
VIJETA
CHECKLIST
MAINS
CHECKLIST 138
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Reading Comprehension

Directions (1-10): Read the following passage to answer the given questions.

The latest data from the Reserve Bank of India (RBI) shows that external commercial borrowings (ECBs) by Indian corporations reached $11.04 billion in March, a six-year high. For FY25, total ECB filings reached a record $61.18 billion, marking a 26% year-on-year growth. Notably, non-banking financial companies (NBFCs) accounted for 43% of these inflows, significantly higher than their historical share of 20-37% over the previous five years. Is this surge a reflection of growing corporate ambition and global integration? Or does it signal **persistent (1)** weakness in our domestic credit architecture? First, the persistent interest rate differential between domestic and international markets has created a textbook case of **arbitrage (2)** and rational corporate behaviour. JSW Steel, for example, raised $900 million at just 180 basis points (bps) above secured overnight financing rate (around 4.4% currently). That is significantly cheaper than the domestic marginal cost of funds-based lending rate (MCLR)-linked loans at nearly 9%. The advantage persists even after accounting for hedging costs. Industry data indicates that fully hedged ECBs still offer a 20-30 bp cost advantage over domestic borrowing options. Second, the RBI's liberalised ECB framework, which permits a firm to raise $750 million annually under the automatic route, has made things easier. In March alone, $8.34 billion was raised through this route. Closer **scrutiny (3)**, however, reveals that much of the recent ECB activity has been directed towards refinance rather than new investment. According to the RBI's State of the Economy April bulletin, Indian companies faced $25.8 billion in ECB principal repayments between April 2024 and February. Firms like Mangalore Refinery and JSW Steel have used new offshore borrowings to refinance existing obligations, extend maturities, and manage rollover risk. Though financially **prudent**, refinancing reflects a balance sheet strategy, not a growth impulse. Thus, the current ECB surge is surely easing debt pressures for firms but is doing little to catalyse fresh investments in the economy. The growing **reliant (4)** on ECBs, including for refinancing purposes, highlights persistent challenges in India's credit intermediation. The domestic credit market has seen significant tightening over the past year. Bank credit growth slowed from 20.2% in FY24 to 11% in FY25—a deceleration driven not just by the high base effect but also by regulatory actions. The RBI's tightening of prudential norms for unsecured retail credit and NBFC lending has led banks to adopt a more **_______(A)________** stance. Also, persistent challenges in deposit mobilisation have constrained banks' lending capacities, compounding the strain on capital access for many firms. Even the RBI's repo rate cut to 6.0% in April has not meaningfully improved credit conditions, particularly for firms outside the highest rating categories. Most banks have only marginally reduced their MCLR by 5-10 bps, far short of the central bank's 50-bp cut. Such **sluggish** monetary transmission has only heightened the attractiveness of overseas borrowing. The distortions in the financial intermediation process are evident when even large, creditworthy Indian corporations find it more rational to assume currency risk than to access domestic capital. From a macroeconomic point of view, this is where the risks loom large. While the rupee has been stable of late, backed by the RBI's robust foreign exchange reserves ($685.7 billion as of May 16) and around 880 tonnes of gold holdings, this calm is not guaranteed. India's geopolitical neighbourhood remains volatile, as does global risk sentiment. A sudden Fed pivot, a commodity shock, or a trade conflict could easily pressure the rupee. And when it does, firms with unhedged or poorly matched external liabilities could face severe stress. It is not merely a theoretical concern. Indian corporates have a mixed record on hedging. Around 45% of ECB exposures have remained unhedged in some years, particularly among infrastructure and services firms that claim natural hedges through dollar revenues. But in volatile markets, even those hedges often prove illusory. The 1997 Asian financial crisis and the 2013 taper tantrum teach us how rapidly currency market equilibria can shift. There are systemic implications, too. The concentration of ECB activity in sectors with cyclical revenue patterns (steel, energy) and entities with potential asset-liability mismatches (NBFCs) creates correlation risk that could amplify financial system stress during an economic downturn. More worryingly, preference for offshore borrowing could slowly erode the depth of domestic capital markets. If large, creditworthy corporates increasingly bypass Indian banks and bond markets in favour of foreign capital, it leaves the domestic system to cater largely to sub-prime borrowers, the government, and small businesses. Such an outcome is hardly a balanced one. It leaves Indian financial intermediaries with less capacity to diversify risk, making the economy more exposed to external shocks. Policy-wise, the RBI must now tread carefully. Liberalising ECBs was never meant to replace domestic credit development. It was intended to complement it. The time may be right for policy recalibrations, including tighter disclosure norms around ECB end use and hedging disclosure norms, more rigorous monitoring of sectoral exposures, and, above all, a determined push to deepen India's corporate bond market. Without these, what is individually optimal for firms may collectively undermine the resilience of India's financial system—a classic fallacy of composition that policymakers would be wise to address before market forces impose their own costly correction.

Question 1:

The RBI's tightening of prudential norms for unsecured retail credit and NBFC lending has led banks to adopt a more **_____(A)______** stance.

Which of the following words can fit the blank (A) appropriately?

I. cautious
II. profound
III. circumspect

(A) Only I
(B) Both I and II
(C) Only II
(D) Only III
(E) Both I and III

Question 2:

Which of the following is a **TRUE** statement as per the passage?

I. NBFCs accounted for a larger share of ECBs in FY25 than in previous years.
II. Indian firms used ECBs primarily to fund new capital expenditure in FY25.
III. RBI's April repo rate cut resulted in widespread reduction in MCLR rates by banks.

(A) Only I
(B) Both I and II
(C) Only II
(D) Only III
(E) Both I and III

Question 3:

What concern does the passage primarily raise about the recent surge in ECBs?

(A) It threatens India's foreign exchange reserves.
(B) It reflects speculative investor behavior.
(C) It bypasses domestic credit channels and creates systemic risks.
(D) It undermines SEBI's monetary policy stance.
(E) It encourages firms to overinvest in long-term infrastructure projects.

Question 4:

Which of the following best describes the **tone** of the passage?

(A) Alarmist
(B) Optimistic
(C) Critical yet constructive
(D) Disinterested
(E) Celebratory

Question 5:

Which of the following pairs contains **synonyms** for the word **"refinance"** as used in the passage?

(A) Settle – Eliminate
(B) Roll over – Restructure
(C) Delay – Postpone
(D) Adjust – Repay
(E) Offset – Avoid

Question 6:

Which of the following is **FALSE** as per the passage?

I. Even after accounting for hedging costs, ECBs may be cheaper than domestic loans.
II. The RBI's automatic route permits raising up to $750 million in ECBs annually.
III. Domestic banks have drastically lowered their MCLR in response to RBI's rate cut.

(A) Only I
(B) Both II and III
(C) Both I and II
(D) Only III
(E) All I, II and III

Question 7:

Which of the following risks is **most strongly implied** in the passage?

(A) Recession in Western economies may raise foreign borrowing costs.
(B) India's bond market may lose liquidity if ECB trends continue.
(C) India's trade deficit is set to widen due to ECB repayments.
(D) ECBs will crowd out private consumption.
(E) Sovereign borrowing will have to increase due to ECBs.

Question 8:

Select the word that is **closest in meaning** to **"prudent"** as used in the passage.

(A) Impulsive
(B) Sagacious
(C) Arbitrary
(D) Ostentatious
(E) Flippant

Question 9:

Select the word that is the **closest antonym** of **"sluggish"** as used in the passage.

(A) Lethargic
(B) Torpid
(C) Vigorous
(D) Dilatory
(E) Dormant

Question 10:

Four words in the passage are highlighted and labelled (1) to (4). One of these words may be used incorrectly either grammatically or contextually. Identify the word that is NOT used correctly.

(A) persistent
(B) arbitrage
(C) scrutiny
(D) reliant
(E) None of these

Answer

1.Answer: (E)
Explanation: We are looking for a word that describes how banks are behaving in response to **stricter regulations**—specifically, a word that conveys **increased caution or carefulness**.

I. Cautious – Correct

Cautious means careful to avoid risks or mistakes.
Fits the context perfectly: banks would become more **cautious** under tighter norms.
II. Profound – Incorrect

Profound means deep or intense (like profound thoughts, a profound change).
It does not describe a type of **stance** in the sense of being careful or reserved, so it doesn't fit.
III. Circumspect – Correct

Circumspect means wary and unwilling to take risks; it is a more formal synonym of *cautious*.
Perfectly fits the context of a risk-averse stance.

2.Answer: (A)
Explanation:

I is true: Passage says NBFCs made up 43% of ECBs, higher than their 20–37% share historically.

"NBFCs accounted for 43% of these inflows, significantly higher than their historical share of 20–37%…"
II is false: ECBs were mainly used for **refinancing**, not new investment.

"Much of the recent ECB activity has been directed towards refinance rather than new investment."

III is false: Transmission was weak — most banks only reduced MCLR by 5–10 bps despite a 50-bp cut.

"Most banks have only marginally reduced their MCLR by 5–10 bps, far short of the central bank's 50-bp cut."

So, monetary transmission was **weak**, not widespread.

3.Answer: (C)
Explanation: The passage consistently warns about **reliance on ECBs**, **correlation risk**, and **neglect of domestic credit depth**, especially if strong corporates bypass Indian financial intermediaries.

"The growing reliance on ECBs, including for refinancing purposes, highlights persistent challenges in India's credit intermediation."
"Preference for offshore borrowing could slowly erode the depth of domestic capital markets…"
"What is individually optimal for firms may collectively undermine the resilience of India's financial

system."
This clearly reflects concerns over **bypassing domestic channels** and **increased systemic risks**.

Other options:

(A) Incorrect – While the passage does mention that the rupee's stability is backed by strong forex reserves, it **does not suggest** that the ECB surge is currently threatening those reserves.

(B) Incorrect – The ECB surge is portrayed as **rational corporate behavior**, driven by arbitrage due to interest rate differentials, not speculative frenzy.

(D) Incorrect – SEBI regulates capital markets, not monetary policy. The RBI manages monetary policy. Even if the option said "RBI," the passage criticizes **weak transmission**, not that ECBs are actively undermining RBI's stance.

(E) Incorrect – On the contrary, the passage highlights that ECBs are mainly being used for **refinancing**, not new investments.

4.Answer: (C)
Explanation: The tone is **analytical and cautionary**, critiquing current patterns while offering **policy suggestions** (e.g., tightening ECB norms, strengthening bond markets). It is not overly alarmist or celebratory.

5.Answer: (B)
Explanation: "Refinance" in this context means taking new loans to pay off existing debt, often to change terms.

Roll over and **Restructure** both align with that meaning.
Other options like "Settle" and "Eliminate" suggest closing a debt, not refinancing it.

6.Answer: (D)
Explanation:

I is true: Fully hedged ECBs still offer a 20–30 bp cost advantage.

"Industry data indicates that fully hedged ECBs still offer a 20–30 bp cost advantage over domestic borrowing options."

II is true: The liberalised ECB framework allows $750 million via automatic route.
"The RBI's liberalised ECB framework… permits a firm to raise $750 million annually under the automatic route."

III is false: The MCLR cuts were **marginal** (5–10 bps), **not drastic**.
"Most banks have only marginally reduced their MCLR by 5–10 bps, far short of the central bank's 50-bp cut."

So, banks' response has **not** been drastic — it has been **weak/sluggish**. Hence, this statement is **false**.

7.Ans: (B)
Explanation: The passage highlights that **creditworthy corporates bypassing Indian capital markets** could "slowly erode the depth of domestic capital markets." This is a **core risk** discussed, not a side concern like trade deficit or sovereign borrowing.

"Preference for offshore borrowing could slowly erode the depth of domestic capital markets."

"If large, creditworthy corporates increasingly bypass Indian banks and bond markets… it leaves the domestic system to cater largely to sub-prime borrowers…"

This strongly implies **liquidity and depth risks** for the Indian bond market.

Other options:

(A) Incorrect – While external conditions (like a Fed pivot) are mentioned, the passage does **not** focus on Western recessions or rising foreign borrowing costs as the **primary risk**. That's only a background possibility.

(C) Incorrect – The passage discusses **rollover risks** and **currency exposure**, but it doesn't suggest that ECB repayments are widening the **trade deficit**.

(D) Incorrect – There's no mention of **consumption** being impacted. The focus is on **corporate borrowing**, refinancing, and capital markets.

(E) Incorrect – There's no link drawn between corporate ECB activity and a rise in **government borrowing** in the passage.

8.Answer: (B)

Explanation:

Prudent (adj.): acting with care and thought for the future; exercising sound judgment.
(B) Sagacious – Correct. It means wise, showing keen mental discernment and good judgment — very close in tone and implication to *prudent*.
(A) Impulsive – Incorrect. Acting without forethought; the opposite of prudent.
(C) Arbitrary – Incorrect. Based on random choice or personal whim, not careful judgment.
(D) Ostentatious – Incorrect. Means showy or pretentious; unrelated to caution.
(E) Flippant – Incorrect. Not showing a serious or respectful attitude; again, opposite of prudent.

9.Answer: (C)

Explanation:

Sluggish means slow, lacking energy or speed.
Vigorous means strong, energetic, and fast—directly opposite in sense to sluggish.
Other options (A, B, D, E) all relate to slowness, inactivity, or delay, so they are **not** antonyms.

10. Answer: (D)

Explanation: The word **“reliant”** is incorrectly used here. The correct form should be **“reliance”** because the sentence needs a **noun** to indicate dependence. **“Reliant”** is an adjective (meaning dependent on), but the sentence structure requires the noun **“reliance.”**

The other words are used correctly.

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