **HTM category** will not be reckoned for **computation of adjusted non-food bank credit (ANBC)** to determine **priority sector targets/sub-targets**.
- The **Support extended to MFs** under the **SLF-MF** shall be **exempted from banks' capital market exposure limits**.

### Topic- GS Paper 3–Economics

Source- The Hindu + Economics Times



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## **CARES Program**

### **Why in the news?**

- The **Government of India** and the **Asian Development Bank (ADB)** has **signed a \$1.5 billion loan** that will **support the government's response** to the novel coronavirus disease (COVID-19) pandemic.
- The **CARES Programme** is **provided as the first support** to meet the **immediate requirements** of the government.



### **Where this amount used?**

- It will be used to implement **COVID-19 containment plan** to **rapidly ramp up test-track-treatment capacity**
- **Social protection** for the poor, vulnerable, women, and disadvantaged groups to protect **more than 800 million people over the next three months.**
- **Asian Development Bank** financial and technical support will contribute to the **sound implementation of the government's far-reaching emergency response programs** launched in **March 2020.**

### **About Asian Development Bank (ADB)**

- It is a **regional development bank** established on **19 December 1966.**
- It is **headquartered in Manila, Philippines.**

### **Objective**

- To **promote social and economic development** in Asia.

### **Members**

- It has now **68 members**, of which **49 are from within Asia and the Pacific and 19 outside.**
- **Japan** holds the **largest proportion of shares in ADB** followed by the **USA**

### **Note:**

- **Recently Asian Development Bank has published Asian Development Outlook 2019.**

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- In this, **ADB has cut India's growth forecast to 7.2% for 2019-20** because of a **slower-than-expected pickup in investment demand**.
- The **growth rate in Financial Year 2020-21** is likely to be **7.3%**.

**Topic- GS Paper 3–Economics**  
**Source-PIB**

### **International Financial Services Centres Authority**

**Why in the news?**

- **Union Government of India** has recently **notified the establishment of International Financial Services Centres Authority**.

**About the International Financial Services Centres Authority**

- It was **established to regulate the financial services market** in the **International Financial Services Centres** set up under the **Special Economic Zones Act, 2005**.

**Composition**

It consists of **nine members**:

- **Chairperson**
- **members each from the RBI, SEBI, IRDAI, PFRDA**
- **Two members from the Ministry of Finance**
- **Two other members appointed on the recommendation of a Search Committee.**

**Tenure**

- The members will have a **term of three years subject to reappointment**.

**Functions**

- It will **regulate financial products** such as **securities, deposits or contracts of insurance, financial services and financial institutions** which have been **approved by an appropriate regulator in an IFSC**.

**Powers:**

- **All powers exercisable** by the respective **financial sector regulatory (RBI, SEBI, IRDAI, and PFRDA)** under the **respective Acts** can be exercised by the **Authority in the IFSCs**.

**Topic- GS Paper 3–Economics**  
**Source- Economics Times**



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