

Prelim Bits 13-08-2019

Repo-linked deposit and lending rates

- Public Sector Banks have announced linking their lending and deposit rates to the RBI's repo rate for facilitating faster transmission.
- The RBI has been looking at various ways in which banks can be made to transmit repo rate cuts to depositors and borrowers.
- One such idea that banks have come up with is 'repo-linked deposit and lending rates'.
- Earlier SBI linked the interest rate on its savings bank accounts as well as short-term loans to RBI's repo rate.
- Curbing inflation or stimulating growth by raising or lowering the cost of money is the key objective of monetary policy.
- But hikes or reductions in the repo rate by RBI had only a marginal impact on the economy because of the partial transmission of these cuts by banks.
- The banks source only about 1% of their funds from RBI's repo window and the bulk from deposits from the public,
- So it becomes difficult for the banks to slash their lending rates unless their deposit rates moderate.
- Linking savings account interest rates to the repo rate partly solves this problem.
- It ensures that banks' cost of funds fall immediately after every repo rate cut, enabling lending rates to be pruned.
- Using an external benchmark like the repo rate makes the process more transparent to retail borrowers and depositors.
- On the flip side, both savings bank account and loan rates will swing with the repo rate.
- So both depositors and borrowers will need to brace for more volatile rates and keep a closer watch on MPC actions.
- However, Indian banks have currently linked only a part of their deposits and loans to the repo rate.
- SBI, for instance, applies it only to depositors who have a balance of over Rs 1 lakh in their savings accounts.
- This make up less than 10% of its deposit base. This is bound to lead to partial transmission.

Repo Rate

- It is the rate at which the RBI lends money to commercial banks.
- A repo rate cut allows banks to reduce interest rates for consumers on loans and lowers EMI on home loans, car loans and personal loans.

India's economic slowdown

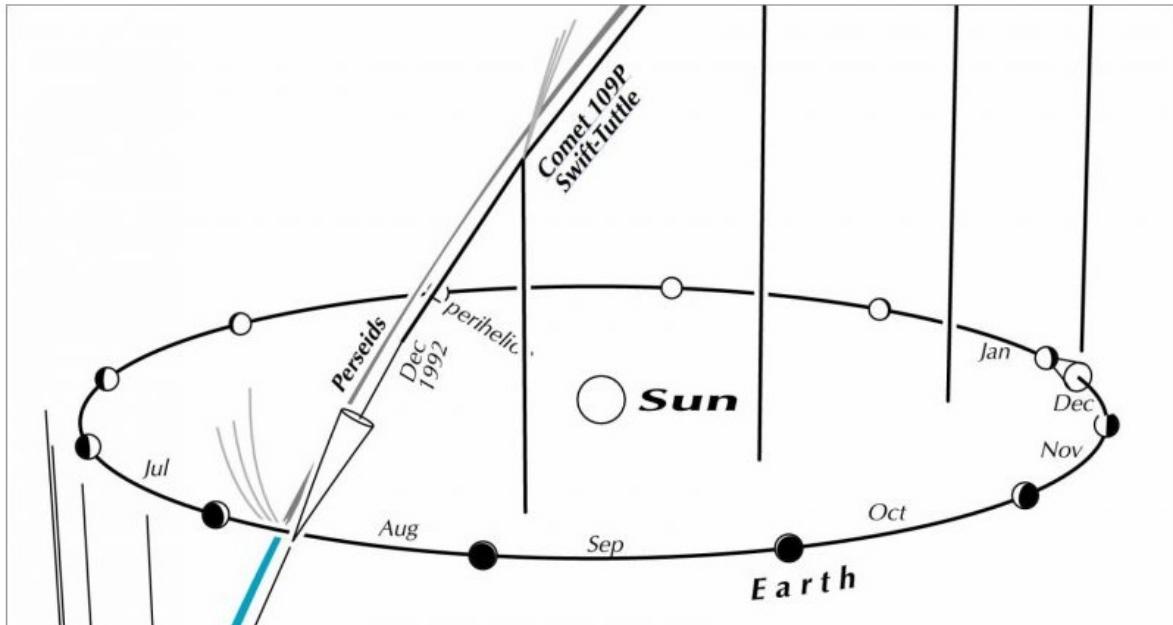
- Last week, RBI cut repo rates by 35 basis points, the sharpest cut in nine years.
 - There is growing concern about the slowdown in India's economic growth.
 - There are two components in a economic slowdown,
1. Structural or the permanent component - it is determined in the long term by factors like institutions, productivity, human capital etc.
 2. Cyclical or the temporary component - refers to short-term fluctuations.
 - The realisation that the economy is slowing down has come late.
 - The fiscal policy followed was pro-cyclical, which has only accentuated the problem.
 - In a cyclical downturn, it is the fiscal policy that should have been ahead, followed by the monetary policy.
 - But to such an extent the monetary policy appears to be fighting a lonely battle, neglecting fiscal policy.
 - Policy prescription to increase economic growth,
1. To increase household savings
 - The deposit rates are declining.
 - The banking system is actually recovering its losses at the cost of household savings.
 - The government could have come up with savings instruments (such as infrastructure bonds).
 2. Structural policy misstep to be addressed
 - The lowering of fiscal deficit in a cyclical slowdown would squeezes the economy further.
 3. Recapitalisation of public sector banks.

Perseid Meteor Shower

- The 'Perseids', are a prolific meteor shower which peak during mid-August, are considered the best meteor shower of the year.
- They are also known for their 'Fireballs' and also for their brightest Meteor Shower.
- Fireballs are larger explosions of light and color that can persist longer than

an average meteor streak.

- Meteors come from leftover comet particles and bits from broken asteroids.
- When comets come around the sun, they leave a dusty trail behind them.
- Every year, from around July 17 to August 24, Earth crosses the orbital path of Comet Swift-Tuttle, the parent of the Perseid meteor shower.



The Perseids happen every year. Their parent comet – Swift-Tuttle – takes about 130 years to orbit the sun once. It last rounded the sun in the early 1990s and is now far away. But we see the Perseids each year, when Earth intersects the comet's orbit, and debris left behind by Swift-Tuttle enters our atmosphere. Chart via [Guy Ottewell](#).

- Debris from this comet litters the comet's orbit.
- The bits and pieces from Comet Swift-Tuttle slam into the Earth's upper atmosphere at some 210,000 km/hour, lighting up the nighttime with fast-moving Perseid meteors.
- The Perseids currently visible in the night sky are not due to the debris left behind by the comet Swift-Tuttle during its most recent pass, which happened in 1992.
- This particular comet goes around the Sun once in 133 years.
- The meteors now visible were left behind by the pass before the last one or perhaps even earlier.

Increase of harmful Mercury level in fish

- A new study finds that Climate change is causing an increase of harmful mercury in fish.
- Climate change and over-fishing are leading to a shift in dietary patterns, pushing up the amount of toxic mercury in certain fish population.
- The Methylmercury concentrations in Atlantic cod increased by some 23% over the three decades.
- The coal power plants are the largest single manmade source of mercury

pollutants.

- The carbon we release into the atmosphere has a direct correlation to the toxins that end up in our food supply.
- According to the study, a combination of 3 factors,
 1. 20 % reduction in methyl mercury concentration in seawater,
 2. 1 degree Celsius increase in ocean temperature and
 3. Changes in diet, can either increase or decrease the amount of methyl mercury present in fish.
- Global warming rises the seawater temperatures which makes fish need more energy to swim.
- So the fish begin to gobble up prey at a more voracious pace, result is a greater concentration of mercury in their tissue.
- The 'Minamata Convention' of Mercury put a ban on new mercury mines, phase-out of existing ones and strict control measures on atmospheric emission.
- There is a global efforts to reduce mercury levels in fish and other marine animals through various environmental regulations.

Source: PIB, The Indian Express

