RBI Grade B Phase II: Paper II

ENGLISH (WRITING SKILLS) (DESCRIPTIVE TYPE)

(1) Write any one of the following Essays (200 words)

(a) Impact of GST on Industrial Sector

(b) Relevance Monetary Policy Committee

(c) The Contribution of Banking Industry to the Indian Economy

(d) Loan waiver of farmers: Its impact on Banking Industry

(2) Reading Comprehension

The Modi government's attempts to accelerate growth and realise the promise of achche din face two formidable obstacles today. One is the adverse global environment. The other is a banking sector weighed down by bad loans. There isn't much we can do about the first. But the second can be tackled and should have been tackled by now. Unfortunately, precious time has been lost for want of clarity on the way forward. The Reserve Bank of India (RBI) is better placed than anybody else to feel the pulse of the banking sector. It will be up to the incoming RBI governor, therefore, to show the way.

The bulk of the bad loans is with public sector banks (PSBs). As bad loans mounted and banks had to make provisions for these, profits fell at PSBs or losses mounted. PSB performance suffered in comparison with private banks. The P.J. Nayak committee, constituted by the RBI, came to a quick conclusion in its report presented in May 2014: the problem at PSBs was fundamentally one of governance.

The committee argued that it was a mistake for the government, the majority owner, to be an active investor. Instead, it should become a passive investor. It should hand over its governance role, first to professional bankers and then to independent boards of directors. As the promoter, it should have no say in the appointment of chairmen and managing directors of PSBs. Try telling this to private sector promoters.

The Nayak committee's diagnosis was flawed. If governance at PSBs was so poor, how did PSB performance show considerable improvement over most of the post-reform period? Yes, there were poor appointments and bad loan decisions. But these are not the most important reasons for the bad loan problem at PSBs over the past four years.

PSBs had lent to vital sectors, steel, aviation, mining, infrastructure, textiles, all of which came to be impacted by factors beyond the control of bankers. Steel has been exposed to heavy dumping by the Chinese; the telecom sector was impacted by the cancellation of 2G licensees; the power sector by the cancellation of coal blocks; and so on. Private banks had a relatively limited exposure to these sectors as they had chosen to focus on retail loans. That's why they fared better. PSBs have ended up paying a price for funding the infrastructure boom that drove India's phenomenal growth in 2004-08.

If you believe that governance at PSBs is primarily responsible for bad loans, you are bound to think that no good can come out of them until the right boards and managing directors are in place. You will think that bad loans are the result of pervasive 'scams'. You will not see merit in giving adequate capital to banks so that they can step up lending — why waste scarce resources?

For a year or so, it appeared that the NDA government had become hostage to the Nayak committee's diagnosis. The outcome has been 'banking paralysis', somewhat akin to the 'policy paralysis' that felled the UPA government. PSBs have been paralysed by lack of capital and a fear psychosis at all levels.

Ultimately, good sense seems to have prevailed. The government did not buy the thesis of the Nayak committee. It has moved to professionalise appointments at PSBs but intends to keep government equity holding at PSBs at a minimum of 51 per cent. This is welcome. But the government hasn't gone far enough in tackling the key issues, namely, bad loans and bank recapitalisation. As a result, conditions in the banking sector have steadily worsened.

The response to a banking crisis is fairly standard. Recognise and provide for bad loans. Change management where necessary. Infuse capital into banks so that fresh lending and growth happens. Ours is not a banking crisis (which involves multiple failures of banks), we have a stressed situation. But the steps required are the same.

In implementing this standard protocol, we have made several mistakes. There is a sense that the RBI has been somewhat harsh in the norms it has imposed on bad loan recognition. Not all defaults are wilful or mala fide. There are situations where a project is stalled for reasons beyond the promoter's control. In such situations, additional loans may be required to see the project through to completion. If loans in such cases are declared as non-performing assets, no further lending is possible, and the project is doomed.

Second, almost all bad loan resolution requires banks to write off some portion of the loan; otherwise the firm or the project is unviable. The RBI came out with schemes that allowed banks to stretch out loan repayments over 25 years and to convert loans into equity. These have proved inadequate. Loan write-offs are essential. The RBI's latest restructuring scheme allows banks to divide loans into 'sustainable' and 'unsustainable' portions and to write off a portion of the latter. This initiative should have come much earlier.

Third, given the hysteria created over the bad loan problem, bankers are unwilling to take decisions on loan write-offs. They fear that they will invite action from the investigating agencies even after they have retired. This is understandable given the way the government has handled the Kingfisher Airlines case.

Top bankers are of the view that the offer made by Vijay Mallya does provide a basis for a settlement. However, nobody is willing to make a move given that the government seems intent on scoring political points. The government has now said it will constitute a high-level panel to vet loan settlements by banks. This too comes at least a year late.

Fourth, the government has been niggardly in infusing capital into PSBs. It has promised banks Rs.70,000 crore of equity capital over four years starting 2015-16. Most analysts think this amount hopelessly inadequate. It may be enough to meet the minimum regulatory requirement of capital, but it does not suffice to promote loan growth. The intention seems to be to let some PSBs just stay afloat until they are merged with stronger entities or sold to strategic investors. This is bound to hurt loan growth.

Fifth, the government is rushing to merge SBI and its five associate banks. Ostensibly, this is meant to create a bank that is in the top 50 banks by size in the world. The overriding priority today should be to address the bad loan problem. It does not help at all to saddle banks with the managerial headaches posed by merger. If a merger is intended, the benefits of the merger must be clearly articulated to investors and analysts. No such analysis has been presented. It is also strange that attempts at merger should focus on the strongest PSB when it ought to focus on the weakest banks.

Banking is a play on the economy. Strong economic growth can take care of the bad loan problem. This requires greater public investment and a revival of private investment.

Public investment is constrained by self-imposed targets for fiscal consolidation. Private investment is held back at least in part by high real interest rates that flow from the RBI's policy of inflation-targeting. A revival of banking cannot happen by addressing issues specific to the sector alone, such as settlement of bad loans and bank recapitalisation. The answers to banks' problems lie partly in the economy at large. The government and the incoming RBI governor need to sit together and revisit the present economic policy framework.

(Source: The Hindu)

Answer any 5 Questions based on the above passage (50 words)

(i) What were the views of the P.J. Nayak committee on Bad Loans Problem faced the Public Sector Banks?

(ii) Write down factors that affect vital sectors like steel, aviation, mining, infrastructure, textiles.

(iii) What were the steps taken by the government post P.J. Nayak committee?

(iv) "the RBI has been somewhat harsh in the norms it has imposed on bad loan recognition". Comment.

(v) What are the steps taken by the government for infusing capital into PSBs?

(vi) Why bankers are unwilling to take decisions on loan write-offs?

(3) Precis writing

Re-write the below Passage in 200 words

Title: Before the sluice gates close

The decision to close the 17-m-high (55 feet) gates of the Sardar Sarovar dam was taken on June 16 by the Narmada Control Authority — 56 years after the then Prime Minister Jawaharlal Nehru laid the foundation stone in 1961 — and published by the mainstream media as a "historic decision". No one remembered that Nehru had, in his speech, warned that the people from the first six villages whose lands were taken away, overnight with standing crops, should be done justice to. How tragic it is that those 300 families (now grown into 900) are still not compensated for their lands and properties not declared as "project-affected", even though their lands are used for the Sardar Sarovar Project offices, staff quarters, roads and storages, parking lots, all for the dam project.

Media reports didn't refer to the agitation by the project-affected, including Adivasis from resettlement sites and submergence areas within Gujarat, under way at Kevadia Colony near the dam site. The agitation's leaders were arrested and hundreds stopped by the police as recently as June 6-7, when supporters and activists of the Narmada Bachao Andolan too faced arrest at the Gujarat-Madhya Pradesh border.

There is no mention of protests in most of the villages in Madhya Pradesh (and a township, Dharampuri) that would be flooded, partially or fully, when the waters would rise to 138.68 m, 55 ft higher than the 122 m crest level (dam wall height) at which the dam was stopped for the last eight years. The 'completion' of the project will likely be used as the main plank in the ruling Bharatiya Janata Party's (BJP) campaign for the next Assembly polls in Gujarat. This, when the ground reality is starkly different in the densely populated submergence area. Can all lives and livelihoods be resettled and rehabilitated by July 31, the deadline given by the Supreme Court's order of February 8, 2017, when no orders have been passed by the Grievance Redressal Authority by June 8 as directed? The rehabilitation sites are not ready, with no drinking water, no proper roads, drains and culverts, no grazing grounds and other amenities which are mandatory. Tenders are just floated for crores of rupees worth of works and timelines stretch way beyond the deadline.

In the Narmada Control Authority's meeting on June 16, the State governments, including those of Madhya Pradesh, Maharashtra as well as Gujarat, all belonging to the BJP, reported full compliance on rehabilitation, which is an utter falsehood.

The apex court has taken cognisance of the 'tentative figures' of families yet to get land, but the court is obviously far removed from ground zero to know the hardships, massive corruption, cheating, exclusion that the farmers, labourers, potters, artisans, shopkeepers and all occupational categories have faced over the years. Their insistence upon full and fair compliance of law (the Narmada Tribunal Award), the States' rehabilitation policies and Supreme Court judgments of 2000, 2005 and now 2017, have led the state to blame the movement as anti-development and anti-national.

The game of numbers (of project-affected families being reduced by thousands) just before the decision was taken to raise the dam height and submerge more lands and houses was exposed by none else but the Supreme Court itself in its 2005 judgment. Much more has taken place since 2008. The backwater levels were declared as reduced and the houses of 15,946 families declared as out of submergence area, after having those acquired and transferred to the Narmada Valley Development Authority of Madhya Pradesh. The remaining rehabilitation benefits to these families were withheld without following any legal procedure.

The hill Adivasis of Maharashtra, Gujarat and Alirajpur district of Madhya Pradesh had to be allotted land as per law, as they did not accept cash in lieu of land and insisted on land to resettle. However, hundreds remain to be given land, hundreds are yet to be declared as affected, and hundreds — especially poor women — are yet to receive civic amenities at the sites. All this is discussed or noted in the correspondence but never admitted at meetings for sanctioning the rise in the height of the dam.

The rehabilitation sites in Madhya Pradesh present the worst scenario. About 78 sites are not liveable, as investigation reports have concluded. Those who received meagre compensation instead of 'replacement value' for houses cannot build houses and resettle. Many of them have received house plots that are not levelled; others haven't got possession even now. At least 18,346 families have been evicted from their villages, as acknowledged in the gazette notification of May 27, 2017 — our estimate is at least twice that number. The Madhya Pradesh Chief Minister has promised to provide houses under the Pradhan Mantri Awas Yojana to some families, but house plots will be returned to about 5,000 families that had been paid money in lieu of plots by the authorities.

People, even poor, cannot accept temporary resettlement; or agree to one-third of the lawful area of house plots now being offered; or shift to rented houses or tin sheds. Employees from government departments are trying to force people to sign 'Vachan Patras' agreeing to shift before July 15, with a vague statement that “I am willing to take whatever benefits government offers as per the rules”. Intimidating warning posters are pasted late at night on walls in all the villages. The strategy is to intimidate and to lure, if possible, at least 2,50,000 people (at the original backwater level, as per the tribunal, based on field surveys) from the villages on one hand and closing the gates to flood and flush them out with all properties and belongings, out of their riverine cultural environs, without full and fair rehabilitation. Without disbursing cash package to all beneficiaries as per the Supreme Court’s order, how can the government conclude the chapter on Sardar Sarovar?

The Madhya Pradesh government has shown the rehabilitation balance as ‘0’. Maharashtra too has cheated Adivasis and permitted a rise in the dam height. Gujarat never listened to the oustees crying out for justice. The story of Narmada is unfolding in the State: the survival of Adivasi oustees is at stake as they lack access to drinking water at many sites even as the government prioritises water for projects of big industrialists, for sites along the Delhi-Mumbai Industrial Corridor that will span 60% of Gujarat, and for cities over villages and small towns.