



## Signs of a turnaround

Regulatory vigil should not ease after the half-yearly decline in banks' gross NPA ratio

The fog of bad loans shrouding the banking sector appears to be lifting after a long period of sustained stress. The Reserve Bank of India's Financial Stability Report reveals the first half-yearly decline in the ratio of gross non-performing assets (GNPA) to advances since September 2015. The ratio across all scheduled commercial banks has eased to 10.8% as of end-September 2018, from 11.5% in March, with both public sector and private sector lenders posting drops in the key indicator of bad loans. A stress test for credit risk at banks that models varying levels of macro-economic performance shows that for the baseline assumption, the GNPA ratio would narrow to 10.3% by March 2019. This prompted RBI Governor Shaktikanta Das to prognosticate that the sector "appears to be on course to recovery". Still, state-owned banks continue to have higher levels of bad loans than their private sector peers and are projected to show slower improvements over the second half of the fiscal. The GNPA ratio for public sector banks (PSBs) is posited to only inch lower to 14.6% by March, from 14.8% in September. One reason is that PSBs have a disproportionately higher share of bad loans from among large borrowers, who accounted for almost 55% of loans advanced by all banks as of September. The GNPA ratio for this category at PSBs was 21.6%, compared with just 7% at private banks.

Interestingly, the RBI's Prompt Corrective Action (PCA) framework, which attracted criticism including from a government appointee on the central bank's board, has significantly helped lower contagion risk to the banking system. A contagion analysis that assumes there would be no sovereign guarantee provided for the 11 PSBs placed under the PCA curbs, in the event of a simultaneous failure, projects that solvency losses due to such failure have more than halved over the four quarters ended September: to ₹34,200 crore (3.1% of total Tier-I capital) from ₹73,500 crore (6.8% of total Tier-I capital). Data on banking frauds are also a cause for concern. Close to 95% of the frauds reported in the six months ended September were credit-related, with PSBs again bearing the brunt of *mala fide* intent on the part of borrowers. The RBI's report has justifiably spotlighted the urgent need to tighten the oversight framework for financial conglomerates in the wake of the IL&FS meltdown, which continues to ripple across the financial system, including at mutual funds and non-banking financial companies. As Mr. Das said in his foreword, "...the recent developments in NBFCs have underscored the need for greater prudence in risk-taking." Regulators and policymakers need to work together to insulate the economy from the risks of similar fiascos.

## A Democratic hope?

Elizabeth Warren makes the first move towards a U.S. presidential bid

Elizabeth Warren, Democratic Senator of Massachusetts, has announced her likely candidacy for the 2020 U.S. presidential race. In her statement she put racial and gender-based inequality front and centre in her campaign agenda, as much as income inequality faced by the middle class. For these ills of the American economy, she blamed the excesses of under-regulated Wall Street corporations and billionaires with the money muscle to bend political rules. Although Ms. Warren, who won a second six-year Senate term in November, had declined to enter the 2016 general election and challenge Hillary Clinton in the Democratic primary, she made a name for herself as a top-tier Democrat by taking on President Donald Trump, describing him as a "thin-skinned racist bully". However, she attracted criticism for an unnecessary controversy over taking a DNA test to establish her Native American heritage, after Mr. Trump used racist epithets to provoke and smear her ethnic antecedents. Notwithstanding that blip, the former Harvard law professor, who hails from a blue-collar background in Oklahoma, has repeatedly underscored her credentials as a champion of multiracial populism. Over the past year she has sharpened her attack on Mr. Trump's politics, arguing that he deflects attention from the impact of his divisive policies on ordinary American families and instead blames "other working people, people who are black, or brown, people born somewhere else."

Despite the considerable achievements of Ms. Warren, who had not held public office before 2013, the obstacles ahead for her proposed presidential run are formidable. First, the general expectation is that the field for the Democratic nomination will widen considerably over through 2019, given that more than three dozen Democratic candidates-in-the-making are said to be considering joining the race, several of them for the first time. Some, such as Kamala Harris of California or Cory Booker of New Jersey, could hold stronger appeal with millennial voters and people of colour. Second, it is hard to predict how Ms. Warren will fare against self-professed Democratic socialist candidate Bernie Sanders, or Senator Sherrod Brown of Ohio, both economic populists who could hypothetically cut into her share of voters of a similar ideological persuasion. Finally, the risk of pursuing a populist theme from the centre-left of the political spectrum is that she would be an easy target for Mr. Trump and conservatives, who are likely to deride her as an out-of-touch liberal academic and a threat to free enterprise. Nevertheless, as a candidate for the nation's highest office, Ms. Warren's ideological moorings are set. It is not inconceivable that, given how bitterly polarised the electorate is today, Ms. Warren's bold liberalism could offer hope to millions of voters dismayed at what Mr. Trump has done to their nation.

# The bilateral transformation

India and Bangladesh must seize the opportunity to further enhance connectivity and trade ties



PINAK RANJAN CHAKRAVARTY

The spectacular victory of the Grand Alliance led by the Awami League (AL), headed by incumbent Prime Minister Sheikh Hasina, in Bangladesh's 11th general election, has delighted her supporters. This election is also a milestone for the coming of age of a new generation which is avowedly aspirational and is tired of the old political discourse that had deeply divided politics in Bangladesh. They have voted for economic progress and a secular polity.

The margin of victory has shocked and dismayed the Opposition parties that had coalesced into the National Unity Front (NUF), a coalition at whose core is the Bangladesh Nationalist Party (BNP), the AL's bitter political rival. Former AL stalwart and famous jurist Kamal Hossain provided the leadership glue for the Opposition coalition. Nominally led by its Chairperson, former Prime Minister Khaleda Zia, currently in jail for corruption, the BNP's guiding force is U.K.-based acting-Chairman Tarique Rahman, her controversial son who fled from the country in 2008 and lives in exile. He is convicted of money laundering and conspiracy to murder.

### Brute majority

The AL has obtained a brute majority of 288 seats in a unicameral Parliament which has 300 directly-elected seats and 50 seats reserved for women. The latter are elected by the electoral college of directly-elected MPs, with proportional representation to parties elected to the Parliament.

Mr. Hossain's monumental failure to deliver has left him and oth-

er Opposition leaders hurling allegations that the elections were "farical" and asking that new elections be held under a non-partisan caretaker administration. The NUF managed to win just seven seats. The Election Commission, while taking note of some electoral malpractices and promising investigation, has declared the results valid and rejected the demand for new elections.

The margin of victory has lent some traction to persistent allegations of electoral malpractices, hounding of the Opposition, large-scale arrests of Opposition workers and intimidation of voters. Election-related violence on polling day claimed 17 lives. Several Opposition candidates withdrew from the fray, citing violent obstruction by AL workers, kidnapping of their election agents and voters being obstructed from casting their votes. Yet international observers have concluded that the elections were largely peaceful, fair and credible.

Though dogged by two consecutive controversial elections and increasing perceptions of authoritarian behaviour, Ms. Hasina is set for another five-year term in office. She has an enviable record of delivering record economic growth. Bangladesh's GDP grew at a rate of 7.6% in the last quarter, making it one of the fastest growing economies in the world.

### A bipartisan consensus

During the last decade of Ms. Hasina's tenure as Prime Minister, high-level Bangladesh-India engagement has intensified. There is an irrevocable and irreversible bipartisan political consensus in India for upgrading relations across a comprehensive interface of ties. India's 'neighbourhood policy' has focussed on Bangladesh, which has emerged as a key interlocutor in India's 'Act East Policy' and sub-regional groupings like BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and



Economic Cooperation) and the BBIN (Bangladesh, Bhutan, India, Nepal) Initiative. In Bangladesh too, a growing domestic political consensus, overriding fractious politics, has emerged in favour of close ties with India. Denial of support to Indian insurgent groups, with insurgent leaders handed over to India, has progressively built trust and confidence between the two countries. Bangladesh is India's largest trading partner in South Asia with an annual turnover of around \$9 billion plus an estimated informal trade of around \$8-9 billion, across the 4,100-km-long porous border. Cooperation in connectivity, energy, security and intelligence matters has intensified. The Padma multipurpose bridge and the Akhaura-Agartala rail link will dramatically change connectivity within Bangladesh and with India. Waterways are also being revived to reduce the cost of trade.

Improvement in bilateral ties has led to newer areas of cooperation such as cyberspace. Bangladesh has provided cyber connectivity between the international gateway at Cox's Bazar to Agartala for faster Internet connectivity in India's northeastern States. India has also become a partner in Bangladesh's nuclear power programme, with the beginning of construction at the Rooppur nu-

# Strange bedfellows in West Asia

Tel Aviv believes that improved relations with Riyadh will serve many major strategic goals



MOHAMMED AYOOB

Increasing intimacy between Saudi Arabia, the so-called bastion of Islamic orthodoxy, and Israel, the Jewish state carved out by the colonial powers in Arab Palestine, appears astonishing at first sight. The growing relationship, even if surreptitious, between the two states can be explained in large part with reference to the old adage, "my enemy's enemy is my friend".

### Complex reasons

The enemy is Iran, which both countries perceive as the primary threat to their strategic interests in West Asia. Saudi Arabia is engaged in a fierce competition with Iran for influence in the Persian Gulf and wider West Asia. Riyadh seems to be losing this competition as demonstrated by recent events in Syria, Lebanon and Iraq as well as tiny Qatar's defiant attitude.

The reasons for Israel's overtures towards Saudi Arabia are more complex. A common front against Iran is, of course, a major factor determining Israeli policy. Iran is a potential challenger to Israel's nuclear monopoly in West

Asia and uses its influence in the Levant to impede Israeli dominance of the region. But equally important, the Israeli government believes that improved relations with Riyadh will serve other major goals.

First, Saudi Arabia's lead in establishing relations with Israel, even if covert, is likely to induce other Arab states, especially the oil rich monarchies of the Gulf, to open their economies to Israeli investment and technical expertise, thus bringing Israel substantial economic benefits. Israel's success in achieving this objective is critically dependent upon developing a significant, even if unacknowledged, relationship with Saudi Arabia.

Second, the Israeli government estimates that improved relations with the Saudi regime, the "guardian" of Islam's two holiest sites, will help resolve the Israeli-Palestinian conflict to Tel Aviv's satisfaction. This means Israel continuing to control the entire territory between the River Jordan and the Mediterranean Sea without giving the Palestinians any civil or political rights. Israel feels that with Saudi help, the status quo could be made acceptable to other Arab and Muslim countries as well since several of them, such as Egypt and Pakistan, are heavily dependent upon Saudi largesse.

Furthermore, Israel and Saudi Arabia have a common interest in preventing the democratisation of



Arab countries. Authoritarian governments in the Arab world allow Israel to parade itself as the only democracy in West Asia. Saudi Arabia is mortally afraid of a democratic wave in the Arab world since it would further highlight the despotic nature of its regime. This apprehension drove its opposition to the democracy movements, especially in Egypt and Bahrain, during the short-lived Arab Spring.

### U.S. nod

The Saudi-Israeli rapprochement has been actively supported by the Trump administration. The United States is extremely interested in the formation of a joint front between Saudi Arabia and Israel against Iran, America's principal adversary in West Asia. Jared Kushner, the U.S. President's son-in-law and the administration's point man on West Asia, has developed a special relationship with Saudi Crown Prince Muhammad Bin Salman (MBS) in order to achieve this and other ends. He had used his leverage with MBS to

clear power plant. India is poised to export around 1100 MW of power to meet the energy deficit in Bangladesh. Power projects totalling more than 3600 MW are under implementation by Indian companies.

The adverse balance of trade has been a bilateral issue. The asymmetry in the economies of India and Bangladesh is the major factor. To enable more Bangladeshi exports to flow into India, duty free entry was granted in 2011 under the South Asian Free Trade Area. This has led to an increase in exports from Bangladesh from around \$350 million to the current level of around \$900 million. Bangladeshi exports have plateaued because of demand constraints in India and also because of limited items in the Bangladeshi export basket. An SEZ in Bangladesh for Indian manufacturing companies has been mooted and notified. When operational it will encourage Indian companies to manufacture there and export to India. Indian investment in Bangladesh has reached \$3 billion. In 2017, 13 agreements worth around \$10 billion were signed in the power and energy sectors.

To offset the economic asymmetry, India has granted Bangladesh generous lines of credit (LOCs) and grants, with commitments reaching \$8 billion. While LOCs mainly cover infrastructure and connectivity projects, grants flow into social sector development. Capacity building under the Indian Technical and Economic Cooperation programme is an important strand in bilateral ties and people-to-people interaction. Bangladeshis are among the largest groups of tourists into India. The visa regime has been liberalised and over a million visas are issued to Bangladeshi citizens annually.

With the rise of religious radicalism and terrorism, defence and security issues will require greater cooperation. Bangladesh has taken strong and effective steps

against those who have been inspired by the Islamic State and involved in terrorist strikes. Islamist organisations have been breeding grounds for religious radicals and extremist views. These forces will pose a considerable challenge for governance in Bangladesh in the future. With the massive loss, the NUF is likely to boycott the Parliament and take to street agitation, sully Bangladesh's reputation as a democracy.

### Challenges ahead

There will be setbacks in India-Bangladesh ties, like the current Rohingya issue, which has imposed a huge economic and security burden on Bangladesh. Bilaterally, the issue of the illegal migration has already acquired a high profile in India with the publication of the draft National Register of Citizens in Assam. This will require deft handling of bilateral ties. Sharing of river waters will remain a challenge, but not an insurmountable one.

China's security and economic footprint has grown in South Asia and managing this will remain a challenge for both countries. While Bangladesh is overwhelmingly dependent on military hardware from China, India has provided a \$500 million LOC for procurement of defence-related goods from India. This momentum must be maintained and intensified.

India has welcomed the election results and Prime Minister Narendra Modi was the first leader to telephone and congratulate Ms. Hasina. Bangladesh-India relations have reached a stage of maturity and with further upgrading and integration of infrastructure, bilateral ties can be expected to grow stronger in the future.

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prod the latter to accept Israel's point of view on the Palestine issue before the Jamal Khashoggi murder stalled the expansion of the Saudi-Israeli relationship.

The rapprochement between Riyadh and Tel Aviv was moving apace until October 2, 2018, when Khashoggi, a Saudi dissident journalist, was murdered at the behest of the Saudi regime in the Saudi Consulate in Istanbul, Turkey. Senior officials of the two governments, including Mossad head Yossi Cohen, had clandestinely met several times. On the Saudi side, former senior aide to the Crown Prince, Saud al-Qahtani, and former deputy intelligence chief, Major General Ahmed al-Asiri, had played important roles in the secret negotiations with Israel.

### Khashoggi murder

However, the Khashoggi murder has thrown a spanner in the works for several reasons. First, the two principal Saudi interlocutors have been dismissed from their crucial positions in order to demonstrate to the international community that the Saudi regime is genuinely interested in bringing Khashoggi's murderers to justice.

Second, MBS, who many believe ordered the killing, has been the focus of intense criticism, including by leading Senators and Congressmen in the U.S., following the brutal murder and dismemberment of Khashoggi's body. He is also held responsible for

the Yemeni misadventure, which has left thousands of civilians dead and millions on the verge of starvation. He cannot, therefore, afford to take greater political risks at this moment by continuing the parleys with Israel.

This does not mean that the Saudi-Israeli relationship will return to the level of hostility that had once existed between the two states. Rapprochement has been an ongoing process for close to two decades. It was dramatically expedited with the appointment of MBS as Crown Prince and the de facto ruler of Saudi Arabia.

One can, therefore, conclude that their common hostility towards Iran and their close security relationship with the U.S. will eventually prompt Saudi Arabia and Israel to resume their covert relationship and eventually make it public. However, their contacts are likely to remain frozen for some time until the Khashoggi murder recedes from public memory. Yet the Saudi-Israeli rapprochement could be accelerated if MBS, who has been the driving force behind the Saudi policy of engagement with Israel, ascends to the Saudi throne in the near future.

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## LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

### India and Hasina's win

The landslide victory, in Bangladesh, for the Awami League augurs well for sustained growth in India-Bangladesh relations (Editorial, "Hasina's triumph", January 1). One cannot forget the historic accord signed between India and Bangladesh with regard to the exchange of enclaves. Prime Minister Sheikh Hasina has displayed no hatred toward Rohingya refugees while, at the same time, her zero tolerance towards terrorism on her country's soil cannot be missed. One hopes that our friendship is marked by more warmth, goodwill and abiding respect.

N. VISVESWARAN,  
Chennai

■ For India, Ms. Hasina's resounding victory could be another opportunity to accomplish more infrastructure projects in Bangladesh. In 1971, India had a key role in the liberation of Bangladesh. Now it is India's crucial partner in making a mark in economic and political terms in the South Asian region. One hopes that the Awami League will only strengthen the bond between the two nations.

ROHIT R.,  
Belagutti, Davanagere, Karnataka

### The year ahead

How one hopes what the writer wishes for us comes true (Editorial page, "Diary of the year to come", January 1) – that we have a wise,

benevolent set of selfless rulers who are true to themselves and who are able to make this country truly 'Sare jahan se achha'. A climate of hate and intolerance prevails all over the country. The only thing that seems to matter for the ruling party is to grab power. Propelled by lurking megalomania, the leadership is out to do this by using even the most despicable means. Look at what is happening in Karnataka ("Ramesh Jarkiholi may soon quit Cong." and "2 ex-Karnataka CMs continue Twitter war", both January 1).

A couple of days ago, the Vice-Chancellor of a university in Uttar Pradesh is alleged to have publicly

exhorted students to use violence against their adversaries. Peddlers of hate, rabble rousers and demagogues appear to rule the roost in contemporary India, with the state readily capitulating to them. Is there still hope for 'Sare jahan se achha'?

M. JAMEEL AHMED,  
Mysuru

### Polymaths are rare

In the early days of the scientific revolution, polymathy was the norm rather than the exception (Editorial page, "Dead ends of specialisation", January 1). Science, as well as art, flourished by the synthesis of knowledge cutting across disciplines. The devaluation of

polymathy appears to be a defensive response of so-called specialists and academicians with a narrow vision who fear challenges to their received scientific wisdom once the winds of cross-disciplinary research sweep across their scientific citadels. It is significant that most Nobel Prize winners had deep as well as broad knowledge of specific and different disciplines. In fact, many of them had interests in the arts as well. The challenges of the 21st century demand interdisciplinary cooperation because many solutions exist at the intersections of different branches of knowledge. Universities, the reservoirs of talent and expertise, should

take the lead in breaking the chains of specialisation that have shackled the cross-disciplinary orientation of research.

V.N. MUKUNDARAJAN,  
Thiruvananthapuram

### 'Achche din'

The "silent" cartoon (OpEd page, 'Cartoonscape', January 1), spoke volumes about realities that cannot be explained even with a thousand words. The swipe at the failure of all the tall promises made by the BJP government to usher in 'Achche din' under its rule of five years was unmistakable and thought-provoking.

D. SETHURAMAN,  
Chennai

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