



Assessing inequality right: India needs the full picture to chart path to achieve SDG-10

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NITI Aayog needs to perhaps look at SDG 10—reducing inequality—in a more holistic manner

To meaningfully address inequality, the government will now have to prioritise spending on job-creation that has taken a beating

Viewed against the economic impact of the pandemic, nations' efforts towards meeting the UN's Sustainable Development Goals (SDGs) by 2030 have assumed even greater importance. To that end, the NITI Aayog's 2020-21 SDG index reporting a six-point improvement in India's score—from 60 in 2019 to 66 in 2020-21—on the back of better performance in clean energy, urban development and health, is certainly welcome news.

While Kerala retains its top rank, the fact that many of northern states continue to rank poorly despite improvements in scores for a clutch of indicators highlights the need for their respective governments and the Centre to carry out more focussed interventions in the region.

That said, the NITI Aayog needs to perhaps look at SDG 10—reducing inequality—in a more holistic manner. While the index reports gains on this count for the country (Bihar, Rajasthan, Nagaland and Uttar Pradesh show the highest levels of inequality despite this), there have been

important changes with respect to the indicators considered. NITI, without doubt, has done well to focus on crucial social indicators like women's representation in policy-making, crimes against SCs/STs, transgender labour force participation, etc, but, dropping earlier indicators that brought into stark relief the progress (or the lack of this) on reducing economic inequality doesn't make the picture truly representative. In 2019, the NITI's index included inequality indicators like the growth in household expenditure per capita for the bottom 40% of rural and urban populations, as well as the Gini index, a measure of wealth inequality.

In 2018, the index had also included the Palma ratio—which shows the gap between the richest 10% and the bottom 40%. These are all crucial indicators to have a more granular assessment of the current position of households in NITI's only economic indicator of inequality this year—population in the two lowest wealth quintiles.

In a year where the pandemic has exacerbated the wealth gulf in the country, a true measure of economic inequality, you would assume, would be important to plan the course ahead. The continuing pain of MSMEs from last year and the stunning corporate gains mirror the pandemic impact for their respective dependent populations. What's worse is that rural India, that was not as badly impacted in the first wave, has come under considerable pain this year.

Whether the rural wage build-up of the last fiscal will sustain this year is uncertain; this will show in rural demand, which many economists believe, could be muted. Apart from this, SDGs that have underlying indicators concerning wages and industrial growth reflect the fact that the economy has taken a beating, and, consequently, inequality would have risen—indeed, the country's score on industry and infrastructure saw a sharp decline. To meaningfully address inequality, the government will now have to prioritise spending on job-creation that has taken a beating.

Amid inflation worries, RBI prioritises growth

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RBI doesn't have much comfort room, but it is using the tools it has; the govt must now pull its weight on supporting growth

RBI's moving in the right direction; now the government needs to get going. Without some big fiscal stimulus, growth cannot make a comeback

RBI did well to keep policy rates on hold last Friday and to make it abundantly clear it was not about to abandon its accommodative stance in a hurry. Indeed, Governor Shaktikanta Das went out of his way to assert that the stance would remain accommodative as long as it was needed and that it is premature to think about reversing it. To be sure, economists are anxious about rising prices, and have pointed out that the central bank is ignoring inflationary pressures that could pose problems for the economy later on.

When confronted with the question, RBI said in its defence that inflation currently is being influenced primarily by supply-side factors rather than any demand pull. Indeed, the central bank tweaked its inflation forecasts a wee bit, raising it to 5.1% from 5% earlier. It is quite possible, as some economists have argued, that while input prices have gone up for manufacturers, they have so far not passed these on to consumers probably for fear of losing market-share.

They argue that once demand firms up, the higher input costs would be passed on to the end-consumer, thereby stoking inflationary pressures. It is probably also true that the central bank has also been charged with staying accommodative for too long and thereby has been left with virtually no room to pull back.

However, even as the MPC's mandate requires it to respond to inflation, these are extraordinary times, and while the ferocious second wave of the pandemic may be tapering off, one cannot rule out a third wave. That the economy has been completely battered and that there is very little chance of a meaningful recovery—for a large swathe of the population—in the near term is now evident. The central bank lowered its GDP growth forecast for FY22 to 9.5% from 10.5% earlier; at this pace of growth, the economy would be more or less at the same levels that it was at the end of March 2020.

At a time like this, it is important RBI makes sure the government's large borrowing programme is completed and that the funds are mopped up at affordable rates, so that the latter can spend as planned. Indeed, the central bank has little option but to leave liquidity loose for some more time because, without spending, there is no way to tackle the low consumer confidence given the poor investment appetite of the private sector.

Only if the benchmark bond yields are reined in can interest rates for companies be kept in check. The large corporates are cash-rich and may not need to borrow too much, but there are thousands of small enterprises struggling to make ends meet; for them, even a 10-basis-points hike in interest rates could hurt badly. Fortunately, inflation is well within the upper limit of 6% though the sharp hikes in the prices of auto fuels locally and the elevated prices of commodities globally are worrying.

RBI doesn't have too much comfort room, but it is using various tools—including the new GSAP—to make sure that liquidity remains adequate. Indeed, the government shouldn't worry too much about deviating from the fiscal deficit target for FY22 and continue to spend to revive the economy. Unless growth picks up quickly, it will become increasingly harder to revive the momentum. RBI's moving in the right direction; now the government needs to get going. Without some big fiscal stimulus, growth cannot make a comeback.

UCO Bank likely to rejig loans worth Rs.1,000 crore

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2,314 retail, MSME accounts restructured under Resolution 2.0

UCO Bank is likely to restructure retail and MSME loans to the tune of Rs.1000 crore by June this year, under the Reserve Bank of India's Resolution Framework 2.0. According to Atul Kumar Goel, MD and CEO, UCO Bank, close to 2,314 accounts amounting to Rs.127 crore have been restructured under the framework so far.

The Resolution Framework 2.0 was announced by the RBI on May 5 to help small borrowers tide over the impact of the second Covid-19 wave and State-level lockdowns.

"It is still premature to say what would be the actual amount of restructuring but it is likely to be more than last year. We had restructured personal loans amounting to Rs.92 crore and MSME loans worth Rs.281 crore last year," Goel told newsmen at a virtual press meet on Monday.

Goel expects credit demand to pick up following unlocking in various States. The bank is hopeful of registering 7-10 per cent growth in credit during the current fiscal. It had posted a credit growth of around three per cent in FY21. "I am hopeful that there will be a good demand for credit on account of unlocking in all states. We have witnessed a credit growth of around Rs.2000 crore so far during the current fiscal," he said.

PCA framework

UCO Bank is hopeful of coming out of RBI's prompt corrective action (PCA) framework. Having complied with all key regulatory parameters during the quarter-ended March 31, 2021, the bank has written to the central bank urging it to consider withdrawing PCA.

PCA is triggered when banks breach certain regulatory requirements such as minimum capital, return on asset and quantum of non-performing asset.

Second wave may delay resolutions, increase haircuts'

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FY22 realisation under IBC rests on 8-9 large accounts: ICRA

The second wave of the COVID-19 pandemic may again delay resolutions under the Insolvency & Bankruptcy Code (IBC) and increase haircuts for lenders, though realisations for financial creditors through IBC is likely to improve under the Code in FY22, ICRA said in a report.

Stating that realisation for financial creditors from the resolution under the IBC declined significantly fell to Rs.26,000 crore in FY21 — almost a quarter of the realisations in FY20 — it said financial creditors may realise about Rs.55,000-60,000 crore in FY22, largely driven by the expected resolution of a large housing finance firm. This is likely to , it added without naming be DHFL.

"The outbreak of the COVID-19 pandemic and its related effects in FY21 battered the prospects for stressed asset resolution. The pandemic has increased operational challenges for the various parties involved in a corporate insolvency resolution process (CIRP), which resulted in limited cases yielding a resolution plan," ICRA said. "Further, the suspension of new proceedings under the IBC for the entire fiscal resulted in a sharp slowdown in the resolution process," it added.

"As per our estimates, the financial creditors could realise about Rs.550-600 billion in FY22 through successful resolution plans from the IBC," said Abhishek Dafria, vice president and group head, Structured Finance, ICRA.

"The increase in the resolution amount in FY22 would depend on the expected resolution of a large housing finance company which is awaiting the NCLT's approval but is also under litigation in the higher courts," said Abhishek Dafria, VP and group head, Structured Finance, ICRA.

In FY22, realisations by the financial creditors would depend on successful resolution of 8-9 big-ticket accounts, ICRA said. "However, large accounts

mostly see a very high level of delay in closures due to litigations, which is a concern,” it added.

Heightened stress could delay bank privatisation: Fitch

SPECIAL CORRESPONDENT NEW DELHI, JUNE 08, 2021 THE HINDU

‘Investor interest needed for success’

The Centre’s plan to privatise two public sector banks this year could face delays on account of higher stress levels in banks’ balance sheets due to COVID-19, as well as political hurdles in effecting necessary legislative changes, Fitch Ratings said on Monday. The government has announced an ambitious disinvestment target of Rs.1.75 lakh crore for 2021-22, which includes the sale of two banks, yet to be officially identified from the dozen public sector entities in the sector.

“The bold move to privatise state-run banks faces risk from political opposition and structural challenges including heightened balance-sheet stress due to the pandemic, which is likely to keep bank performance subdued for the next 2-3 years,” Fitch said in a note.

Arguing that investors’ appetite for government-owned banks is muted due to ‘structurally weak governance frameworks’ and ‘persistently weak performance, reflected in significant asset-quality problems’, the ratings agency said that larger banks have generally ‘compromised’ financials.

‘Resistance from unions’

Investor interest might be especially muted in banks prohibited by the central bank from pursuing fresh loans and new branches under the prompt corrective action framework.

“There could also be more resistance from the trade unions this time around, who will be against the safety-net withdrawal of state ownership. Success of the plan would also require sufficient interest from investor(s) willing to acquire large stake(s) in state-owned banks and run them,” it added.

State-owned banks have been more active in extending relief and forbearance measures announced by the authorities than their private peers, Fitch noted, stressing this would make it more difficult to assess stress levels at these banks.

Work culture differences and more 'bureaucratic' organisational practices at public sector banks also pose a challenge. "Similar challenges and the absence of meaningful investor interest resulted in the state ultimately having to sell its majority stake in IDBI Bank to LIC in 2019, which has somewhat been privatisation in letter but not in spirit.

"However, this could change in 2021 if both government and LIC are able to divest a majority stake in the bank to an external investor, as it may be indicative of broader investor appetite in state banks with adequate loan-loss reserves," it concluded.

Banks to shift Rs.89,000-crore NPAs to NARCL

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Banks have identified about 22 bad loans worth Rs.89,000 crore to be transferred to the National Asset Reconstruction Company Ltd. (NARCL) in the initial phase, according to Union Bank of India MD and CEO Rajkiran Rai G. Setting up of NARCL, the proposed bad bank for taking over stressed assets of lenders, was announced in the Budget for 2021-22. "The Indian Banks' Association (IBA) has asked lead banks to call for meetings and keep an approval ready so that as soon as the ARC is formed, they can start the process," Mr. Rai, who is also the chairman of IBA, told reporters.

"I think the assessment in the first phase was of 22 accounts of about Rs.89,000 crore for the system."



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