

HELPING A LENDING HAND: ON RBI'S SECOND LOCKDOWN STIMULUS

The RBI Has Made Life Easier For Banks; It Has Given The Govt. The Cue For A Fiscal Support Plan

The RBI has infused oxygen into the financial system with a second set of measures announced on Friday by Governor Shantikanta Das to combat the lockdown impact on the economy. Most are aimed at maintaining liquidity, the economy's lifeblood, though there are some regulatory proposals aimed at making life easier for banks, NBFCs and borrowers. It is now clear the bank prefers to calibrate its moves based on constant feedback from the ground — the way it should be. In what should be reassuring for the markets, Mr. Das was categorical that the RBI would do what it takes to support the economy and also monitor the evolving situation. Indeed, the RBI has been very generous in its liquidity maintenance measures in recent times and particularly so after the lockdown began in March. There will surely be consequences for the economy but that is a worry for another day. The overarching objective now should be to keep the economy afloat by deploying all the instruments at the RBI's command.

The central bank has learnt from its experience of the Targeted Long Term Repo Operations (TLTRO) till now when banks preferred to deploy the funds in bonds of PSUs and large corporates. The RBI has called out this risk-off attitude of the banks while announcing a further ₹50,000 crore TLTRO — all of this has to be invested in bonds and paper of NBFCs and microfinance institutions. The response to the next round of TLTRO will be interesting to watch. Similarly, by reducing the reverse repo rate by another 25 basis points to 3.75%, the RBI has made it furthermore unattractive for banks to indulge in 'lazy banking' by parking excess funds with the central bank rather than lend. As much as ₹6.9-lakh crore was parked with the RBI as on April 15. This is the time when banks will have to be liberal in extending help for working capital loans and overdrafts to their borrowers, including MSMEs. The government could help here by extending a scheme of credit assurance cover that will encourage banks to be more liberal in their risk outlook. By clarifying that there will be an asset classification standstill during the moratorium period for accounts that were not already NPAs as of March 1, the RBI has brought relief to borrowers who were worried that opting for the moratorium may turn them into NPAs. State finances have got some breathing space through the increase of WMA (Ways and Means Advances) limit to 60% over the level as on March 31. The special refinance facility of ₹50,000 crore extended to NABARD, SIDBI and NHB will help these institutions to prop up their respective constituents. The central bank has done what it can. It is now over to the government for the fiscal support package.

Meanings of Difficult Words:

1. **lend a hand** (phrase) – support, assist, help.
2. **lockdown** (noun) – an emergency protocol implemented by the authorities that prevents people from leaving from a place; An extended state of confinement/encirclement/isolation of a person by the authority.
3. **stimulus** (noun) – impetus, boost, incentive, fillip.
4. **cue** (noun) – sign, indication, signal.
5. **infuse** (verb) – add, impart, introduce.
6. **infuse oxygen** (phrase) – oxygenate; it figuratively means adding an important ingredient to the system to help it function normally & efficiently.
7. **liquidity** (noun) – the availability of liquid assets; liquidity means liquid assets; cash; (liquid asset is an asset which can be easily sold/converted into cash without losing its value); a measure of activity (i.e. the ability to buy or sell easily) in a market.
8. **lifeblood** (noun) – essential component/part, driving force, essence.
9. **regulatory** (adjective) – organizational, governmental.
10. **non-banking financial company (NBFC)** (noun) – a company incorporated under the Companies Act 2013 or 1956 which is engaged in the business of loans and advances, acquisition of stocks, equities, debt etc issued by the government or any local authority. The main objective of this type of a company is to accept deposits under any scheme or manner.

11. **calibrate** (verb) – carefully assess, regulate, adjust.
12. **ground** (noun) – a place where activities are taking place.
13. **categorical** (adjective) – explicit, unambiguous, definite, unconditional/conclusive.
14. **evolve** (verb) – develop, progress, advance.
15. **indeed** (adverb) – in fact, actually, undeniably.
16. **generous** (adjective) – liberal, free-handed, unstinting; kind, big-hearted.
17. **consequence** (noun) – outcome, ramification, repercussion.
18. **overarching** (adjective) – all-inclusive, complete, all-embracing, comprehensive.
19. **objective** (noun) – aim, intention, purpose.
20. **keep something afloat** (phrase) – to keep something going that may not be working out/performing well; sustain, endure, remain/withstand.
21. **deploy** (verb) – employ (resources into effective action).
22. **instrument** (noun) – mechanism, apparatus, system, means (to achieve/attain something).
23. **at someone's command/disposal** (phrase) – ready to assist the person concerned in any way they wish.
24. **Targeted Long Term Repo Operation (TLTRO)** (noun) – a tool introduced by the RBI on March 27th, to enhance liquidity in the system, particularly the corporate bond market, in the wake of the COVID-19 crisis. The central bank (RBI) wants banks opting for funds under this option to be specifically invested in investment-grade corporate debt.
25. **Long Term Repo Operation (LTRO)** (noun) – a tool that lets banks borrow one to three-year funds from the central bank (RBI) at the repo rate, by providing government securities with similar or higher tenure as collateral.
26. **call out** (phrasal verb) – to speak/say loudly, criticize, draw attention to (someone's bad actions).
27. **risk-on attitude** (noun) – it is a global market sentiment. When investors are optimistic about the outlook for the economy, they will bid up the price of riskier assets. That's "risk on".
28. **risk-off attitude** (noun) – when uncertainty or negativity hits the market, investors tend to sell risky assets in a hurry and buy assets seen as safe havens, ones that are usually less vulnerable. That's "risk off".
29. **microfinance** (noun) – microcredit, microbanking; the extension of very small loans (microloans) with no collateral, to impoverished borrowers in rural or undeveloped areas.
30. **repo rate** (noun) – it is the rate at which the central bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfall of funds.
31. **reverse repo rate** (noun) – it is the rate at which the central bank of a country (RBI in case of India) borrows money from commercial banks within the country.
32. **basis point (BPS)** (noun) – a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.
33. **furthermore** (adverb) – moreover, also, additionally, besides.
34. **indulge in** (verb) – become involved in (usually an undesirable activity).
35. **lazy banking** (noun) – a method of banking where banks avoid lending or taking any risk and put their money in risk free investments is called lazy banking.
36. **park** (verb) – deposit, put, save.
37. **working capital** (noun) – the difference between current assets and current liabilities. A business's working capital is equivalent to the amount of cash it can deploy very rapidly, otherwise known as its operating liquidity.
38. **overdraft** (noun) – credit, advance.
39. **asset classification standstill** (noun) – The RBI would provide a standstill on asset classification for standard bank accounts, implying these couldn't be classified as bad assets after stipulated 90-day period. However, the banks will have to maintain an additional provisioning of 10 per cent on such accounts.
40. **moratorium** (noun) – a temporary suspension of an activity; embargo, ban, prohibition.

41. **non-performing assets** (NPAs) (noun) – bad loans, troubled accounts, stressed loans; an account where principal and/or interest remains overdue for a period of time.
42. **breathing space** (noun) – interval, break/respice, stoppage.
43. **ways and means advances** (WMA) (noun) – a facility for both the Centre and states to borrow from the RBI. These borrowings are meant purely to help them to tide over (sustain) temporary mismatches in cash flows of their receipts and expenditures.
44. **prop up** (phrasal verb) – support, assist, fund/finance.
45. **constituent** (noun) – component, segment, element, ingredient.

A SEASON OF CHANGE: ON IMD FORECAST SYSTEM

It Is Time For The India Meteorological Department To Incorporate Lessons From The New Normal

In the season of the abnormal, the IMD has announced that the monsoon this year would likely be normal. The agency follows a two-stage forecast system: indicating in April whether there are chances of drought or any other anomaly and then a second update, in late June, with a more granular look at how the monsoon will likely distribute over the country and whether danger signs are imminent. 'Normal' means India will get 100% of its long period average, with a potential 5% error margin. The IMD's April forecast, experience suggests, is not much to go by especially if the agency declares it 'normal' as rarely, if ever, do weather models catch signs of an impending shortfall or a large excess in April. Also being a part of a hierarchical government set-up, the agency defaults to being conservative. In April last year, it said the monsoon would be 'near normal', an arbitrary category. Private forecasters expected a shortfall, predicated on the development of a future El Niño. The IMD did account for this but said it was unlikely El Niño would strengthen enough to dampen the monsoon. It however kept its estimate on the lower side of 'normal.' In the end, India received excess rains, the highest in a quarter century.

The April forecast is a vestige of the agency's reliance on the 'statistical forecast system' where values of selected meteorological parameters are recorded until March 31 and permutations of these are computed and compared to the IMD's archive of weather data. It is also reflective of an era when landline telephones were the state-of-the-art in personal communication. Along with connectedness, weather forecasting has metamorphosed. Climate, as well as technological change, allows new weather variables — such as surface temperatures from as remote as the southern Indian Ocean and regular updates from the Pacific Ocean — to be mapped. Powerful computers mathematically simulate the weather based on these variables and extrapolate onto desired time frames. Using these dynamical models is a change the IMD has incorporated and experimented with for years. It made two key changes this year: reducing the definition of 'normal' rainfall by 1 cm, to 88 cm and, officially updating monsoon onset and arrival dates for many States. This was long due and constituted acknowledgement of the accumulated impact that global warming has been having on monsoon patterns, particularly for cities and States. The monsoon was arriving later in many places, had long weak spells, and lingered longer. This has already heralded thinking, in the agency, on whether India should move to a new monsoon-accounting calendar instead of the century-long tradition of June-September. This would signal a truly momentous break from the past. Just as COVID-19 is forcing introspection on the links that tie people, trade and ecology, it is also time for the IMD to incorporate the lessons from the new normals.

Meanings of Difficult Words:

1. **forecast** (noun) – prediction, indication, projection, speculation, calculation (of future events or trends).
2. **meteorological** (adjective) – relating to the branch of science that deals with phenomena (events) of the atmosphere or weather.
3. **the new normal** (phrase) – an earlier unusual situation that becomes a standard now.
4. **two-stage forecast system** (phrase) – the India Meteorological Department (IMD) forecast the monsoon with both "statistical systems" and "dynamical systems". "statistical systems" are

long-range forecasts that only give a broad tenuous (weak) picture of the likely performance of the monsoon, whereas “dynamical system” is more sophisticated with high-resolution computer models and gives localised forecasts. These shorter forecasts are far more practical. Though meteorological agencies around the world are shifting to these new “dynamical techniques”, they still aren’t considered entirely reliable for forecasting the monsoon.

5. **drought** (noun) – lack/dry spell, lack of rain, shortage of water.
6. **anomaly** (noun) – something different, abnormal, unusual; oddity, peculiarity, deviation, aberration, exception.
7. **granular** (adjective) – detailed, precise, minute.
8. **imminent** (adjective) – close/near, about to happen, approaching/impending.
9. **potential** (adjective) – possible, likely, probable.
10. **go by** (phrasal verb) – to follow something.
11. **shortfall** (noun) – deficit, inadequacy/deficiency; shortcoming/defect.
12. **hierarchical** (adjective) – relating to the hierarchy (social order/ranking).
13. **default to** (verb) – revert/select automatically.
14. **conservative** (adjective) – cautious, careful, moderate.
15. **arbitrary** (adjective) – unpredictable, inconsistent, unreasonable, groundless.
16. **forecaster** (noun) – a person who makes predictions about a future event/trend, especially about weather (or financial trend).
17. **El Nino** (noun) – abnormal warming (of the Equatorial East of the Pacific that lies closer to the Americas). **La Niña** means abnormal cooling.
18. **account for** (phrasal verb) – explain, answer for, elucidate, rationalize.
19. **unlikely** (adjective) – not likely, unexpected, unbelievable, unconvincing.
20. **dampen** (verb) – decrease, diminish/lessen, reduce.
21. **in the end** (phrase) – eventually, finally.
22. **vestige** (noun) – indication, sign, trace/mark.
23. **reliance** (noun) – dependence; trust/confidence on something.
24. **permutation** (noun) – arrangement, order, grouping, organization.
25. **archive** (noun) – records, documents, registers (with previous years’ data on something).
26. **reflective** (adjective) – reflecting something; indicative, expressive, demonstrative.
27. **state-of-the-art** (adjective) – modern, advanced/highly developed, sophisticated.
28. **connectedness** (noun) – the state of being connected.
29. **metamorphose** (verb) – transform, change, convert/alter.
30. **map** (verb) – record in detail.
31. **extrapolate** (verb) – forecast, predict, reckon/estimate.
32. **onset** (noun) – start, beginning, arrival.
33. **due** (adjective) – expected, required, awaited, anticipated.
34. **acknowledgement** (noun) – acceptance, admission, realization.
35. **accumulated** (adjective) – gathered/collected, amassed, racked up, increased.
36. **global warming** (noun) – it is the unusually rapid increase in Earth’s average surface temperature over the past century primarily due to the greenhouse gases released as people burn fossil fuels.
37. **spell** (noun) – a period of a particular type of weather.
38. **linger** (verb) – stay, remain, continue/persist.
39. **herald** (verb) – signal, indicate, announce.
40. **momentous** (adjective) – significant, important, serious, crucial/critical.
41. **break from something** (phrase) – to end a connection/agreement with something.
42. **introspection** (noun) – self-observation, self-analysis; contemplation.
43. **ecology** (noun) – preservation, protection; the scientific study of the distributions, abundance and relations of organisms and their interactions with the environment.