



## FINANCIAL STABILITY REPORT

*News: Banks have capital to buffer any shock*

### Financial stability report:

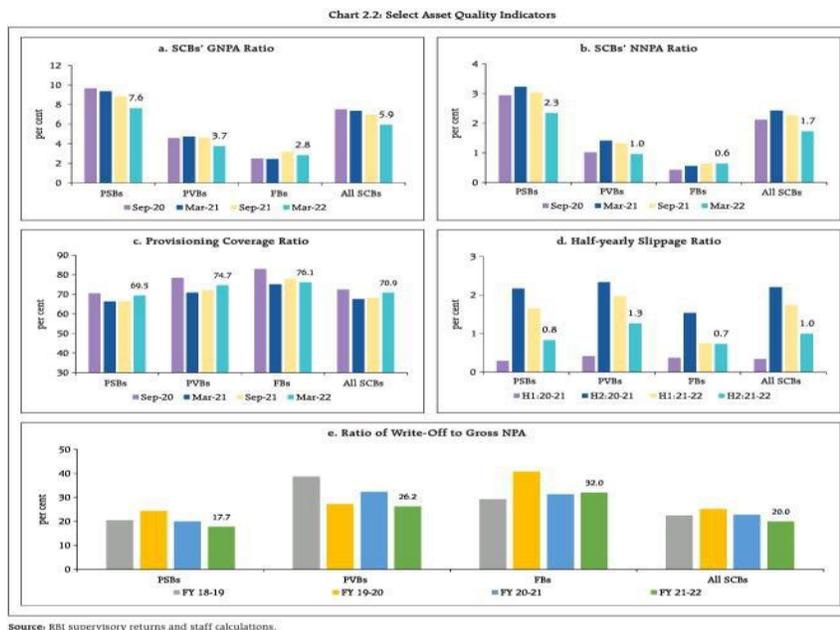
- It is a bi-annual report published by RBI.
- The RBI looks at the state of both the global as well as domestic economy.
- It reflects on risks to financial stability and the resilience of the financial system in the context of contemporary issues relating to development and regulation of the financial sector.
- It focuses on public and private banks with the following aspects:
  - Capital availability for working
  - Cost of NPAs and whether they are manageable
  - Credit flow in different sectors of the economy
  - Credit flow at personal levels (households)
  - Macro-financial risks in the economy
  - Macro-financial risks refer to the risks that originate from the financial system but affect the wider economy as well as risks to the financial system that originate in the wider economy.

### Recent findings:

- India's scheduled commercial banks as well as non-banking financial companies have sufficient capital buffers to withstand any shock that may emanate from the pandemic or the ongoing geo-political tensions in Europe.
- Banks had bolstered capital and liquidity positions while asset quality had improved. NBFCs remain well capitalised.
- Market risks are rising as spells of volatility are unleashed by foreign portfolio investment out flows and the sharp appreciation of the U.S. dollar.
- Global economy was shrouded by considerable uncertainty due to the war in Ukraine, elevated commodity prices, supply chain disruptions and darkening growth prospects.
- RBI also warns that Stagflation risks are mounting, as tightening financial conditions threaten to restrain the pace of growth.
- Given the global volatility and spillover risks to the Indian economy, India's financial system was well capitalised and returning to profitability.
- The external sector is well-buffered to withstand the ongoing terms of trade shocks and portfolio outflows.

## Asset Quality of SCBs continued to improve steadily through the year:

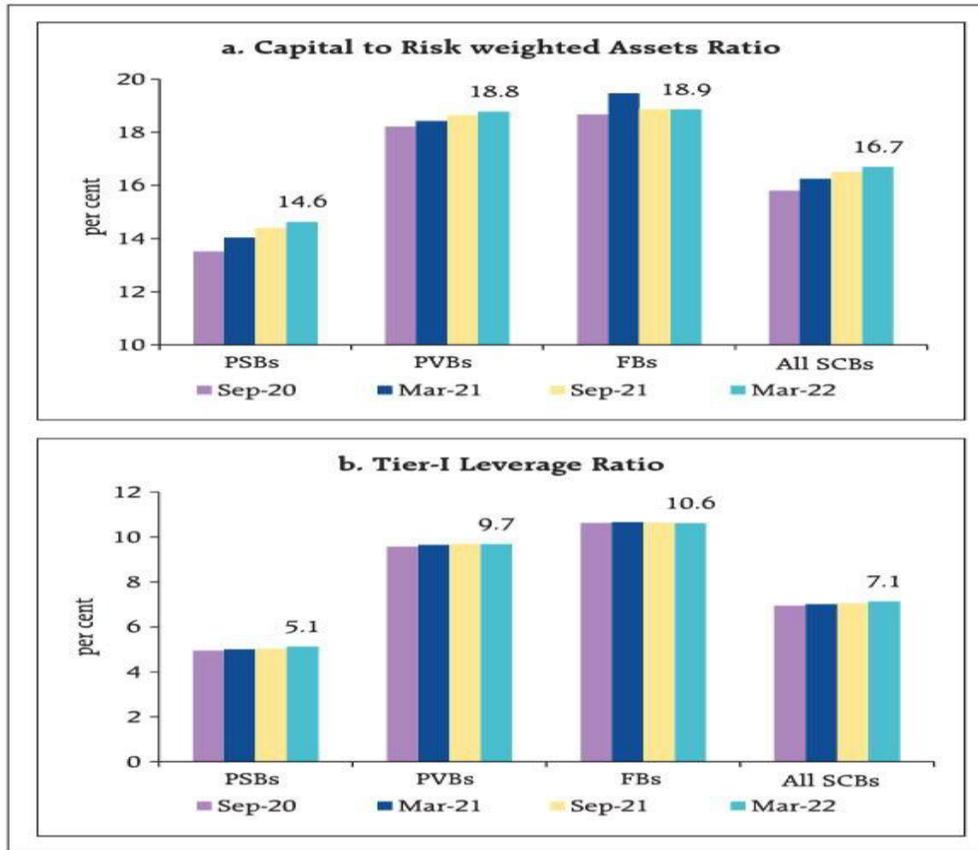
- With gross non-performing assets (GNPA) ratio declining from 7.4 per cent in March 2021 to a six-year low of 5.9 per cent in March 2022.
- Net non-performing assets (NNPA) ratio also fell by 70 bps during 2021-22 and stood at 1.7 percent at the year-end
- The provisioning coverage ratio (PCR4) improved to 70.9 per cent in March 2022 from 67.6 percent a year ago.
- The slippage ratio, measuring new accretions to NPAs as a share of standard advances at the beginning of the period, declined across bank groups during 2021-22.
- Write-off ratio declined for the second successive year to 20.0 percent in 2021-22.



## Capital raising and earnings retention by banks supported capital augmentation:

- The CRAR has been on the rise since March 2020, improving further to 16.7 per cent in March 2022. The CRAR of PVBs and FIs remained above 18 percent.
- The system level Tier-I leverage ratio has also been rising after March 2020 and stood at 7.1 percent in March 2022.

## Capital Adequacy



Source: RBI supervisory returns and staff calculations.

## Significance of FSR:

- The report helps in assessing the health of the financial systems of the economy.
- It helps as an Early Warning System in case of any financial issues.
- Coming from the Central Bank, it is reliable and the growth or fallouts can be trusted.
- Making the fallouts in the Report as points to work on will give the country a direction towards growth.

## Key definitions:

**Fiscal Deficit:** Fiscal Deficit is the difference between the total income of the government (total taxes and non-debt capital receipts) and its total expenditure. A fiscal deficit situation occurs when the government's expenditure exceeds its income.

**Gross NPA:** Gross non-performing assets refer to the sum of all the loans that have been defaulted by the borrowers within the provided period of ninety days while net non-performing assets are the amount that results after deducting provision for unpaid debts from gross NPA.



**Tier 1 Leverage ratio:** The tier 1 leverage ratio is the ratio of a bank's core tier 1 capital—that is, its equity capital and disclosed reserves—to its total risk-weighted assets. It is a key measure of a bank's financial strength that has been adopted as part of the Basel III Accord on bank regulation.

**Slippage ratio:** Fresh accretion of NPAs during the year or a falling below the current position of standard assets of the bank is a slippage. Let us take as an example that the gross NPA of a bank's last financial year is 12% and in the current financial year it is 15% due to fresh accumulation of bad loans. We call it a slippage of 3% in the current year.

## LEPROSY

**News:** *Concern over shortage of leprosy drug in private sector*

### What's in the news?

- Clofazimine, a key drug for treatment of leprosy, which had been in short supply in the Indian market for several months, is now “not available”, with the situation turning into a crisis over the past three months.
- Clofazimine is one of the three essential drugs in the Multi Drug Treatment of Multibacillary Leprosy (MB-MDT) cases, along with Rifampicin and Dapsone.
- Alternative three-drug regimens without Clofazimine are very costly and often not feasible.

### Leprosy-basic facts:

- Leprosy is still a dreaded disease with potential risk of transmission
- According to the World Health Organization (WHO), leprosy is endemic in several states and union territories of India, with the annual case detection rate of 4.56 per 10,000 population. The prevalence rate of leprosy is 0.4 per 10,000 population in the country.
- Leprosy is also known as Hansen's disease.
- It is an infectious bacterial disease which is caused by a bacillus *Mycobacterium leprae*.
- The disease has been named after Gerhard Henrik Armauer Hansen who was a Norwegian physician.
- Hansen proved that leprosy is not a hereditary disease but is caused by a bacterium.
- The disease is a curable disease and treatment at the early stage can prevent any disability.
- It can cause a progressive and permanent damage to the skin, nerves, limbs and eyes if it is left untreated.
- The incubation period of the disease is 5 years usually. Symptoms of the disease can be seen within 1 year but it could also take 20 years or even more years to occur.
- The disease spreads through the droplets either from the nose or mouth when the affected person sneezes or coughs.

## National Leprosy Eradication Program:

- National Leprosy Eradication Programme (NLEP) is a Centrally Sponsored Scheme under the umbrella of National Health Mission (NHM).
- India has achieved the elimination of leprosy as a public health problem i.e., defined as less than 1 case per 10,000 populations, at the National level.
- The NLEP aims at eliminating leprosy in each of the districts by 2030.
- Under the National Leprosy Eradication Programme action is taken for early case detection, complete treatment of detected cases, and to contain the onset of disease in close contacts of the index cases (persons diagnosed with leprosy).

## SNAKE ISLAND

**News:** *Russia withdraws from Snake Island*

### What's in the news?

Russian forces abandoned the strategic Black Sea out post of Snake Island on Thursday, in a major victory for Ukraine that could loosen the grip of Russia's blockade on Ukrainian ports.

### Snake Island - Facts:

- Zmiinyi Island, also known as Snake or Serpent Island, is a small piece of rock less than 700 metres from end to end, that has been described as being "X-shaped".
- It is located 35 km from the coast in the Black Sea, to the east of the mouth of the Danube and roughly southwest of the port city of Odessa.
- The island, which has been known since ancient times and is marked on the map by the tiny village of Bile that is located on it, belongs to Ukraine.



### Why does Russia seek to control the Black Sea?

- Domination of the Black Sea region is a geostrategic imperative for Moscow.
- The famed water body is bound by Ukraine to the north and northwest, Russia and Georgia to the east, Turkey to the south, and Bulgaria and Romania to the west.



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- It links to the Sea of Marmara through the Bosphorus and then to the Aegean through the Dardanelles.
- It has traditionally been Russia's warm water gateway to Europe.
- For Russia, the Black Sea is both a stepping stone to the Mediterranean as well as a strategic buffer between NATO and itself.
- Cutting Ukrainian access to the Black Sea will reduce it to a landlocked country and deal a crippling blow to its trade logistics.

## What's significance now?

- Snake Island has held the world's attention since Russia seized it on the war's first day.
- The bare rocky outcrop overlooks sea lanes to Odesa, Ukraine's main Black Sea port, where Russia is blocking food cargos from one of the world's leading grain suppliers.
- The most significant aspect is that this could open the door to Ukrainian grain exports from Odesa, which is critical for Ukraine's economy and for the global food supply.

## ISRO LAUNCHES SATELLITES THROUGH PSLV-C53

*News: Modified PSLV places three foreign satellites into orbit*

### What's in the news?

- ISRO launches three Singapore satellites.
- It is the second dedicated commercial mission of Newspace India Ltd.
- PSLV-C53 will carry on board three satellites of Singapore in its 55th mission.
  - DS-EO- An Earth observation satellite.
  - NeuSAR- First small commercial satellite.
  - SCOOB-I- Nanyang technological University.
- The PSLV Orbital Experimental Module (POEM) is going to be functional after this [placing of satellites into orbit] taking over the control of the primary mission computer to another computer.

### Commercial activities of ISRO:

There are two commercial wings for ISRO.

- **Antrix** - It is the first commercial arm of ISRO. The main objective is to make deals with foreign countries for satellite launching and launcher vehicles.
- **New Space India Limited** - It is the second commercial wing of ISRO, started in 2019 to deal with the manufacturing of small satellite launch vehicles and Polar satellite launch vehicles and to make the private players more active partners in the launch vehicle manufacturing.



## About PSLV:

- It is the third launch vehicle of ISRO.
- First launch of PSLV was in 1994.
- It is a four-stage launch vehicle with first and third stages are solid fuel motors and second and fourth stages are liquid fuel motors.
- PSLV is the first Indian launch vehicle which has used liquid fuel.
- Notable launches of PSLV are CHANDRAYAN1 in 2008 and MARS ORBITOR MISSION in 2013.

## DENGUE

### News: *Datapoint*

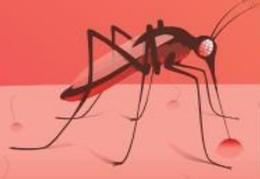
### Why in news?

- In 2022, the dengue burden shifted to the south as three states - Tamil Nadu, Karnataka and Andhra Pradesh accounted for 60% of the dengue cases reported.
- The recent outbreak patterns is in sync with the movement of south-west and north-east monsoons.

### Dengue-facts:

- Dengue is a vector-borne disease transmitted by the bite of an infected female Aedes Aegypti mosquito.
- A viral disease, dengue infects people in the summer and the rainy season due to the increasing menace of mosquitoes in these months.
- The mosquito becomes infected when it feeds on the blood of a person infected with the virus. After about one week, the mosquito can then transmit the virus while biting a healthy person.
- **Symptoms:** severe flu-like illness that affects all age groups
- Aedes aegypti is a daytime feeder. The peak biting periods are early in the morning and in the evening before dusk.
- Most cases occur in tropical areas of the world, including the Indian subcontinent, Southeast Asia, Southern China, Taiwan, the Pacific Islands, the Caribbean, Mexico, Africa, Central and South America.
- There is no vaccine or specific medication for dengue fever. Patients should seek medical advice, rest and drink plenty of fluids.

## DATA POINT



### The many patterns of dengue

Dengue outbreaks follow a curious pattern. Once in five years, the case burden shifts to southern India. In 2022, Tamil Nadu, Karnataka and Andhra Pradesh formed 60% of India's cases. Similar spikes in the south were recorded in 2012 and 2017. A month-wise breakup of cases reveals another interesting trend. The dengue infections mimic the progression of the south-west and north-east monsoons. The share of dengue deaths is disproportionately higher in Maharashtra and Kerala. By **Vignesh Radhakrishnan** and **Jasmin Nihalani**

**BACK IN THE SOUTH** | The table shows a State's share of India's total dengue cases. For instance, Tamil Nadu accounted for 32% of all cases reported in 2022 (till May). In 2022, the dengue burden shifted to the south as three States — Tamil Nadu, Karnataka and Andhra Pradesh — accounted for 60% of the dengue cases reported. The shift is part of a cycle in which cases in the south increase once in five years

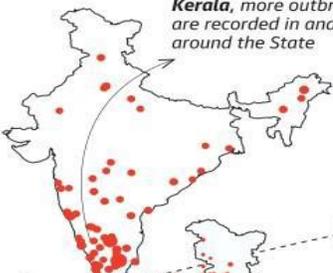
Years →	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Uttar Pradesh					13%						16%
Uttarakhand											
Haryana											
Himachal Pradesh											
Punjab				16%		16%			20%		
Delhi				17%							
Rajasthan											
Gujarat											
Maharashtra			23%								
Madhya Pradesh											
West Bengal						22%					
Odisha											
Andhra Pradesh											9%
Telangana											
Karnataka	9%					10%					19%
Tamil Nadu	29%					14%					32%
Kerala	10%					12%					

The table below lists a State's share of India's total cases and deaths between 2008 and 2022. The share of deaths in Maharashtra and Kerala is particularly disproportionate than their share in cases

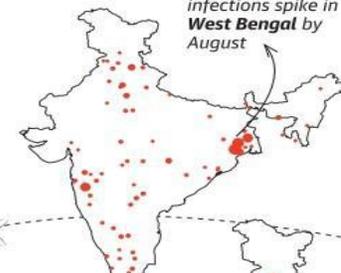
State	% of cases	% of deaths	Deaths/cases
Maharashtra	8	20.6	0.58
Kerala	6.5	10.3	0.36
Rajasthan	7.2	9.6	0.3
Tamil Nadu	7.7	8.6	0.25
U.P.	6.8	7.1	0.24
M.P.	3.6	3.3	0.2
Punjab	10.9	9.4	0.19
H.P.	0.6	0.5	0.19
Delhi	7.1	5.9	0.19
Haryana	3.6	2.9	0.18
Odisha	4.7	3.7	0.18
W.B.	9.6	5.9	0.14
Gujarat	7.2	4.4	0.14
Karnataka	7.7	4.6	0.13
Andhra	3.3	1.4	0.1
Telangana	3.7	0.7	0.04

**MONSOON SICKNESS** The maps show dengue outbreaks across time periods. Each dot represents an outbreak. The size of the dot corresponds to the number of cases. The outbreak pattern is in sync with the movement of the south-west and north-east monsoons

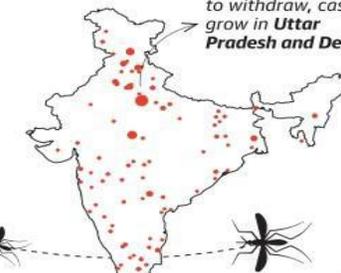
**May to June** When the south-west monsoon begin in **Kerala**, more outbreaks are recorded in and around the State



**August** As the monsoon progresses, infections spike in **West Bengal** by August



**September** As the south-west monsoon begins to withdraw, cases grow in **Uttar Pradesh and Delhi**



**Oct. to Nov.** During the post-monsoon period, **Punjab** records most infections



**Dec. to Jan.** During and after the north-east monsoon cycle, dengue cases spike in **Tamil Nadu**



The yearly and monthly data were sourced from **Arun (tweets as @amasaesle)** who compiled it from the National Vector Borne Disease Control Programme and IDSP weekly bulletins



## RUPEE DEVALUATION - CAPITAL OUTFLOW - INFLATION

**The story so far:** The Indian rupee hit an all-time low against the U.S. dollar. Many analysts expect the rupee to weaken further in the coming months and move past the 80 rupees to a dollar mark. In fact, the International Monetary Fund (IMF) expects the rupee to weaken past the 94 rupees to a dollar mark by FY29.

### What is happening with the rupee?

- The Indian rupee has been witnessing a steady decline this year, losing more than 6% against the U.S. dollar since the beginning of 2022.
- India's forex reserves have also dropped below \$600 billion, plunging by more than \$50 billion since September 3, 2021, when forex reserves stood at an all-time high of \$642 billion.
- The drop in India's forex reserves is believed to be largely due to steps taken by the Reserve Bank of India to support the rupee.
- RBI officials, however, have noted that the drop in forex reserves is due to a fall in the dollar value of assets held as reserves by the RBI.
- For instance, if a portion of the reserves are in euros and the euro depreciates against the dollar, this would cause a drop in the value of forex reserves.
- It should be noted that, as a matter of policy, the Indian central bank has usually tried to slow down or smoothen, rather than reverse or prevent, the fall in exchange value of the rupee against the U.S. dollar.
- The aim of the RBI's policy is to allow the rupee to find its natural value in the market but without undue volatility or causing unnecessary panic among investors.
- State-run banks are usually instructed by the RBI to sell dollars in order to offer some support to the rupee. By thus selling dollars in the open market in exchange for rupees, the RBI can improve demand for the rupee and cushion its fall.

### What determines the rupee's value?

1. The value of any currency is determined by demand for the currency as well as its supply.
2. When the supply of a currency increases, its value drops. On the other hand, when the demand for a currency increases, its value rises.
3. In the wider economy, central banks determine the supply of currencies, while the demand for currencies depends on the amount of goods and services produced in the economy.
4. In the forex market, the supply of rupees is determined by the demand for imports and various foreign assets. So, if there is high demand to import oil, it can lead to an increase in the supply of rupees in the forex market and cause the rupee's value to drop.
5. The demand for rupees in the forex market, on the other hand, depends on foreign demand for Indian exports and other domestic assets. So, for instance, when there is great enthusiasm among foreign investors to invest in India, it can lead to an increase in the supply of dollars in the forex market which in turn causes the rupee's value to rise against the dollar.



## What is causing the rupee to lose value against the dollar?

- Since March this year, the U.S. Federal Reserve has been raising its benchmark interest rate.
- These investors seek higher returns to pull capital away from emerging markets such as India and back into the U.S.
- It has put pressure on emerging market currencies which have depreciated significantly against the U.S. dollar so far in 2013, the rupee fell 15% against the dollar in about three months after investors were spooked by the US Federal Reserve's decision to trim down its bond purchase program that had helped keep long-term interest rates low.
- Moreover, this year, The RBI's surprise decision to raise rates in May could have simply been to defend the rupee by preventing any rapid outflow of capital from India.
- India's current account deficit, which measures the gap between the value of imports and exports of goods and services, is expected to hit a 10-year high of 3.3% of gross domestic product in the current financial year. This means that India's import demand amid rising global oil prices is likely to negatively affect the rupee unless foreign investors pour sufficient capital into the country to fund the deficit.

## Prelims Questions:

1. Consider the following statements regarding Leprosy.

1. It is a viral disease.
2. It is not a hereditary disease.
3. India has achieved the elimination of leprosy as a public health problem.

Which of the following statements are correct?

- A. 1 and 2
- B. 2 and 3
- C. 1 and 3
- D. 1, 2 and 3

2. In which of the following sea, the Snake Island is located?

- A. Adriatic sea
- B. Black sea
- C. Sea of Marmara
- D. Mediterranean sea



3. Consider the following statements regarding the launch vehicle, PSLV.

1. It is a 3-stage launch vehicle with an upper cryogenic engine.
2. It is the first launch vehicle in India to use liquid fuel.
3. India's manned space mission, Gaganyaan sets to launch off through this vehicle.

Which of the following statements is/are correct?

- A. 1 only
- B. 2 only
- C. 1 and 3 only
- D. 2 and 3 only

4. Which of the following organisation releases financial stability report in India?

- A. Ministry of Finance
- B. RBI
- C. NITI Aayog
- D. Monetary Policy Committee

5. Consider the following Statements.

1. Net non-performing assets does not amount to the actual loss of the organization because the provision for unpaid debts has not been deducted.
2. Gross non-performing asset amount to the actual loss of the organization because the provision for unpaid loans has already been deducted.

Choose the correct answer:

- A. 1 only
- B. 2 only
- C. Neither 1 nor 2
- D. Both 1 and 2

**Answers: 1.B, 2.B, 3.B, 4.B, 5.C**