

## Course correction – Signs of a turnaround: on RBI's Financial Stability Report Regulatory vigil should not ease after the half-yearly decline in banks' gross NPA ratio

The fog of bad loans shrouding the banking sector appears to be lifting after a long period of sustained stress. The Reserve Bank of India's Financial Stability Report reveals the first half-yearly decline in the ratio of gross non-performing assets (GNPA) to advances since September 2015. The ratio across all scheduled commercial banks has eased to 10.8% as of end-September 2018, from 11.5% in March, with both public sector and private sector lenders posting drops in the key indicator of bad loans. A stress test for credit risk at banks that models varying levels of macro-economic performance shows that for the baseline assumption, the GNPA ratio would narrow to 10.3% by March 2019. This prompted RBI Governor Shaktikanta Das to prognosticate that the sector "appears to be on course to recovery". Still, state-owned banks continue to have higher levels of bad loans than their private sector peers and are projected to show slower improvements over the second half of the fiscal. The GNPA ratio for public sector banks (PSBs) is posited to only inch lower to 14.6% by March, from 14.8% in September. One reason is that PSBs have a disproportionately higher share of bad loans from among large borrowers, who accounted for almost 55% of loans advanced by all banks as of September. The GNPA ratio for this category at PSBs was 21.6%, compared with just 7% at private banks.

Interestingly, the RBI's Prompt Corrective Action (PCA) framework, which attracted criticism including from a government appointee on the central bank's board, has significantly helped lower contagion risk to the banking system. A contagion analysis that assumes there would be no sovereign guarantee provided for the 11 PSBs placed under the PCA curbs, in the event of a simultaneous failure, projects that solvency losses due to such failure have more than halved over the four quarters ended September: to Rs. 34,200 crore (3.1% of total Tier-1 capital) from Rs. 73,500 crore (6.8% of total Tier-1 capital). Data on banking frauds are also a cause for concern. Close to 95% of the frauds reported in the six months ended September were credit-related, with PSBs again bearing the brunt of *mala fide* intent on the part of borrowers. The RBI's report has justifiably spotlighted the urgent need to tighten the oversight framework for financial conglomerates in the wake of the IL&FS meltdown, which continues to ripple across the financial system, including at mutual funds and non-banking financial companies. As Mr. Das said in his foreword, "...the recent developments in NBFCs have underscored the need for greater prudence in risk-taking." Regulators and policymakers need to work together to insulate the economy from the risks of similar fiascos.

### Meanings of Difficult Words :

- **Turnaround** - an important change in a situation that causes it to improve
- **Stability** - a situation in which things happen as they should and there are no harmful changes
- **Regulatory** - a regulatory organization or company controls an activity, process, or industry
- **Vigil** - a purposeful watch maintained, esp at night, to guard, observe, pray, etc
- **Decline** - to become less or worse
- **Gross** - total
- **Fog** - a confused or confusing situation or state
- **Shrouding** - to cover or hide something
- **Sustained** - continuing at the same level or rate for a long time
- **Decline** - to become less or worse
- **Non-performing asset** - a non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days
- **Bad loan** - a loan where repayments are not being made as originally agreed between the borrower and the lender, and which may never be repaid
- **Varying** - not all the same

- **Macro-economic** - relating to the economic system of a whole country or large region
- **Baseline** - a quantity, value, or fact used as a standard for measuring other quantities, values, or facts
- **Prognosticate** - to say what you think will happen in the future
- **Peer** - a person who is the same age or has the same social position or the same abilities as other people in a group
- **Fiscal** - relating to a period of 12 months, or a part of that period, used by a company to calculate and report its financial information
- **Posit** - to say that something is true or that something should be accepted as true
- **Disproportionate** - if something is disproportionate, it is bigger or smaller than it should be in comparison to something else
- **Account for something** - to be the reason why something exists or happens
- **Framework** - a set of principles, ideas etc that you use when you are forming your decisions and judgments
- **Criticism** - comments that show that you think something is wrong or bad
- **Significantly** - by a large amount, or in a way that is easily noticeable
- **Contagion** - a situation in which feelings or ideas spread very quickly from one person or place to another
- **Sovereign** - an old unit of money in the form of a gold coin worth one pound
- **Solvency** - a situation in which you have enough money to pay your bills and other debts
- **Concern** - a feeling of worry about something, especially one that a lot of people have about an important issue
- **Bear the brunt of something** - to receive the worst part of something that has a bad effect
- **Mala fide** - illegal or dishonest
- **Justifiably** - if something is justifiable, there is a good reason for it
- **Spotlight** - to make people pay a lot of attention to someone or something, for example by writing about them in a newspaper
- **Oversight** - something that you do not notice or think of that causes problems later
- **Conglomerate** - a large business organization formed when several different businesses join together
- **In the wake of something** - happening after an event or as a result of it
- **Meltdown** - a sudden and complete failure of a company, organization, or system
- **Ripple** - an emotion that spreads gradually through a person or a group of people
- **Mutual fund** - an organization through which you can buy shares in many different businesses
- **Foreword** - a short introduction to a book, usually written by someone other than the writer
- **Underscore** - to emphasize something, or to show that it is important
- **Prudence** - the state of being careful in the way you make decisions or spend money so that you avoid unnecessary risks
- **Regulator** - a person or organization whose job is to be certain that companies, systems etc act fairly and follow rules
- **Insulate** - to protect someone from unpleasant knowledge or harmful experiences
- **Fiasco** - a complete and embarrassing failure

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## Course correction – On Elizabeth Warren's U.S. presidential bid: Democratic hope ?

Elizabeth Warren makes the first move towards a U.S. presidential bid

Elizabeth Warren, Democratic Senator of Massachusetts, has announced her likely candidacy for the 2020 U.S. presidential race. In her statement she put racial and gender-based inequality front and centre in her campaign agenda, as much as income inequality faced by the middle class. For these ills of the American economy, she blamed the excesses of under-regulated Wall Street corporations and billionaires with the money muscle to bend political rules. Although Ms. Warren, who won a second six-year Senate term in November, had declined to enter the 2016 general election and challenge Hillary Clinton in the Democratic primary, she made a name for herself as a top-tier Democrat by taking on President Donald Trump, describing him as a "thin-skinned racist bully". However, she attracted criticism for an unnecessary controversy over taking a DNA test to establish her Native American heritage, after Mr. Trump used racist epithets to provoke and smear her ethnic antecedents. Notwithstanding that blip, the former Harvard law professor, who hails from a blue-collar background in Oklahoma, has repeatedly underscored her credentials as a champion of multiracial populism. Over the past year she has sharpened her attack on Mr. Trump's politics, arguing that he deflects attention from the impact of his divisive policies on ordinary American families and instead blames "other working people, people who are black, or brown, people born somewhere else."

Despite the considerable achievements of Ms. Warren, who had not held public office before 2013, the obstacles ahead for her proposed presidential run are formidable. First, the general expectation is that the field for the Democratic nomination will widen considerably over through 2019, given that more than three dozen Democratic candidates-in-the-making are said to be considering joining the race, several of them for the first time. Some, such as Kamala Harris of California or Cory Booker of New Jersey, could hold stronger appeal with millennial voters and people of colour. Second, it is hard to predict how Ms. Warren will fare against self-professed Democratic socialist candidate Bernie Sanders, or Senator Sherrod Brown of Ohio, both economic populists who could hypothetically cut into her share of voters of a similar ideological persuasion. Finally, the risk of pursuing a populist theme from the centre-left of the political spectrum is that she would be an easy target for Mr. Trump and conservatives, who are likely to deride her as an out-of-touch liberal academic and a threat to free enterprise. Nevertheless, as a candidate for the nation's highest office, Ms. Warren's ideological moorings are set. It is not inconceivable that, given how bitterly polarised the electorate is today, Ms. Warren's bold liberalism could offer hope to millions of voters dismayed at what Mr. Trump has done to their nation.

#### **Meanings of Difficult Words :**

- **Democratic** - based on the principle that all people are equal and should be able to share in making decisions
- **Senator** - someone who is a member of a senate
- **Likely** - probably going to happen, or probably true
- **Candidacy** - the fact that someone is a candidate in an election
- **Racial** - happening between people of different races
- **Inequality** - a situation in which people are not equal because some groups have more opportunities, power, money etc than others
- **Campaign** - a series of actions intended to produce political or social change
- **Muscle** - strength
- **Senate** - the more senior part of a law-making institution that has two parts
- **Decline** - to say politely that you will not accept something or do something
- **Thin-skinned** - easily upset or offended by what other people say about you
- **Racist** - someone who does not like or respect people who belong to races that are different from their own and who believes their race is better than others
- **Bully** - to frighten or hurt someone who is smaller or weaker than you

- **Controversy** - a disagreement, especially about a public policy or a moral issue that a lot of people have strong feelings about
- **Heritage** - the art, buildings, traditions, and beliefs that a society considers important to its history and culture
- **Epithet** - a word or phrase that describes the main quality of someone or something
- **Provoke** - to deliberately try to make someone angry
- **Smear** - to try to damage someone's reputation by telling lies about them
- **Ethnic** - relating to a group of people who have the same culture and traditions
- **Antecedent** - something that happened or existed before something else and is similar to it in some way
- **Notwithstanding** - despite something
- **Blip** - a minor problem or delay that does not last very long
- **Former** - used for describing someone or something that had a particular job, title, status etc in the past, but not now
- **Hail from** - to be from a particular place
- **Blue-collar** - blue-collar workers do work that involves using physical strength or skill with their hands rather than working in an office
- **Credential** - personal qualities, achievements, or experiences that make someone suitable for something
- **Multiracial** - including or involving people of many different races
- **Deflect** - to direct criticism, attention, or blame away from yourself towards someone else
- **Impact** - an effect, or an influence
- **Divisive** - likely to cause arguments between people
- **Despite** - used for saying that something happens even though something else might have prevented it
- **Considerable** - large in size, amount, or degree
- **Formidable** - very impressive in size, power, or skill and therefore deserving respect and often difficult to deal with
- **Millennial** - born in the 1980s, 1990s, or early 2000s
- **Predict** - to say what you think will happen in the future
- **Professed** - admitting publicly that you have a particular feeling or belief
- **Populist** - someone who supports or expresses the interests and opinions of ordinary people
- **Hypothetically** - based on situations or events that seem possible rather than on actual ones
- **Persuasion** - to make someone agree to do something by giving them reasons why they should
- **Deride** - to criticize someone or something by suggesting that they are stupid, unimportant, or useless
- **Out-of-touch** - to no longer have recent knowledge or information about something
- **Threat** - a situation or an activity that could cause harm or danger
- **Nevertheless** - despite a fact or idea that you have just mentioned: used as a way of showing how a sentence, phrase, or word is related to what has already been said
- **Moorings** - the ropes or chains that keep a boat from moving away from a particular place
- **Inconceivable** - impossible to think about or imagine
- **Bitterly** - in a way that shows that you are extremely angry, upset, or disappointed about something
- **Polarise** - to form two very different groups, opinions, or situations that are completely opposite to each other, or to cause this to happen
- **Electorate** - all the people who are allowed to vote in an election
- **Liberalism** - an attitude of respecting and allowing many different types of beliefs or behaviour
- **Dismayed** - very upset, disappointed, or annoyed about something surprising or shocking that has happened

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## Course correction – GST shortfall

# As the tax collections remain below target, it may be time to recalibrate expectations

Revenue collections from the Goods and Services Tax (GST) are going too far off the mark for comfort. Inflows declined for the second consecutive month in December to Rs. 94,726 crore from Rs. 97,637 crore in November and Rs. 1,00,710 crore in the month before. Between April and December, GST collections have averaged about Rs. 96,800 crore, and have not even once met the monthly target of Rs. 1,06,300 crore, going by the Union Budget math for 2018-19. Now in order to achieve the year-end target, GST collections over the next three months will have to reach an average of Rs. 1,34,900 crore. But given the spate of tax rate cuts announced by the GST Council in December that kick in this month and Prime Minister Narendra Modi hinting at further rationalisation of rates for construction materials soon, the pressure on revenues is likely to persist. Separately, as the government looks to woo traders and small businesses back to its electoral fold, the Council is considering a relaxation in the GST norms for micro, small and medium enterprises by raising the annual sales threshold for compulsory GST registration from Rs. 20 lakh to over Rs. 50 lakh. Such a relaxation, along with regulatory steps like greater forbearance for small business loans, will boost sentiment among such firms, but it will further dent the tax kitty. Other revenue heads, including direct tax or disinvestment receipts (even via innovatively structured intra-public-sector deals), are unlikely to be adequate to plug the GST shortfall.

This poses a challenge for the Centre at a time when it would have been hoping to announce some populist measures ahead of elections, while retaining its macro-economic management credentials. States' revenue collections under the GST regime have been uneven and a GST Council panel is examining inter-State variations. But the Centre is bound to compensate States for revenue shortfalls for the first five years of the GST regime. Unless the Centre decides to drop its fiscal deficit goals, a squeeze on spending, including planned capital expenditure, may be the only option. There is a more problematic aspect to the dip in GST collections, based on economic activity and compliance trends in November. The total number of returns filed that month hit a high of 72 lakh from 55 lakh at the beginning of the fiscal, yet revenues fell. November also marked the onset of India's festive season, with a late Deepavali. Yet, the higher compliance and the festive fervour translated into collections lower than the average monthly receipts for the year till date. Though India's growth fell to 7.1% in the second quarter of this fiscal, an uptick in private investment over the same period was considered a sign of revival. But if consumers are not confident enough to spend, a consumption-led investment revival to take the economy to an 8% growth path seems elusive again.

### Meanings of Difficult Words :

- **Shortfall** - a lack of something that you need or want, or the amount that you lack
- **Recalibrate** - to change the way you do or think about something
- **Inflow** - an amount of something such as money or goods that comes into a place
- **Decline** - to become less or worse
- **Consecutive** - following one after another in order and with nothing else in between
- **Spate of** - a large number of things of the same type, usually bad things, that suddenly happen in a very short period of time
- **Rationalisation** - to make an organization more effective
- **Persist** - to continue to do or say something in a determined way
- **Woo** - to try to persuade people to support you or to buy something from you, especially by saying and doing nice things
- **Threshold** - a limit at which an arrangement changes
- **Forbearance** - the ability to be polite, calm, and patient in difficult situations



- **Disinvestment** - the act of taking money out of a particular country, industry, or business, and investing it somewhere else
- **Via** - using a particular method or person to send or deliver something
- **Adequate** - good enough or large enough for a particular purpose
- **Pose** - to present a difficult or dangerous situation
- **Populist** - representing the interests and opinions of ordinary people
- **Credentials** -personal qualities, achievements, or experiences that make someone suitable for something
- **Regime** - a system or form of government
- **Uneven** - not fairly balanced or equally shared
- **Panel** - a group of people who make decisions or judgments
- **Bound to** - something that is bound to happen will almost certainly happen
- **Compensate** - to change or remove the bad result of something
- **Fiscal deficit** - the difference between total revenue and total expenditure of the government
- **Expenditure** - money spent by a government, organization, or person
- **Aspect** - a particular part, feature, or quality of something
- **Compliance** - the practice of obeying a law, rule, or request
- **Onset** - the beginning of something
- **Fervour** - very strong feeling or enthusiasm
- **Uptick** - a small increase, especially in the price of something
- **Revival** - the process of becoming active, successful, or popular again
- **Consumption** - the use of something such as fuel or energy, or the amount that people use
- **Elusive** - difficult or impossible to achieve

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## Course correction – **On detention of Canadians in China: Caught in a crossfire ?**

### **Spats over detention of Canadians in China reflect the scale of the U.S.-China trade war**

The diplomatic row between Beijing and Ottawa over the detention and treatment of Canadian nationals in China continues to escalate, to the detriment of bilateral relations. But more serious could be the implications of the standoff for the ongoing trade war between China and the U.S. The spat goes back to the detention on December 1 of a top Chinese telecom executive in Vancouver, who has since been released on bail, in response to a U.S. request. Washington wanted custody of Meng Wanzhou, the chief financial officer of Huawei and the daughter of the company's founder. Her arrest was part of the U.S. Justice Department's ongoing criminal probe into the company's sale of telecommunications equipment to Iran, a potential breach of sanctions against Tehran. But the arrest is also seen in the context of the caution in much of the West against Huawei's potentially winning bids as 5G communication networks are adopted, on grounds of a security threat. The military background of the Huawei founder has only raised speculation about the firm's connection to the Chinese defence and intelligence services. Conversely, the U.S. has invoked a rare national security provision under domestic law to impose punitive tariffs on global steel and aluminium imports. A similar investigation is under way specifically to determine the risk to domestic security from alleged Chinese intellectual property abuses. In addition, Beijing's "Made in China 2025" industrial policy has aroused deep suspicion in the U.S. about the persistence of state subsidies to prop up indigenous firms. It is therefore speculated that

Washington has its lens trained on Huawei, which has emerged as the world's largest telecommunications equipment maker, surpassing Sweden's Ericsson.

Meanwhile, there is concern that Canadian residents in China may face retribution for Ms. Meng's detention. A Chinese court last week ruled as too lenient the 15-year sentence against a Canadian convicted of drug-related offences. A former diplomat who was arrested has apparently been denied legal representation, although Canadian embassy officials were permitted to visit him. Another Canadian was detained for alleged transgressions of national security. Given the climate of mistrust between the U.S. and China, it is hard to dispel the perception that Canada has got caught in the crossfire. In fact, the Canadian Foreign Minister has suggested that President Donald Trump should desist from using the episode as a bargaining chip in trade disputes with China. But it is conceivable that Chinese trade concessions to de-escalate tensions could pave the way for a resolution of the standoff over Huawei. That would likely satisfy the hawks in Washington who fear that the U.S. is ceding its technological dominance to China.

**Meanings of Difficult Words :**

- **Detention** - the state of being kept in a police station or prison and not being allowed to leave
- **Crossfire** - bullets coming from two directions, fired by two people or armies who are shooting at each other
- **Spat** - a short argument
- **Trade war** - a situation in which two or more countries raise import taxes and quotas (= limits on numbers of goods) to try to protect their own economies
- **Diplomatic** - relating to the profession or skill of preserving or creating friendly relationships between countries
- **Escalate** - to become much worse or more serious, or to make something do this
- **Detriment** - harm caused to something as a result of something else
- **Bilateral** - involving two groups or countries
- **Implication** - a possible effect or result
- **Standoff** - a disagreement or fight in which neither opponent can do anything to win or achieve their aim
- **Custody** - a situation in which someone is kept in prison until they go to court for trial
- **Founder** - someone who starts a school, organization, business, or community
- **Probe** - an attempt to find out the truth about an issue, problem
- **Breach** - a failure to follow a law or rule
- **Sanctions** - an official order to stop communication, trade, etc with a country that has broken international law
- **Caution** - careful thought and lack of hurry in order to try to avoid risks or danger
- **Speculation** - ideas or discussion about why something has happened or what might happen
- **Conversely** - used for introducing a sentence, or part of a sentence, which says something that is the opposite of the other part
- **Invoke** - to use a law or rule in order to achieve something
- **Punitive** - relating to or causing punishment or great difficulty
- **Tariff** - a tax that a government charges on goods that enter or leave their country
- **Import** - a product from another country, that is bought with money from your country
- **Determine** - to control what something will be
- **Alleged** - claimed to be true, even though this has not been proved
- **Intellectual property** - something that someone has created or invented and that no one else is legally allowed to make, copy, or sell
- **Abuse** - the use of something in a bad, dishonest, or harmful way
- **Arouse** - to cause an emotion or attitude

- **Suspicion** - a feeling that someone has done something wrong
- **Persistence** - the attitude or behaviour of someone who continues to do, or try to do, something in a determined way
- **Indigenous** - naturally existing in a place or country rather than arriving from another place
- **Speculate** - to consider or discuss why something has happened or what might happen
- **Emerge** - to become known
- **Surpassing** - better or greater when compared with others
- **Meanwhile** - at the same time
- **Concern** - a feeling of worry about something, especially one that a lot of people have about an important issue
- **Retribution** - punishment that someone deserves because they have done something very bad
- **Lenient** - if a person or system is lenient, they punish someone less severely than they could
- **Sentence** - a punishment given by a judge, usually involving a period of time that a person must spend in prison
- **Convicted** - proved to be guilty of a crime by a court of law
- **Offence** - a crime or illegal activity for which there is a punishment
- **Former** - used for describing someone or something that had a particular job, title, status etc in the past, but not now
- **Diplomat** - an official whose job is to represent their government in a foreign country
- **Apparently** - based only on what you have heard, not on what you are certain is true
- **Embassy** - a group of officials who represent their government in a foreign country
- **Alleged** - claimed to be true, even though this has not been proved
- **Transgression** - to do something that is not allowed by a law, custom, or religion
- **Mistrust** - a feeling that you should not trust someone or something
- **Dispel** - to get rid of unpleasant feelings or false beliefs
- **Perception** - a particular way of understanding or thinking about something
- **Bargaining chip** - something that you can use to persuade someone to give you what you want
- **Dispute** - a serious disagreement, especially one between groups of people that lasts for a long time
- **Conceivable** - possible, or possible to imagine
- **De-escalate** - to (cause to) become less dangerous or difficult
- **Pave the way for something** - to create a situation that makes it possible or easier for something to happen
- **Cede** - to allow someone to take something such as power or land away from you
- **Dominance** - a situation in which one person or thing has more influence or power than any other

☞ "If you want something different, you are going to have to do something different

– Jack Canfield" ☞