

ECONOMY

❖ **Bad Loans**

➤ **CONTEXT:** Recently, the Parliament has been informed by the Finance Minister that banks had written off bad loans worth. 10,09,511 crore during the last five financial years.

- Out of the total 10.1 lakh crore, only 1.32 lakh crore has been recovered. This comes to only about 13% as a percentage of write-offs.

➤ **Background**

- **2009:** The RBI brought out norms that set out categories of NPAs and what banks must do as these bad loans age. The RBI's master circular in 2009 started off the journey on NPA recognition. It states that if an asset has been 'doubtful' for a certain period, the value of that asset must be provided for in parts, as the asset ages.

What's the difference between Non-performing Asset (NPA) and Non-performing loan (NPL)?

NPA	NPL
NPAs are documented on a bank's balance sheet after the borrower fails to clear the dues for a prolonged period	The borrower has defaulted and hasn't cleared any dues or installments for some time
NPAs place financial burden on the lender	In the banking sector, loans are declared non performing if the borrower has missed payments for 90 days
NPAs also showcase the financial wellbeing of a bank	The International Monetary Fund (IMF) will consider loans as non performing if the chances of recovering money is uncertain and are less than 90 days past due
The classification of NPAs depends on the repayment length	NPLs are also sold by banks to other banks, and maybe, investors
NPAs can be classified as substandard, doubtful and loss asset	
Lenders can recover their losses by taking possession of any assets that belongs to the borrower	

- **2014-15:** India became more stringent in recognising loans as 'bad' in the 2014 to 2015 period. The periodic asset quality review was introduced. RBI stepped in to prevent evergreening of loans. It means lending more to an already stressed asset in the hope that it could be brought back to its feet.
- **2021:** There was a revision in 2021 which made recognition far more stringent. Even if the asset is standard and there is no problem with it, banks are expected to make provisions depending on the risk element for that sector. Like home loans with teaser rates are at greater risk than those that are not. Hence provisions have to be made for such loans.
- **A National Asset Reconstruction Company Ltd. (NARCL)** was announced in the Union Budget for 2021-2022 to resolve stressed loans amounting to about 2 lakh crore in phases.

➤ **About Bad loan and NPA**

- **Bad Loan:** A bad loan is that which has **not been 'serviced'** for a certain period. **Servicing a loan** is paying back the interest and a small part of the principal depending on the agreement between bank and borrower.

✓ Bad loans are where there is less certainty that the loan would be paid back in full.

- **NPA:** 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.

• **Types of NPA:**

✓ **Sub Standard:** A sub-standard asset is one that is classified as an NPA for a period not exceeding twelve months.

✓ **Doubtful:** A doubtful asset is one that has remained as an NPA for a period exceeding twelve months.

✓ **Loss:** A loss asset is one where loss has already been identified by the bank or an external institution, but it is not yet completely written off, due to its recovery value, however little it may be.

➤ **Causes and challenges related to NPA**

- **Lack of SWOT analysis:** The bank lends to the corporations/persons etc. whose creditworthiness is not guaranteed and thus taking a lot of high risks.
- **Lack of understandability:** The banks are not able to diminish their losses by a complete understanding of the sufficiency of the bank in terms of the loan or capital loss at a specific time frame.
- **Redirection of funds:** The funds are being redirected elsewhere by the promoters of the companies.
- **Investing in non viable projects:** The banks that try to fund projects that are not viable results in high NPAs.
- **Lack of information:** Not enough means to collect as well as distribute credit information in between the commercial banks.

- Non-efficient recovery of the debts from the overdue borrowers.
- Delay in legal procedures: Even if an NPA is fully recognised in a particular year, the fastest of legal processes may not resolve for full repayment.
- Delays in post-haircut payments: Not only do banks take significant haircuts when it comes to recovery but the amount to be repaid post-haircut may be delayed.
- Provisioning: The bad loans lead to banks having to save a part of their operating revenue to account for bad loans which is called Provisioning.
- Downfall in the share markets: Any reduction in the perceived valuation of the banks might lead to loss of share value of the banks, leading to general downfall in the share markets. This could result in wiping out shareholders' wealth from the financial markets.
- **Impact of NPAs on Financial Operations**
 - This reduces the profits of the banks.
 - This reduces a bank or financial institution's capital adequacy.
 - The banks have become averse to giving loans and taking risks of zero percent. Thus, the creation of fresh credit is debarred.
 - The banks start concentrating on the management of credit risk instead of the bank becoming profitable.
- **Way forward**
 - The transparent recognition of NPAs caused a rise in the percentage for gross loans from 4.1% in 2014 to 11.46% in 2018.
 - The government's strategy of recognition, resolution, recapitalisation and reforms has helped NPAs to decline to 5.9% by 2022.
 - Taking a person/corporation's CIBIL score before lending a loan or finance to the person/corporation.
 - Usage of mechanisms for alternative dispute resolution mechanisms for receiving the settlements faster like the usage of Debt Recovery Tribunals and Lok Adalats.
 - The defaulters' information should be actively circulated so that they cannot opt for any other loans/finances from elsewhere.
 - Using the Asset Reconstruction Company's services.
 - Taking strict action against large NPAs. Legal reforms like the implementation of the Insolvency and Bankruptcy Code to be used.
 - Other Steps:
 - ✓ Proper implementation of Indradhanush plan.
 - ✓ Strengthening of Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI Act) and Debt Recovery Tribunals
 - ✓ Setting up of dedicated Stressed Asset Management Verticals (SAMVs) in banks for large-value NPA accounts etc.

PRELIMS

1. Systemically Important Banks

- **CONTEXT: State Bank of India, ICICI Bank, and HDFC Bank have again been named as Domestic Systemically Important Banks (D-SIBs) by the Reserve Bank of India (RBI).**
- **About**
 - SIBs are perceived as certain big banks in the country/world. They enjoy a huge customer base and also engage in cross sector activities and are perceived as 'Too Big to Fail (TBTF)'.
 - The system of D-SIBs was adopted in the aftermath of the 2008 financial crisis where the collapse of many systematically important banks across various regions further fuelled the financial downturn.
 - A failure of any of these banks can lead to systemic and significant disruption to essential economic services across the country and can cause an economic panic.
 - As a result of their importance, the government is expected to bail out these banks in times of economic distress to prevent widespread harm.
 - D-SIBs follow a different set of regulations in relation to systemic risks and moral hazard issues.
 - There are two types of SIBs:
 - ✓ Global SIBs: They are identified by BCBS (BASEL Committee on Banking Supervision)
 - ✓ Domestic SIBs: They are declared by Central Bank of the country
- **How are D-SIBs determined?**
 - Since 2015, the RBI has been releasing the list of all D-SIBs.
 - They are classified into five buckets, according to their importance to the national economy.
 - In order to be listed as a D-SIB, a bank needs to have assets that exceed 2 percent of the national GDP.
 - The banks are then further classified on the level of their importance across the five buckets.

- ICICI Bank and HDFC Bank are in bucket one while SBI falls in bucket three, with bucket five representing the most important D-SIBs.
- **What regulations do these banks need to follow?**
- Due to their economic and national importance, the banks need to maintain a higher share of risk-weighted assets as tier-I equity.
- SBI, since it is placed in bucket three of D-SIBs, has to maintain Additional Common Equity Tier 1 (CET1) at 0.60 percent of its Risk-Weighted Assets (RWAs).
- ICICI and HDFC on the other hand, have to maintain Additional CET1 at 0.20 percent of their RWA due to being in bucket one of D-SIBs.

2. **Savitribai Phule**

➤ **CONTEXT: Recently nation observe her 192nd birth anniversary**

➤ **About**

- A Dalit woman from the Mali community, Savitribai was born on January 3, 1831, in Maharashtra's Naigaon village. Married off at the tender age of 10, her husband Jyotirao Phule is said to have educated her at home. Later, Jyotirao admitted Savitribai to a teachers' training institution in Pune. Throughout their life, the couple supported each other and in doing so, broke many social barriers.
- At a time when it was considered unacceptable for women to even attain education, the couple went on to open a school for girls in Bhidewada, Pune, in 1848. This became the country's first girls' school.

➤ **The loud opposition to Phules' schools**

- The Phules opened more such schools for girls, Shudras and Ati-Shudras (the backward castes and Dalits, respectively) in Pune, leading to discontent among Indian nationalists like Bal Gangadhar Tilak. They opposed the setting up of schools for girls and non-Brahmins, citing a "loss of nationality", and believing not following the caste rules would mean a loss of nationality itself.
- The opposition to the couple was so hostile that eventually Jyotirao's father Govindrao was forced to kick them out of his house.
- Savitribai herself faced great animosity from the upper castes, including instances of physical violence.
- When serving as the headmistress of the first school in Bhide Wada, upper-caste men often pelted stones and threw mud and cow dung on her.
- But this would not deter the work and the schools came to be hailed as a success. One report from 1852 in The Poona Observer states, "The number of girl students in Jotirao's school is ten times more than the number of boys studying in the government schools. This is because the system for teaching girls is far superior to what is available for boys in government schools."

➤ **Phule's role as a social reformer, beyond education**

- Along with Jyotirao, Savitribai started the Balhatya Pratibandhak Griha ('Home for the Prevention of Infanticide') for pregnant widows facing discrimination. This was inspired by a turn of events wherein a young Brahmin widow was sentenced to life imprisonment in the Andamans after she killed her newborn child. The man who had raped the illiterate widow refused to take up any responsibility for the child, driving the widow to infanticide.
- Savitribai Phule also advocated inter-caste marriages, widow remarriage, and eradication of child marriage, sati and dowry systems, among other social issues. The Phules also adopted Yashwantrao, the child of a widow, whom they educated to become a doctor.
- In 1873, the Phules set up the Satyashodhak Samaj ('Truth-seekers' society'), a platform open to all, irrespective of their caste, religion or class hierarchies, with the sole aim of bringing social equity. As an extension, they started 'Satyashodhak Marriage' – a rejection of Brahmanical rituals where the marrying couple takes a pledge to promote education and equality.
- The couple also set up 'Balyata Pratibandak Gruha', a childcare centre for the protection of pregnant widows and rape victims. Urging women to break free of caste barriers, Savitribai encouraged them to sit together at her meetings.
- At her husband's funeral procession on November 28, 1890, Savitribai again defied convention and carried the tite (earthen pot). Walking ahead of the procession, Savitribai was the one who consigned his body to the flames, a ritual which is still predominantly carried out by men.
- Setting an extraordinary example of living a life of compassion, service and courage, Savitribai became involved in relief work during the 1896 famine in Maharashtra and the 1897 Bubonic plague. She herself contracted the disease while taking a sick child to the hospital, and breathed her last on March 10, 1897.
- **Savitribai's literary works**
- Savitribai Phule published her first collection of poems, called Kavya Phule ('Poetry's Blossoms'), at the age of 23 in 1854. She published Bavan Kashi Subodh Ratnakar ('The Ocean of Pure Gems'), in 1892.

- Besides these works, Matushri Savitribai Phlenchi Bhashane va Gaani (S'avitribai Phule's speeches and songs'), and her letters to her husband have also been published.

3. For first time in many years, no rhinos poached in Assam in 2022

➤ **CONTEXT: Assam Chief Minister Himanta Biswa Sarma announced on January 1 that no rhinos were poached in the state in 2022**

- Anti Rhino poaching efforts have yielded spectacular results. There has been no rhino poaching in Assam in Year 2022. Last poaching was on Dec 28th 2021 at Hilakunda, Kohora in Golaghat district. We would strive to keep the graph flat

➤ **Indian rhinoceros**

- The Indian rhinoceros (Rhinoceros unicornis) is found only in the Brahmaputra valley, parts of North Bengal, and parts of southern Nepal. It has a single black horn that can grow up to 60 cm, and a tough, grey-brown hide with skin folds, which gives the animal its characteristic armour-plated look.

- The Indian rhino is listed as vulnerable (better than endangered, worse than near threatened) in the IUCN Red List; it was earlier placed in the endangered category.

According to WWF the "recovery of the greater one-horned rhino is among the greatest conservation success stories in Asia".

- According to the WWF, there are around 3,700 Indian rhinos in the wild today. Assam's Kaziranga National Park (KNP) alone has 2,613 animals, according to a census carried out in March 2022. There are more than 250 other rhinos in the Orang, Pobitora, and Manas parks.

➤ **Rhino poaching**

- Rhinos have been poached for their horn, which is prized in some cultures. An Assam Forest Department release in 2021 said "ground rhino horn is used in traditional Chinese medicine to cure a range of ailments, from cancer to hangovers, and also as an aphrodisiac"; in Vietnam, a rhino horn is considered a status symbol. "Due to demand in these countries, poaching pressure on rhinos is ever persistent against which one cannot let the guard down," the release said.
- In 2019, the Assam government constituted a Special Rhino Protection Force to keep a check on rhino poaching and related activities at Kaziranga National Park (KNP). On September 22, World Rhino Day, in 2021, almost 2,500 rhino horns were burnt publicly in Bokakhat in KNP to "bust myths about rhino horns", and to send "a loud and clear message to the poachers and smugglers that such items have no value".



ANSWER WRITING

Q. Millet production can be a solution in tackling prolonged problems of hunger and malnutrition. Explain this statement. Also discuss measures taken by government to promote millet production.

Millet is a collective term referring to a number of small-seeded annual grasses that are cultivated as grain crops, primarily on marginal lands in dry areas in temperate, subtropical and tropical regions. Some of the common millets available in India are Ragi (Finger millet), Jowar (Sorghum), Sama (Little millet), Bajra (Pearl millet), and Variga (Proso millet). India is the largest producer of millet in the world. It Accounts for 20 % of global production and 80% of Asia's production.

Importance of millets in solving issues

➤ **Of Hunger**

- Millets are harder and drought-resistant crops. They can grow under non-irrigated conditions even in very low rainfall regimes.
 - Millet production requires very short period to grow (70-100 days, as against 120-150 days for paddy/wheat).
 - Millets are Photo-insensitive (do not require a specific photoperiod for flowering) & resilient to climate change. Millets can grow on poor soils with little or no external inputs.
- **Of malnutrition**
- Millets are Nutri-cereals that are highly nutritious and known to have high nutrient content which includes protein, essential fatty acids, dietary fibre, B-Vitamins and minerals such as calcium, iron, zinc, potassium and magnesium. For example, Ragi is known to have the highest calcium content among all the food grains.
 - It can provide nutritional security and protect against nutritional deficiency, especially among children and women.
 - Millets can also help in tackling health challenges such as obesity, diabetes and lifestyle problems as they are gluten-free and are high in dietary fibre and antioxidants.
- **Steps taken by government to promote millet production**
- Initiative for Nutritional Security through Intensive Millet Promotion (INSIMP) where Government announced an allocation of Rs. 300 crores in 2011-12 under Rastriya Krishi Vikas Yojana for promotion of millets as Nutri-cereals.
 - The government has hiked the Minimum Support Price of Millets to incentivize farmers to produce millets. Further, to provide a steady market for the produce, the government has included millets in the public distribution system.
 - Efforts are also being made to include the nutrient-rich smaller millets in the mid-day meal schemes in government and government-aided schools in Karnataka and Telangana.
 - The Government of India's Millet Mission which comes under the National Food Security Mission (NFSM) was launched in October 2007.
 - The government has introduced provision of seed kits and inputs to farmers, building value chains through Farmer Producer Organisations and supporting the marketability of millets.

The ongoing changes in climatic conditions, rising food insecurity and population and unhealthy environment has increased the importance of millets which is also being recognized by united nations general assembly by declaring year 2023 as international year of millets. There is a need to increase the yield of millets which can be done through application of biotechnology and research & development. This will not only solve nutrient deficiency and hunger issues but also sustain the development process by fulfilling the nutritional needs of rising population.

MCQs

1. With reference to the Greater One-horned Rhinoceros, consider the following statements:

1. It is identified by a single black horn and a grey-brown hide with skin folds.
2. This species of rhino found in India only.

Which of the statements given above is/are correct?

- a) **Only 1**
 - b) Only 2
 - c) Both 1 and 2
 - d) Neither 1 nor 2
2. In which of the following areas is the contribution of Savitribai Phule highly acclaimed?
- a) Upliftment of Scheduled Castes
 - b) Resettlement of poor people
 - c) **Education of women**
 - d) Education of the slum children
3. Consider the following statements
1. The Financial Stability Board (FSB), in consultation with the International Monetary Fund and national authorities, has identified Global Systemically Important Banks (G-SIBs)
 2. In order to be listed as a Domestically -SIB, a bank needs to have assets that exceed 2 percent of the national GDP

Which of the above statement/s is/ are correct?

- a) 1 only
- b) 2 only
- c) **Both 1 and 2**
- d) Neither 1 nor 2

4. 'Basel III Accord' or simply 'Basel III', often seen in the news, seeks to:
- Develop national strategies for the conservation and sustainable use of biological diversity
 - Improve banking sector's ability to deal with financial and economic stress and improve risk management**
 - Reduce the greenhouse gas emissions but places a heavier burden on developed countries
 - Transfer technology from developed Countries to poor countries to enable them to replace the use of chlorofluorocarbons in refrigeration with harmless chemicals
5. Consider the following statements regarding the "recapitalisation of banks":
- Recapitalisation of Banks is injecting additional capital into banks to bring them up to capital adequacy standards.
 - Recapitalisation of Banks is targetted at state-owned banks only.
- Select the correct statements from the codes below:
- 1 only
 - 2 only
 - Both 1 and 2**
 - Neither 1 nor 2
6. The Wall of Peace, a great work of modern mural art on compound wall of a Government School in pallakad district of Kerala, was inaugurated recently, with reference to Kerala Murals, Consider the following statements:
- The artist seems to have derived sources from oral traditions and local versions of the Ramayana and the Mahabharata for painted narration.
 - Kerala painters adopted certain stylistic elements from Nayaka and Vijayanagara schools.
- Which of the statements given above is/are correct?
- 1 only
 - 2 only
 - Both 1 and 2**
 - Neither 1 nor 2
7. With reference to coffee Board of India consider the following
- The Coffee Board is a statutory organization.
 - The Board is mainly focusing its activities in the areas of research, extension, development, market intelligence, external & internal promotion, and welfare measures.
 - It is headquartered in Kerala.
- Which of the above statement/s is/are not correct?
- 1 and 2 only
 - 2 only
 - 2 and 3 only
 - 3 only**
8. Nityanad Rai committee often mentioned in news is related to which of the following?
- Protection of land and employment for the people of Ladakh**
 - Protection of land in Jammu and Kashmir
 - Reduce crime rate in Delhi NCR
 - Common language
9. With reference to Online Gaming in India, consider the following statements:
- The term 'game of skill' has not been clearly defined in the Public Gaming Act (1867).
 - Department of Sports, a division of the Ministry of Youth Affairs and Sports regulates online gaming in India.
- Which of the above statements is/are correct?
- 1 only**
 - 2 only
 - Both 1 and 2
 - Neither 1 nor 2
10. Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS) 2022 report was in news recently, it is released by
- UNICEF
 - WHO**
 - World Bank
 - World Economic Forum