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Passage No. 82

Directions: Kindly read the passage carefully and answer the questions given beside.

The Indian scouting tiger is on the prowl again. India remains among the top three investment destinations for global investors looking at emerging markets. In the last three years alone, offshore long-term investment flows into India through FII/FDI route is nearly \$150 billion, one of the strongest ever witnessed. India has increasingly become a hotspot for global investments not just in the listed equity & fixed income markets, but in the unlisted/private market space as well. Recently, we witnessed one of the largest ever private investments in an Indian technology company by an offshore investor adding further impetus to yet another pool of investment into India; the growing start-up eco-system.

India's growing prominence is backed by India's growing clout in the macro-economic and asset class space at the global stage. Growth is expected to gain further momentum over the next few years as consumption picks up on the back of the 7th pay commission payouts, normal monsoons and lagged benefits of lower rates, and long-term structural reforms start bearing fruits bringing in efficiency gains. Fiscal policy continues to focus on consolidation with expenditure targeted on rural, housing and infrastructure (roads, railways) capex providing a larger multiplier impetus to growth.

On the external front, India has never been in a better position with FX reserves at a record high of \$390 billion. This is a far cry from the humble beginnings of less than \$1 billion in 1991 at the dawn of our liberalization reforms. Trade deficit remains under control as commodity prices remain low on the back of structural developments in the crude oil market that are keeping prices capped at \$50 per barrel.

Aware of these gradual tectonic changes underway in the economy, domestic investors including HNIs have been swift in shifting their gaze inward rather than outward. The Mutual Funds annual SIP book is now upwards of \$10 billion, acting as a strong stabilizing factor for liquidity. Falling interest rates and lower inflation is causing a structural shift into financial assets from physical assets with the bulk of domestic flows into equities. In fact, household financial savings has for the first time in years exceeded household physical savings, which should help in channeling savings into investments. This paradigm shift is underway not just among the population elite but in the mid-to lower-income strata as well, making this a long term structural change in investing patterns.

Despite skepticism over near term performance given rich valuations, domestic investors remain growth believers and continue to see equities as the best asset class. This view is based on the earnings cycle to have bottomed out, with the high likelihood of 15-20 per cent earnings growth over the next few years, aided by a low base and sustainable recovery in growth. New equity opportunities are arising with greater formalization and value migration post GST and demonetization.

Questions:

1. 'Investors including HNIs have been swift in shifting their gaze inward rather than outward.' Which of the following option/options corroborate the same?

- I. Increase in import of physical gold from other nations.
 - II. Increase in corporate houses setting up manufacturing facilities in low cost nations.
 - III. RBI's recently changed the rules for overseas investment- effectively doubling the annual ceiling for individuals to \$250,000.
- A. Only II B. Only III C. Only I and II D. Only II and III E. None of the above

2. What does the author mean by 'tectonic changes underway in the economy'?

- A. Changes in the environment due to economic pressure that would lead to an increase in the seismic phenomenon experienced in Delhi.
- B. Changes in the economy which are rapid and mind-numbing and will lead to exponential growth in the near future.
- C. Changes in the economy that are structural in nature and would lead to long term changes in the economy.
- D. Changes specifically targeted at the taxation structure for corporate India which would lead to inflow of investments and increase our foreign reserves.
- E. None of the above

3. As per the passage, which of the following are true?

- I. FX reserves are at their second highest and reached \$390 billion recently.
 - II. The trade deficit has steadily decreased over the past 20 years and is currently at its lowest.
 - III. The crude oil market has played an important role in keeping the economy in a robust shape.
- A. Only II B. Only III C. Only I and II D. None of the above E. All of the above

4. Why is it said that India remains among the top three investment destinations?

- I. India has incurred a huge current account deficit with the exchange rate depreciating steadily over the past two quarters.
 - II. Offshore long-term investment flows into India through FII/FDI route is nearly \$150 billion.
 - III. India has become a hotspot for global investments in both the listed as well as unlisted/private market space respectively.
- A. Only I B. Only II C. Only I and III D. Only II and III E. All of the above

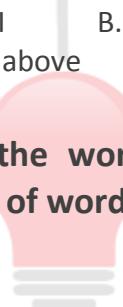
5. As per the passage, which of the following can be considered as depicting a change in investing patterns?

- I. Household financial savings exceeding household physical savings.
- II. Shifting from financial assets to physical assets.
- III. More and More investors opting for mutual funds SIP.

- A. Only I and III B. Only I and II C. Only II and III D. All of the above
E. None of the above

6. Choose the word/group of words which is **MOST SIMILAR in meaning to the word/group of words printed in bold as used in the passage:**

Paradigm



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- A. Exemplar B. Duplicate C. Missive D. Silent E. Caterwaul

7. Choose the word/group of words which is **MOST SIMILAR in meaning to the word/group of words printed in bold as used in the passage:**

Skepticism

- A. Certainty B. Heresy C. Modesty D. Suspicion E. Cevil

Correct Answers:

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----------|----------|----------|----------|----------|----------|----------|
| E | C | B | D | A | A | D |

Explanations:

1. Statement I: An increase in gold imports increases our dependency on other nations and is opposite to what the demand of the question.

Statement II implies investors venturing out of India (setting up facilities outside of India) rather than investing here.

Statement III again encourages investors to look for outside avenues for investments and is opposite to what the question asks.

Hence, none of the options are correct.

Option E is correct.

2. As per the passage, India is undergoing many changes which are structural in nature and target the foundation of the economy. Such changes have a long term impact. Tectonic here basically means a change in the very foundations on which India is built.

Out of the options, C conveys this perfectly.

Hence, Option C is correct.

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3. Refer to paragraph 3:

'..On the external front, India has never been in a better position with FX reserves at a record high of \$390 billion. This is a far cry from the humble beginnings of less than \$1 billion in 1991 at the dawn of our liberalization reforms. Trade deficit remains under control as commodity prices remain low on the back of structural developments in the crude oil market that are keeping prices capped at \$50 per barrel...'.

From the fragments highlighted above, Statement I is incorrect as the passage states FX reserves to be at a record high and not second highest...'

Statement II is nowhere mentioned in the passage.

Statement III can be seen in the last line of the passage. This is correct.

Hence, Option B is correct.

4. Refer to paragraph 1:

'..The Indian scouting tiger is on the prowl again. India remains among the top three investment destinations for global investors looking at emerging markets. In the last three years alone, offshore long-term investment flows into India through FII/FDI route is nearly \$150 billion, one of the strongest ever witnessed. India has increasingly become a hotspot for global investments not just in the listed equity & fixed income markets, but in the unlisted/private market space as well. Recently, we witnessed one of the largest ever private investments in an Indian technology company by an offshore investor adding further impetus to yet another pool of investment into India; the growing start-up eco-system...'.

As per the passage, Statements II and III can be seen in the highlighted fragments while statement I is nowhere mentioned.

Hence, Option D is correct.

5. Refer to paragraph 4:

'...Aware of these gradual tectonic changes underway in the economy, domestic investors includingHNIs have been swift in shifting their gaze inward rather than outward. The Mutual Funds annual SIP book is now upwards of \$10 billion, acting as a strong stabilizing factor for liquidity. Falling interest rates and lower inflation is causing a structural shift into financial assets from physical assets with the bulk of domestic flows into equities. In fact, household financial savings has for the first time in years exceeded household physical savings, which should help in channeling savings into investments. This paradigm shift is underway not just among the population elite but in the mid-to lower-income strata as well, making this a long term structural change in investing patterns...'.

The highlighted fragments make it clear that:

Statement I is correct.

Statement II is the opposite of what is stated in the passage.

Statement III is correct.

Hence, option A is correct.

6. *Paradigm* here means something that sets an example for others to follow/ something that has not been tried before/ unprecedented.

Missive means a memo/ form of written communication and is absurd here.

Caterwaul means to make a screeching/crying noise.

Exemplar means ideal/epitome/ setting an example. Hence, this is correct.

Option A is correct.

7. *Skepticism* refers to being doubtful/suspicious.

Heresy means having an unorthodox opinion. It is used in the context of religious matters mostly. Hence, this is incorrect.

Modesty means to be humble and is irrelevant here.

Certainty is the opposite of skepticism.

Cavil means to quibble/criticize/ spar. It is irrelevant here.

Suspicious is the word we are looking for.

Hence, Option D is correct.





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