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# News Analysis (09 Apr, 2021)



## Fall in International Crude Oil Prices

### Why in News

Recent fall in international crude oil prices has reversed a **six-month trend** of **rising auto fuel prices** which saw the prices of petrol and diesel hit all-time highs across the country.

- The price of **Brent crude** has **fallen under USD 63 per barrel from a high of USD 70 per barrel in early March 2021**.
- Two crude oils which are either traded themselves or whose prices are reflected in other types of crude oil include **West Texas Intermediate (WTI) and Brent**.

### Key Points

- **Oil Pricing:**
    - Generally, the **Organization of the Petroleum Exporting Countries (OPEC)** used to work as a cartel and fix prices in a favourable band.
        - **OPEC is led by Saudi Arabia**, which is the largest exporter of crude oil in the world (single-handedly exporting 10% of the global demand).
        - **OPEC has a total of 13 Member Countries** viz. Iran, Iraq, Kuwait, United Arab Emirates (UAE), Saudi Arabia, Algeria, Libya, Nigeria, Gabon, Equatorial Guinea, Republic of Congo, Angola, and Venezuela.
    - OPEC **could bring down prices by increasing oil production and raise prices by cutting production**.
    - The **global oil pricing mainly depends upon the partnership between the global oil exporters** instead of a well-functioning competition.
    - Cutting oil production or completely shutting down an oil well is a difficult decision, because restarting it is immensely costly and complicated.
        Moreover, if a country cuts production, it risks losing market share if other countries do not follow the suit.
    - Recently, OPEC has been working with Russia, as **OPEC+** to fix the global prices and supply.
        In 2016, OPEC allied with other top non-OPEC oil-exporting nations to form an even more powerful entity named OPEC+ or OPEC Plus.
- **Reason for the Fall:**
    - **Resurgence in Covid Infections:**
        A recent resurgence in **Covid-19 infections** coupled with a decision by OPEC+ to **increase crude oil production** has contributed to a fall in crude oil prices.
            OPEC+ has announced a **phased withdrawal of production cuts** which would see total crude oil production by the group of countries rise by 1.1 million barrels per day by July 2021.
    - **Recovery in Supply:**
        The **recovery in supply without a similar recovery in demand** has contributed to the recent correction in crude oil prices and that supply cuts were difficult to maintain for oil-producing countries given the global macroeconomic situation.
            - Recent US data has also indicated that **gasoline inventories are rising faster** than the fall in crude oil inventories raising concerns of waning demand for petroleum products.
            - **US crude oil production capacity has recovered to about 11 million barrels per day** after abnormally cold weather in February 2021 forced US crude oil output down to 9.7 million barrels per day.

- **Impact on India:**
  - **Current Account Deficit:**

    The **decrease in oil prices will decrease the country's import bill,** and will help in reducing its **current account deficit** (excess of imports of goods and services over exports).
    - According to estimates, a **one-dollar increase in crude oil price increases the oil bill by around USD 1.6 billion per year**.
    - **India imports 80% of its crude oil** requirements.
  - **Inflation:**
    - The **decrease in crude prices could also also further decrease inflationary pressures** that have been building up over the past few months.
    - This will increase the space for the **monetary policy committee** to ease policy rates further.
  - **Fiscal Health:**
    - If oil prices would have continued to increase, **the government would have been forced to cut taxes on petroleum and diesel** which might have caused **loss of revenue** and **deteriorated its fiscal balance**.
    - The revenue lost will erode the government's ability to spend or meet its fiscal commitments in the form of budgetary transfers to states, payment of dues and compensation for revenue shortfalls to state governments under the **Goods and Services Tax (GST)** framework.

**Brent and West Texas Intermediate (WTI)**

- **Origin:**
  - **Brent crude oil originates from oil fields in the North Sea** between the Shetland Islands and Norway.
  - **WTI is sourced from US oil fields,** primarily in Texas, Louisiana, and North Dakota.
- **Light and Sweet:**
  - Both oils are relatively light, but **Brent has a slightly higher API gravity, making WTI the lighter of the two**.

    **American Petroleum Institute (API) gravity** is an indicator of the density of crude oil or refined products.
  - **WTI with a lower sulphur content** (0.24%) than Brent (0.37%), is considered **"sweeter"**.
- **Benchmark Prices:**
  - **Brent crude price** is the international benchmark price **used by the OPEC** while **WTI crude price is a benchmark for US oil prices**.
  - Since India imports primarily from OPEC countries, **Brent is the benchmark for oil prices in India**.

- **Cost of Shipping:**
  - **Cost of shipping for Brent crude is typically lower,** since it is produced near the sea and it can be put on ships immediately.
  - **Shipping of WTI is priced higher** since it is produced in landlocked areas like Cushing, Oklahoma where the storage facilities are limited.

**Source: IE**

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## EUs Support to Southeast Asia: Climate Change

### Why in News

The **European Union (EU)** has earmarked millions of euros for supporting climate friendly development in Southeast Asia.

> After the EU became a "strategic partner" of the **Association of the Southeast Asian Nations (ASEAN)** bloc in December 2020, both blocs **pledged to make climate change policy a key area of cooperation.**

### Key Points

- **EUs Assistance to Southeast Asia:**
  - **Multilateral Assistance:**
    - The EU is the largest provider of development assistance to the ASEAN region, and has committed millions of euros to various environmental programs.
    - This includes 5 million Euros to the ASEAN **Smart Green Cities initiative** and another 5 million Euros towards a new means of **preventing deforestation, called the Forest Law Enforcement, Governance and Trade in ASEAN.**
  - **Individual Help:**
    Along with multilateral assistance, the EU also works with individual ASEAN member states on eco-friendly policies like **Thailand's Bio-Circular-Green Economic Model and Singapore's Green Plan 2030.**
- **Problems Faced by the EU in Southeast Asia:**
  - Region's **environmental policy** as Southeast Asia is going in the wrong direction in many areas on **climate change.**
  - Five ASEAN states were among the **fifteen countries most affected** by climate change between 1999–2018, according to the **Climate Risk Index 2020.**

- **Coal Consumption in Southeast Asia:**
    - **Southeast Asia's energy demand is projected to grow 60% by 2040.**
    - Coal-fired energy will overtake natural gas as the main power source in the ASEAN region by 2030. And by 2040 it could account for almost 50% of the region's projected $CO_2$ emissions.

      In 2019, the region consumed around 332 million tons of coal, nearly double the consumption from a decade earlier, according to the **International Energy Agency (IEA).**
    - This will contribute to a two-thirds rise in $CO_2$ emissions to almost 2.4 gigatons, according to the **Southeast Asia Energy Outlook 2019.**
- **Risks for the EU in Southeast Asia:**
    - **Could Face Exporters Anger:**

      If the EU takes a strong forceful stance on coal consumption in the region, it could spark **anger from the main exporters of the commodity, China, India and Australia.**
    - **Policy Resistance:**

      The EU's climate change policy in the region has already been met with resistance.
        - Indonesia last year initiated proceedings at the **World Trade Organization** against the EU's phased ban on palm-oil imports.

          The EU contends the ban is to protect the environment, but Indonesia, the world's largest palm oil producer, says it is mere **protectionism.**
        - Malaysia, the world's second-largest palm oil producer, supports Indonesia in its battle against the EU.
    - **Accusations of Hypocrisy:**

      The other problem for the EU is that it risks **accusations of hypocrisy** if it takes too forceful a stance on coal-fired energy production in Southeast Asia.
        - **Poland** and the **Czech Republic** of the EU remain dependent on coal-fired energy production.
        - Southeast Asia and Europe each accounted for around 11% of the world's thermal coal imports in 2019.
- **India's Coordination with Asean on Climate Change:**
    - In 2012 Both adopted a **'New Delhi Declaration on ASEAN-India Cooperation in Renewable Energy'.**
    - **ASEAN-India Green Fund** was established in **2007** with USD 5 million for funding pilot projects to promote adaptation and mitigation technologies in the field of climate change.
    - ASEAN and India are **collaborating on several projection Climate Change and biodiversity** through partnership with IISc, Bangalore.

**Source:IE**

## Monetary Policy Report: RBI

### Why in News

The **Reserve Bank of India (RBI)** has released the **Monetary Policy Report** for the month of April 2021.

### Key Points

- **Unchanged Policy Rates:**
  - **Repo Rate** - 4%.
  - **Reverse Repo Rate** - 3.35%.
  - **Marginal Standing Facility (MSF)** - 4.25%.
  - **Bank Rate-** 4.25%.
- **GDP Projection:**

  Real **Gross Domestic Product (GDP)** growth for 2021-22 has been retained at **10.5%.**
- **Inflation:**

  RBI has revised the projection for **Consumer Price Index (CPI)** inflation to:
    - 5.0% in **Quarter 4** of 2020-21.
    - 5.2% in **Quarter 1** of 2021-22.
    - 5.2% in **Quarter 2** of 2021-22.
    - 4.4% in **Quarter 3** of 2021-22.
    - 5.1% in **Quarter 4** of 2021-22.
- **Accommodative Stance:**

  The RBI decided to **continue with the accommodative stance** as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of **Covid-19** on the economy, while ensuring that **inflation** remains within the target going forward.

    An **accommodative stance** means a **central bank will cut rates to inject money** into the financial system **whenever needed.**

- **Support to Financial Institutions:**
  - RBI would extend fresh support of **Rs. 50,000 crore** to the **All India Financial Institutions** for new lending in **Financial Year (FY)** 2021-22.
    - **National Bank for Agriculture and Rural Development (NABARD)** will be provided a **Special Liquidity Facility (SLF)** of **Rs. 25,000** crore for one year to support agriculture and allied activities, the rural non-farm sector and **Non-Banking Financial Companies (NBFCs)** - **Micro-Finance Institutions (MFIs).**
    - An SLF of **Rs. 10,000 crore** will be extended to the **National Housing Bank** for one year to support the housing sector.
    - **Small Industries Development Bank of India (SIDBI)** will be provided Rs.15,000 crore under this facility for up to one year for funding of **Micro, Small and Medium enterprises (MSMEs)**.
  - All three facilities will be available at the **prevailing policy repo rate.**
- **Review Committee for ARC's:**
  - Signalling the importance of **Asset Reconstruction Companies (ARCs)** to deal with bad loans, the RBI would **constitute a committee to undertake a comprehensive review** of the working of ARCs in the financial sector ecosystem.
  - The committee will **recommend suitable measures** for enabling such entities to meet the growing requirements of the financial sector.
- **Extension of Priority Sector Lending:**
  - A six-month extension to September 30,2021 for **Priority Sector Lending (PSL)** classification for lending by banks to NBFCs for **'on-lending'** to sectors that contribute significantly to the economy in terms of export and employment — has been approved.

    **On-lending** means to lend (borrowed money) to a **third party.**
  - This would **provide an impetus to NBFCs** providing credit at the bottom of the pyramid.

- **Government Securities Acquisition Programme (G-SAP) 1.0:**
    - **About:**
        - The RBI, for the year 2021-22, has decided to put in place a secondary market **Government Security (G-sec) Acquisition Programme or G-SAP 1.0.**
          It is part of RBIs **Open Market Operations.**
        - Under the programme, the **RBI will commit upfront to a specific amount of Open Market Purchases of government securities.**
        - The **first purchase** of government securities for an aggregate amount of **Rs. 25,000 crore** under G-SAP 1.0 will be conducted on **15th April, 2021.**
    - **Objective:**
      To **avoid volatility in the G-sec market** in view of its central role in the pricing of other financial market instruments across the term structure and issuers, both in the public and private sectors
    - **Significance:**
        - It will **provide certainty to the bond market participants** with regard to RBI's commitment of support to the bond market in FY22.
        - The announcement of this structured programme will **help reduce the difference between the repo rate and the 10-year government bond yield.** That, in turn, will help to **reduce the aggregate cost of borrowing** for the Centre and states in FY 2021-22.
        - It will enable a stable and **orderly evolution of the yield curve amidst comfortable liquidity conditions.**
            - A yield curve is a line that **plots yields (interest rates) of bonds** having equal credit quality but differing maturity dates.
            - The **slope of the yield curve gives an idea of future interest rate** changes and economic activity.

**Key Terms**

- **Repo and Reverse Repo Rate:**
    - Repo rate is the **rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds.** Here, the central bank purchases the security.
    - Reverse repo rate is **the rate at which the RBI borrows money from commercial banks within the country.**
- **Bank Rate:**
  It is the **rate charged by the RBI for lending funds to commercial banks.**

- **Marginal Standing Facility (MSF):**
    - MSF is a **window for scheduled banks to borrow overnight from the RBI** in an emergency situation when interbank liquidity dries up completely.
    - Under interbank lending, banks lend funds to one another for a specified term.
- **Open Market Operations:**
    - These are **market operations conducted by RBI by way of sale/purchase of government securities to/from the market with an objective to adjust the rupee liquidity conditions** in the market on a durable basis.
    - **If there is excess liquidity,** RBI resorts to sale of securities and sucks out the rupee liquidity.
    - Similarly, **when the liquidity conditions are tight,** RBI buys securities from the market, thereby releasing liquidity into the market.
    - It is one of the **quantitative (to regulate or control the total volume of money) monetary policy tools** which is employed by the central bank of a country to control the money supply in the economy.
- **Government Security:**
    - A G-Sec is a **tradable instrument issued by the Central Government** or the State Governments.
    - It **acknowledges the Government's debt obligation.** Such securities are **short term** (usually called treasury bills, with original maturities of less than one year- presently issued in three tenors, namely, 91 day, 182 day and 364 day) or long term (usually called Government bonds or dated securities with original maturity of one year or more).
- **Inflation:**
    - Inflation **refers to the rise in the prices of most goods and services of daily or common use,** such as food, clothing, housing, recreation, transport, consumer staples, etc.
    - Inflation **measures the average price change in a basket of commodities and services over time.**
    - Inflation is **indicative of the decrease in the purchasing power** of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- **Consumer Price Index:**
    - It **measures price changes from the perspective of a retail buyer.** It is released by the **National Statistical Office (NSO).**
    - The CPI **calculates the difference in the price of commodities and services** such as food, medical care, education, electronics etc, which Indian consumers buy for use.

**Source:IE**

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