

R. B. I. S. B. [OFFICER-Gr.B— (DEPR)]**Panel Year 2016****PAPER III - (ENGLISH)****(Duration — 3 Hours)****(Maximum Marks — 100)***Instructions.*—(1) All questions are *compulsory*.(2) Figures to the right indicate *full* marks to each question.

(3) Each question should be answered on a new page and the question number must be written on the top.

(4) The answers of parts of the same question, if any, should be written together. In other words, the answer of one question should not intervene between the parts of the answers of another question.

(5) The *Precis* and its title should be written on the *Precis* sheet only.

(6) Marks will be deducted if an answer far exceeds or falls short of the set limit or if the handwriting is illegible.

(7) Answers must be written only in *English*.(8) Candidate should use only **Blue** or **Black** ink pen/ball point pen to write the answers.

(9) The Name, Roll No. and other entries should be written on the answer script at the specified places only and this should not be written anywhere else on the answer script and supplements.

Marks

1. Write an essay of about 500 words on any *one* of the following topics : (40)
- Fund-raising Environment in the Startup Sector.
 - Will the UK Real Estate fund issues impact India?
 - 'Minimum government; Maximum governance'.
 - 25 years of reforms that changed India.
 - Will the Centre's liquidity support to PSU banks boost lending operations?

2. (a) Make a *precis* of the following passage reducing it to 220 words and give it a suitable title : (24)

(Write the *precis* and the title only on the sheet provided for this purpose)

With the macroeconomic environment improving and some green shoots becoming visible in the economy, the possibility of ratings upgrades for some sectors has increased. But the ratings industry has come under the regulator's scanner for failing to anticipate some defaults. We expect a further expansion of about 50 bps (basis points) in GVA (gross value added) growth this fiscal year. This is primarily based on the expectation of continued strength in consumption demand with urban consumer demand further enhanced by pay revision of government employees and a pickup in rural demand, boosted by a better monsoon. While pay revision and a favourable monsoon would exert counteracting forces on inflation, the outlook nevertheless remains relatively moderate, suggesting a continued possibility of further rate cuts.

[*Turn over*]

Additionally, improved transmission should engender a softening bias to interest rates that would also support consumption growth. We see some evidence of green shoots in certain sectors, including growth in road traffic, diesel consumption, domestic travel, commercial vehicles and scooter demand. It is important that the upturn is sustained and gets more broadbased. With sustained growth in consumption demand, we do expect a gradual pickup in private sector investments, especially, sectors that cater to domestic demand.

While private sector capital investment in infrastructure is unlikely to show any significant traction in the near term, government/public sector projects in roads, railways and power transmission will continue to support growth. With the bottoming out of commodity prices and sluggish exports, the current account deficit is likely to widen to \$30 billion in FY17 from \$22 billion in FY16. Nevertheless, it is expected to remain modest at around 1.3% of GDP. Moreover, the anticipated capital inflows, particularly through FDI (foreign direct investment), should cover the same comfortably.

As far as the ratings business is concerned, it is a business of derived demand. When economic activity picks up, financial markets typically do well, as the requirements for companies to raise funds also goes up, though there is a greater delta when capital investment also picks up. In the short term, growth in debt markets will be driven by a pickup in working capital requirements and refinancing activity with softer interest rates as well as comfortable liquidity in the system. We have already witnessed a pickup in short term commercial paper issuance.

The credit quality cycle has been weak for the last couple of years. So, any improvement has to be seen in the context of a lower base. Notwithstanding this, we do expect an improvement in credit quality for businesses that were impacted, primarily, due to the cyclical slowdown with the pickup in the economy, improved liquidity and softer interest rates. Entities that were impacted due to overleveraging, with exposure to unviable projects, and won due to aggressive bids, may not further contribute to the decline but are unlikely to see any improvement in the medium term. Similarly, businesses exposed to global markets, including commodities, are unlikely to see any improvement, unless there are structural improvements either in their cost competitiveness or financial structure.

The banking sector will show some increase in reported NPA (non-performing asset) numbers for some more quarters. This is because there is a lag in the way NPAs get recognised. Hence, there may be some pain for a couple of more quarters. The good thing is that many of these stressed assets have been recognised or are in the process of being recognised. To that extent, uncertainty is lower. The entire system seems well focused on delinquent assets. However, even when the NPA build-up slows down, credit costs are likely to remain high and continue to weigh on banks' profitability. Banks need to find opportunities to grow in profitable segments with lower credit risks to break the vicious cycle. While the retail segment appears to be the flavour of the season, banks would need to exercise caution as competition has impacted risk-return matrix in a few segments. To maintain quality in the retail segment, robust underwriting, monitoring and recovery systems are critical.

- (b) Answer any *two* of the following questions on the passage, briefly in your own words : (10)
- (i) Which two factors are expected to stimulate gross value added growth for our economy?
 - (ii) What, according to the writer, would offset the current account deficit?
 - (iii) 'Rating Business is a business of derived demand'- Elucidate.
 - (iv) What is expected to improve the credit quality of business?
- (c) Explain briefly the contextual meaning of any *three* of the following terms in the passage : (6)
- (i) engender a softening bias
 - (ii) bottoming out
 - (iii) cyclical slowdown
 - (iv) to overleverage
 - (v) delinquent assets
 - (vi) to break the vicious cycle
3. Attempt any *one* of the following in about 250 words : (20)
- (a) Recently there has been an unprecedented increase in the prices of essential commodities. The Union Government's Economic Advisory Council has constituted a committee to examine the problem and suggest measures to rein in the price hike. Draft the committee's report with recommendations.
 - (b) A senior citizen who has been holding an account in your bank for quite sometime has complained to you against levy of penalty for noncompliance of KYC norms and for not maintaining a certain amount as minimum balance in his account. As the Manager of the bank draft a suitable reply.
 - (c) The RBI is very much concerned about the increasing incidences of fraud caused by the indiscreet use of credit/debit cards and by erroneous use of net banking facility. On behalf of the RBI draft a circular to all banks, enumerating precautionary measures that the banks ought to take in order to prevent this pattern of fraud.
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