

'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. As Dissanayake visits, takeaways from the India-SL engagement

### Introduction



The visit of Sri Lanka's President Anura Kumara Disana to India recently — his first trip overseas since becoming leader of his country — saw some classic diplomatic deal-making, with give and take on both sides.

#### **Not allow anti-Indian activities**

AKD, as he is popularly known, committed to not allowing the use of Sri Lankan territory for any anti-Indian activities.

This was a signal to China — whose "research vessels" frequently visit Sri Lanka, and are seen with suspicion in New Delhi. The fact that the President, who is seen as being pro-China, has clearly articulated this position is a relief to India.

### **Tamil Minorities Issue**

On the issue of Tamil minorities, however, AKD did not yield to the formulation preferred by New Delhi. There was no explicit mention of the implementation of the 13th amendment in the Sri Lankan Constitution, which gives powers to the Tamil minority — a long-standing demand of the Indian government.

AKD does not support the implementation of the amendment, and has opposed any investigation into alleged war crimes during the last phase of the civil war between the Liberation Tigers of Tamil Eelam (LTTE) and the Sri Lankan military.

### **Focus on mutual benefits**

The elements of cooperation range from digital connectivity — the Aadhaar project and UPI — to energy cooperation. The countries are discussing the supply of LNG to Sri Lanka, the development of Trincomalee as a regional energy and industrial hub, high-capacity power grid interconnection, and the development of offshore wind power in the Palk Strait.

On physical connectivity, apart from the resumption of the passenger ferry service between Nagapattinam and Kankesanthurai, the two leaders agreed that officials should work towards the early recommencement of the passenger ferry service between Rameswaram and

Talaimannar. They will also explore the possibility of working on the rehabilitation of Sri Lanka's Kankesanthurai port.

Relevance: GS Prelims & Mains Paper II; Bilateral Relations

## 2. Why is the Indian rupee falling against the US dollar?

### Introduction

The Indian rupee's exchange rate against the US dollar has breached the 85 mark. In other words, one would have to pay Rs 85 to buy \$1. In April, this "exchange rate" was around 83 and a decade ago, when Prime Minister Narendra Modi took charge, it was around 61. As such, the rupee has been weakening in value relative to the dollar.



### What is the exchange rate?

Typically, we buy goods (such as a pizza or a car) and services (such as a haircut or a hotel stay in a hill station) using our money — the Indian rupee. But there are many things where we need things from outside the country — say an American-made car or Swiss vacation or indeed, crude oil. For all such goods and services we might have to first buy the US (dollar) or Swiss currency (euro) using our domestic currency before we buy the final item. The rate at which one can swap between currencies is the exchange rate. In other words, how many rupees would buy you a dollar or a euro.

In such a market — also referred to as the currency market — each currency is like a commodity itself. The value of each currency relative to another currency is called the exchange rate. These values can stay the same over time but more often than not they keep changing.

### **What determines the exchange rate?**

Like any other trade in life, the relative value of one currency against another depends on which is demanded more. If Indians demand more US dollar than Americans demand the Indian rupee, the exchange rate will tilt in favour of the US dollar; that is, the US dollar will become relatively more precious, more valuable, and more costly. If this situation keeps repeating every day, such a trend will become stronger and the rupee will keep losing value relative to the US dollar. This movement will show up in the form of the rupee's exchange rate weakening against the dollar.

### **But what factors determine the demand for rupee vis a vis dollar?**

There are several factors that can affect the demand for currencies.

One big component of demand comes from trade of goods. For the sake of simplicity, imagine a world where there are only two countries — India and the US. If India imports more goods from the US than what it exports to the US, then the demand for US dollar will outstrip the demand for Indian rupee. This, in turn, will make the US dollar gain strength against the rupee and its exchange rate versus the rupee will appreciate. Put differently, the rupee's exchange rate relative to the dollar will weaken. As a result, more rupees will be required to buy a single US dollar.

The other big component is trade in services. If Indians buy more US services — say tourism — than Americans buy Indian services, then again, demand for dollar will outstrip the demand for rupee, and rupee will weaken.

The third component is investments. If Americans invest in India more than Indians invest in the US, then the demand for rupee will outstrip the dollar and rupee will appreciate against the dollar.

These are the three main ways in which the exchange rate can change.

### **But what factors affect these three kinds of demands?**

Of course, there are several factors that can affect these three demands.

Suppose the US decides that it will not allow Indian imports. In such a scenario, the demand for Indian rupees will plummet. After all, if the Americans can't buy Indian goods, why would they go to the currency market to buy Indian rupees?

End result: rupee will weaken. Something similar is expected to happen if, as President-elect Donald Trump has promised, the US slaps high tariffs against Indian goods, making them so costly that no one in America will buy them.

Similarly, imagine a scenario where both India and the US are experiencing high inflation. By definition, inflation eats away the value of a currency because an inflation of 5% means that whatever one could buy for Rs 100 in first year, requires Rs 105 to buy in the second year.

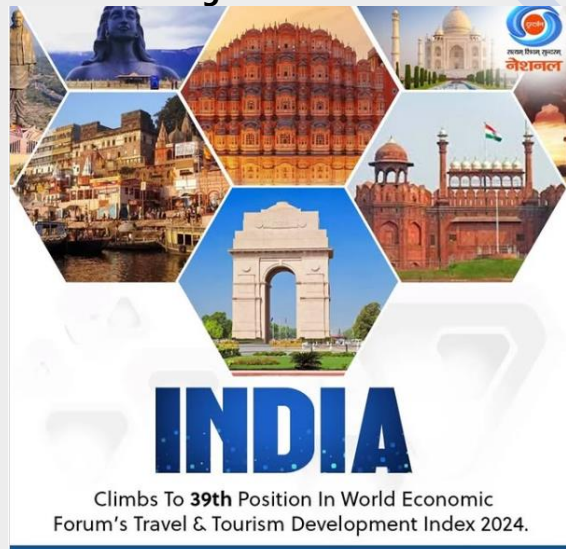
Now imagine that in five years time, the US reduces its inflation to zero while in India it stays at 6%. This would mean that if an American decides to invest in the Indian stock market thinking that Indian companies/shares give an annual return of 10%, he or she would end up getting only 4% real return because six out of those 10% would be eaten up by inflation. On the other hand, the US stock market might give a return of just 5% but since inflation is at 0%, the final return would be 5%.

In such a scenario, an investor may not make any fresh investments into India; worse still, he or she may actually pull out money from India and invest it back in the US. Both these actions will reduce the demand for rupees relative to the dollar and the rupee will weaken against the dollar. Again, something similar is happening at present as the investors pull out money from India.

Relevance: GS Prelims & Mains Paper III; Economics

### 3. India's Ranking in the Travel and Tourism Development Index

#### India's Ranking



According to the Travel and Tourism Development Index (TTDI) 2024 report published by the World Economic Forum (WEF), India is ranked 39th among 119 countries. In the previous index published in 2021, India was ranked 54th. However, due to a revision in the WEF's methodology, India's 2021 rank was adjusted to 38th place.

#### About Travel and Tourism Development Index

The Travel & Tourism Development Index (TTDI) 2024 is the second edition of an index that evolved from the Travel & Tourism Competitiveness Index (TTCI) series, a flagship

index of the World Economic Forum that has been in production since 2007. Created in collaboration with the University of Surrey and with input from leading Travel & Tourism (T&T) stakeholder organizations, thought leaders and data partners, the TTDI measures the set of factors and policies that enable the sustainable and resilient development of T&T.

Relevance: GS Prelims; International Organisations

### 4. World Bank approves loan of \$800 million to develop A.P. capital city Amaravati

#### Introduction

In a major boost to the development of Amaravati, the greenfield capital city of Andhra Pradesh, the World Bank (WB) recently approved \$800 million loan for the Amaravati Integrated Urban Development Programme (AIUDP), as per a request made by the Centre. The loan has a final maturity of 29 years, including a six-year grace period. It is payable in Japanese Yen.

A press release from the WB said the AIUDP was aimed at establishing the capital city as a well-managed, climate-resilient growth centre that would create jobs and improve the lives of its current and future residents, especially the most vulnerable.

**Role for private sector**

The A.P. government has prepared a masterplan for a 217 sq. km area that can accommodate 3.50 million people by 2050 and the WB was supporting the first phase of the city's development along with the Asian Development Bank.

The AIUDP would help the government mobilise the private sector to provide affordable housing and establish enterprises that can create quality jobs.

Relevance: GS Prelims; International Organisations