

'Sharing is Caring'

If you have friends preparing for Civil Services, tell them that they can also receive Updates from PrepMate IAS by sending 'Name' and 'State' through WhatsApp on 75979-00000

1. What is the yen carry trade? Why is it unwinding right now?

Why in News?

Global stock and bond markets, in particular Japan's, are being rocked by an unwinding of the hugely popular yen carry trade.

That trade, which involves borrowing yen at a low cost to invest in other currencies and assets offering higher yields, is being wrecked by Japan's rate increases, a volatile yen and imminent rate cuts in the United States and other economies.

Here is a deeper look at the yen carry trade.

Currency Carry Trade

Currency with lower
interest rates



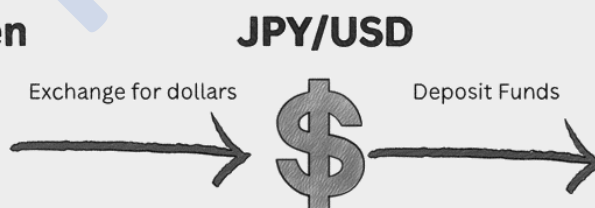
Borrow Yen



Currency with higher
interest rates



Earn ↑Yield



How does it work?

It involves borrowing the yen, or any other currency with similar super-low interest rates, then using it to buy currencies with better yields.

The yen has been the funding currency of choice for carry trades in U.S. dollars, Mexican pesos, New Zealand dollars and some others.

The trade involves buying the higher-yielding currency with the borrowed yen to invest in bonds or other money market instruments in that currency.

At the end of a usually short-term trade, the investor converts the dollars or pesos back into yen, and repays the loan.

Annualised returns typically can be around 5% to 6% on dollar-yen carry trades, which is the difference between U.S. and Japanese rates, with a scope for more gains were the yen to depreciate during that term.

How did it begin?

If defined broadly as using a low-yielding yen to buy higher-yielding foreign assets, then its origins can be traced back to 1999 when Japan struck policy rates down to zero after its asset price bubble burst.

The Japanese turned to international markets to get anything better than the zero yields at home, ploughing trillions of dollars into foreign markets and thus turning Japan into the world's biggest creditor nation.

The carry trade, as we know it today, which involves yen borrowing by largely international investors, kicked off in 2013 under Prime Minister Shinzo Abe's quantitative and qualitative easing that coincided with rising rates in the U.S. and a depreciating yen. Those trades reached new, gargantuan proportions over the course of 2022 and 2023 as the Federal Reserve raised rates rapidly to rein in inflation even as the Bank of Japan (BOJ) kept its short-term rates negative.

How large is it?

No one is quite sure. Using the narrowest definition of a pure currency carry trade, analysts point to the \$350 billion of short-term external loans by Japanese banks as one estimate of yen-funded trades in the world.

That number could be an exaggeration if some of those loans are commercial transactions between banks or loans to foreign businesses needing yen.

But it could be also understating the actual size of yen carry trades because there could be billions of yen the Japanese themselves have borrowed to invest in markets at home.

Actual positions could be amplified because of how hedge funds and computer-driven funds use leverage. Add to that the massive investments Japanese pension funds, insurers and other investors have made abroad.

Is it coming to an end?

To be sure, the BOJ has only started raising rates and its overnight rate is just at 0.25% while dollar rates are roughly 5.5%. But carry trades are more sensitive to currency moves and rate expectations than the actual level of rates.

The mere talk of further rate rises in Japan and Fed rate has driven the yen up 13% in a month and narrowed the yield gap, completely wiping out the slim gains in pure yen-dollar carry trades.

And, as leveraged investors cut their loss-making yen carry positions, they are being forced to de-leverage and shed other stock and bond holdings.

Relevance: GS Prelims; Economics

Source: The Hindu

2. Nobel Laureate Muhammad Yunus, the chief adviser of Bangladesh's post-Hasina government

Why in News?

Muhammad Yunus, the winner of the 2006 Nobel Peace Prize, will become the chief adviser to the interim government in Bangladesh. Army Chief Waker-uz-Zaman announced the formation of an interim government after Prime Minister Sheikh Hasina resigned and fled the country in the face of ongoing protests that began over quotas for the kin of freedom fighters in government jobs.



Yunus, now 84 years old, is a globally recognised economist and has pioneered a system of microfinance that is believed to have helped a large number of Bangladeshis break out of extreme poverty. However, he has shared a frosty relationship with Hasina, who once accused him of "sucking blood" from the poor. Under Hasina's rule, Yunus was booked in more than 200 cases —

including forgery, money laundering, and embezzlement.

Here's a look at who Yunus is, what his system of microfinance is, why he shared a frosty relationship with Hasina, and what are the cases against him.

Who is Muhammad Yunus?

Born in 1940 in Chittagong, Yunus received his PhD in economics from Vanderbilt University in the United States in 1969, and began a teaching career. He returned after Bangladesh was liberated from Pakistan, and was appointed head of the economics department at Chittagong University.

As Bangladesh struggled to stabilise its economy and tackle poverty in the post-independence years, Yunus came up with a unique idea: microcredit, or small loans without collateral to entrepreneurs who wouldn't normally qualify for bank loans, on terms that were suitable to them.

The success of a local experiment convinced Yunus that the model could be scaled up — and in 1983, his flagship initiative, Grameen Bank, was launched. The bank is widely considered to be a great success — it has disbursed collateral-free loans adding up to more than \$34 billion among close to 10 million people since its inception, with a recovery rate of more than 97%. Banks based on Grameen Bank's microcredit model now operate in more than 100 countries around the world. In 2006, Yunus and Grameen Bank were awarded the Peace Nobel "for their efforts to create economic and social development from below". Yunus came to be known as the "Banker to the Poor".

What was the reason for his friction with Hasina?

Soon after winning the Nobel, Yunus began to flirt with the idea of forming his own political party. This didn't sit well with Hasina, who was in jail at the time, facing charges of extortion. Yunus subsequently abandoned his plans, saying there wasn't enough support for his new political movement. Nonetheless, once Hasina returned to power in 2009, her government opened a host of investigations into Yunus' activities. The former Prime Minister accused him of using force and other means to recover loans from poor rural women as head of Grameen Bank.

What are the cases against Yunus?

Most recently, in January this year, Yunus and three other officials at his telecommunications company, Grameen Telecom, were sentenced to six months in prison for violating Bangladesh's labour laws. They were immediately granted bail.

In 2015, he was summoned by Bangladesh's revenue authorities over alleged non-payment of taxes amounting to \$1.51 million.

Two years before that, he was put on trial for allegedly receiving money without government permission, including his Nobel Prize award and royalties from a book.

In 2011, Yunus was removed as managing director of Grameen Bank for allegedly violating government retirement regulations.

The criminal cases against Yunus triggered concern globally. In August last year, 160 international figures, including former US President Barack Obama and former UN Secretary-General Ban Ki-moon, signed a letter denouncing the "continuous judicial harassment" of Yunus.

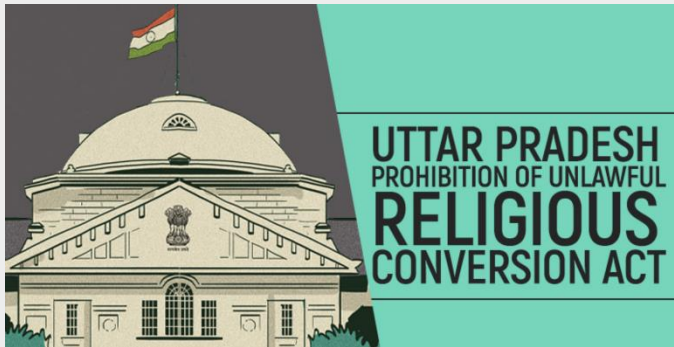
Relevance: GS Prelims & Mains Paper III; Disaster Management

Source: The Indian Express

3. On U.P.'s stringent anti-conversion law

Why in News?

The Uttar Pradesh Legislative Assembly recently passed the Uttar Pradesh Prohibition of Unlawful Conversion of Religion (Amendment) Bill, 2024, altering the original 2021 anti-conversion law by making its provisions more draconian and susceptible to misuse.



Why was the amendment proposed?

According to the Bill's statement of reasons, the existing legislation needed to be made "as stringent as possible" owing to the alleged "organised and well-planned" involvement of "foreign and anti-national elements and organisations" in demographic change due to unlawful conversion. State

government data reveals that between January 1, 2021, and April 30, 2023, 427 cases were registered under the Act.

Does it increase penalties?

Earlier, a person convicted of unlawful conversion faced a minimum prison term of one year and a maximum of five years, along with a fine of ₹15,000. Under the amended Bill, the minimum term has been raised to five years, and maximum to 10 years. The fine has also been increased to ₹50,000. For unlawful conversions involving a minor, a woman, or a person belonging to a Scheduled Caste or Scheduled Tribe, the penalty has been increased from a prison term of 2-10 years to 5-14 years. The minimum fine has also been raised from ₹25,000 to ₹1 lakh.

The amendment also introduces two new categories of offences. First, the newly added subsection to Section 5 mandates a prison term of 7 years, extendable to 14 years, for anyone who secures "foreign" funds or funds from "illegal institutions for the purpose of unlawful conversion". They will also be required to pay a fine of ₹10 lakh. Second, if the accused causes any person to "fear of his life or property, assaults or uses force, promises or instigates marriage, conspires or induced any minor, woman or person to traffics or otherwise sells them", they shall be punished with a minimum 20 years imprisonment which can be extended to life imprisonment.

Who can register a complaint?

Under Section 4 of the original Act, only "any aggrieved person" or "his/her parents, brother, sister, or any other person who is related to him/her by blood, marriage or adoption" was authorised to file a criminal complaint for unlawful conversion. Despite this restriction, police authorities were reportedly allowing FIRs to be lodged at the behest of right-wing activists and other unauthorised third parties. However, the amendment now grants legitimacy to such third-party complaints. The revised provision stipulates that "any person" can file an FIR related to any violation of the Act.

What about provisions for bail?

The amendment introduces stringent "twin conditions of bail" identical to those under statutes such as the Prevention of Money Laundering Act, 2002, and the Unlawful Activities (Prevention) Act, 1967. All offences related to unlawful conversion are now cognisable and non-bailable and can only be adjudicated upon by a sessions court or higher judicial forums.

Under the revised Section 7, an accused cannot be granted bail without first providing the public prosecutor an opportunity to contest the bail application. Further, if the public

prosecutor opposes such a plea, the sessions court may grant bail only if “there are reasonable grounds for believing that [the accused] is not guilty of such offence” and that he or she is unlikely to commit any crime if released on bail. The reverse burden of proof on the accused renders it virtually impossible for anyone to obtain bail until the completion of the trial.

What about other States?

In addition to Uttar Pradesh, States such as Odisha, Madhya Pradesh, and Arunachal Pradesh have had anti-conversion laws for decades, while Chhattisgarh, Gujarat, Himachal Pradesh, Jharkhand, and Uttarakhand have implemented such laws more recently.

Most of these laws require individuals intending to convert, or those facilitating conversions, to notify the government. In Madhya Pradesh, the law mandates a 60-day prior “declaration of the intention to convert” to the District Magistrate for the conversion to be valid. Himachal Pradesh and Uttarakhand require a 30-day prior notice. In contrast, Uttar Pradesh not only mandates a 60-day notice but also requires the Magistrate to conduct a police inquiry to ascertain the true intention behind the conversion. Another notable distinction is that other States confine the filing of FIRs to the aggrieved individual or their immediate family, thus excluding third parties with potential vested interests from initiating any legal action. The “twin conditions of bail” which impose a high threshold for securing interim release, are also absent in other State laws. With respect to punishment, none of the other States prescribe life imprisonment, instead, sentences vary between 2 to 10 years.

What happens next?

The constitutional validity of the amendment is likely to be challenged before the top court. A batch of petitions challenging the parent legislation and other anti-conversion laws are pending adjudication before a Bench. In May, in a separate case, a Bench had orally remarked that certain provisions of the 2021 Act appear to contravene Article 25 of the Constitution which guarantees the freedom of religion.

Relevance: GS Prelims & Mains Paper II; Governance

Source: The Hindu