India's urban population to stand at 675 mn in 2035, behind China: UN

(GS Paper 1, Urbanisation)

Why in news?

- Recently, the United Nations-Habitat's World Cities Report 2022, was released.
- It said that rapid urbanisation was only temporarily delayed by the COVID-19 pandemic.
- The global urban population is back on track to grow by another 2.2 billion people by 2050.

Findings on India:

- India's urban population is projected to be 675 million in 2035, growing from 483 million in 2020 to 543 million in 2025 and 607 million in 2030.
- By 2035, the percentage of population in India at mid-year residing in urban area will be 43.2 per cent.

Influence of China & India:

- China's urban population in 2035 is projected at 1.05 billion while the urban population in Asia will be 2.99 billion in 2035 and that in South Asia 987,592,000.
- The report said that very big economies like China and India have a large share of the world's population and their development trajectories have greatly influenced global inequality.
- In Asia, in the last two decades, China and India experienced rapid economic growth and urbanisation, which led to a massive reduction in the number of people living in poverty.

Growing urban population:

- The report said that with existing urban populations continuing to grow naturally through rising birth rates, particularly in lower income countries, the **urban population is forecast to grow from 56 per cent of the global total in 2021 to 68 per cent by 2050.**
- The large-scale flight from major cities in the early stages of the COVID-19 pandemic to the perceived safety of the countryside or smaller towns was a short-term response that will not alter the course of global urbanisation.
- Despite greater incidence of the virus in urban areas and the economic difficulties created by the pandemic, cities are once again serving as beacons of opportunity to people in search of employment, education and training or taking refuge from conflict.

Numerous challenges:
- The **urban poverty and inequality** remain one of the most intractable and highly complex problems confronting cities.
- The notoriously **overcrowded slums in Mumbai, India; Nairobi and Rio de Janeiro**; **chronic homelessness in London**; and **persistent concentrated poverty in Baltimore**, US, all send one clear message to policymakers: tackling urban poverty and inequality is one of the key priorities for building inclusive and equitable urban futures.
- The **challenge of climate change**, in cities, e**specially those in warm climates or low-lying coastal areas,** face existential threats due to the risks and impacts of climate change and extreme weather events such **as increased heatwaves in Delhi**, India, and the pervasive flooding in Jakarta, Indonesia, and Durban, South Africa.

Air Pollution:
- Further, in response to the pandemic, many governments worldwide imposed lockdowns and mobility restrictions, the result of which were major improvements in air and water quality.
- Many cities around the world, especially those in developing countries such as China and India, reported unprecedented reductions in the level of airborne pollutants such as PM2.5, PM10, CO_2, NO_2 and SO_2.
- Declines were significant in cities that imposed lockdowns given the **dominance of road transportation and associated emissions in urban areas.**

Transportation:
- Highlighting the implications of transportation trends during the COVID-19 pandemic, it said that in some countries like India, **car dependency increased since the emergence of COVID-19**, and people formerly interested in active and public transportation shifted towards private cars.
- These trends show that in the **absence of safe, affordable and reliable public transportation systems**, the future of urban mobility could continue to be dominated by private motorised vehicles.
- If this scenario emerges, it will have major implications for climate change mitigation and could exacerbate already challenging issues such as air pollution, congestion, and road safety.

Equitable representation of women:
- The future of effective multilevel governance must be attentive to the equitable representation of women.
- The most progressive forms of empowerment of women often come from civil society, such as the **self-help organisation Kudumbashree,** which has over 4 million female members and played an instrumental role in removing absolute poverty from the state of Kerala, India.

Informal settlements:
- The urban extension has surpassed urban population growth globally and, due to that expansion, many cities have grown beyond the boundaries of their central municipality.
- Informal settlements on the edge of urban jurisdictions are vulnerable to eviction due to unclear regulatory frameworks, as was demonstrated by a recent large-scale eviction in India.

Smart Cities:
- The smart city has become a globally popular catchphrase and major policy paradigm for technology-driven urban innovation and development.
- Many municipal administrations choose to adopt a smart city agenda, to provide strategic and programmatic direction for urban development.

- They are often encouraged by national governments that use competitions to entice cities to invest in smart city programmes, as illustrated by India's 100 Smart Cities Mission and the Republic of Korea's Smart Challenge.

A road safety quartet and the road ahead

(GS Paper 2, Governance)

Why in news?

- The United Nations is holding a high-level meeting on Global Road Safety to review the progress and challenges.

India & SDG 3.6:

- In spite of several years of policymaking to improve road safety, India remains among the worst-performing countries in this area with a toll of 1,47,913 lives lost to road traffic accidents in **2017 as per Ministry of Road Transport and Highways statistics.**
- The **National Crime Records Bureau (NCRB)** figure for the same year is 1,50,093 road accident deaths.
- The persistently **high annual death toll** brings into question the **country's ability to meet Sustainable Development Goal (SDG) 3.6,** which aims to halve the fatalities and injuries from road traffic accidents by 2030.

What are the new findings on road safety?

- A new analytical series on road safety worldwide, proposes that **India and other countries could cut accident-related deaths by 25 to 40%** based on evidence that **preventive interventions** produce good outcomes when applied to **four well-known risk factors — high speed, driving under the influence of alcohol**, **not using proper helmets**, **not wearing seat-belts** and **not using child restraints**.
- Globally, **Low and Middle Income Countries (LMIC) bear the maximum burden of road fatalities** and injuries, with high economic costs, an average of three to five per cent of GDP suffered by these countries in 2014.

Loopholes in implementation of Motor Vehicles Act 2019:

- India amended its law on motor vehicles in 2019, but its implementation by State governments is not uniform or complete.

- A National Road Safety Board was constituted under the Motor Vehicles Act, with advisory powers to reform safety.
- The focus of State governments, however, remains conventional, with an emphasis on user behaviour (drivers and other road users), education and uneven enforcement.
- **Low emphasis is placed on structural change** such as raising engineering standards for roads, signages, signals, training for scientific accident investigation, raising policing skills and fixing responsibility on government departments for design, creation and maintenance of road infrastructure.

How can four factors improve safety outcomes?

- The authors used common predictors for individual countries, such as **GDP per capita, population density, and governmental effectiveness** measured through the Worldwide Governance Indicators, and built a statistical estimate of how interventions on the identified risk factors would influence injuries and death.
- Using the Global Burden of Disease data, a **statistical model was constructed** to estimate the number of lives that could be saved with interventions in the respective areas for each country.

Suggestions for India:

- An average of 20,554 lives could have been saved in India with a reduction in speeds, 5,683 with helmet interventions and 3,204 with seatbelts.
- The savings for curbs on driving under the influence of alcohol were not quantified because the country does not report the percentage of such fatalities.

Trauma care facilities:

- In addition, the study also calculates that 17% of road traffic injury-related deaths in LMICs could be avoided if **trauma care facilities improved**. This is significant as several accidents take place in rural areas on highways, and victims are taken to poorly-equipped district hospitals or medical college hospitals.
- While positive user behaviour could save thousands of lives, the structural problems linked to unplanned motorisation and urbanisation remain.

Better engineering and enforcement:

- In India, **speedy highway construction without reconciling fast and slow-moving traffic,** presence of ramshackle vehicles, rampant wrong-side driving, absence of adequate police forces to monitor vehicles and curb drunk driving, and poor trauma care in non-urban centres contribute to high death and disability rates.
- According to the Transport Ministry, more than 65% of those killed in road accidents in 2019 were in rural areas. Yet, the substantial death toll in densely populated urban centres indicates that better engineering and enforcement can easily cut fatalities in the current decade, in the run up to the SDG goal year of 2030.
- This would be in consonance with the World Health Organization's (WHO) decade of action on road safety, recognising it as a major public health issue, launched in 2021.

What can be done to cut death and injury rates?

- The ambitious amendments to the Motor Vehicles Act in 2019 (MV Act) have not yielded significant results, although the restrictions on vehicular movement for COVID-19 temporarily slowed the rising graph of fatalities and injuries.

Sundar Committee:

- Major interventions in India, first suggested by the **Sundar Committee (2007)** and ordered by the Supreme Court in ***S. Rajasekaran vs Union of India*** have not made a dent in the problem. The measures include setting up of an apex national body for road safety, and fixing decentralised responsibility at the district level.
- The Sundar Committee pointed out that **India lacked a technically competent investigation arm** that could determine the cause of accidents; **the National Road Safety Board Rules, 2021,** provide for the formation of technical working groups covering, among other things, crash investigation and forensics.
- There is little clarity on whether the States have formed such units to aid traffic investigation, or whether the insurance industry has pressed for these to accurately determine fault. In the absence of scientific investigation, perceptions usually guide the fixing of liability.

- The MV Act stipulates only a fine up to one lakh for failure to follow norms and stipulations by the designated authority, contractor, consultant or concessionaire, leading to death or disability, and there is little evidence that even this has been enforced after a public inquiry.

Way Forward:

- The legislation without enforcement ends in failure. Moreover, while proven interventions are proposed by WHO, absorptive capacities vary in LMICs.
- This is evident even in fast-growing India, since no single department bears responsibility to make roads safe.
- In the short term, slowing down traffic, particularly near habitations, segregating slower vehicles, enforcing seat belt and helmet use and cracking down on drunken drivers could produce measurable gains.

The free fall of the rupee

(GS Paper 3, Indian Economy)

Context:

- The Indian rupee hit an all-time low against the U.S. dollar recently weakening past the 79 rupees to a dollar mark and selling as low as 79.05 against the dollar. Many analysts expect the rupee to weaken further in the coming months and move past the 80 rupees to a dollar mark.
- In fact, the **International Monetary Fund (IMF) expects the rupee to weaken past the 94 rupees to a dollar mark by FY29.**

What is happening with the rupee?

- The Indian rupee has been witnessing a **steady decline in 2022**, losing more than 6% against the U.S. dollar since the beginning of 2022.
- **India's forex reserves have also dropped below $600 billion**, plunging by more than $50 billion since September 3, 2021, when forex reserves stood at an all-time high of $642 billion.

RBI intervention:

- The drop in India's forex reserves is believed to be largely due to steps taken by the Reserve Bank of India to support the rupee.

- The drop in forex reserves is due to a fall in the dollar value of assets held as reserves by the RBI. For instance, if a portion of the reserves are in euros and the euro depreciates against the dollar, this would cause a drop in the value of forex reserves.
- As a matter of policy, the Indian central bank has usually tried to slow down or smoothen, rather than reverse or prevent, the fall in exchange value of the rupee against the U.S. dollar.
- The **aim of the RBI's policy is to allow the rupee to find its natural value in the market** but without undue volatility or causing unnecessary panic among investors. State-run banks are usually instructed by the RBI to sell dollars in order to offer some support to the rupee.
- By thus selling dollars in the open market in exchange for rupees, the RBI can improve demand for the rupee and cushion its fall.

What determines the rupee's value?

- The **value of any currency is determined by demand for the currency as well as its supply**. When the supply of a currency increases, its value drops. On the other hand, when the demand for a currency increases, its value rises.
- In the wider economy, **central banks determine the supply of currencies**, while the demand for currencies depends on the amount of goods and services produced in the economy.
- **In the forex market, the supply of rupees is determined by the demand for imports** and various foreign assets. So, if there is high demand to import oil, it can lead to an increase in the supply of rupees in the forex market and cause the rupee's value to drop.
- The demand for rupees in the forex market, on the other hand, depends on foreign demand for Indian exports and other domestic assets.
- So, for instance, when there is great enthusiasm among foreign investors to invest in India, it can lead to an increase in the supply of dollars in the forex market which in turn causes the rupee's value to rise against the dollar.

What is causing the rupee to lose value against the dollar?

- Since March 2022, the U.S. Federal Reserve has been raising its benchmark interest rate causing investors seeking higher returns to pull capital away from emerging markets such as India and back into the U.S. This, in turn, has put pressure on emerging market currencies which have depreciated significantly against the U.S. dollar so far this year.
- Even **developed market currencies such as the euro and the yen have depreciated** against the dollar and the dollar index is up more than 9% so far this year.
- In fact, some analysts believe that the **RBI's surprise decision to raise rates** in May could have simply been **to defend the rupee by preventing any rapid outflow of capital** from India.
- In 2013, the rupee fell 15% against the dollar in about three months after investors were spooked by the US Federal Reserve's decision to trim down its bond purchase program that had helped keep long-term interest rates low.

India's current account deficit:

- Moreover, **India's current account deficit**, which measures the gap between the value of imports and exports of goods and services, is **expected to hit a 10-year high of 3.3% of gross domestic product** in the current financial year.
- This means that **India's import demand amid rising global oil prices is likely to negatively affect the rupee** unless foreign investors pour sufficient capital into the country to fund the deficit.
- But foreign investors are unlikely to plough capital into India when investment yields are rising in the U.S. Yields on U.S. 10-year Treasuries, for instance, have risen from around 0.5% in mid-2020 to over 3% now.

Higher inflation in India:

- The rupee, has consistently lost value against the U.S. dollar for several decades now. A major reason for this has been **consistently higher domestic price inflation in India**.
- Higher inflation in India suggests that the RBI has been creating rupees at a faster rate than the U.S. Federal Reserve has been creating dollars.

- So, while capital and trade flows gain a lot of attention in discussions on the rupee's value, the difference in the rates at which the U.S. Federal Reserve and the RBI regulate the supply of their currencies may play a much larger role in determining the value of the rupee in the long run.

What lies ahead?

- Analysts believe that, over the long run, the rupee is likely to continue to depreciate against the dollar given the significant differences in long-run inflation between India and the U.S.
- At the moment, as the U.S. Federal Reserve raises rates to tackle historically high inflation in the country, other countries and emerging markets in particular will be forced to raise their own interest rates to avoid disruptive capital outflows and to protect their currencies. It should be noted that inflation in the U.S. hit a 41-year high of 8.6%.
- The RBI too has been trying to rein in domestic consumer price inflation, which hit a 95-month high of 7.8% in April, by raising rates and tightening liquidity. As interest rates rise across the globe, the threat of a global recession also rises as economies readjust to tighter monetary conditions.

Govt keeps interest rates on small savings schemes unchanged for Q2FY23

(GS Paper 3, Indian Economy)

Why in news?

- The government kept interest rates unchanged on small savings schemes, including NSC and PPF, for the second quarter of 2022-23 amid high inflation and rising interest rate.
- The interest rate on small savings schemes has not been revised since the first quarter of 2020-21.

Interest of small investors:

- It comes as a setback for small investors.
- At a time inflation is ruling over 7% and bond yields have risen over 7.4%, not only will the decision result in negative real rate of return for savers and pensioners, but the status quo is also likely to prompt banks to go slow in hiking deposit rates.

Are the rates attractive?

- Considering that retail inflation hit 7.97% in April and 7.04% in May, the existing rates on small savings schemes might have disappointed savers even though these are higher than banks' fixed deposit rates. The **RBI expects retail inflation to be above the upper tolerance level of 6%** until the end of 2022.
- The schemes like **Public Provident Fund (PPF) and the National Savings Certificate (NSC)** will continue to carry an annual interest rate of 7.1% and 6.8%, respectively, in the first quarter of the next fiscal.
- Barring PPF and Sukanya Samriddhi Yojana, all other small saving instruments are currently fetching negative real returns amid high inflation.

What does it mean for banks and savers?

- Banks are now unlikely to go for a major hike in deposit rates. Had the government hiked small savings rates, they would have been forced to go for a steeper hike in deposit rates to prevent money flow from banks to small savings schemes.
- Further, when stock markets boomed in 2021 after the crash of March-April 2020, investors pumped a record amount of money into stocks and mutual funds.
- Now with markets showing huge volatility in the wake of rising rates and foreign portfolio outflows, savers are looking at bank deposits and small savings. Much will now depend on the quantum of the rate hike that the RBI will announce in the coming months.

What have been the recent trends in interest rates?

- **Small savings rates are linked to yields on benchmark government bonds**, but despite the upward movement in G-Sec (government securities) yields, the government has not increased interest rates.
- The RBI has also raised the repo rate by 90 basis points to 4.90 % during the April-June quarter.
- The interest rates on small savings were slashed by 40-110 basis points for the first quarter of 2021-22 but the decision was later rolled back.

What has been the impact of negative returns?

- While inflation is now over 7%, the one-year bank fixed deposit rate is now 5.3% (SBI). It means **depositors are losing money after adjusting for inflation**. There aren't many options for savers and depositors. Markets are risky and volatile. They can't play around with retirement money.
- On top of this, the country lacks a proper social security system, although government and semi-government employees get pension after retirement.
- Technically, negative real rates discourage savings and boost consumption. This, in turn, may fuel more inflation and lead to even more negative real rates. Keeping interest rates too low for too long can have negative consequences.

How have banks responded?

- After the RBI hiked the repo rate since May, banks have started raising deposit rates.
- Earlier, SBI raised rates by 15 to 20 basis points on some retail domestic term deposits below Rs 2 crore. The rates for senior citizens are higher by 50 basis points for these tenures. Other banks have also increased rates.
- The hike in bank deposit rate will also depend on the credit demand, which has now started showing signs of growth.
- The banking system has been sustaining a liquidity surplus since June 2019 on account of build-up deposits due to higher growth in bank deposits versus the credit disbursement, except for the last couple of fortnights.
- However, if small savings rate are not raised, banks would not be forced to raise rates, unless they need to mobilise funds for credit demand. Had the government raised small savings rates, banks would have been forced to raise fixed deposit rates.

What can investors do?

- While one can strategise to invest in a good debt product yielding better returns, experts say equities are the best option for beating inflation and generating positive real rate of return.
- While small saving instruments are offering lower rates than 10-year G-Sec yields, trading at around 7.4%, financial advisors say individuals in the highest tax bracket can go for high-rated debt papers and invest in debt mutual funds that are also more tax-efficient.