

Course correction – Interim bailout: RBI surplus to govt

A system for sharing the RBI's surpluses with the Centre must be quickly institutionalised

The decision of the central board of the Reserve Bank of India to transfer an interim surplus of Rs. 28,000 crore to the Centre should come as a big relief to the Modi government. Together with the Rs. 40,000-crore final surplus share for 2017-18, which the Centre received in the first half, the total receipts from the RBI this fiscal will be a tidy Rs. 68,000 crore. For a government strapped for finances and struggling to meet the revised fiscal deficit target of 3.4% of GDP, the RBI's largesse will be handy. The total surplus received by the Centre for 2018-19 is substantially higher than the Rs. 50,000 crore it got from the RBI in 2017-18, and this is the second successive year the central bank is making an interim transfer: last year it transferred Rs. 10,000 crore. Though there is nothing wrong in a shareholder demanding an interim dividend payout, the fact is that the Centre is advancing a receipt from the next fiscal to bail itself out in the current one. Should the RBI decide not to repeat this practice, the government's revenues will suffer because as much as Rs. 82,911 crore has been budgeted on this count for the next fiscal. Again, the central bank is not like a corporate enterprise, nor can the government compare itself with a company shareholder. The RBI's income and surplus growth cannot be measured in commercial terms since a large part of it comes from statutory functions it has to perform as a regulator.

The large payout this fiscal is bound to raise eyebrows, especially because of the recent history of conflict between the RBI and the Centre over the sharing of the former's accumulated reserves as dividend with the Centre. Pressure on this count was said to be a major reason for the resignation of Urjit Patel as RBI Governor. Though the practice of an interim payout started under Mr. Patel, there are inevitable questions over whether there was pressure from the Centre now for the transfer of a higher sum than last year. This is because the Centre had in the Interim Budget bumped up receipts under this head from the central bank, nationalised banks and other financial institutions to Rs. 74,140 crore from the original estimate of Rs. 54,817 crore made in the 2018-19 Budget. Clearly, the Finance Ministry knew what it wanted. There will, hopefully, be a system and a structure in place once the committee under former RBI Governor Bimal Jalan, that is now reviewing the economic capital framework for the RBI, submits its report. It was constituted to de-personalise and institutionalise a system for the sharing of the RBI's surpluses with the **government**, and is expected to come out with its recommendations by the end of the next month.

Meanings of Difficult Words :

- **Interim** - temporary and intended to be used or accepted until something permanent exists
- **Bailout** - the act of helping a person or organization that is in difficulty, usually by giving or giving or lending money
- **Surplus** - an amount of money or goods that is left because a country or business has more than it needs
- **Institutionalise** - to give something a formal or official structure
- **Tidy** - (of amounts of money) large

- **Fiscal deficit** - a fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings
- **Handy** - useful or convenient
- **Surplus** - (an amount that is) more than is needed
- **Substantially** - to a large degree
- **Successive** - happening one after the other without any break
- **Shareholder** - a person who owns shares in a company and therefore gets part of the company's profits and the right to vote on how the company is controlled
- **Dividend** - part of the profit of a company that is paid to shareholders
- **Payout** - a large amount of money that is paid to someone
- **Statutory** - controlled by a law or statute
- **Regulator** - an official who makes certain that the companies who operate a system, such as the national electricity supply, work effectively and fairly
- **Raise eyebrows** - to show surprise by moving your eyebrows upwards
- **Conflict** - an active disagreement between people with opposing opinions or principles
- **Former** - the first of two people, things, or groups previously mentioned
- **Accumulate** - to collect a large number of things over a long period of time
- **Inevitable** - certain to happen and unable to be avoided or prevented
- **Bumped up** - to increase the amount or size of something
- **Framework** - a system of rules, ideas, or beliefs that is used to plan or decide something

Course correction – Clean power

A viable financial mechanism must be evolved to remove pollutants in power plants

The effort to clean up India's thermal power plants running on coal has never really taken off, despite the Ministry of Environment notifying emission limits for major pollutants such as suspended particulate matter, sulphur oxide, nitrogen oxide and mercury in December 2015. Considering that the cumulative impact of these pollutants on the health and well-being of people is severe, the Centre should have followed up the notification with a viable financial plan to help power plants acquire pollution control technologies. The economics favours such an approach for the larger plants, while for the smaller, older units, scaling down generation during the winter months when pollutants accumulate may prove beneficial. Originally, the compliance deadline was set for 2017, but that was missed and the plan now is to achieve the norms by 2022. Unofficial estimates prepared by one NGO, Greenpeace India, suggest the estimated cost of non-compliance by the original deadline has been about 76,000 premature deaths. Benefit-cost projections from another non-profit, the Center for Study of Science, Technology and Policy, put the positive outcomes from achieving pollution control at coal-fired plants by 2025 at potentially 3.2 lakh lives saved from premature death, and Rs. 5.2 crore respiratory hospital admissions avoided in the next decade. These are outcomes that need to be pursued seriously. It is in this context that the latest

proposal from the Power Ministry to provide the equivalent of over \$12 billion (about Rs. 88,000 crore), mainly to remove sulphur from coal plant emissions, becomes important.

A viable financial mechanism must be evolved to remove pollutants in existing and upcoming power plants, without losing sight of the need to stop further long-term investments in a dirty fuel such as coal that contributes to carbon emissions. Optimally, the burden of incorporating pollution control should fall on the beneficiary-user, which in simple terms would translate into a tariff hike. On the other hand, achieving speedy implementation of the new processes covering both public and private power producers may require some form of immediate governmental support, such as grants. This is particularly relevant, given that power producers that have borrowed from several institutions, including state-funded ones, are reported to be under severe financial stress. India's coal use represents just over 54% of the present energy mix, and the fuel will continue to retain a high share of the overall generation. The challenge, therefore, is to identify the right instruments to fund the entire exercise, in the interests of pollution control and the wider social objective of extending electricity access to the unreached. There could be a positive spin-off from sulphur-removal, since it can yield commercially significant quantities of synthetic gypsum. But even if little else accrues from the effort, the benefits of clean air to public health would make the investment well worth the effort.

Meanings of Difficult Words :

- **Viable** - able to work as intended or able to succeed
- **Evolve** - to develop gradually, or to cause something or someone to develop gradually
- **Pollutant** - a substance that pollutes
- **Thermal power plant** - a power station in which heat energy is converted to electric power
- **Despite** - without being influenced or prevented by
- **Notify** - to tell someone officially about something
- **Emission** - the act of sending out gas, heat, light, etc
- **Particulate** - an extremely small piece of dirt, especially one produced by road vehicles, that causes pollution
- **Cumulative** - increasing by one addition after another
- **Impact** - an effect, or an influence
- **Well-being** - the satisfactory state that someone or something should be in, that involves such things as being happy, healthy, and safe, and having enough money
- **Severe** - a severe problem is very serious and worrying
- **Viable** - able to be done, or worth doing
- **Acquire** - to get something
- **Scale down** - to make something smaller in size, amount etc than it used to be
- **Compliance** - the practice of obeying a law, rule, or request
- **Non-compliance** - failure to follow an official rule or obey a law
- **Premature** - happening too soon or before the usual time
- **Benefit-cost projection** - a comparison of the likely costs of a plan or project with the benefit it will bring, done in order to help make a decision

- **Non-profit** - a non-profit organization works to help people in some way rather than to make a profit
- **Outcome** - the final result of a process, meeting, activity etc
- **Respiratory** - relating to the process of breathing air in and out
- **Optimally** - in the way that is most likely to bring success or advantage
- **Incorporate** - to add or include something as a part of something else, for example as a part of an arrangement or a document
- **Beneficiary** - someone who gets an advantage from a situation
- **Tariff** - a tax that a government charges on goods that enter or leave their country
- **On the other hand** - used for giving two different opinions about something
- **Spin-off** - something good that happens unexpectedly as a result of something else
- **Significant** - very large or noticeable
- **Accrue** - if benefits and advantages accrue to you, you receive them

Course correction – **Mob rule: On Asia Bibi Blasphemy Case**

As the RBI's autonomy is debated, it needs to revisit its exclusive focus on inflation-targeting. Far from achieving a desirable 'monetary-fiscal coordination' in India today, the Reserve Bank of India (RBI) and the government give the impression that they are not on the same page even as far as an understanding of their roles is concerned. This may be seen in statements by them on websites, Twitter and in the old-fashioned mode of the public lecture given by the Finance Minister and a Deputy Governor of the RBI, respectively. The RBI suggests that its independence is being violated while the government rationalises its intervention in terms of its concern for the economy. How do we make sense of these positions?

Defining autonomy

Even at the time when the idea of central bank independence began to germinate some two decades ago, this was understood to mean a 'functional' independence. That is, the bank would be unconstrained by the government in its functioning, which includes both the instruments it uses and how it uses them. However, its autonomy was not to extend to 'goal' independence. What the goals of the central bank should be were to be chosen by the government without reference to the bank. The main issue here was whether the bank should focus on inflation alone or also on the level of employment. Within a decade of this debate, it had been conceded that the focus would be exclusively on the former, and monetary policy came to be identified with 'inflation targeting'.

Two points may be mentioned in this context. First, the **discourse** was solely among interlocutors from Western democracies, ensuring the issues were those related to their economies. Second, even as the major central banks of the world shifted to inflation targeting, in yet another example of American exceptionalism, the U.S. did not revise the goals of the Federal Reserve. It was to continue focus on maximising employment while keeping prices stable, a sensible recognition of a possible trade-off between these goals. In India where for close to a quarter century political parties of all hues appear to suggest 'what is good for America is the best for India', this has been missed. In 2015 the RBI was by law, in line with a "modern monetary policy", expected to target inflation. It was to remain the banking regulator though.

Once we are aware of how central bank independence was first sought to be understood and of the agreement between the RBI and the Government of India in 2015, it is not difficult to separate the grain from the husk in the public spat between the two playing out in the media. The issues of contention happen to be the corrective action to be taken for stressed banks, the prudential norms to be adopted by financial institutions, the easing of liquidity and the sharing of the surplus generated by the RBI. Here, barring the last, all others are in the RBI's bailiwick so to speak. On the other hand, on the sharing of the surplus, it is understood that the Government of India legally is the owner of the surplus generated by the country's public institutions. Even under this architecture, though, all care must be taken to ensure that the central bank's reserves are of a level commensurate with the extent of the financial sector and the potential degree of systemic risk from its malfunctioning, which can vary. So, we can't go just by formulae here.

Apart from the issue of sharing the surplus, the RBI should be left alone by the government to decide on the right course of action. This derives not so much from a notion of central bank independence as it does from the point of view of a **credible** governance policy. The Government of India would have chosen the Governor, participated in the choice of his deputies and had a say in the appointment of even the independent members of the central board of the RBI. In addition, the board has representatives of the government on it. It should now be left to this body to decide on the precise corrective action for banks with high NPAs, the desirable state of liquidity and the prudential norms to be observed by banks. The RBI is the banking regulator after all, and for the government to attempt to direct it would constitute micro-management.

Stability of the economy

Stepping away from legal niceties, there is reason to believe that some of the actions being sought to be imposed on the RBI today could **jeopardise** the stability of the economy. While acting as the lender of last resort can be stabilising, under no circumstances would it be advisable to lower **prudential** norms in the presence of stressed banks. The government's concern for the health of the medium and small enterprises is well-founded. After all, they were among the most affected sections following the demonetisation of 2016. If, in the spirit of **contriteness** as it were, the government wants to reach out to them, the right course would be to provide interest rate **subvention**, rather than to force the RBI to tweak its lending norms. There is a severe lack of judgment in loan melas promising online sanction in less than an hour. There is the suggestion in this of the political business cycle, a government trying to nudge the economy prior to an election. The resistance of the RBI top brass to this desperate action is understandable.

Whatever may be the misfeasance of the government in its recent dealings with the RBI, however, it would yet be acceptable to review its own performance in the sphere in which it has an **untrammelled** independence, namely monetary policy. Under this arrangement it has control over the interest rate. Over 2013-2018 there has been a 5 percentage point swing in the real interest rate in India, moving from a negative to a positive level, making it among the highest in the world, much higher than that of China. This is clearly the consequence of an exclusive policy focus on inflation from even before inflation targeting was formally adopted by Parliament in India. It may well have contributed to slow industrial and export growth, due to a real appreciation of the rupee, and a rise in NPAs even after their existence had been recognised. If this is the monetary policy that central bank independence brings with it, we might just be a little **skeptical** of the value of the independence itself.

Enabling job creation

There is a certain populism inherent in privileging inflation control to justify extraordinarily high interest rates. While it would be bad economics to tolerate high inflation, the absence of inflation by itself only benefits those in employment, it does not assure jobs to the unemployed. Thus a monetary policy that ignores the impact of its actions on unemployment is not **credible**. Interestingly, the government and the RBI have always **been on the same page** as far as inflation targeting is concerned. The populist message that inflation erodes the income of the poor conceals the possibility that in the implementation such a policy could hold back job creation by restricting investment. The rising current account deficit, the slow growth of employment and the disappointing performance of manufacturing, the sector most closely affected by high interest rates, should prompt us to review how monetary policy is conducted in India. In the past, the RBI had a 'multiple indicators approach' which paid attention to inflation, growth and the current account. This may not have borne the precision conveyed by 'inflation targeting' but it did answer to Keynes's **dictum**, "It is better to be vaguely right than to be precisely wrong." Pulapre Balakrishnan teaches economics at Ashoka University, Sonapat, Haryana

1. Sceptical (adj): Inclined to doubt or question claims. (If you are sceptical about something, you have doubts about it.)

Synonyms: Paranoid, Distrustful, Doubting, Incredulous, Suspicious

Antonyms: Credulous, Gullible, Trustful,

Example: The Prime Minister is sceptical and questions the timing of the new allegations.

2. Be on the same page (idiom): Of two or more people, thinking in the same manner; having the same general outlook or position.

Synonyms: Assenting, Accordant, Harmonious, Consenting

Antonyms: Discordant, Divergent, Dissident, Unlike

Example: We all need to **be on the same page** before we try to present this complex idea to the boss.

3. Untrammelled (adj): Not restricted or hampered or Someone who is untrammelled is able to act freely in the way they want to, rather than being restricted by something.

Synonyms: Unobstructed, Unfettered, Free

Antonyms: Checked, Impeded, Hindered

Example: I was an atheist, **untrammelled** by all the old superstitions.

4. Dictum (noun): A short statement that expresses a general truth or principle. (A dictum is a saying that describes an aspect of life in an interesting or wise way.)

Synonyms: Maxim, Axiom, Adage, Aphorism

Example: This review is only testament to that old over-used **dictum**: A picture is worth a thousand words.

5. Discourse (noun): Written or spoken communication or debate. (Discourse is spoken or written communication between people, especially serious discussion of a particular subject.)

Synonyms: Converse, Discussion, Lecture, Sermon, Speech

Example: Gender **discourse** is interwoven through national security discourse.

6. Jeopardise (verb): Put (someone or something) into danger of loss, harm, or failure; (To jeopardize a situation or activity means to do something that may destroy it or cause it to fail.)

Synonyms: Threaten, Endanger, Imperil, Menace

Antonyms: Save, Protect, Preserve

Example: They also tell him that he can never leave, since that risks **jeopardizing** the setup for them all.

7. Prudential (adj) : Involving or showing care and forethought, especially in business. (exercising prudence or sound judgment)

Synonyms: Chary, Prudent, Provident, Circumspect

Antonyms: Unwise, Careless., Injudicious

Example: According to **prudential** legislation, bank exposure to any single entity cannot exceed 25 per cent of its capital.

8. Subvention (noun): A grant of money, especially from a government. (a grant, aid, or subsidy, as from a government to an educational institution)

Synonyms: Subsidy, Grant, Appropriation, Aid

Example : They are only human, after all: if there are grants and **subventions** going, they will join the queue.

9. Contriteness (noun): Feeling regret and sorrow for one's sins or offenses.(If you are contrite, you are very sorry because you have done something wrong.)

Synonyms: Penitent, Attrition, Remorseful, Repentance

Antonyms: Satisfaction, Happiness, Felicity, Elation

Example: Then, falsely contrite , " I didn't mean to suggest you've ever hit a woman.

10. Credible (adj): Able to be believed. (Credible means able to be trusted or believed.)

Synonyms: Plausible, Acceptable, Trustworthy, Reliable

Antonyms: Implausible, Improbable, Incredible, Unbelievable

Example: When you put it like that his venture seems barely **credible**.

Word of the Day - "Mesmerize"

Mesmerize (Verb) :

Meaning:- If you are mesmerized by something, you are so interested in it or so attracted to it that you cannot think about anything else.

Synonyms: Enthral, Hold Spellbound, Entrance, Dazzle, Bedazzle, Bewitch, Charm, Captivate.

Antonym: Disgust, Disenchant, Repel, Enliven.

Example: I was so mesmerized by the book that I finished it on day first itself.

VOCAB WORDS:

Meanings of Difficult Words :

1. Trammel (verb): Deprive of freedom of action. (A restriction or impediment to someone's freedom of action.)

Synonyms: Stymie, Impede, Hinder, Encumber, Fetter

Antonyms: Facilitate, Unfasten, Unbind, Liberate

Example: Why was it so important to these interests to **trammel** public higher education?.

2. Magnanimity (noun): The fact of being generous and kind, esp. toward a competitor or enemy: (Magnanimity is kindness and generosity towards someone, especially after defeating them or being treated badly by them.)

Synonyms: Generosity, Munificence, Benevolence, Philanthropy

Antonyms: Selfishness, Pettiness, Meanness

Example: He returned to the shop wreathed in **magnanimity** and blinding smiles.

3. Ardent (adj): Very enthusiastic or passionate. (Ardent is used to describe someone who has extremely strong feelings about something or someone.)

Synonyms: Fervent, Fervid, Zealous, Vehement

Antonyms: Apathetic, Indifferent, Stoic, Frigid

Example: Their passion is not as **ardent**, but it is somehow deeper and more mature than when they first met.

4. Coercion (noun): Coercion is the act or process of persuading someone forcefully to do something that they do not want to do.

Synonyms: Duress, Compulsion, Intimidation, Browbeating

Antonyms: Convincing, Persuasion, Approval, Consent, Permission

Example: Her defence was the very unusual one of marital **coercion**.

5. Sagacity (noun): Ability to make good judgments and decisions. (Sagacity is the quality of being sagacious.)

Synonyms: Acumen, Profundity, Erudition, Acuity

Antonyms: Stupidity, Obtuseness, Imbecility

Example: This difficulty was abolished by the kindness and **sagacity** of Mr Atkinson, who had been my adviser throughout.

6. Sterling (adj): Of the highest quality (of a person or their work, efforts, or qualities) excellent or valuable.)

Synonyms: Excellent, Exceptional, Splendid, Praiseworthy, Valuable

Antonyms: Poor, Inferior, Mediocre, Wretched

Example: Yet experts warn it may be spooked by the slump in **sterling** and weaker economic prospects..

7. Secession (noun): The act of becoming independent and no longer part of a country, area, organization, etc. (The secession of a region or group from the country or larger group to which it belongs is the action of formally becoming separate.)

Synonyms: Apostasy, Recantation, Separation, Schism

Antonyms: Unification, Joining, Confederacy, Amalgamation

Example: In 1861, southern **secession** freed Republicans from the pressure to compromise to preserve the Union.

8. Intransigent (adj): Unwilling or refusing to change one's views or to agree about something. (not willing to compromise; obstinately maintaining an attitude)

Synonyms: Adamant, Inexorable, Obdurate, Stubborn

Antonyms: Flexible, Yielding, Pliant, Relenting

Example: This intransigent attitude left me no alternative but to cancel my account.

9. Unflinching (adj): Not showing fear or hesitation in the face of danger or difficulty.

Synonyms: Undaunted, Steady, Persistent, Fearless, Courageous

Antonyms: Wavering, Irresolute, Yielding, Fearful

Example: She uses this folk tale to take an **unflinching** look at the domain of the deep instinctive self.

10. Marshal (verb): Arrange or assemble (a group of people, especially soldiers) in order.

Synonyms: Gather, Assemble, Arrange, Deploy

Antonyms: Disperse, Scatter, Disorganise

Example: "You have got to have someone in there to **marshal** the troops.

:::QUOTE OF THE DAY:::

"Don't aim for success if you want it; just do what you love and believe in, and it will come naturally."

David Frost