

**1. Do a brief critical evaluation of RBI's monetary policy during the pandemic.**

**Approach-**

Candidates need to write about the important role of RBI during pandemic. Then simply critically evaluate the monetary policy.

**Introduction-**

Monetary policy refers to the policy of the central bank – ie Reserve Bank of India – in matters of interest rates, money supply and availability of credit. RBI uses various monetary instruments like REPO rate, Reverse RERO rate, SLR, CRR etc to achieve its purpose.

**Body**

- As the monetary authority, the Monetary Policy Committee (MPC) laid a triple objective of mitigating negative effects of the virus, reviving growth and preserving financial stability.
- To ease economic hardship while keeping inflation in check, the RBI slashed interest rates keeping the policy repo rate at a low of 4%.
- The cash reserve ratio (CRR) was lowered, which provided additional liquidity to help aid banking system.
- The goal was to ensure that no part of the financial system faced liquidity concerns or credit constraints.
- To ensure that governments did not have to cut their spending due to shortfalls in revenue, RBI needed to enable both central and state government to borrow adequately in debt markets.
- RBI purchased about 30% of central government's net market borrowings in FY 2021 and has committed to continue to purchase substantial amounts in FY 2022 through the G-sec Acquisition Programme.

Critical evaluation of Monetary policy functions of RBI:

- Supply chain disruptions: The MPC uses CPI inflation to adjust its policy rates. However, the CPI doesn't factor the rise in inflation driven by supply-chain dislocations. For example, restriction on movement resulted into a shortage of essentials.
- Informal Indian economy: The monetary policy affects only around 60% of loans/credit in the Indian economy which are sourced from formal channels (Banks and NBFCs).
- Weak policy transmission: Both the government and the RBI are concerned that the cumulative easing has not yet been reflected in the lowering of their lending rates by banks.
- Limitation of Inflation targeting: Inflation has been accompanied by declining borrowing in the formal sector likely affecting investment leading to rise in

unemployment (according to NSSO, unemployment in India has been highest in the last 45 years).

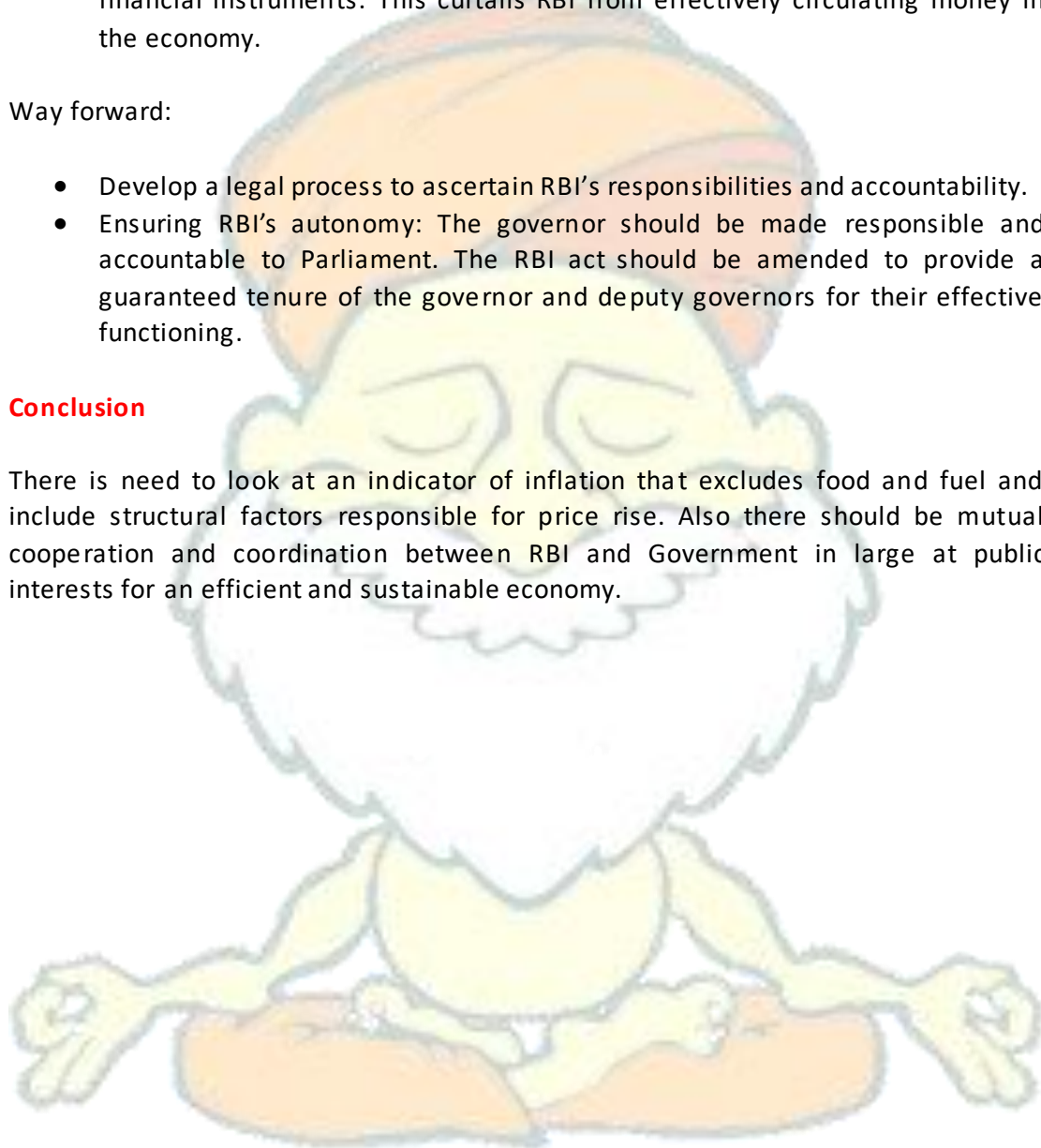
- Triangular balance-sheet: In the aftermath of the IL&FS default in 2018, an additional dimension of liquidity and solvency of the NBFC sector has been added to the prevailing twin balance-sheet problem. Borrowing easy money cannot solve governance issues.
- Gold economy: The Indian household saves in gold/jewelry rather than financial instruments. This curtails RBI from effectively circulating money in the economy.

Way forward:

- Develop a legal process to ascertain RBI's responsibilities and accountability.
- Ensuring RBI's autonomy: The governor should be made responsible and accountable to Parliament. The RBI act should be amended to provide a guaranteed tenure of the governor and deputy governors for their effective functioning.

### Conclusion

There is need to look at an indicator of inflation that excludes food and fuel and include structural factors responsible for price rise. Also there should be mutual cooperation and coordination between RBI and Government in large at public interests for an efficient and sustainable economy.



**2. The formal sector alone can't meet the demand for employment. Do you agree? What are the challenges with the informal economy when it comes to employment generation?**

**Approach**

Students are expected to write about the background of Indian workforce in introduction. Highlight how formal sector is driver the growth but it will be informal sector to spur Indian growth. Write challenges of informal economy for creation of employment.

**Introduction**

In developing countries like India, as per ILO large share of the population typically depends upon the informal economy. The economic growth and development in general and livelihood and wages in particular of the vast majority of workers in India crucially depend on the economic viability of the informal sectors.

**Body**

- Formal sector are likely to be an important near term driver of growth. India's global market share of services has continued to rise, revealing a growing comparative advantage.
- With the pandemic likely to provide a renewed thrust to off-shoring of formal sector in India must stand ready to grab the opportunity, from both a regulatory and supply perspective.
- According to Periodic Labour Force Survey – Over 90 percent of workers in India are informal workers. Therefore informal sector will be vital to India's growth prospects over the next decade.
- It is time to use the opportunity that the informal sector provides to strengthen and support it. This is not only essential for economic growth but the only way for growth with jobs.

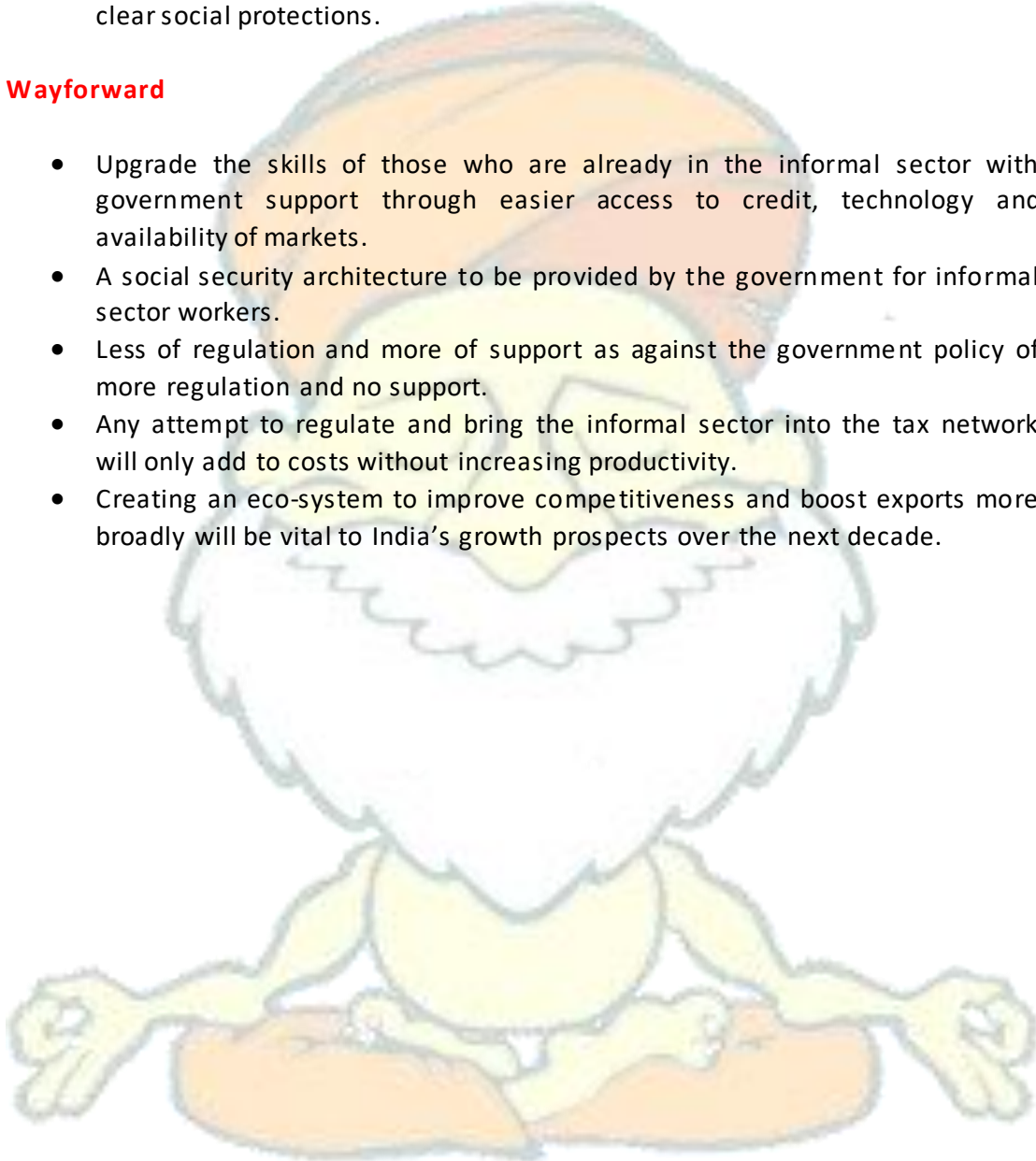
Challenges in the Informal Economy for generation of employment:

- **Issues of Exclusion:** While on paper, the draft rules envisage wider coverage through the inclusion of informal sector and gig workers, at present the draft rules apply to manufacturing firms with over 299 workers. This leaves 71 per cent of manufacturing companies out of its purview.
- **Burden of Administrative Processes:** The draft rules mandate the registration of all workers (with Aadhaar cards) on the Shram Suvidha Portal to be able to receive any form of social security benefit. Failure to register (Aadhar –driven exclusion or lack of adequate knowledge about process) will make them ineligible for the benefits. Also, migrant workers face the challenge of mandatory updating information on the online portal at regular intervals.

- Ambiguity on applicability of benefits: It is unclear if a migrant worker with an Aadhaar card registered in her/his home state of Bihar be eligible for social security benefits in Gujarat where she/he is currently employed.
- No-Right Based Framework: The Code does not emphasize social security as a right, nor does it make reference to its provision as stipulated by the Constitution. In addition, it does not stipulate any appropriate grievance redressal mechanism which will leave millions of workers vulnerable without clear social protections.

### Wayforward

- Upgrade the skills of those who are already in the informal sector with government support through easier access to credit, technology and availability of markets.
- A social security architecture to be provided by the government for informal sector workers.
- Less of regulation and more of support as against the government policy of more regulation and no support.
- Any attempt to regulate and bring the informal sector into the tax network will only add to costs without increasing productivity.
- Creating an eco-system to improve competitiveness and boost exports more broadly will be vital to India's growth prospects over the next decade.





**3. How do household savings benefit the economy? Explain. What measures can be taken to promote savings? Discuss.**

**Approach-**

Candidates need to critically comment about how do household savings benefit the economy. The candidate needs to mention the measures that can be taken to promote savings.

**Introduction:**

In economics, household savings refer to money left after the household pays taxes and spends on the consumption of goods and services. It is vital for the economy's long-term growth as it is the primary source of domestic loanable funds, besides savings from business and public sectors.

**How do household savings benefit the economy?**

- Household savings are a supply source of domestic funds for capital investment. Households save their money into various types of assets, such as deposits, stocks, and bonds.
- An increase in household consumption drives up aggregate demand stimulates a growing real GDP. Savings also become a pillow when times are hard.
- In return, they receive interest income, dividends, or capital gains. On the other side, to increase production, the companies require money to purchase new equipment and other capital assets.
- They then raise funds, for instance, by issuing bonds. Supply-demand of the money takes place in the financial market.
- By saving, households sacrifice current consumption for future consumption.
- For this reason, saving allows households to support their well-being.
- As the household invests in the corporate bonds, money flowing to the business sector.
- Now, with money, companies can invest and increase their productive capacity.
- Investment in capital assets is essential for economic growth.
- It is a key driver in increasing the productive capacity of the economy. Higher production capacity leads the economy to produce more goods and services, without causing inflationary pressures.
- In the capital markets, the money moves from household sectors to the business sector, for instance, through investing it into corporate debts or stocks. Companies can use it to funds capital investment. For this reason, household savings are essential to increase the productive capacity of business sectors.

- Savings also allow households to accumulate wealth. In addition to income, wealth is a crucial determinant for consumption.

#### Measures That Can Be Taken to Promote Savings

- **Minimizing Fixed Expenses:** Many people get locked into their lifestyle due to long-term contracts and debt. The more of this you can avoid and eliminate, the easier it is to change your budget each month in response to changes in income.
- **Track Your Savings Rate:** everyone should calculate it at least once a year. The mere act of doing so will subconsciously cause you to increase it.
- **Watch the Credit Cards:** You may be amazed at how much less you spend when you have to hand over cold, hard cash, not to mention take the time to go get it. This effect is likely higher than any 1-5% rewards you may be getting back for using the card.
- **Minimize Taxes by Maximizing Tax-Deferred Retirement Accounts:** One of the best ways to increase that savings rate is to use tax-deferred retirement accounts

#### Conclusion:

The savings rate shows how much households save their income rather than being consumed for goods and services. Hence On both personal and a national-level, maintaining a solid household savings rate is one of the best cures for economic woes.

