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Comprehension Test Question IBPSPO & SBIPO

Comprehension Test Quiz 61

Directions: Read the following passage and answer the questions given below it in the context of the passage. Some words in the passage are printed in bold to help you locate them while answering some of the questions.

If bank nationalisation of Prime Minister Indira Gandhi symbolised the political thought of that time, a clean-up and a gradual withdrawal of state from managing banks may well be the mark that Narendra Modi could leave behind.

Four decades of state-directed lending has come full circle — from the idea of making credit available to the poor which was not possible when rich businessmen controlled banks, to **crooked** entrepreneurs gaming the system, breaking banks and leaving the bill for the taxpayers to pay.

Matters have come to such a head that the Reserve Bank of India Governor Raghuram Rajan's zeal to clear the mess that's **hobbling** the economy by March 2017 has divided the house in the middle. His surgery may either bring Indian banking back to life, or push it into coma. In fact, some feel that he is behind the curve in administering the medicine.

“There are a lot more companies that should be declared NPAs but have not yet been declared NPAs,” says Neelkanth Mishra, strategist at Credit Suisse. “Companies have operating profits which are much lower than what are needed to cover their interest, which means that they are still getting loans from banks to service their interest and keep their loans alive. So, we think that the RBI has not been **stringent** enough.”

It is grim — the stressed assets of banks are at 11.3%, which means that the capital they have is not enough to cover the loss of value of their assets. Investors don't believe the value that banks are assigning to assets so their shares are trading at lower than their book value.

What's the way out? Banks can keep funding the poorly structured assets and wait for the economy to gather momentum to get their money back, or recognise the loss of value and find another manager to run the company better and recover their dues. “Our option, when we look at stressed loans, is either carry them as a zombie, pretend and lend, or accept surgery. If we have a structural solution of capacity creation then the second is better. Otherwise, we are down the path of first,” said Uday Kotak, vice-chairman of Kotak Mahindra Bank.

International experience shows that when the bad-loan recognitions are postponed banks lose their ability to fund an economic revival — as it happened in Japan with ‘zombies’ after the 1989 crash. And the other is like Sweden, or the US, where asset values are written down, new buyers found, and additional capital is invested. Furthermore, if banks are laden with bad assets, their ability to lend is crippled as they focus on recovery of loans and some even gamble away to compensate for the losses.

“There are two approaches that zombie bank managers take as they struggle to bring their institutions back to life,” writes Yalman Onaran in ‘Zombie Banks’. “They’ll hoard cash and give a few new risky loans, and wait for the slow profit-building to pay for the losses overtime. Or they will take much bigger risks with the hope that they can make windfall profits to plug the holes.”

State-run banks’ reluctance to lend is reflected in the credit numbers. Government banks’ credit growth slowed to 6.7% December last, from 19.1% in the same month in 2013 while private sector banks’ credit growth accelerated to 20.5% in the same period from 16%.

Governor’s advocacy of surgery may appear to be an option, but it comes with some immediate costs. Banks are reporting record losses and are on course to record more in the coming quarters as they race to complete the exercise by March 2017. The Indian industry, which is not used to this kind of shock treatment, is resisting it. Bankers say public perception is turning adverse.

The RBI says the “recognition of NPAs was the anaesthetic needed for the surgery,” says Deepak Parekh, chairman of HDFC. “I only wish to caution that too much of anaesthesia can also result in a patient becoming **comatose!**”

(1). What happens when the bed-loan recognitions are postponed?

- A. New buyers are found.
- B. Additional capital is invested.
- C. Banks lose their ability to fund an economic revival.
- D. Only A and B
- E. All A, B and C

(2). What is/are the probable outcome(s) of the RBI Governor Raghuram Rajan's zeal to clear the mess that is retarding the movement of economy by March 2017? (Answer in the context of the passage.)

- 1. His move will push the banking business in a quandary.
- 2. His action will bring Indian banking back to life.
- 3. His action will raise confidence in FII's.

- A. Either 1 or 2
- B. Either 2 or 3
- C. Either 1 or 3
- D. All 1, 2 and 3
- E. Only 2

(3). What approach will the zombie bank manager take to bring their institutions back to life?

- 1. They will ask the World Bank and IMF to sanction the required amount of loan to plug the holes.
- 2. They will take much bigger risks with the hope that they can make money to plug the holes.
- 3. They will hoard cash and give a few new risky loans and wait for the slow profit building to pay for the losses overtime.

- A. Either 1 or 2
- B. Either 2 or 3
- C. Either 1 or 3
- D. Only 1
- E. Both 1 and 2

(4). Find the incorrect statement on the basis of the given passage.

- A. The bank nationalisation of Prime Minister Indira Gandhi was a politically motivated step.

- B. Neelkanth Mishra, strategist at Credit Suisse, is of the opinion that the RBI has not been stringent enough to check growing NPAs.
- C. Raghuram Rajan's zeal to clear the mess of growing NPAs has created a positive perception among public about the functioning of the banks.
- D. State-run banks' reluctance to lend is reflected in the credit numbers.
- E. None of the above

(5). What do the stressed assets of banks at 11.3% suggest?

1. That the capital they have is enough to cover the loss of value of their assets.
2. That the quantum of stressed assets is not so large that there is need to worry about.
3. That banks require some more capital to cover the loss of value of their assets.

- A. Only 1 B. Only 2 C. Only 3
D. Only 1 and 2 E. Only 2 and 3

(6). Choose the word which is MOST SIMILAR in meaning to the word printed in bold as used in the passage.

Crooked

- A. errant B. straight C. honest
D. upright E. sumptuous

(7). Choose the word which is MOST SIMILAR in meaning to the word printed in bold as used in the passage.

Hobbling

- A. moving B. helping C. facilitating
D. developing E. faltering

(8). Choose the word which is MOST SIMILAR in meaning to the word printed in bold as used in the passage.

Comatose

- A. alert B. agile C. insensible
D. conscious E. awake

(9). Choose the word which is **MOST OPPOSITE** in meaning of the word printed in bold as used in the passage.

Stringent

- A. confining B. harsh C. flexible
D. hard E. demanding

(10). Choose the word which is **MOST OPPOSITE** in meaning of the word printed in bold as used in the passage.

Crippled

- A. enfeebled B. hurt C. weakened
D. strengthened E. undermined



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Correct Answers:

1	2	3	4	5	6	7	8	9	10
E	A	B	C	C	A	E	C	C	D



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