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## Current Affairs for UPSC IAS Exam – 08 April 2021 | Legacy IAS Academy

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### [RBI'S MPC KEEPS POLICY RATES UNCHANGED](#)

#### **Context:**

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) voted unanimously to leave the policy repo rate unchanged at 4%.

#### **Relevance:**

GS-III: Indian Economy (Economic Growth and Development in India, Monetary Policy)

#### **Dimensions of the Article:**

1. Instruments of Monetary Policy
  2. RBI's MPC decision
  3. Highlights of what was said by the RBI Governor
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## Instruments of Monetary Policy

There are several direct and indirect instruments that are used for implementing monetary policy.

1. **Repo Rate:** The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).
2. **Reverse Repo Rate:** The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.
3. **Liquidity Adjustment Facility (LAF):** The LAF consists of overnight as well as term repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine-tuning variable rate repo auctions of range of tenors. The aim of term repo is to help develop the inter-bank term money market, which in turn can set market based benchmarks for pricing of loans and deposits, and hence improve transmission of monetary policy. The Reserve Bank also conducts variable interest rate reverse repo auctions, as necessitated under the market conditions.
4. **Marginal Standing Facility (MSF):** A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
5. **Corridor:** The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
6. **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
7. **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
8. **Statutory Liquidity Ratio (SLR):** The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.
9. **Open Market Operations (OMOs):** These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
10. **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills.



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The cash so mobilised is held in a separate government account with the Reserve Bank.

## RBI's MPC decision

- The marginal standing facility (MSF) rate and the bank rate remain unchanged at 4.25% and the reverse repo rate stands unchanged at 3.35%.
- Taking various factors into consideration, the projection of real GDP growth for 2021-22 has been retained at 10.5% consisting of 26.2% in Q1; 8.3% in Q2; 5.4% in Q3; and 6.2% in Q4.
- The RBI Governor said that while headline inflation at 5.0% in February 2021 remained within the tolerance band, some underlying constituents were testing the upper tolerance level.
- Taking into consideration various factors, RBI has revised the projection for CPI inflation to 5.0% in Q4: 2020-21; 5.2 % in Q1:2021-22; 5.2% in Q2; 4.4% in Q3; and 5.1% in Q4, with risks broadly balanced.

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## **RBI announcements:**

- **Projects 26.2% in June & 8.3% growth September quarter**
- **Retail inflation projected at 5.2% in the first half of current fiscal**

- **Rs 50,000 crore additional liquidity facility to NABARD, NHB and SIDBI for fresh lending**
- **Enhances aggregate ways and means advances limits to states to Rs 47,010 crore**

- **Interim ways and means advances of Rs 51,560 crore extended to states till September**
- **RTGS, NEFT extended to prepaid payment instruments, white label ATMs**

- **Constitution of committee to study working of ARCs**
- **TLTRO scheme extended till 6 months, up to Sept 30**
- **G-SAP 1.0 under which RBI will buy bonds worth Rs 1 lakh crore in Q1**





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## Highlights of what was said by the RBI Governor

- The RBI Governor said that the focus must now be on containing the spread of the virus as well as on economic revival — consolidating the gains achieved so far and sustaining the impulses of growth in the new financial year (2021-22).
- The RBI Governor said that the juxtaposition of high frequency lead and coincident indicators reveals that economic activity is normalising in spite of the surge in infections.
- Drawing on its experience in the previous year, the RBI, for the year 2021-22, has decided to put in place a secondary market G-sec acquisition programme (G-SAP 1.0) under which the RBI will commit upfront to a specific amount of open market purchases of government securities with a view to enabling a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions.

[Click Here to read more about the Monetary Policy Committee \(MPC\) and Inflation Targeting](#)

-Source: *The Hindu*

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## [AVERAGE SPOT POWER PRICE AT IEX JUMPS 65%](#)

### **Context:**

- Average spot power price rose by 65% per unit in March compared to the year earlier month at the Indian Energy Exchange (IEX) mainly due to increase in demand on account of rise in temperature and revival of economic activities.
- The electricity market at Indian Energy Exchange (IEX) achieved an all-time high volume of more than 8 thousand million units in the month of March 2021 surpassing all the previous milestones.



**Relevance:**

GS-III: Industry and Infrastructure (Development of Renewable Energy Sources), GS-III: Indian Economy

**Dimensions of the Article:**

1. About Indian Energy Exchange (IEX)
2. Renewable Energy Certificates (REC)
3. Energy Saving Certificates (ESCerts)

**About Indian Energy Exchange (IEX)**

- The Indian Energy Exchange (IEX) is the first and largest energy exchange in India providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates and Energy Saving Certificates.
- The exchange platform enables efficient price discovery and increases the accessibility and transparency of the power market in India while also enhancing the speed and efficiency of trade execution.
- It is a publicly listed company with National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).
- It is approved and regulated by Central Electricity Regulatory Commission (CERC) and has been operating since 2008.
- The IEX was established to leverage technology and innovation to establish transparent and efficient energy marketplaces for delivering affordable, reliable energy to consumers.

Indian Energy Exchange (IEX) is a trading platform for:

1. Physical Delivery of Electricity
2. Renewable Energy Certificates (REC)
3. Energy Saving Certificates (ESCerts)



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## Renewable Energy Certificates (REC)

- Renewable Energy Certificates (RECs) are a market-based instrument that certifies the bearer owns one megawatt-hour (MWh) of electricity generated from a renewable energy resource.
- Once the power provider has fed the energy into the grid, the REC received can then be sold on the open market as an energy commodity.
- RECs earned may be sold, for example, to other entities that are polluting as a carbon credit to offset their emissions.
- RECs can go by other names, including Green Tags, Tradable Renewable Certificates (TRCs), Renewable Electricity Certificates, or Renewable Energy Credits.

## Energy Saving Certificates (ESCerts)

- Energy Saving Certificates (ESCerts) are the tradable certificates under the Perform, Achieve, Trade (PAT) Scheme of the Bureau of Energy Efficiency (BEE).
- It is a market-based mechanism to incentivise energy efficiency in large energy-intensive industries.

*-Source: The Hindu*

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## [GOVT. TO REBOOT DATED OPIUM STRATEGY](#)

### **Context:**

The Central government has decided to rope in the private sector to commence production of concentrated poppy straw from India's opium crop to boost their yield of alkaloids, used for medical purposes and exported to several countries.



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**Relevance:**

GS-III: Agriculture, GS-III: Indian Economy (International Trade, Mobilization of Resources)

**Dimensions of the Article:**

1. About the Opium Industry in India
2. History of Opium Production in India
3. Regulation of Opium in India
4. About Opium and its products

**About the Opium Industry in India**

- Legal cultivation of opium for medicinal purposes is carried out in India, only in selected areas, under free licensing conditions.
- **India is the world's largest manufacturer of legal opium for the pharmaceutical industry according to the CIA World Factbook.**
- India is one among 12 countries in world where legal cultivation for medical use is permissible within the ambit of United Nations, Single Convention on Narcotic Drugs 1961.
- In India legal cultivation is done primarily in Madhya Pradesh, Rajasthan and Uttar Pradesh.
- Among the few countries permitted to cultivate the opium poppy crop for export and extraction of alkaloids, India currently only extracts alkaloids from opium gum at facilities controlled by the Revenue Department in the Finance Ministry.
- This entails farmers extracting gum by manually lancing the opium pods and selling the gum to government factories.
- The Ministry has now decided to switch to new technologies, after trial cultivation reports submitted last year by two private firms showed higher extraction of alkaloids using the concentrated poppy straw (CPS).
- **India's opium crop acreage has been steadily declining over the years and using the CPS extraction method is expected to help cut the occasional dependence on imports of products like codeine (extracted from opium) for medical uses.**

**History of Opium Production in India**





- The cultivation of poppy in India for Opium production started during the British Raj, constituting 15% of revenue of British Raj from Colonial India.
- The legalized cultivation and management of produce under strict government control continued in India even post-independence.

## Regulation of Opium in India

- The NDPS act empowers the Central Government to permit and regulate cultivation of opium poppy for medical and scientific purposes.
- The Government of India notifies the tracts where opium cultivation can be licensed as well as the General Conditions for issuance of license every year.
- These notifications are commonly referred to as Opium Policies. Opium cultivation is permitted in the notified tracts in the states of Madhya Pradesh, Rajasthan and Uttar Pradesh. The General Conditions, among others, include a Minimum Qualifying Yield (MQY) to be tendered by the cultivators of each of these three states, to be eligible for license in the succeeding year.
- Presently, the Central Bureau of Narcotics (CBN), is responsible for overall supervision of cultivation as per provisions of the Narcotic Drugs and Psychotropic Substances Act, 1985.
- The produce from licensed cultivators is procured solely by government fixing strict norms on quantity and quality. The produce is then supplied by government-to-Government Opium and Alkaloid Factories (GOAF).

## About Opium and its products

- Opium poppy (*Papaver somniferous*) plant is the source of opium gum which contains several indispensable alkaloids such as Morphine, codeine and Thebaine.
- Morphine is the best analgesic in the world.
- In case of extreme and excruciating pain such as that of terminally ill cancer patients, nothing alleviates the suffering except morphine.
- Codeine is commonly used in manufacture of cough syrups.

-Source: *The Hindu*