RBI takes offbeat tack to help reverse growth slowdown

RBI’s Goldilocks cut (Editorial)

Lower rates will spur credit flow and revive growth, says Das

Pakistan expels Indian envoy, suspends bilateral trade

The fragility of India’s federalism (Editorial)

Centre for ‘amicable’ solution to Mekedatu

Mexico’s cactus offers alternative to plastics

Centre unveils plan for coastal zone management

Practice cum Revision - MCQs
RBI's Goldilocks cut

The government must now unleash measures to boost growth

Focused largely on slowing GDP growth and enquanto

On being inflationary results, the Reserve Bank

of India (RBI) has delivered a Goldilocks cut of 20

basis points in the benchmark repo rate. Though a rate

cut was a foregone conclusion amid the benign

monetary policy announcement, the expectation was of either a

20 or 30 basis points cut. Given the context of the slow-
down in the economy, the Monetary Policy Committee (MPC)

needed the former as an incitement but taking into ac-

count factors such as the decline in the global finan-
cial markets and the slowdown in the global econ-
yonic conditions, the latter was seen as too high. In the event, the MPC

cut rates by 20 basis points, taking the repo rate to 4.5

per cent, which keeps the powder dry for the further rate di-

namic. With this, the RBI's target rate for the con-
ssecutive policy announcements beginning February

this year, pegging it at around 3.5 to 4 per cent. But the

transactions by banks on tenors has not been even a

fraction of this. The central bank says that banks have

managed to just 20 basis points which is poor indeed.

One reason behind the stumble was the tight liqu-

dity conditions and June when the RBI flooded the mar-

ket – in fact, the last two months the central bank has

had to absorb excess liquidity flowing around. There is,

therefore, reason to hope that circulation from here-

onward would be quicker.

The repo rate at 4.85% is now at a ten-year low and

is headed over the next few months and could well

set at 4% or very close to that by the time this rate cut-
ning cycle plays out. Supporting this theory is the fact

that inflations are projected to be benign for the next one

year. Growth, on the other hand, is expected to be weak

and the MPC has revised down its projections GDP
growth rate for this fiscal to 6.5% from 7.5% earlier. With

downward risk, this appears optimistic given the
current impasse in the economy and it is very likely that GDP growth will be lower. With

the feasible cut, the RBI has indicated that it is willing to do

the heavy lifting. But this alone will not suffice as cost of
capital is just one aspect that determines investment.

The government has to play its part in boosting growth. Arguably, the space for fiscal conces-
sions is limited given the overall revenue scenario, but the
government can certainly push for further reforms to

create an investment culture without impacting its fin-

equilibrium. The slowdown is just cyclical – which can be addressed by even monetary

and price policies, for which solutions are not absolute necessity. Therefore, un-

less the government responds with its own measures, the RBI's efforts to support growth may go to waste.

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


- 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

- Banks → Repo rate → RBI
  - keep security
  - get money

- Repo rate: money for banks to lend
- Lending rates of banks: lend to commercial & business activity

**RBI** - Repo rate by 35 basis points (0) bps
- Repo rate - from 6.75% to 6.4%
- 2 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
  - 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
  - Eg:
    - 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 - ↓ 29 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
Practice Question – Prelims

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

1. Repo rate is the rate at which RBI gives loans to other banks.
2. It is being adjusted by the Monetary policy committee.

Select the correct answer from the codes given below.

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

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) 1 and 2
c) 2 and 3 only
d) 1, 2 and 3
Pakistan expels Indian envoy, suspends bilateral trade

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

**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

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**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

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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.
Asymmetrical Constitutional Provisions:
- Abrogation of Article 370
- Numerous provisions were introduced to address the regional conflicts
- Linked with the concept of Asymmetric Federalism

\[ \text{Asymmetric Federalism:} \]

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

Compromise in asymmetric federalism

Regional Autonomy

\[ \text{Making use of the flexibility in the federal order} \]

\[ \text{Eg: Article 370} \]

- 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

\[ \text{Special privileges} \rightarrow \text{Reduce secessionist tendencies} \]

\[ \text{Strategy followed by India} \]
Practice Question – Mains

GS – II

Q. “Constitution of India is not only Federal in nature but also asymmetric with respect to federal provisions”. Substantiate.
Centre for ‘amicable’ solution to Mekedatu

Karnataka-proposed project refused clearance by Environment Ministry

MOHT M. KAK

The contentious Mekedatu Balancing Reservoir project, which aims to augment the Cauvery water supply to Bengaluru much to the opposition 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 32.5 km² of forest land, including core areas of the Cauvery Wetland 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."

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 99,000-cusec project. The project intends to divert 4.75 tmcft of drinking water towards the Bengaluru Metropolitan Region and for the generation of 400 MW of hydro-electric energy.

The Tamil Nadu government has sought scraping of the project through multiple legal and political fora, while Karnataka Chief MinisterBS. Yediyurappa on Tuesday requested Prime Minister Narendra Modi to grant permission to build the balancing reservoir.

Paper 1 - (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.

Mekedatu Balancing Reservoir Project

• Controversial project

• Environmental clearance is required (MoEF & CC)

• Ministry did not grant clearance for the project

EAC carried by EAC on River valley and Hydroelectric Projects

Constituted based on EIA notification 2006

• 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

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Practice Question – Prelims

Q. Consider the following statements.

1. Mekedatu Balancing Reservoir project will be constructed at the confluence point of River Cauvery and River Arkavathy.

2. River Cauvery originates and drains into the Bay of Bengal in Tamil Nadu.

Which among the above statements is/are not correct?

a) 1 only  
b) 2 only  
c) Both 1 and 2  
d) Neither 1 nor 2
• Opuntia/Prickly Pear Cactus
  - Inscribed in Mexico's flag
  - Role in production of biodegradable plastics

• Mexican researcher
  - Biodegradable packaging material
  - Hopes to get patent this year
  - Partners by 2020 - large scale production

• How is it made?
  - Cactus pulp → juice with non-toxic additives
  - Stretched into Packaging material
  - Colored pigments → sheets

• Where it is cultivated?
  - In San Esteban, Guadalajara in Mexico
  - San Esteban in Jalisco State - by 2020 - single use non-recyclable plastic bags, straws etc - banned

• Researcher's view:
  - New alternative - a 'drop in the ocean' in the battle to preserve environment
  - Why?
    - Replaces only a very small percentage of plastic used in the world
  - Rampant production of industrial plastic → need more recycling strategies

• March 2019 - UN Environmental Assembly
  - 4th Session, Nairobi, Kenya
  - Member states Committed → single use plastics by 2030

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Centre unveils plan for coastal zone management

It will lay down guidelines for coastal States

Jacob Khosla
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/recovery 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.

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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.
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
Practice Question – Prelims

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2. It is being adjusted by the Monetary policy committee.

Select the correct answer from the codes given below.

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2. River Cauvery originates and drains into the Bay of Bengal in Tamil Nadu.

Which among the above statements is/are not correct?

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

Practice Question – Mains

GS – II

Q. “Constitution of India is not only Federal in nature but also asymmetric with respect to federal provisions”. Substantiate.