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331. Public Sector Banks NPA: As of December 2017, India's listed banks had bad loans of the order of ₹8.4 lakh crore. RBI has done multiple bailouts of PSBs every 8-12 years. Help/bailout/recapitalisation happened in 1985, 1992, 2000, 2004 and 2017. The model of using public depositors money to lend for corporate/ infra projects has failed repeatedly. Government ownership and constant scrutiny of CBI / CVC have not helped make them cleaner or viable.

332. The Prompt Corrective Action (PCA) plan of RBI: Of the 19 PSBs, 11are under this plan. The PCA plan imposes a range of restrictions on bank operations, including issuance of dividends, branch expansion, new hires, and management compensations and fresh lending. In short, PCA reduces their threat to cause damage, but also limits their opportunities to revive with good lending. Private sector banks have an exit policy for those who do not perform. PSB jobs are secure for life even for non-performers as well as performers.

The work culture of PSBs, goes back to their nationalisation. Nationalisation gave banks the mandate "to further control the heights of the economy, to meet progressively, and serve better, the needs of the development of the economy and to promote the welfare of the people in conformity with the policy of the State."

In simple words, with nationalisation, the government was able to directly control bank deposits and steer them towards large public sector projects and priority sector lending. Public sector banking did not change much with economic liberalisation. In some ways, it worsened. RBI has done multiple bailouts of PSBs without finding a lasting solution. PSBs have needed a cleanup every 8-12 years. Help/bailout/recapitalisation happened in 1985, 1992, 2000, 2004 and 2017. The model of using public depositors money to lend for corporate/ infra projects has failed repeatedly. Government ownership and constant scrutiny of CBI / CVC have not helped make them cleaner or viable.

333. In 2013 the Financial Sector Legislative Reforms Commission (FSLRC) recommended that the central bank concentrate on setting monetary policy and regulating banks. The power to appoint deputy governors is with a finance ministry committee where the governor is a member. The interest rates decision has now formally moved to a monetary policy committee with voting. Three Steps are yet to be considered:

a) Apart from SBI, government should reduce its holdings in PSB's to 26% and give more autonomy to banks.
b) Allow more money from international funds, insurance & pension funds to finance projects and companies and move away from using depositor money.
c) Privatise some PSBs in the manner of Axis Bank, by progressively reducing government holding.

334. Legal powers of RBI as regulator: The finance minister appeared to question the regulator's role in the wake of the PNB fraud. "Regulators ultimately decide the rules of the game and have to have a third eye which is perpetually to be open and looking at the sector," Jaitley had said at ET's Global Business Summit. "But unfortunately, in the Indian system, we politicians are accountable, the regulators are not."

"The RBI's legal powers to supervise and regulate PSBs (public sector banks) are constrained. It cannot remove PSB directors or management, who are appointed by the Government of India, nor can it force a merger or trigger the liquidation of a PSB. "The RBI will undertake actions against the bank that it is empowered to but this set is limited under its Banking Regulation or BR Act powers over PSBs. RBI has limited legal authority to hold state owned bank board's accountable for strategic direction, risk profiles, assessment of management and compensation. However, it is responsible for monitoring as per the Financial Sector Assessment Programme of the World Bank and the International Monetary Fund.

335. India's economic growth in 2017-18 had slipped to a three-year low of 5.7% in Q1 April-June 2017 though it recovered in the subsequent quarters. The economy is expected to grow at 6.6 % in 2017-18, as per the second advanced estimates of the Central Statistics Office, compared to 7.1% in 2016-17. The earlier estimate was 6.5%.

India Development Update of the World Bank's bi-annual publication, March 2018, Indian economy is expected to grow at 6.7% in 2018 -19, and accelerate to 7.5% in 2019-20. The two lagging engines of growth are private investments and exports.

Observed that a growth of over 8% will require "continued reform and a widening of their scope" aimed at resolving issues related to credit and investment, and enhancing competitiveness of exports.

Unlike Economic Survey, higher private sector investments, revival of bank credit, making exports competitive and leveraging external conditions are the priority areas for reform, according to the World Bank report. Rising oil prices as a risk to economic growth is less of a risk than inflation and current account deficit.

336. GST 2017 as the biggest tax reforms[i]: Factors such as complex federal and state regulations and tax regimes have created friction and inefficiency within the economy, slowing down economic growth. The country has delivered GST as one of the biggest tax reforms in its history. The importance of making India 'one country, one market' by eliminating multiple layers of taxation, cost and complexity, cannot be understated. The benefits of GST will be felt not just in the tax take, but in the stimulus this reform will provide to the underlying economy. It reduces uncertainty for international and Indian businesses and has the double benefit of reducing compliance costs for business and the tax take for government.

337. State of Indian Economy in early June 2018:

a) Consumer inflation is rising.

b) the high fuel prices only make things worse
c) The high currency volatility is impacting the rise in petrol and diesel prices.
d) An interest rate hike could materialize, as the RBI looks to keep inflation under check.
e) And despite the windfall gains from high petroleum taxes, government finances look weak, even raising the prospect of a fiscal slippage.
f) At a time when growth is picking up pace, an interest rate could be a spoiler.
g) There is a clear rise in the cost of government borrowing.

338. Monsoon 2018: normal rainfall in the June-September season that delivers about 80% of India's annual rainfall and has a strong influence on agricultural output and rural sales of consumer goods. "Good monsoon rainfall is vital for rural areas where the majority of Indians live. Well distributed rainfall increases farm incomes, which boosts sales of consumer goods, gold, tractors, motorcycles and other goods. Monsoon is also crucial for filling up reservoirs for hydropower generation and post-monsoon supply of water for drinking and irrigation. Latest official data shows that water level in India's 91 major reservoirs is 83% of the level last year and 91% of the 10-year average.

339. The Rajya Sabha Elections in March 2018: was for 59 vacancies which is nearly one-fourth of the House. Before the elections BJP held 58 and Congress held 54 seats. BJP won 28 raising its tally to 69 while Congress is down to 50. The position of India's two leading coalitions in RS roughly mirrors their respective strengths in India's federation. More than 1,450 MLAs are from BJP but around 2,650 MLAs are from non-BJP parties. Non-BJP/ Congress parties won 21 of 59 seats while Congress got 10 seats.

340. Aspirational Districts Programme (ADP) aims to transform 115 Indian districts on basis of which of the following development parameters:

a) Lack of education skill development.
b) Lack of health and nutrition.
c) Lack of financial inclusion backward in agriculture and basic infrastructure.

The programme leverages the collective efforts of the central, state and local governments, and puts in place real-time monitoring mechanisms to measure progress. ADP, data is advancing policymaking in three important ways: strengthening analysis and monitoring, enhancing accountability and transparency, and taking into account the heterogeneity across districts and states.

341. The terms of reference of the 15th Finance Commission use 2011 population data for deciding devolution of funds to states against 1971 data used earlier would reduce fund flow to states that have done well on population control. Kerala, Karnataka, Andhra Pradesh and Puducherry will seek a change in the terms of reference to revert to 1971 population. Set up every five years, finance commissions decide on states' share in central taxes and horizontal distribution of this share among states. population proxies are used to assess needs in quantitative sense while 'income distance", which captures relative poverty of people, is used to assess qualitative needs.

a) The 14th Finance Commission had assigned a 10% weight to the 2011population to capture migration. Reportedly, preliminary estimates show that southern states would have received about ₹20,000 crore less, had the 14th Finance Commission exclusively used the 2011population figures.

b) The mandate to the Fifteenth Finance Commission to use the population figures of 2011 instead of 1971as a criterion while allocating among states their share of the taxes collected by the Centre. Kerala wants alternate ways of compensation to southern states.

c) It is difficult to sustain using the 1971 census figures that grossly under-represent the northern states, which are relatively underdeveloped as well. The equality consideration can be amended to accommodate underdevelopment, remote locations, poverty and special problems. To incentivise better performance, some weight can be given to positive achievements as

d) Availability of credit is as important as its cost. MPC may have a key role in determining the cost of credit. But when it comes to availability, the ball is in the bank's court. Banks alone have the unique ability to create money through 'credit creation'. n a scenario where RBI has placed 11 public sector banks (PSBs) under 'prompt corrective action' (limiting their ability to lend), and has restricted lending and wholesale deposit-taking by a few more, the ability of the banking system to create money is severely impaired. This impacts the cost of credit and, even more, its availability.

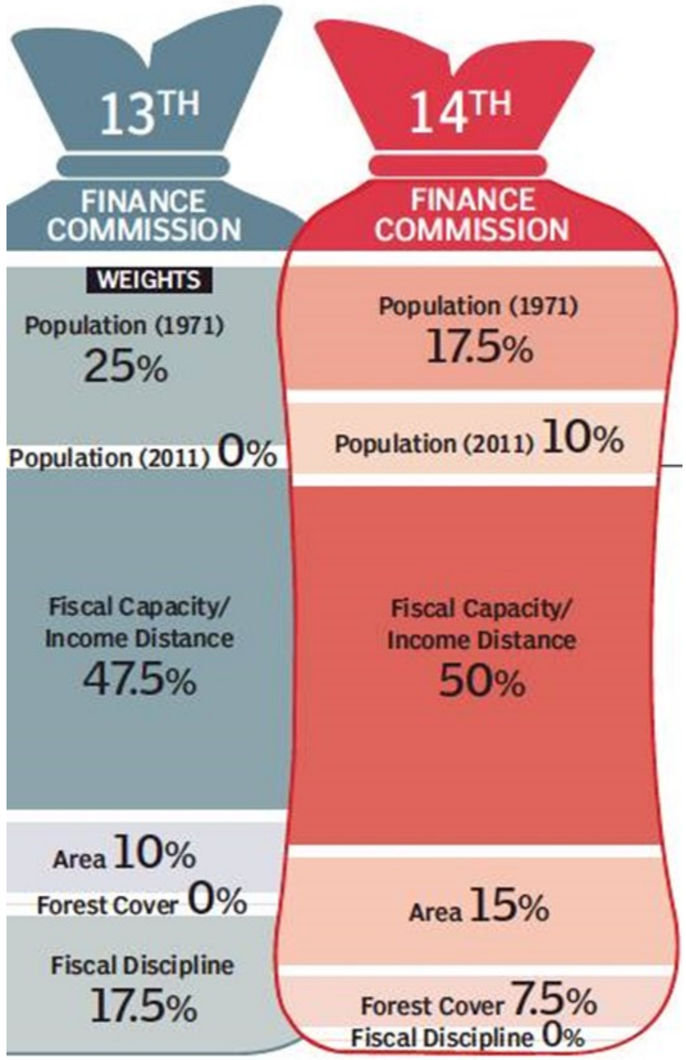
SHARE OF STATES IN INDIA'S POPULATION & WHAT IT MEANS FOR THE FC REVENUE PIE

States that will lose the most

State	1971	2011	Change
Tamil Nadu	7.5	6.0	-1.6
Kerala	3.9	2.8	-1.1
Andhra	7.9	7.0	-1.0
West Bengal	8.1	7.5	-0.5
Odisha	4.0	3.5	-0.5
Karnataka	5.3	5.0	-0.3
Total	**36.8**	**31.8**	**-5.0**

States that will gain the most

State	1971	2011	Change
J&K	0.8%	1.0	0.19
Haryana	1.8	2.1	0.3
MP	5.5	6.0	0.5
Bihar	7.7	8.6	0.9
Rajasthan	4.7	5.7	1.0
UP	15.3	16.5	1.2
Total	**35.7**	**40.2**	**4.5**



342. A new regulatory regime for higher education: The UGC mandate and the AICTE mandate are among key preparatory steps being taken by the government to shift to a new regulatory regime for higher education. These are less restrictive and strongly focus on establishing clear quality benchmarks.

a) The AICTE mandate was announced in May 2017 "to improve the standards of technical education and to provide competent technical manpower for the Make-in-India campaign"

b) The AICTE's seven-point mandate asked every technical education institute to introduce a mandatory induction training for every student on admission to prime her up on fundamental concepts and the language skills required for a career in the field.

c) It also called for three mandatory internships of 4-8 weeks for every student before graduation, reworking of the end of-the-year exam to tests on concepts, besides mandatory accreditation of every academic course to ensure it is in tune with industry benchmarks and subject-wise revisions of curriculum every year.

343. Situation in WTO due to US imposing of duties: The current attempt by the US to chip away at the basic structure of international trade by removing all components of predictability and paralysing the system by blocking crucial appointments is unprecedented.

The European Union and Canada initiated dispute complaints, under the World Trade Organization's (WTO) Dispute Settlement Understanding (DSU), with the US concerning tariffs imposed by Washington on steel and aluminum imports. This displays the raw might of both private and public actors to ride over consensus-based international rules, where smaller countries don't stand a chance. This may also push countries to take the Article 25 route of expeditious arbitration within WTO as an alternative means of dispute settlement, or the plurilaterals' route. As WTO deputy director-general Karl Brauner said at Ramirez's farewell, it remains to be seen if WTO was an achievement of civilisation, or only a temporary experiment.

The broad categories of actions are: US imposing 'safeguard' duties of 30% on imported solar cells and duties of 20-50% on imported large residential washers under Section 201 of DSU; US tariffs on imported steel and aluminum under Section 232; an action against China following a Section 301investigation of China's trade practices that 'discriminates' against US intellectual property; and a Section 232 investigation into auto and auto part imports that impacts the US auto industry. Japan, Russia and Turkey have similar 'rebalancing' plans submitted to the WTO's Goods Council. China has warned that the US action severely damages the stability of the multilateral trading system.

344. Replacing University Grants Commission: The Higher Education Commission of India (Repeal of University Grants Commission Act) Bill 2018 is to be introduced during the Monsoon Session of Parliament The UGC has come under heavy criticism over the years for its notorious inspection regime and restrictive regulatory mechanisms that have failed to nurture academic excellence in the university system.

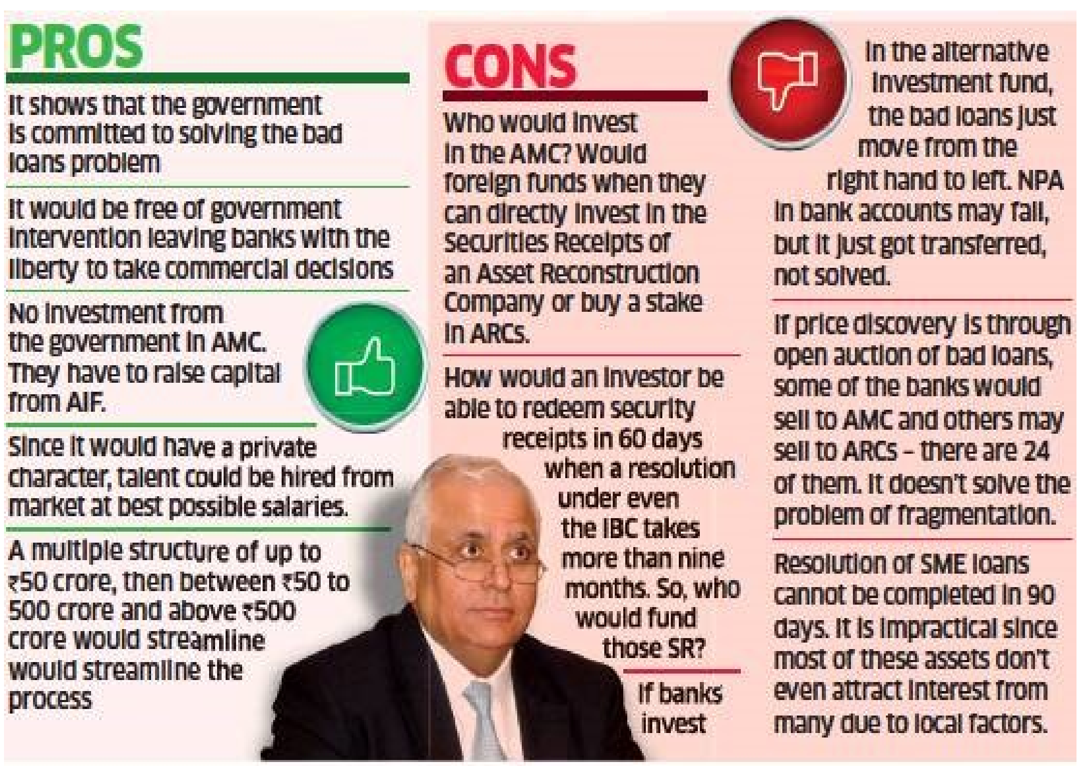
a) HECI will focus on setting benchmarks on academic quality and ensuring that those are strictly implemented by universities. All funding powers will now be vested with the human resources development ministry. It will have the power to penalise institutions in case of contravention of rules, order their closure or even order imprisonment of responsible authorities for up to three years depending on the gravity of the violations. it will authorise every institution for granting of degrees regardless of whether it is set up under a state or central law or is a private university.
b) The key thrust of the HECI will be on improving academic quality, improving learning outcomes, evaluation of academic performance by institutions, mentoring of deficient institutions and training of teachers.

345. Policy on Strategic sale of loss making CPSEs: In 2016, the government had issued guidelines for time bound revival or closure of loss-making CPSEs under which administrative ministries were required to achieve closure and sale of assets of these firms within 15 months of the cabinet approval for the same. A new category of 'weak CPSEs' was introduced to identify at an early stage entities that were at the risk of turning sick. There has been no strategic sale of any loss-making CPSE so far.

346. Project Sashakt: The alternate investment fund proposed by state-run banks under the five-pronged resolution plan will look to raise funds from domestic investors and sovereign wealth funds. Mehta headed a committee that drew up a detailed plan for resolution of stressed assets. Under the structure proposed to the government, the asset management fund would allow promoters to retain a less than 24% in the assets which it takes over for resolution.

a) Banks will consolidate their loans and approach the proposed asset management company for a faster and transparent resolution of loans.
b) "The lead bank in these cases, through inter creditor agreement, will be authorised to consolidate the asset spread across different lenders and invite bids through open auction.

c) The proposed AMC can also bid for these loans along with other interested parties such as asset reconstruction companies.
d) The AMC would follow all the extant guidelines including that under the Bankruptcy Code.
e) State-run banks are expected to take the lead in setting up the AMC for the resolution of loans above ₹500 crore under the five-pronged plan presented by the committee.
f) The proposed alternate investment fund will look to raise funds from domestic investors and will be open to sovereign funds as well. It will not raise funds from other categories of foreign investors.
g) The committee has recommended a five-pronged approach for loans up to ₹50 crore, between ₹50 crore and ₹500 crore, and above that.
h) There could be more than one AMC and the structure would be a market maker," Mehta said, adding that a lot of potential investors in stressed assets feel tied-up because the processes to buy these assets are too cumbersome and long drawn.



347. ‘Disruption’ as a policy of US in 2018: Due to adoption of ‘disruption’ of the existing global order by the United States, uncertainty has become the new normal. The impact is visible in the following trends:

a. Disruption provoked by new-age politics may end up course-correcting the liberal economic project.
b. Imminent transition is the search for political security arising from the complexity and unpredictable impact of global economic transactions.
c. US feels that the ‘global system’ it guarantees is now loaded against US interests resulting in its pull out from the Iran agreement, the Paris Climate Change treaty and the UN Human Rights Council
d. China was the first to play the aggressive nationalism card in the global economic conversation.
e. Classical geopolitics is making a comeback.

348. The Constitution is silent on the time period within which the Deputy Chairperson of the Upper House should be chosen. Article 89(2) of the Constitution states, “The Council of States shall, as soon as may be, choose a member of the Council to be Deputy Chairman thereof and, so often as the office of Deputy Chairman becomes vacant, the Council shall choose another member to be Deputy Chairman thereof.” There is also the precedent of the post of Deputy Chairperson remaining vacant for more than four months before Kurien became Deputy Chairperson on August 21, 2012. four months and 19 days after K Rahman Khan completed his term on April 2, 2012. The post of Deputy Chairperson remaining vacant does not affect the business of the Rajya Sabha. As per the rules of procedure, the Vice President appoints a panel of six Vice Chairmen “to preside over the House in the absence of the Vice President of India and the Deputy Chairperson”.

[i] Source : adapted from Thomas, Bill (2018) article Synergising to the New Globalisation. The author is Global Chairman, KPMG International. He was a speaker at the ET Global Business Summit held in New Delhi on February 23 and 24, 2018. Article Published in The Economic Times Delhi February 2018