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RBI KEEPS REPO RATE UNCHANGED, RAISES GDP FORECAST TO 7.2%

RBI keeps repo rate unchanged, raises GDP forecast to 7.2%

Upward revision

On Friday, the RBI revised the GDP growth projection for FY25, to 7.2% from 7%



The graph shows quarter-wise projected real GDP growth in FY25

SOURCE: PTI & CMIE

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MUMBAI

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) on Friday decided to keep the repo rate unchanged at 6.5%.

The decision, taken at the MPC's meeting, marks the eighth time in a row that the policy rate has been put on hold to keep the focus on battling high inflation.

Revised forecast

The MPC has revised its GDP growth forecast upwards from the earlier 7% estimate to 7.2% for the financial year 2024-2025.

It has also decided to remain focused on withdrawal of accommodation to ensure that inflation does not accelerate, while supporting growth.

"These decisions are in consonance with the objec-

tive of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2% while supporting growth," RBI governor Shaktikanta Das said after the meeting.

Divided MPC

Mr. Das, along with MPC members Shashanka Bhide, Rajiv Ranjan, and Michael Debabrata Patra voted to keep the policy repo rate unchanged at 6.5% and to remain focused on the withdrawal of accommodation, while their colleagues Ashima Goyal and Jayanth R. Varma voted to reduce the policy repo rate by 25 basis points and for a change in stance to neutral.

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Points To Note

- Monetary Policy Committee
- Repo Rate
- Inflation & Growth (Relation)
- Accomodative stance
- Withdrawal of " "

About Monetary Policy Committee (MPC):

- ❖ The Reserve Bank of India Act, 1934 (RBI Act) has been amended by the Finance Act, 2016 to provide for a statutory and institutionalized framework for a MPC.
- ❖ Under Section 45ZB of the amended RBI Act, 1934, the central government is empowered to constitute a six-member MPC.



- ❖ **Function:** The MPC is entrusted with the task of fixing the benchmark policy rate (repo rate) required to contain inflation within the specified target level.
- ❖ **Composition:**
 - MPC will have six members - the RBI Governor (Chairperson), the RBI Deputy Governor in charge of monetary policy, one official nominated by the RBI Board, and the remaining three members would represent the Government of India.
 - The external members hold office for a period of four years.
- ❖ The quorum for a meeting shall be four Members, at least one of whom shall be the Governor and, in his absence, the Deputy Governor, who is the Member of the MPC.
- ❖ The MPC takes decisions based on a majority vote. In case of a tie, the RBI governor will have the second or casting vote.
- ❖ The decision of the MPC would be binding on the RBI.
- ❖ The RBI's Monetary Policy Committee (MPC) maintains its focus on curbing inflation by keeping the repo rate unchanged at 6.5% to align inflation with the 4% target.
- ❖ The MPC aims to achieve a medium-term target of 4% inflation within a band of +/- 2%.
- ❖ The MPC aims to withdraw accommodation gradually to align inflation with the target while supporting growth.
 - An accommodative stance means the central bank is prepared to expand the money supply to boost economic growth.
 - Withdrawal of accommodation will mean reducing the money supply in the system which will rein in inflation further.
- ❖ The MPC determines the policy interest rate required to achieve the inflation target. The RBI controls inflation and deflation by employing a variety of monetary policy tools such as:
 - Repo rate, Reverse repo rate, Bank rate, Open market operations, Statutory liquidity ratio (SLR), Cash reserve ratio (CRR), Liquidity adjustment facility (LAF), and Market stabilization scheme.

What is repo rate and reverse repo rate?

- ❖ **Repo Rate:** It is the interest rate at which the central bank of a country lends money to commercial banks. The central bank in India i.e. the Reserve Bank of India (RBI) uses repo rate to regulate liquidity in the economy. In banking, repo rate is related to 'repurchase option' or 'repurchase agreement'.
- ❖ When there is a shortage of funds, commercial banks borrow money from the central bank which is repaid according to the repo rate applicable. The central bank provides these short terms loans against securities such as treasury bills or government bonds. This monetary policy is used by the central bank to control inflation or increase the liquidity of banks.
- ❖ The government increases the repo rate when they need to control prices and restrict borrowings. On the other hand, the repo rate is decreased when there is a need to infuse more money into the market and support economic growth. An increase in repo rate means commercial banks have to pay more interest for the money lent to them and therefore, a change in repo rate eventually affects public borrowings such as home loan, EMIs, etc.
- ❖ From interest charged by commercial banks on loans to the returns from deposits, various financial and investment instruments are indirectly dependent on the repo rate



- ❖ The duration of these loans generally varies between one day to a fortnight.

Reverse Repo Rate:

- ❖ This is the rate the central bank of a country pays its commercial banks to park their excess funds in the central bank. Reverse repo rate is also a monetary policy used by the central bank (which is RBI in India) to regulate the flow of money in the market.
- ❖ When in need, the central bank of a country borrows money from commercial banks and pays them interest as per the reverse repo rate applicable. At a given point in time, the reverse repo rate provided by RBI is generally lower than the repo rate.
- ❖ While repo rate is used to regulate liquidity in the economy, reverse repo rate is used to control cash flow in the market. When there is inflation in the economy, RBI increases the reverse repo rate to encourage commercial banks to make deposits in the central bank

Question:

Q.1 Which of the following statements is/are correct regarding the Monetary Policy Committee (MPC)?

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 2 and 3 only

Answer: (a) The correct answer is 1 only.

❖ Monetary Policy Committee (MPC) -

- ☛ It decides the RBI's benchmark interest rates.
- ☛ These interest rates include MSF, Repo Rate, Reverse Repo Rate, and Liquidity Adjustment Facility. So Statement 1 is correct.
- ☛ The committee will have six members. So Statement 2 is incorrect.
- ☛ Out of the six members, the government will nominate three members.
- ☛ The other three members would be from the RBI.
- ☛ The Governor of the RBI is the ex-officio Chairperson of MPC. So Statement 3 is incorrect.
- ☛ Members of the Monetary Policy Committee will be appointed for a period of four years.
- ☛ Members of the Monetary Policy Committee shall not be eligible for reappointment.

❖ Other facts

- ☛ Each member has a vote.
- ☛ The governor has a casting vote in case of a tie.
- ☛ The governor did not enjoy a veto power to overrule the other panel members.
- ☛ The Reserve Bank of India Act 1934 empowers the RBI to make the monetary policy.



Q.2 With reference to Repo rate, consider the following statements:

1. It is the rate at which the RBI borrows money from commercial banks.
2. Both government securities and corporate bonds can be used for transactions under Repo rate.

Which of the statements given above is/are correct?

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

Explanation:

- ❖ Statement 1 is incorrect. 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. Repo rate is used by monetary authorities to control inflation.
- ❖ Reverse repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country.
- ❖ Statement 2 is correct. The securities transacted here can be either government securities or corporate securities or any other securities which the Central bank permits for transaction. Non-sovereign securities are used in many global markets for repo operations. Unlike them, Indian repo market predominantly uses sovereign securities, though repo is allowed on corporate bonds and debentures.





GLOBAL PLASTICS TREATY AND INFORMAL WASTE PICKERS RIGHTS

Remoulding the Global Plastics Treaty

As discussions still continue for an international legally binding treaty on plastic pollution, it becomes crucial to consider how it can support a fair transition for individuals who collect and recycle waste informally. According to the OECD Global Plastic Outlook, global production of plastic waste was 353 million tonnes in 2019 – more than double since it was in 2000, and is set to triple by 2060. Only 9% of this was recycled, 50% sent to landfills, 19% incinerated, and 22% disposed of in uncontrolled sites or dumps. According to the United Nations Environment Programme, of the 9% recycled, 85% was done by informal recycling workers.

These workers collect, sort and recover recyclable and reusable materials from general waste, alleviating municipal budgets of financial burdens around waste management and, at large, subsidising the environmental mandate of the producers, consumers and the government. The Centre for Environment Justice and Development has also observed that they promote circular waste management solutions and help mitigate greenhouse gas emissions, valuably contributing to sustainability. Their efforts significantly reduce plastic content in landfills and dump sites, effectively preventing plastic leaking into the environment.

The need for recognition

Yet, these workers are often overlooked and remain highly vulnerable in plastic value chains. They face risks such as increasing privatisation of waste management, waste-to-energy or incineration projects, and exclusion through other public policy interventions in plastic waste management in the norms of Extended Producer Responsibility (EPR).

The informal waste and recovery sector (IWRs) is more than a minor player in worldwide



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As an instrument to end plastic pollution, it needs to ensure social justice and equity principles for the informal recycling worker

municipal solid waste management systems. According to the UN-Habitat's Waste Wise Cities Tool (WaCT), the informal sector accounts for 80% of municipal solid waste recovery in many cities.

A recent study by UN-Habitat and the University of Leeds estimates that around 60 million tonnes of plastic from municipal solid waste pollute the environment, including waterbodies, due to inadequate collection services and mismanagement of solid waste. Without the IWRs, the volume would be higher. However, as highlighted in the recent Leave No One Behind Report, strategies to reduce plastic pollution often neglect to effectively involve the recovery capacities, skills, and knowledge of the IWRs. This oversight worsens livelihood vulnerabilities and undermines existing informal recovery systems.

Global treaty, need for a just transition

The Global Plastics Treaty is a significant attempt to establish a legally binding agreement aimed at reducing and eliminating plastic pollution. The decision to establish an Intergovernmental Negotiating Committee (INC) was made in early 2021 during the fifth UN Environment Assembly in Nairobi, Kenya. The INC's journey, beginning with an Ad Hoc Open-Ended Working Group meeting in Dakar, Senegal, in mid-2022, was followed by subsequent meetings in Uruguay, Paris, and Nairobi, with the fourth INC-4 in Canada in April this year. The final INC-5 meeting in South Korea will continue to see active participation from the International Alliance of Waste Pickers (IAWP).

The IAWP, a vocal participant in the UNEA Plastic Treaty process, emphasises the importance of supporting the formalisation and integration of informal waste pickers into discussions on addressing plastics. It also

advocates including waste pickers' perspectives and solutions at every stage of policy and law implementation.

These measures aim to acknowledge waste pickers' historical contributions, protect their rights, and promote effective and sustainable plastic waste management practices. There is no universally agreed-upon terminology for a just transition or a formal definition of the informal waste sector and its workforce. Clarifying these definitions is crucial.

India's voice is important

As a key representative from the Global South, India promotes an approach that enhances repair, reuse, refill, and recycling without necessarily eliminating the use of plastics altogether.

India has also stressed the importance of adopting country-specific circumstances and capacities. Hence, India's informal waste pickers, who are indispensable, remain central to the discussion.

We, therefore, need to rethink the formulation of our EPR norms and raise questions on how to integrate this informal worker cohort into the new legal framework.

As the final round of negotiations for the Global Plastics Treaty approaches the INC-5, a key question remains – on how a global instrument to end plastic pollution can enable a just transition for nearly 15 million people who informally collect and recover up to 58% of global recycled waste, thereby shaping a sustainable future. By incorporating their perspectives and ensuring their livelihoods are protected, the treaty can embody social justice and equity principles while leaving no one and no place behind.

The views expressed are personal

Points to Note
Global Plastic treaty
Role of Informal recycling workers
Regime " " " "
INC-5

❖ UPSC Syllabus-GS Paper 3 – Conservation, Environmental Pollution and Degradation, Environmental Impact Assessment.



Practice Question:

Q.3 Highlight the significance of the legally binding global plastic treaty? What are the roadblocks to the treaty? (150w/10m)

Context:

- ❖ There is another round of negotiations scheduled in Busan, South Korea this November for finalizing global plastic treaty.

What is the global distribution of plastic pollution?

- ❖ According to a report by the non-profit EA Earth Action, Brazil, China, India, and the US are responsible for 60% of plastic waste globally.

What is the Global Plastics Treaty and its objectives?

- ❖ **Description**—The Global Plastics Treaty is an ambitious initiative involving over 175 UN member nations aimed at eliminating plastics.
- ❖ **Objective**— By the end of 2024, the aim is to create a legal document setting out deadlines for countries to decrease plastic production, cut out unnecessary uses, prohibit specific chemicals, and set recycling goals.
- ❖ The fourth session of the Intergovernmental Negotiating Committee to develop an international legally binding instrument on plastic pollution, including in the marine environment (INC-4), opened in Canada's capital, Ottawa.

About Intergovernmental Negotiating Committee on Plastic Pollution:

- ❖ In March 2022, at the fifth session of the UN Environment Assembly, a historic resolution was adopted to develop an international legally binding instrument (ILBI) on plastic pollution, including in the marine environment.
- ❖ The resolution requested the Executive Director of the UN Environment Programme (UNEP) to convene an Intergovernmental Negotiating Committee (INC) to develop "the instrument," which is to be based on a comprehensive approach that addresses the full life cycle of plastic, including its production, design, and disposal.
- ❖ The objective of the global plastics treaty is to set a global framework of standards around accountability, responsibilities, financing, material/chemical standards, import/export restrictions, targets.
- ❖ From this global framework, countries will be tasked with implementing globally aligned policies that meet the targets set.
- ❖ An INC has been established, which will meet five times to develop the specific content of the new ILBI by the end of 2024.
- ❖ The INC began its work during the second half of 2022, with the ambition to complete the negotiations by the end of 2024.
- ❖ The first session of the INC (INC-1) took place in Punta del Este, Uruguay, from 28 November to 2 December 2022, followed by a second session (INC-2) from 29 May to 2 June 2023 in Paris, France, and a third session (INC-3) from 13 to 19 November 2023 in Nairobi, Kenya.



- ❖ INC-5, scheduled for 25 November to 1 December 2024 in Busan, Republic of Korea, is intended as the end of the INC process.
- ❖ It will be followed by a Diplomatic Conference where Heads of State will sign the agreement.

Why is a legally binding global plastic treaty required?

1. **Increase in plastic production**— Since the 1950s, global plastic production has increased a lot. It rose from 2 million tonnes in 1950 to over 450 million tonnes in 2019. If left unchecked, it's set to double by 2050 and triple by 2060.
 2. **Slow decomposition rate**— In a study published by The Lancet in 2023, it was found that nearly 6 billion tonnes of plastic currently pollute the planet. Only a small fraction of plastic has been recycled so far, and because it takes anywhere from 20 to 500 years to decompose, it poses a significant environmental challenge.
 3. **Impact of Plastic Pollution on Ecosystems and Health**— A lot of plastic waste ends up in rivers and oceans, breaking down into tiny particles called microplastics or nano plastics. These particles carry over 16,000 chemicals that can harm ecosystems and living things, including humans. These chemicals disrupt the body's hormones, leading to issues like cancer, diabetes, and reproductive disorders.
 4. **A Major Contributor to Climate Change**— Plastic production and disposal are adding to climate change. As per OECD report, in 2019, plastics produced 1.8 billion tonnes of greenhouse gas emissions, which is about 3.4% of global emissions. Around 90% of these emissions come from making plastic, which relies on fossil fuels.
- ❖ **Read more**- The UN Treaty on Plastic Pollution

What are the challenges before the adoption of a legally binding treaty?

1. **Resistance from oil producing countries**— Since the first talks in Uruguay in November 2022, oil-producing countries such as Saudi Arabia, Russia, and Iran have resisted putting caps on plastic production. They're using various delay tactics, like arguing over procedures, to disrupt productive discussions. They have also asked for narrowing the scope of the treaty.
2. **Polarizing negotiations**— There's a coalition of about 65 nations, called the "High-Ambition Coalition," aiming to address plastic production. This coalition, comprising African nations and most of the European Union, aims to eliminate plastic pollution by 2040 whereas certain oil producing countries do not endorse restrictions on plastic production. This leads to a lack of consensus on legally binding treaties.
3. **Opposition by Fossil fuel and chemical corporations**— The fossil fuel industry, which provides 99% of the materials for plastics, considers plastics crucial. They, along with the chemical industry, resist cutting plastic production, claiming that the problem lies in waste, not plastic itself. These corporations are trying to weaken the treaty and have sent many lobbyists to the Ottawa negotiations.

What are the steps taken by India to tackle plastic pollution?

- ❖ In 2022, India implemented the Plastic Waste Management Amendment Rules (2021), which banned 19 categories of "single use" plastics



What are the shortcomings of these initiatives?

1. This ban does not cover plastic bottles under 200 ml or multi-layered packaging boxes like milk cartons.
2. Enforcement of the ban on single-use plastic items varies across the country, with many outlets still selling these products.

Conclusion

- ❖ Shifting away from plastics needs big investments in alternative products and making them cheap. Just signing treaties won't tackle plastic pollution well without these investments and practical goals.

