

# High Provisioning: No Pain, No Gain

Trust in India banks' integrity supreme concern

The RBI has reportedly asked banks to make steep increases in the provisioning for bad loans that are referred to bankruptcy courts. This might appear tough: the banks will have to find something like an additional ₹50,000 crore this year and a like amount next year, at a time when they, for the most part, make losses, meaning they will have to find fresh capital. It might also appear to hinder the bad loan restructuring exercise. However, setting aside resources to cover possible losses would serve to reinforce trust in Indian banking's integrity and the security of depositors' savings. Clearly, the banking regulator makes this the overriding concern. We concur.

A sensible way out for the banks is to sell their bad loans to asset reconstruction companies, private equity or vulture funds at a discount and get an immediate fix on how much loss they make and how much provisioning would be called for. This is superior to the banks trying to invoke the bankruptcy code themselves and going through the two-year or so process of getting a revival package approved and implemented or seeing the company through liquidation. Crisil, based on an assessment of embedded value in the top 50 NPA cases, estimates that a 60% haircut would be needed on these loan assets. This is smaller than the

100% provisioning that banks would be required to make in cases of attempted liquidation. Banks must get additional capital to underwrite the impact of a haircut, or of higher provisioning pending asset reconstruction. The government can infuse fresh capital in the banks it owns directly or create a holding company for state-owned banks that can leverage its own capital to raise resources that can be used to capitalise the banks. Or the government can allow the banks to raise capital from the markets, allowing its stake to be diluted.

The need is to allow all factor markets to function properly, so that the valuation of companies up for liquidation would improve and, thereby, reduce the banks' provisioning requirement. Resolving the bad debt problem involves some inescapable pain.

# Lynch Mobs Threaten This Nation's Future

Lynch mobs have come to threaten not just lone lives but the vitality of the nation itself. This cannot continue and the trend must be put down. Political leaders must make it absolutely clear that they themselves and the governments they lead will not tolerate mob frenzy whipped up in whatever name, and that they put the unity of the people, social peace, law and order above all other considerations. Failure to discharge this duty would vitiate the conditions required for society to function and the economy to prosper.

Last Saturday, a mob harassed four Muslim youths, all siblings, travelling on a train from Delhi to Mathura after a bit of Eid shopping, yanked off their skull caps, called them beef-eaters and anti-nationals and assaulted them with knives, resulting in the death of one and the hospitalisation of the rest. Their village in Haryana observed Eid wearing black arm bands. A major Muslim organisation has cancelled its scheduled Eid gathering to which high-ranking members of the government had been invited. Meanwhile, in West Bengal, three youths were beaten to death on the suspicion they were involved in smuggling cattle to Bangladesh. These events follow in the wake of a series of violent attacks by armed mobs on people suspected of storing beef or transporting cattle for slaughter. Many Indians worship the cow and abhor the thought of eating its meat. Yet many other Indians do not, including a great many Hindus. Imposing one's own dietary preferences on others, on pain of death, violates individual liberties and democratic rights guaranteed by the Constitution.

Systematic violation of such rights to target minorities would lead to schism and violence, damaging India's multicultural tradition and robbing it of the fruits of economic reform.

Can other leaders trump the Portuguese premier's Indian repast for Modi?

# When India is on the High Table Menu

If Indians can get home food these days in places as far away as Buenos Aires or Irkutsk — which even has two only-vegetarian restaurants — there is no reason Portugal cannot dish out authentic desi fare for the first Indian prime minister to ever arrive on its shores. After all, Portugal now has a reputation to defend as one of the culinary hot spots of the world and a favourite of Michelin star aficionados. Not that our PM has such gourmet predilections, but he must have been pleasantly surprised at the Indian repast laid out by his Portuguese counterpart, coincidentally of part-Goan origin. Tadka dal and saag kofta accompanied by the appropriately hued saffron rice must have hit the spot, not to mention Indian 'rajma and makai' instead of a vegetarian version of the local kidney bean stew called feijoada. Paneer, or cottage cheese must have been diplomatically omitted given the uncertainty of whether Indians got it from the Persians or the Portuguese traders based in Babel on the Hooghly.

At the White House state banquet for the then-PM Dr Manmohan Singh in 2009, the Obamas had red lentil soup — masur dal — with fresh cheese, roasted potato dumplings with tomato chutney, chickpeas and okra, and pumpkin pie. Will the current incumbent trump that menu or the Portuguese one for this Indian PM at their working dinner?

The World Bank needs to reinvent itself and match the pace of Gol's economic narrative

# What India Can Lend the Bank



TVSN Prasad

Prime Minister Narendra Modi's itinerary in his current trip to Portugal, the United States and the Netherlands reveals a telling economic pattern. In their 2009 paper, 'The Role of the Structural Transformation in Aggregate Productivity' (goo.gl/pb4BBm), economists Margarida Duarte and Diego Restuccia analysed Portugal's 'catch-up' with the US economy. The study's conclusions hold promise for India and other countries seeking to join the club of advanced economies.

The employment generation achieved by the US in manufacturing and services, along with the corresponding productivity rises from 1870 to 1956, was achieved proportionately by Portugal in only 39 years from 1956 to 1995. Accumulation of technology, knowledge and learning from the experience of other countries helped late-starters such as Portugal.

'Make in India' resonates with Portugal's story and validates Gol's steps to further increase the footprint of services sector in India, particularly in IT, more so in the context of changing policies of the US for Indian companies based there.

The Netherlands, the third country Modi is visiting, presents a classic case of agricultural productivity triggered, export-driven, job-led growth, showcasing how Holland managed to overcome its own 'Dutch disease' riding on increasing far-

mers' prosperity.

The growth story in these countries is illustrative for India. It also helps that the world markets are buoyed by India's democracy nurtured growth trajectory revved up by recent bold economic initiatives such as the goods and services tax (GST). No wonder, the tsars of the US economy are toasting Modi, and these countries are eager for enhanced trade and cooperation. An increased global footprint is essential for 'Make in India' and India's service sector initiatives.

## Bankable

Global economic institutions need to be part of this emerging and exciting economic saga. They also should swiftly move to consolidate the promise India holds not only for itself, but also for the developing world that looks to India for leadership. Against this backdrop, Modi's visit to the US also brings into focus the potential role of another Washington-based institution — the World Bank, given its Bretton Woods mandate.

Apprehensions of its fast-eroding relevance are a constant refrain in the bank's corridors, given the declining dependence of emerging countries on its money. The space for plain vanilla-type of lending — to lay roads or build infrastructure — is indeed shrinking with increased access to fiscal resources, and the narrative shifting to 'minimum government and maximum governance'. The emphasis is on building an ecosystem that enables and incentivises private capital to create assets and provide services.

The World Bank needs to reinvent itself and match the pace of the economic narrative of India's government to build this ecosystem to leverage market liquidity for solid results. This is not to discount bank-



Put its finger on the pulse again

supported success stories — including in India — but to underline the fact that the bank should not miss the bus in India, hosting one-sixth of the world's population and currently on a resolute policy push, that is so very central to its remit.

Given the challenges that punctuate India's economic landscape, it cannot get more interesting in terms of policy. Stranded assets abound from non-performing assets (NPAs) of banks, and the ultra mega power plants to farm loan waivers. India is grappling with these issues with its own customised solutions, such as the asset recovery companies, re-scheduling liabilities and outright writeoffs.

## Some Innovation

It is an ideal situation for the bank to display its problem-solving skills — with its AAA-backed partial risk guarantees, coupled with the International Finance Corporation (IFC) and the Multilateral Risk Investment Guarantee Agency (MIGA) risk mitigation instruments to reduce financing costs to give these NPA companies room to meet contractual obligations and improve operations to recover.

Partial credit instruments can help municipal governments raise bonds that can help increase their public accountability and provide much-needed resources to build smart cities. The recent encouraging results of the

Pune municipal bonds point out the imminent need to scale this up.

The bank's credit guarantees could also help untangle the farm loan waiver conundrum to provide head room to commercial banks to raise market resources and reschedule their contingent liabilities upto a point, where fiscal space opens up with overall growth. Simultaneously, the bank can help strengthen the credit access along with risk mitigation in the farm sector and help expand the Micro Units Development and Refinance Agency (MUDRA) and Startup India initiatives for job creation and technology incubation.

These prescriptions are part of a difficult puzzle and are easier said than done. But the World Bank's instruments have proved their leveraging potential in the Latin American credit crisis and elsewhere. India's current initiatives present a historic opportunity to the bank to reinvent itself by adapting to a strategic role.

In his pathbreaking book, Thinking, Fast and Slow, Nobel Laureate Daniel Kahneman refers to the propensity of substituting a difficult question with a simpler one. Instead, the bank would do well to deploy innovative instruments that can further decisive policies of Gol's double-digit growth, rather than choosing the easier and slower path of vanilla lending.

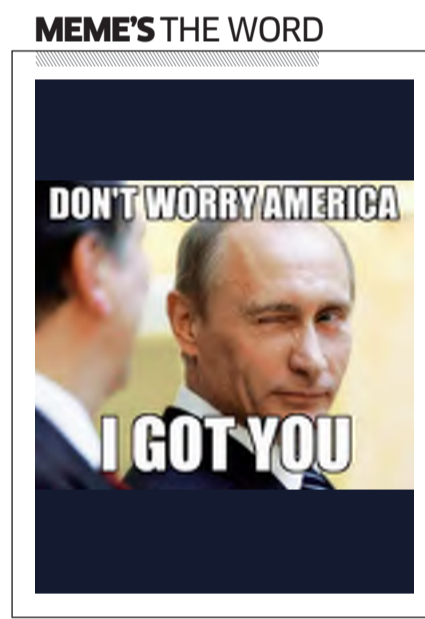
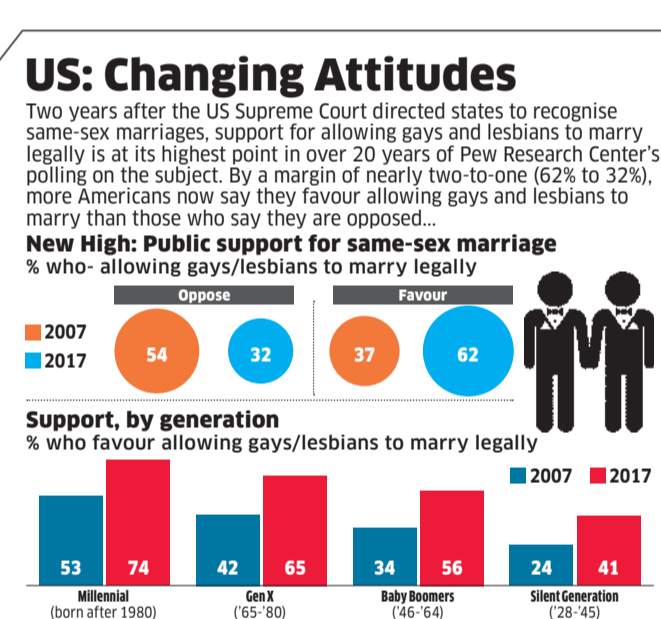
The writer worked at the World Bank

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**WIT & WISDOM**

"It is not the sins I have committed that I regret, but those which I have had no opportunity to commit."

Mirza Ghalib  
Poet



## MODI-TRUMP MEET

# The New Art of the Deal



This week, Indian Prime Minister Narendra Modi is in the United States to meet with the new US president, Donald Trump. Before becoming president, Trump was a successful businessman and television personality. He is the first US president without prior governmental or military experience.

Trump had a stunning victory in a bitterly fought election, using the campaign slogan 'Make America Great Again'. He has portrayed himself as an excellent deal maker, highlighted by the fact by the book he co-authored, The Art of the Deal. To make better deals than his predecessor, Trump has been reversing some of the policies of former US President Barack Obama.

For example, supported by Republican Congressmen and senators, he is leading the efforts towards replacing the Affordable Care Act (Obamacare) with the American Healthcare Act. He has withdrawn the US from the Trans-Pacific Partnership (TPP) to make bilateral deals with each nation. He has pulled the US out of the Paris Climate Agreement, and is willing to participate if he is allowed to negotiate better terms for the US.

Trump has been in office for less than six months. His administration is going through a steep learning curve. As Modi prepares to meet him for the first time, he should be acutely aware of Trump's personality and tactics.

Trump, according to The Art of the Deal, states that one of his key mantras is to 'use your leverage'. Trump could use the H-1B visa issue as leverage for discussions with Modi. Since US

companies will eventually go wherever they can find talent to stay competitive, India, if it charts its course carefully, in the long run will not be adversely affected by H-1B visas. The best move for Modi will be to simply take all Trump's negotiating leverage off on the H-1B visa issue and avoid any confrontation on this subject.

In fact, the prime minister should highlight to the president that Indian information technology (IT) players, led by Infosys, have already started making adjustments to their H-1B needs. For example, they have stopped applying for H-1B visas for employees with lower levels of experience and are in the process of completely halting applications for employees with less than four years of experience.

In addition, Infosys has announced that it would hire 10,000 Americans over the next two years and set up four innovation hubs in the US. Infosys is building a tech hub in Indianapolis that will create 2,000 jobs. This will go a long way in supporting Trump's theme of adding jobs in the US.

Once the two sides are on a firm footing, they can find a way forward to both protect the American workers and also continue a system that is

crucial to the US for staying on the leading edge of industrialising technology and innovation, the real secret to the US's greatness.

On the issue of trade surplus with the US, India is a lightweight, with only \$24-billion trade surplus, compared with the mammoth surplus of \$347 billion with China. India's surplus has only started rising during this decade as US and India have begun to get closer.

Modi should remind Trump, that unlike China, he has taken a free market approach to US technology players selling in India. Amazon, Uber, Google, Facebook and now Apple, enjoy a free market access to India. Over time the trade between the two countries will find an acceptable balance.

On the topic of the Paris Climate Change Agreement, Modi should keep the higher ground and ignore the US's accusations. India is by far the smallest of the four largest CO2 emitters in the world and is ranked 128th based on the largest emission per capita. The US, on the other hand, is ranked way up at the top at No. 12. India has only recently started focusing on growing its GDP and has over 300 million people, equivalent to the entire population of the US, living without access to energy.

Modi should go into meetings on this trip with Trump with no expectations, other than to meet and greet each other. The US and India have a mutual need to strengthen their bilateral ties to address the growing threat of terrorism worldwide. Also, as China's military capabilities are growing at an unprecedented speed, the US's recognition of the geopolitical realities of assertive China will help it look at India through a wide angle lens.

Meanwhile, India should manage its relations with the US thoughtfully and avoid creating unnecessary ripples.

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## Citings

### Managing Strategy

SAIKAT CHAUDHURI

Digital disruption is another form of disruption. In that sense, there's a lot we can learn from past disruptions. Disruptions happen from time to time. Each one has its unique flavour, and this one happens to be based on digital technologies... Reinventing yourself and how you transform in the face of these challenges — there is no one answer or right answer. I think that manufacturing is going to enter a new age. We're moving to automation. We're moving into smart factories. This is the advantage that the advanced economies have because not everybody can be in the services sector. Whether in 3D printing form or otherwise, we will have manufacturing. It might be smart manufacturing and a lot of robots in there, but we will need people to do that. I absolutely think it's necessary to move to that level. Germany has something called Industry 4.0. A number of firms are moving in that direction. Smart factories are a big priority that's mandated by Germany. All these big manufacturing powers are looking to really strengthen and advance and move to the next level. It's not possible to predict the future and where things are headed. It's more important to track what's going on and adapt. You have to be good at deciding, "Here's when I use organic, here's when I use partnerships, here's when I use acquisitions." And you have to be good at implementing them, so you really have to innovate innovatively.

From: Disruptors Need to Continue Innovating—or Be Disrupted



## Zorba the Buddha

OSHO

The traditional concept of man was that of a materialist or spiritualist, moral or immoral person, sinner or saint. A divided man is miserable. He is neither healthy nor whole; the other half that has been denied will go on taking revenge. It will find ways and means to overcome the part you have imposed upon yourself. You will become a battleground, there will be civil war. Only a fulfilled tree will flower. Man is yet to flower. The new man will be earthy and divine, worldly and other-worldly. The new man will accept his totality and he will live it without any inner division, without getting split. With the new man will come a new world, because the new man will perceive in a qualitatively different way. He will live a totally different life. He will be a mystic, poet and scientist — all at once.

My concept of the new man is that he will be Zorba the Greek and he will also be Gautama the Buddha. The new man will be Zorba the Buddha. He will be sensuous and spiritual — in the body, yet with a great consciousness, a great witnessing. Religion failed because it was too other-worldly. It neglected this world. To neglect this world is to neglect your own roots. Science has failed because it neglected the other world, the inner, and you cannot neglect the flowers. We now need a new humanity in which religion and science become two aspects of one human being. And art will be the bridge. That's why I say that the new man will be a mystic, a poet and a scientist.

## Chat Room

### Modi Strikes the Right Note

Appropos 'Protecting an Investment' (Jun 26). The onus of saving India-US relations does not solely rest with the former. America will also equally lose out if not more if it continues to adopt protectionist policies. India must play its cards right and negotiate to be an equal partner in growth rather than be seen as a free-loader — Trump, for example, had complained about India along with other countries while pulling out from the Paris climate deal. Modi has already set the ball rolling in his meeting with top CEOs, inviting US companies to invest in India.

### BHOLEY BHARDWAJ

Mumbai

### Make Crop Cover A Must

Appropos 'Farm Loan Waivers Disrupt the Fisc' (Jun 26). The rising fiscal deficit due to farm loan waivers needs a long-term solution. In case of corporate defaults, debt restructuring is a way out, but who will cover the default of farmers? False and illogical commitments to waive off farm loans during electioneering aggravates the problem. Lack of warehouses, market accessibility, proper pricing mechanism, information asymmetry and low penetration of crop insurance are other factors of farm distress. Compulsory crop insurance can be a long-term solution.

### SANJAY TIWARI

Hisar

### For A Stellar Vice President

This refers to 'Time to Talk about the Vice-President' (Jun 26). With both NDA and UPA coalitions on a collision course for electing the president, chances of a consensus candidate for the position of vice president have receded a bit. One hopes that the choice will be a liberal and widely known personality for the key position — after all a stalwart like late Dr S Radhakrishnan was the first VP.

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