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RBI takes offbeat tack to help reverse growth slowdown

EMIs to fall after “unconventional” 25 bps rate reduction

**Special Correspondent**

The Reserve Bank of India on Wednesday opted to break with convention by reducing the key policy rate, the benchmark interest rate, by 25 basis points to 5.4%, in an offbeat monetary policy measure aimed at soothing a slowing economy.

While central banks typically cut or raise interest rates in increments of a quarter percentage point, the RBI’s decision to adjust rates by a smaller amount was described as a “dovish” move.

The move, which comes in the wake of a 25 bps cut by the U.S. Federal Reserve earlier this month, is seen as a sign that the central bank is opening up to a more aggressive easing stance if needed.

The cut in the benchmark interest rate is expected to help spur credit growth, reduce borrowing costs and support economic activity.

**Push for growth**

Pushed by the U.S. and China’s ongoing trade negotiations, the move is also seen as a sign that the central bank is prepared to take additional steps to support the economy.

The policy statement issued by the RBI after the meeting highlighted the need for a “suitable policy mix” to support growth.

**Interview: Vasudha Prasad**

Dr. Vasudha Prasad, Professor of Economics at the Indian Institute of Management (IIM), said the move by the RBI was a sign of the central bank’s commitment to supporting the economy.

**“The move to cut interest rates is a positive step towards boosting economic activity. It will help reduce the cost of borrowing and stimulate consumption,”** Dr. Prasad said.

**“This is a key step towards achieving the government’s growth targets and will help boost the confidence of the business community.”**

**RBI’s Goldocils cut**

The government now needs

unleash measures to boost growth

Facing headwinds to GDP growth and mounting pressures on banks, the Reserve Bank of India (RBI) has followed up its Goldocils cut of 25 basis points in the benchmark repo rate. Though a rate cut was a unanimous conclusion ahead of the monetary policy announcement, the expectation was of either a 25 or 50 basis points cut. Given the context of the slowdown in the economy, the Monetary Policy Committee (MPC) leaned the former as much but taking into account hints and the narrative in the global financial markets and the sharp decline in the rupee news of the past few days, the latter was seen as too high. In the event, the MPC, led by Governor Shaktikanta Das, voted a 25 basis points cut, which keeps the powder dry for the further cut that its members still spoke for.

With this, the MPC also stated its future accommodative policy announcements beginning February this year, accommodating a total of 250 basis points, with the transmission by banks to lenders not being even a flash of this. The central bank says that banks have passed on just 25 basis points which is poor indeed.

The move is in line with the government’s measures to boost liquidity conditions and June when the RBI flooded the markets - in fact, the last two months the central bank has had to draw down reserve liquidity around. This, therefore, means the hope that restriction from here on would be quelled.

The repo rate at 5.40% is now at a historic low and is expected to nudge up to 6% in the next few months and could well settle at 7% or very close to that by the time this one-cut cycle plays out. Supporting this theory is the fact that inflation is projected to be benign for the next one year. Growth, on the other hand, is expected to remain weak and the MPC has revised downward the projected GDP growth rate for this fiscal to 4.5% from 7% earlier, with downside risks, from events unfolding outside the Indian context and the current geopolitical situation.

**Part A—Preliminary Examination**

**Paper I - (200 marks)**

- Current events of national and international importance.
- Economic and Social Development-Sustainable Development, Poverty, Inclusion, Demographics, Social Sector Initiatives, etc.

**Part B—Main Examination**

**PAPER-IV**

**General Studies-III: Technology, Economic Development, Bio diversity, Environment, Security and Disaster Management**

- Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.
- **Repo rate**: Re-purchase option - Rate at which RBI gives loans to other banks
  - keep security → RBI
  - get money → Banks

- Repo rate & growth:
  - ↓ repo rate → ↑ money for banks to lend
  - ↓ lending rates of banks → ↑ lending
  - ↑ commercial & business activity → ↑ growth

- RBI - ↓ repo rate by 35 basis points (0.35%) from 6.75% to 6.4%.
  - ↓ 1 percentage - comprises 100 bps
  - 35 bps → 0.35%

- **Monetary Policy Committee (MPC)** - decides on repo rate.
  - 6 members of MPC: all favoured ↓ repo rate, 2 favoured 25 bps cut.

- In 2019, repo rate was reduced 4 times - ↓ of 110 bps in 2019 shows sharper economic slowdown.

- RBI revised GDP forecast for 2019-20 to reduced to 6.9% from 7%, predicted in June 2019.

- RBI - forecast on CPI based inflation:
  - CPI based inflation - for 2nd half of FY 2019-20 → 3.5 to 3.7%.
  - CPI inflation - 3.6% for 1st half of next FY.

- **Unconventional way of rate cutting**
  - Usually - cut by 25 bps or its multiples
  - Now 35 bps - why?

  - Present economic situation - demand conditions, assessment by MPC:
    - 45 bps cut → inadequate
    - 50 bps cut → excessive

- April 2019 - IMF & WB meeting - Statement of RBI Governor – Central Banks in developing countries - move away from ‘conventional’ cuts of 25 bps or its multiples

  - why?
  - Spillover effect from developed nations to developing nations

  - Example:
    - Change in interest rates in USA → Impact on RBI’s rate cut

- **All these factors → RBI went for accommodative policy**

- Accommodative monetary policy:
  - Central Banks ↓ interest rates → cheap and easy money supply.

- RBI - ↓ 110 bps in 2019 - not the same with commercial banks.

- Commercial banks - ↓ 24 bps - same period!

- Now RBI - ↓ 15 bps in Marginal Cost of Funds Based Lending Rate (MCLR)

- MCLR - Minimum interest rate - below which banks cannot lend - except in cases allowed by RBI.
**RBI** - ↓ risk weight for consumer loans
  • from 125% to 100%
  • Risk weight:
    - Stipulated by RBI
    - Capital set aside by banks for giving loans
      • ↓ in risk weight - ↓ amount to be kept by banks
    - ↑ loans - ↑ money supply

**Boost for NBFCs - why?**
- ↓ repo rate ➔ more money for banks
- ↓ MCLR ➔ more loans to NBFCs.

**RBI’s measures - essential, not sufficient**
- Role of govt. - boost investment

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**Pakistan expels Indian envoy, suspends bilateral trade**

It decides to take Kashmir issue to the UN, observe Aug. 15 as ‘Black Day’

**News from Pakistan**

Pakistan on Wednesday expelled the Indian High Commissioner and suspended bilateral trade in response to New Delhi’s decision to end the special status to Jammu and Kashmir.

The Government of India has been told to withdraw its High Commissioner to Pakistan. The Indian government has also been informed that Pakistan will not be sending its High Commissioner-designate to India," the Foreign Office said in a statement.

Ayeza Khan is India’s High Commissioner to Islamabad. The decision was taken at a National Security Committee (NSC) meeting chaired by Prime Minister Imran Khan at his office in Islamabad.

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**Part A—Preliminary Examination**

**Paper I - (200 marks)**
- Current events of national and international importance.

**Part B—Main Examination**

**PAPER-III**

**General Studies- II:** Governance, Constitution, Polity, Social Justice and International relations.

- India and its neighborhood- relations.
- Bilateral, regional and global groupings and agreements involving India and/or affecting India’s interests.
- Effect of policies and politics of developed and developing countries on India’s interests, Indian diaspora.

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*Civilspedia Team - Powered by Shankar IAS Academy*
Pakistan’s reaction to J and K developments

- Expelled Indian High Commissioner to Pakistan
  • Told GoI to withdraw its High Commissioner
  • High Commissioner → head of High Commission of India, Islamabad
- High Commission of India:
  • Diplomatic representation of Republic of India
  • Official channel - diplomatic and official relations and interactions
  • High Commissioner - plenipotentiary representative of President of India in Pakistan
- Pakistan will not send its designated High Commissioner to India

National Security Committee meeting

- Chaired by PM of Pakistan
- NSC → Principal decision making body of Pakistan on its National Security matters
- 5 decisions
  1. Downgrading diplomatic relations with India
  2. Suspension of bilateral trade with India
  3. Review of bilateral agreements with India
  4. Take the matter to UN and UNSC
  5. Observing 15th August as Black day

The fragility of India’s federalism

The government’s Kashmir move exposes the contingent nature of India’s asymmetric constitutional provisions.

Part A—Preliminary Examination

Paper I - (200 marks)

✓ Current events of national and international importance.
- Indian Polity and Governance-Constitution, Political System, Panchayati Raj, Public Policy, Rights Issues, etc.

Part B—Main Examination

PAPER-III

General Studies- II: Governance, Constitution, Polity, Social Justice and International relations.

- Indian Constitution—historical underpinnings, evolution, features, amendments, significant provisions and basic structure.
- Functions and responsibilities of the Union and the States, issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein.
Asymmetrical Constitutional Provisions:
- Abrogation of Article 370
- Numerous provisions were introduced to address the regional conflicts
- Linked with the concept of Asymmetric Federalism

Federalism
- Division of Powers
  - Indian Union (Centre)
  - Constituent Units of Indian Union (States)

Asymmetric Federalism:
- Granting differential rights to certain federal subunits (States)
- Based on recognition of distinctive ethnicity

Arguments against Asymmetric Federalism:
- Denial of autonomy → Secessionist claims
- Majority National communities
  - Special provisions are discriminatory
  - Root cause of terrorism
- Autonomy arrangements → Anti-egalitarian

Flexible nature of Indian Federalism:
- Design
  - Demos-constraining vs Demos-enabling
  - Demos-constraining
    - Design of federalism that serves to undermine the consolidation of power by national majorities

Compromise in asymmetric federalism
- Regional Autonomy Change in trajectory → Making use of the flexibility in the federal order
  - Eg: Article 370

Other examples of Asymmetric Federalism:
- Article 371 A - Special provisions for Nagaland
- Article 371 G1 - Special provisions for Mizoram
- Article 371 F - Special provisions for Sikkim

Asymmetric constitutional provisions are a common feature of federalism in diverse societies
- Special privileges → Reduce secessionist tendencies
- Strategy followed by India

Demos-enabling
- Design of federalism that places fewer checks in the power of national majorities
  - Eg: Composition of RS = LS

Why India is Demos-enabling?
- Maintaining national integrity
  - Unitary as well as federal
- Flexible Federalism
  - Article 3 → Power of Centre to create new states/alter state boundaries
• Asymmetrical changes to Indian Constitution:
  - Until 2000
    - Slow process of 'consensus building'
  - Present J&K issue
    - Not through 'consensus building'
    - By using the 'flexibility' of the federal provisions in Indian Constitution
      - Abrogating Article 370
      - Bifurcation of J&K (UT of J&K, UT of Ladakh)

• Author:
  - Central Government's actions
  - Profound, unknown consequences in Kashmir
  - Wider implications for Indian federalism

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Centre for ‘amicable’ solution to Mekedatu

Karnataka-proposed project refused clearance by Environment Ministry

MOHTF R M KADAKAD

The contentious Mekedatu Balancing Reservoir project, which aims to augment the Cauvery water supply to Bengaluru, much to the consternation of Tamil Nadu, has not been granted clearance by the Ministry of Environment and Forests (MoEF). Apart from voicing environmental concerns over the submergence of 52.33 km² of forest land, including core areas of the Cauvery Wildlife Sanctuary, the Expert Appraisal Committee (EAC) on River Valley and Hydroelectric Projects constituted by the MoEF has said the proposal can be reconsidered only after Tamil Nadu and Karnataka reach an 'amicable solution.'

The project intends to divert 4.75 tcf of drinking water towards the Bengaluru Metropolitan Region. While the EAC meeting was conducted on July 19, the minutes were released recently. Karnataka had sought granting of Terms of Reference (ToR), which is the first stage of the environmental clearance process, for the ₹8,000-crore project. The project intends to divert 4.75 tcf of drinking water towards the Bengaluru Metropolitan Region and for the generation of 400 MW of hydroelectric energy. The MoEF has said that it does not require subject specialization.

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Part A—Preliminary Examination

Paper I - (200 marks)

- Current events of national and international importance.
- General issues on Environmental ecology, Bio-diversity and Climate Change - that do not require subject specialization.

Part B—Main Examination

PAPER-IV


Conservation, environmental pollution and degradation, environmental impact assessment.

Infrastructure: Energy, Ports, Roads, Airports, Railways etc.
Mechedatu Balancing Reservoir Project

- Controversial project
- Environmental clearance is required (MoEF&CC)
- Ministry did not grant clearance for the project
  ➤ EIA carried by EAC on River valley and Hydroelectric Projects
    - Constituted based on EIA notification 2006
    - Appraises the project thoroughly by examining
      • EIA Report
      • Environmental management plan
      • Public hearing proceedings
      • Presentation made during meeting, etc
    - Scoping → determine a detailed and comprehensive TOR
  ➤ EAC did not grant TOR

- Additional clarification and informations sought by EAC
  ➤ Analysis of alternatives to be revisited
    • Best alternative to be decided after a detailed study
  ➤ 4996 hectare of forest land plus wildlife area will be diverted
    • EAC → very high
    • Optimization of land once again
  ➤ To arrive at an ‘amicable solution’
    ➤ Karnataka and Tamil Nadu

Mexico’s cactus offers alternative to plastics

The pulp of the prickly pear is mixed with additives to produce sheets that can be used for packaging

Mexico’s prickly pear cactus, which is emblazoned on the country’s flag, could soon play a new and innovative role in the production of biodegradable plastics. A packaging material that is made from the plant has been developed by a Mexican researcher and is offering a promising solution to one of the world’s biggest pollution concerns.

“The pulp is extracted to obtain a juice that I then use,” said Sandra Pascoe, who developed the product and works at the Autonomous Valley University in the western state of Guadalajara. That substance is then mixed with non-toxic additives and stretched to produce sheets that are coloured with pigments and folded to form different types of packaging.

“What we’re doing is trying to concentrate on objects that don’t have a long life,” she said, particularly “single-use” packaging.

A worker collecting cactus in Jalisco, Mexico.

Ms. Pascoe is still conducting tests, but hopes to send her product later this year and look for partners in early 2020, with an eye to scaling up production.

The cactus Mr. Pascoe uses for her experiments comes from San Esteban, a small town in the state of Guadalajara, where they grow by the hundreds.

San Esteban is located in Jalisco state where, starting next year, single-use non-reusable plastic bags, straws and other disposable items will be banned.

Pascoe says her new material would be no more than a “drop in the ocean” in the battle to preserve the environment. Given the rampant production of industrial plastics and the time it takes to make her material, there would need to be “other recycling strategies” to make any concrete difference, she said.

In March, UN member states committed to “significantly reduce” single-use plastics over the next decade, although green groups warned that goal fell short of tackling the Earth’s pollution crisis.
Centre unveils plan for coastal zone management

It will lay down guidelines for coastal States

JACOB ROSE
NEW DELHI

The Environment Ministry has unveiled a draft plan that will dictate how prospective infrastructure projects situated along the coast ought to be assessed before they can apply for clearance.

The draft Environmental and Social Management Framework (ESMF) is part of a World Bank-funded project.

The document lays down guidelines for coastal States to adopt when they approve and regulate projects in coastal zones.

"The project seeks to assist the Government of India in enhancing coastal resource efficiency and resilience, by building collective capacity (including communities and decentralised governance) for adopting and implementing integrated coastal management approaches," the introduction to the report notes. The document was prepared by the Society for Integrated Coastal Management, a Ministry-affiliated body.

Integrated coastal zone management (ICZM) has to be a continuous process rather than a "one-off" investment action, the report said.

So far three coastal States, namely Gujarat, Odisha and West Bengal, have prepared Integrated Coastal Zone Management Plans with support from the World Bank.

Such plans would be prepared for the selected coastal stretches in other States/UT, the project notes.

Proposed activities

The key activities proposed for coastal zone development that consist of investments by States include: mangrove afforestation/"shelter belts", habitat conservation activities such as restoration of sea-grass meadows, eco-restoration of sacred groves, development of hatcheries, rearing/ovenculture centres for turtles and other marine animals, creation of infrastructure for tourism, restoration and recharge of water bodies, beach cleaning and development, and other small infrastructure facilities.

Part A—Preliminary Examination

Paper I - (200 marks)

- Current events of national and international importance.
- General issues on Environmental ecology, Bio-diversity and Climate Change - that do not require subject specialization.
News:
- MoEF and CC → unveiled draft Environmental and Social Management Framework (ESMF) for ENCORE
  - how prospective infrastructural projects along the coast have to be assessed
  - prepared by ‘Society for Integrated Coastal Management’
  - Part of World Bank-funded project
  - guidelines for coastal states - approve and regulate projects

ESMF:
- Examines issues and impacts associated with project
  - when project consists of a program and/or series of sub-project
- Positive and negative impacts → during construction, operation and maintenance

- Need for a systematic safeguard management with pre-defined framework for risk mitigation
- ESMF is prepared to identify and manage environmental risks of projects
- Will draw experience from ICZMP
  - Phase I → ICZM plans prepared for selected coastal stretches
- Key activities proposed in ESMF (investment by States/UTs)
  - a) Mangrove afforestation or shelter beds
  - b) Habitat Conservation Activities
  - c) Infrastructure for tourism restoration and recharge of water bodies, beach cleaning and development, etc.

PRACTICE QUESTIONS DISCUSSION
**Practice Question – Prelims**

Q. Consider the following statements regarding ‘accommodative monetary policy’.

1. By an accommodative monetary policy, the central banks reduces its key policy rate to make money cheaper or easily available.
2. Decreasing repo rate will help to achieve this.
3. Decreasing risk weightage of loans will help to achieve this.

Select the correct answer from the following codes.

a) 1 only  
b) 2 only  
c) Both 1 and 2  
d) Neither 1 nor 2

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**Practice Question – Prelims**

Q. With reference to the Integrated Coastal Zone Management Project, which among the following statement/s is/are correct?

1. It aims to protect and conserve the coastal and marine ecosystems and its environment through a holistic coastal management.
2. It is implemented with financial assistance from the United Nations Environment Programme.
3. It is implemented on pilot basis in Gujarat, Odisha and Tamil Nadu.

Select the correct answer using the code given below.

a) 1 only  
b) 1 and 2  
c) 2 and 3  
d) 3 only
Q. “Constitution of India is not only Federal in nature but also asymmetric with respect to federal provisions”. Substantiate.

Practice Question – Answers
08-08-2019
Q1. Option ‘c’ - Both 1 and 2
Q2. Option ‘d’ - 1, 2 and 3
Q3. Option ‘b’ – 2 only
Q4. Option ‘a’ – 1 only

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