

INTERESTING BUT RISKY
RBI's diktat to banks could spur borrowing but may pressure lenders' margins

The Reserve Bank of India (RBI) has finally decided that it needs to address the problem of inadequate interest rate transmission head on. In a circular to banks on Wednesday, it directed lenders to link all new floating rate loans given to borrowers in the personal, retail and micro, small and medium enterprise (MSME) categories to external benchmarks, including the repo rate, with effect from October 1. While giving banks the relative freedom to choose the specific external benchmark, including yields on the 3-month and 6-month Treasury Bills published by the Financial Benchmarks India Pvt. Ltd., the central bank made it clear that lenders would need to adopt a uniform benchmark within a loan category. Banks have also, crucially, been given the leeway to determine their spread over the benchmark rate with a caveat that changes to the credit risk premium can only be made when the borrower's credit assessment undergoes a substantial change. That the inadequate transmission of policy rate moves has been an abiding conundrum for the RBI is well known. In 2015, then Governor Raghuram Rajan decided that the system used by banks to price their loans needed to be changed and so introduced the Marginal Cost of Funds based Lending Rate (MCLR) regime. In October 2017, an internal study group of the RBI recommended the adoption of external benchmarks to ensure effective policy transmission, after observing that the MCLR too had failed to deliver.

Policymakers, in fact, have been so vexed with poor transmission — against a total of 75 basis points (bps) reduction in the RBI's repo rate between February and June, the weighted average lending rate on fresh rupee loans at banks eased only by 29 bps — that Monetary Policy Committee member Chetan Ghate in August cited the issue as reason to oppose the proposed 35-bps cut and instead voted for a 25-bps reduction. "By a large cut (35 bps) I feel we will be burning through monetary policy space without much to show for it. While the real economy needs some support, we should wait for more transmission to happen," he said at the MPC's rate setting meeting, the minutes show. Though the latest move will surely lower the interest cost on new floating rate loans availed by borrowers to buy cars or homes, it may force banks to start cutting the interest rate they pay deposit holders or risk seeing their margins shrink. And while the RBI wants to try and nudge an uptick in credit for beleaguered personal consumption and borrowing by beleaguered MSMEs, the success of the measure will ultimately be determined by a regaining of confidence by consumers to spend and a conviction by industry to invest.

| <u>Words</u> | <u>Kind</u> | <u>Meaning</u> |
|---------------------|--------------------|---|
| Diktat | Noun | Decree, order, injunction, inductment |
| Spur | | Stimulus, incentive, encouragement, stimulant |
| Inadequate | Adj. | Insufficient, not enough, deficient, scarce |

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|--------------|------|---|
| Transmission | Noun | Transference, transferral, conveyance |
| Head on | | Collision, blow, dump, dull, concussion |
| Floating | Adj. | Buoyant, afloat, drifting, suspended, unsettled |
| Yield | Noun | Production, producing |
| Adopt | Verb | Embrace, take on, acquire, espouse, assume |
| Leeway | Noun | Freedom, elbowroom, latitude |
| Determine | Verb | Control, decide, regulate, direct, dictate |
| Caveat | Noun | Warring, caution, admonition, monition |
| Assessment | Noun | Evaluation, judgement, gauging, estimation |
| Substance | Adj. | Considerable, real, material, significant |
| Abiding | Adj. | Enduring, lasting, persisting, long lasting |
| Conundrum | Noun | Problem, difficulty, quandary, dilemma |
| Regime | Noun | System, arrangement, scheme, code |
| Effective | Adj. | Effectual, efficacious, productive, potent |
| Vex | Verb | Annoy, irritate, infuriate, incense, enrage |
| Ease | Verb | Relieve, alleviate, mitigate, assuage, alloy |
| Oppose | Verb | Combat, battle, confront, cross, fight |
| Shrink | Verb | Contract, diminish, lessen, dwindle, decline |
| Nudge | Verb | Poke, dig, prod, push |
| Consumption | Noun | Using up, use, utilization, expending |
| Beleaguer | Verb | Besieged, blockaded, surround, encircle |
| Confidence | Noun | Trust, belief, faith, credence, conviction |
| Conviction | Noun | Belie, trust, faith, tenet, persuasions |

A WEAK CHASE

Controlling the hepatitis B virus calls for universal vaccination of newborns

On September 3, Bangladesh, Bhutan, Nepal and Thailand became the first four countries in the World Health Organization's southeast Asia region to have successfully controlled hepatitis B. The virus is said to be controlled when the disease prevalence is reduced to less than 1% among children less than five years of age. Despite the introduction of hepatitis B vaccine in the Universal Immunisation Programme in 2002 and scaling-up nationwide in 2011, about one million people in India become chronically infected with the virus every year. According to the Health Ministry, as on February 2019, an estimated 40 million people in India were infected. Hepatitis B infection at a young age turns chronic, causing over 1,00,000 premature deaths annually from liver cirrhosis or liver cancer. A study

published in 2013 found lower coverage of hepatitis B vaccine in eight of the 10 districts surveyed. But the coverage has witnessed an increase with the introduction of a pentavalent vaccine on a pilot basis in Kerala and Tamil Nadu in December 2011 and national roll-out in 2014-2015. According to the WHO, the coverage of hepatitis B third dose had reached 86% in 2015. However, despite the high vaccination coverage, disease prevalence in children aged less than five years has not dropped below 1%. One of the reasons for this is the sub-optimal coverage of birth dose in all infants within 24 hours of birth.

Hepatitis B birth dose, given in the first 24 hours, helps prevent vertical transmission from the mother to child. The compulsion to increase birth dose to cut vertical transmission arises from two important reasons — about 70-90% newborns infected this way become chronic carriers of hepatitis B, and about 20-30% carriers in India are due to vertical transmission. But even seven years after the Health Ministry approved the birth dose in 2008, its coverage remained low — 45% in 2015 and 60% in 2016 — according to a 2019 Health Ministry report. What is indeed puzzling is that even in the case of institutional delivery, the birth dose vaccine coverage is low — 76.36% in 2017. Incidentally, institutional delivery accounts for about 80% of all deliveries in the country. The birth dose coverage when delivery takes place outside health-care institutions is not known. One of the reasons for the low coverage is the fear of wastage of vaccine when a 10-dose vial is used. Unfortunately, health-care workers are very often unaware of the WHO recommendation that allows hepatitis B open-vial policy. Opened vials of hepatitis B vaccine can be kept for a maximum duration of 28 days for use in other children if the vaccine meets certain conditions. There is also a need to increase public awareness about the merits of the birth dose.

| <u>Words</u> | <u>Kind</u> | <u>Meaning</u> |
|--------------|-------------|---|
| Prevent | Adj. | Wide spread, prevailing, frequent, pervasive |
| Immunisation | Noun | Inoculation, sensitication, vaccination |
| Scale up | | Increase, augment, boost, proliferate |
| Chronic | Adj. | Persistent, long standing, prolonged, constantly, recurring |
| Estimate | Verb | Calculate, approximate, evaluate, reckon |
| Survey | Verb | Look at, look over, observe, view, contemplate |
| Witness | Verb | See, observe, view, note |
| Pentavalent | Adj. | Having a valency of five |
| Vertical | Adj. | Upright, erect, perpendicular, upended |
| Compulsion | Noun | Obligation, constraint, coercion, duress, intimidation |
| Puzzle | Verb | Baffle, twist, confuse, floor, bemuse, confound, Vacillate |

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|-----------|------|---|
| Wastage | Noun | Depredation, despoilment, despoliation |
| Vial | Noun | A small bottle usually meant for medicines |
| Awareness | Noun | Consciousness, recognition, realization, cognizance |

TODAY'S SPECIAL**Own :-**

1. Own (adj.) – Personal – He has his own reasons.
2. Own (verb) – Be the owner of – I won this house.
- Admit – She had to own that she agreed.
3. Get one's own back – Get one's revenge on.
4. Hold one's own – Stand firm.
5. On one's own – All alone – I am all on my own.
6. Own up – Confess, admit to, admit guilt.

High :-

1. High and dry (adj.) – Destitute, bereft, poor and dilapidated.
2. High and low - Everywhere.
3. High and mighty – Self important, supercilious, snobbish
4. On a high – Ecstatic, over joyed, elated.
5. High brow (adj.) – Intellectual.
6. High falutin (adj.) – Pretentious.
7. High flown (adj.) – Grand, extravagant, elaborate.
8. High handed (adj.) – Arrogant, extravagant, elaborate.
9. High jinx (noun) – Antics, pranks.
10. Highland (noun) – Mountain.
11. Highly strung (adj.) – Nervous, jittery.
12. High time (noun) – perfect time.
13. High end (adj.) – Expensive.