



News Analysis (05 Apr, 2019)

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RBI Monetary Policy

The **Reserve Bank of India** has announced first bi-monthly **Monetary Policy Statement** for the **financial year 2019-20**.

LAF Adjustment

- The **Monetary Policy Committee (MPC)** of the RBI has **reduced policy repo rate under the Liquidity Adjustment Facility (LAF)** by 25 basis points to **6.0% from 6.25%** with immediate effect.
 - Consequently, the reverse repo rate under the **LAF is adjusted to 5.75%**, and the marginal standing facility (MSF) rate and the Bank Rate to **6.25%**.
 - This is the **second consecutive rate cut (last one in February, 2019)** in the year 2019 and under **new RBI Governor Shaktikanta Das**.
- A rate cut by RBI **injects liquidity in the economy**. It also acts as a sentiment booster and aid companies that have to service large debts. Top sectors which are likely to benefit the most from a rate cut are **banking, NBFC, infrastructure and real estate**.
- The MPC has also decided to maintain the **neutral monetary policy stance**.
 - Neutral stance indicates that the **policy rates neither stimulates (speeds up) nor restrains (slows down) economic growth**.
 - The neutral stance also indicates that the RBI feels that the **correct interest rate levels have been reached**, and now it is upto the banks to lower the rates and ensure better transmission of RBI's objective of lower interest rate in the system fuelling faster growth.

Inflation Targeting

- The decision of MPC is in consonance with the objective of achieving the target for **consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth**.
 - This inflation range (4% within a band of +/- 2%) was recommended by the committee headed by **Urjit Patel in 2014**. The same committee also **recommended the formation of MPC**.
 - **In May 2016, the Reserve Bank of India (RBI) Act, 1934** was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.
 - The amended RBI Act also provides for the **inflation target to be set by the Government of India**, in consultation with the Reserve Bank, **once in every five years**.
 - Accordingly, the Central Government has notified in the Official Gazette 4% Consumer Price Index (CPI) inflation as the target for the period from August 5, 2016 to March 31, 2021 with the upper tolerance limit of 6% and the lower tolerance limit of 2%.
 - Before the constitution of the MPC, a **Technical Advisory Committee (TAC)** on monetary policy advised the Reserve Bank on the stance of monetary policy. With the formation of MPC, the **TAC**

on Monetary Policy ceased to exist.

- Although inflation is well under control at 2.6% and is projected to average 3.2% to 3.4% in the first half of 2019-20. This is below the 4% target set for the MPC. However, there are some concerns:
 - Early forecasts indicate a strong possibility of a **below-normal monsoon due to El Niño**. This would cast a shadow on agricultural output, and consequently the food prices.
 - Similarly, global oil prices are now edging close to the \$70 a barrel mark on the back of **production cuts by the OPEC cartel**.

GDP Growth

The MPC has lowered the **GDP growth for 2019-20 to 7.2% from 7.4%** which was projected in February policy meet. Reasons being:

- The signs of weakening in the **domestic investment activity** which is reflected in a slowdown in production and imports of capital goods.
- A moderation of growth in the **global economy might impact India's exports**.
- Recently, the **Central Statistics Office** has also revised the GDP growth for **2018-19 downwards to 7%**.

Linking Loans

The Reserve Bank of India (RBI) also decided to **hold further consultation** on the proposal to link retail loans with an **external benchmark (like: RBI's policy repo rate, 91-day treasury bill yield, 182-day treasury bill yield or any other benchmark market interest rate) for improving monetary transmission**.

- During the December review of monetary policy, the RBI had proposed to implement the system of linking floating rate personal or retail loans, and floating rate loans to Micro and Small Enterprises, to an external benchmark from April 1, 2019.
- At present, all loans are linked to the **Marginal Cost of Fund based Lending Rate (MCLR)**. For the smooth transmission of policy rates and to make this process transparent, RBI has, over the years, directed banks to price their loans against their benchmark prime lending rate, base rate, and, finally, MCLR.

Survey 2019-Ambitions Beyond Growth: UNESCAP

Recently a report, **Survey 2019: Ambitions Beyond Growth** was published by the **United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)**.

The aim of the report is to find out what will it take to realize the ambitious **2030 Agenda of sustainable development goals**.



Findings

- The report says that an additional annual investment of **\$1.5 trillion — equivalent to a dollar per person per day** — would allow countries in the Asia-Pacific region to achieve the Sustainable Development Goals (SDGs) by 2030.
- Survey finds that the **funds required for achieving the SDGs are within reach for many countries**, given their fiscal space and potential to leverage private investment.
- The report has urged the countries in the Asia Pacific to **look beyond mere economic growth**.
- Countries facing high and **growing levels of inequality and environmental degradation will have to change course from pursuing a growth path that neglects the people** and the planet.
- The report argues that keeping the old **paradigm of prioritizing GDP growth at all costs is neither feasible nor desirable**.
- Instead, UNESCAP proposes an investment package, equivalent to 5% of the combined GDP of Asia-Pacific developing countries in 2018, that includes:
 - **\$669 billion to support basic human rights and develop human capacities**
 - **\$590 billion to achieve clean energy for all and live in harmony with nature**
 - **\$196 billion for improved access to transport, information and communications technology (ICT), and water and sanitation.**
- Emphasis on quality of education
 - **Significant savings could be achieved through a greater emphasis on education quality and outcomes.**
 - It cites UNESCO estimates in 2014 that globally, **\$129 billion was wasted annually due to the disconnect between schooling years and the acquisition of basic skills alone.**
 - Asia-Pacific developing countries **on average could save more than 30% through efficiency gains without compromising on education performance.**



United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)

- The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is the regional development arm of the United Nations for the Asia-Pacific region.
- It has **53 Member States and 9 Associate Members from Asia-Pacific Region including India.**
- **Established:** 1947
- **Headquarters:** Bangkok, Thailand
- **Objective:** ESCAP works to overcome some of the region's greatest challenges by providing results-oriented projects, technical assistance and capacity building to member States.

Important Facts For Prelims (5th April 2019)

Maharshi Badrayan Vyas Samman (MBVS) Award

- Vice-President of India gave the '**Presidential Award of Maharshi Badrayan Vyas Samman**' to **Dr. Gyanaditya Shakya** in New Delhi.
- Dr. Shakya was conferred the award for his outstanding **contribution in the field of Pali language and literature.**
 - He was selected for the award by the Department of Higher Education, Ministry of Human Resource Development, Government of India for his five books i.e. Bauddha Dharma Darshan Mein Brahmavihara Bhavana, Anagatavasa, Chakesadhatuvasa, Pañcagatidipani and Gandhavasa.
 - He also had been awarded with 'Vividh (Shraman) Puruskar' by the Governor and the Chief Minister of Uttar Pradesh on February 7, 2018.
- This **distinction** is conferred on persons in recognition of their **substantial contribution in the field of Sanskrit, Persian, Arabic and Pali/Prakrit.**
 - The award carries a certificate and a cash prize of Rs. 1 lakh.
 - It is given to the selected young scholars in the age group of 30 to 45 years.

The Order of Zayed

- UAE has conferred its **highest civilian award 'the Order of Zayed'** upon the Prime Minister of India.
- The Prime Minister has been given the award as a mark of appreciation for his efforts to boost bilateral ties between the two nations.
 - UAE is **home to the largest number of Indian citizens outside India**, and also is a co-partner in diverse pillars of cooperation including investment, energy defense, and security
 - The country **accounts for 8% of India's oil imports and is the fifth largest supplier of crude oil** to India. It is also a **part of the International Solar Alliance (ISA)**, which is headquartered in Gurgaon in India.
 - India-UAE trade stood at about USD 50 billion in 2017, making **India the second largest trading partner of UAE**, while UAE is India's third largest trading partner (after China and the US).
 - Moreover, UAE is India's second largest export destination, accounting for over USD 30 billion for the year 2016-17.
- The award, **earlier, has been awarded to** Russian President Vladimir Putin, former US president George W Bush, former France president Nicolas Sarkozy, German Chancellor Angela Merkel, Queen Elizabeth II from the United Kingdom and Chinese President Xi Jinping.

Counter-Cyclical Capital Buffer (CCCB)

- The Reserve Bank of India (RBI) has decided that it is not necessary to activate the countercyclical capital buffer (CCCB) currently.
- The framework on CCCB was put in place by the Reserve Bank on February 5, 2015, where it advised that the CCCB would be activated when the circumstances warranted.
- **What is CCCB?**
 - The countercyclical capital buffer aims to ensure that banking sector capital requirements take account of the macro-financial environment in which banks operate.
 - CCCB is intended to protect the banking sector against losses.
 - CCCB is a part of Basel III norms given by the Basel Committee on Banking Supervision under Bank of International Settlement.

Basel III

In December 2010, the Basel Committee on Banking Supervision published Basel III: A global regulatory framework for more resilient banks and banking systems which presents the details of global regulatory standards on bank capital adequacy and liquidity, including a countercyclical capital buffer.

Aim of CCCB

The aim of the Countercyclical Capital Buffer (CCCB) regime is two-fold:

- Firstly, it requires banks to build up a buffer of capital in good times which may be used to maintain the flow of credit in difficult times.
 - Secondly, it helps to achieve the goal of restricting the banking sector from indiscriminate lending in the periods of excess credit growth.
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