THE HINDU

No easy solutions

A 'bad bank' is not a magic bullet; tackling NPAs requires other structural reforms as well

Union Minister Piyush Goyal, currently in charge of the Finance Ministry, has announced the formation of a committee to assess the idea of special asset reconstruction companies or asset management companies to take over bad loans from banks. The bankers' panel has been given two weeks to revert. The idea of a 'bad bank' is not new. Chief Economic Adviser Arvind Subramanian had suggested the creation of a Public Sector Asset Rehabilitation Agency (PARA) to deal with what he described as India's "festering twin balance sheet problem". By this he meant over-leveraged corporates unable to service debt or invest afresh, and banks hit by non-performing assets (NPAs) cagey about fresh lending. This overhang hurts new investments and continues to dent India's medium-term growth and job creation prospects. A professionally-run PARA, or the so-called 'bad bank', could assume custody of the largest and most difficult-to-resolve NPAs from lenders' balance sheets. This would allow banks to focus on extending fresh credit and supporting the pick-up in growth. More importantly, a bad bank taking tough decisions on borrowers-gone-bad, it was argued, could free bankers from the risks entailed in large loan write-downs.

But there are good reasons why the Finance Ministry left the bad bank idea in the cold over the past year and a half - among them the fact that the new entity would need a lot of capital support, just as banks do. Some of this was envisaged as coming from the Reserve Bank of India through a complicated transaction. After a long debate within government, under Finance Minister Arun Jaitley, it was noted that setting up a new institution would be very time-consuming and there would be challenges on its ownership structure as well as the pricing of bad loans taken over from banks. In any case, going by the experience of private asset reconstruction companies, a PARA by itself would not be able to deploy dramatically different tools to extract better value from underlying assets and would, at best, amount to window-dressing bank books to attract investors. As former RBI Governor Raghuram Rajan had pointed out, a government-owned bad bank could still face scrutiny from the Comptroller and Auditor General and the Central Vigilance Commissioner. For now, the government is clearly under pressure to demonstrate fresh intent to investors as India Inc believes bank loans are likely to remain sluggish for the next two-three years. Whether or not the knots in the bad bank idea are sorted out, the government should focus on other reforms as well. One, amend the Prevention of Corruption Act to shield bankers and officers from investigative witch-hunts. Two, back bankers to take demonstrable action against wilful defaulters. And three, take a hard look at what ails the Insolvency and Bankruptcy Code.

Ceasing fire

The Taliban's reciprocal truce against Afghan troops provides a glimmer of hope

The Taliban's announcement of a three-day ceasefire with Afghan government troops for Eid, two days after President Ashraf Ghani declared an unconditional week-long ceasefire, is a glimmer of hope for a breakthrough in the long-struggling peace process. This is the first time the Taliban has announced a ceasefire in the 17 years since it was removed from power in Kabul. Though it has not acknowledged the government ceasefire, the timing and the public declaration unmistakably point to the reciprocity of the decision. In the past, Mr. Ghani's government had tried several times to reach out to the Taliban to find a breakthrough in the conflict. In 2015, when both sides were in an advanced stage of talks, it was revealed that the Taliban leader Mullah Omar had died years ago, upending the whole process. In February, Mr. Ghani had invited the Taliban to shun weapons and join peace talks in return for security assurances and passports to militants. But the group shunned the offer after days of uncertainty. The surprise ceasefire declaration during Ramzan is the latest gambit by Mr. Ghani. The war has long entered a stalemate, and something needs to give. The Taliban has made enormous military gains in recent years. It now controls vast swathes of rural, mountainous Afghanistan, while the government retains its grip on the more populated urban centres. The Taliban doesn't seem to be in a position to capture power by overthrowing the government as long as the U.S. and its allies remain committed to the regime's security. Equally, Afghan forces are unable to defeat or even check the Taliban's momentum in rural areas.

The fact that the government and the Taliban finally accepted a limited ceasefire suggests that the appetite for a political solution is now stronger. But a three-day Taliban ceasefire will not necessarily set the scene for a more productive engagement. The Taliban has said that the truce is applicable only to the "domestic opposition", which means it will continue to target foreign troops. Also, the announcement came immediately after several attacks over 24 hours left at least 50 security personnel dead, which shows how precarious the situation is. Even for talks to be initiated, there are serious bottlenecks – the Taliban insists that foreign troops be withdrawn, while the government demands that the group accept the Afghan constitution. Despite these challenges, the Taliban's positive response is a small gesture which could be used by both sides to build confidence before moving to the next step. The U.S. could put pressure on the Taliban through Pakistan to bring them to the table. If not, the war will carry on, with neither side gaining a decisive edge and leaving millions of Afghans in unending misery.

Why no one is worried about MPC's rate hike

The RBI's inflation-targeting framework has reduced its flexibility to respond dynamically to other market-driven factors

AARATI KRISHNAN

GETTY IMAGES/ISTOCKPHOTO

Not so long ago, bi-monthly policy meetings of the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) entailed nail-biting suspense for market participants, who watched it for cues to the future direction of interest rates. Rate hike decisions by the MPC, that too after a long pause, inevitably roiled the stock and bond markets.

But the latest meeting saw the tables being turned. When the MPC decided to peg up its repo rate by 25 basis points, signalling a reversal from its cheap money policies of the last three years, traders and investors were unperturbed. The S&P BSE Sensex ended the day with a 275-point gain. The 10-year government security saw its yield rise by a mild 9 basis points. Commentators even congratulated the MPC for putting through a 'dovish' hike.

If you are wondering about this non-reaction, blame Mr. Market for it. The MPC's recent rate decision has turned out be a non-event because India's financial markets had already pre-empted it, many moons ago.

Market forces drive rates

Consider bond markets first. While the MPC has been in pause mode for the last 10 months, the yield on the 10-year government bond, the benchmark for market interest rates, has shot up by 120 basis points from 6.60% to 7.83%.

Several factors have propelled market interest rates in this period. The most important one is the demand-supply mismatch in government securities (g-secs). Normally, the g-sec supply unleashed by the Centre's borrowings is promptly mopped up by banks to fulfil their 19.5% SLR (statutory liquidity ratio) requirement. But post-demonetisation, domestic banks were flush with funds and took to parking these surpluses in g-secs, resulting in them holding as much as 30% in SLR securities.

With credit offtake picking up in recent few months, banks have gone slow with their g-sec purchases, to ensure that they had funds to lend. With the largest buyers in the market stepping back, excess g-sec supply has swamped the market, quelling prices and raising yields.

Other market forces have aggravated the supply glut. With global interest rates firming up lately, foreign portfolio investors, key players in the bond market, have been in sell mode, withdrawing a massive $6.7 billion between April 1 and June 6, 2018, as per the MPC. Rising rates lead to capital losses for holders of bonds. Therefore, soaring yields have prompted other bond buyers – insurance firms, mutual funds and pension funds – to shy away from long-dated g-secs too.

Looming inflation risks have impacted rates too. Aware that the monthly Consumer Price Index (CPI) reading is the biggest driver of MPC actions, market participants have been keeping a hawk eye on the inflation numbers. In its April policy review, the MPC had projected an inflation range of 4.7-5.1% for the first half and 4.4% for the second half of the financial year 2018-19. CPI inflation for April, reversing from a three-month decline, had already spiked to 4.58%, with the flare-up in global oil prices looking to push it up further. This has also prompted market players to pre-empt the MPC.

With all the above factors propping up market interest rates by over 120 basis points in the past year, the mild 25-basis point hike by the MPC proved underwhelming.

Sovereign bond rates set the floor for all other borrowers in the market. Therefore, this upward spiral in g-sec yields in the last 10 months has been faithfully mirrored by corporate bonds and commercial paper.

As a result, India Inc has already seen a 100-120 basis point escalation in its borrowing costs from the market in the last 10 months. That is why the stock market wasn't fazed by the repo rate hike either.

Banks act too

Indian banks in the past were faithful followers of MPC actions on interest rates. If the MPC stayed on hold, they dutifully followed suit. If it raised them, they would peg up their deposit and lending rates.

But this time around, even banks have not waited for the MPC's say-so to hike their rates. With deposit flows slowing down and credit offtake picking up, banks have had to hike their retail and bulk deposit rates by 25-50 basis points over the last six months to woo new depositors.

Given that the RBI requires banks to peg their lending rates to their incremental cost of funds, higher deposit rates have automatically fed into higher lending rates. The SBI's MCLR (marginal cost of funds based lending rate) for one-year loans bottomed out at 7.95% in November 2017, but is now at 8.25%.

Losing grip

This trend of debt market participants not looking to the MPC to decide on interest rates is not a very welcome development for policymakers. If the markets regularly pre-empt MPC moves, its policy rates lose their benchmark status and become a less effective tool to rein in inflation, stimulate growth or stabilise an unruly exchange rate.

But what can the MPC do to wrest back the controls from Mr. Market? For one, it can improve its forecasting skills. Given that its rate moves are predicated on the CPI, if the MPC proves better than the market at reading the tea leaves on oil prices and emerging inflation, its rate actions can pre-empt the market, instead of following it.

More importantly, it is worth questioning if the MPC should go back to a multiple-indicator approach to decide on its rate actions. Earlier, the RBI used incoming data on a whole host of factors – inflation, GDP numbers, deficit indicators, foreign flows – as inputs to its rate-setting decisions, so as to balance inflation, growth and stability objectives. As the RBI would assign different weights to these factors at different times, the markets were often kept guessing about RBI actions.

But after the new inflation-targeting framework adopted by the RBI and the Centre in 2015, the MPC has the single-point agenda of containing CPI inflation at 4-6%. It has thus taken to focussing mainly on the CPI print for its rate decisions. This has reduced its flexibility to respond dynamically to the other market-driven factors, such as demand from banks or foreign flows. Restoring this flexibility may give the MPC a fighting chance at staying ahead of the market.

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Open data, open government

The time is now ripe for the government to create a data-driven governance architecture

RANA KAPOOR

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The "audacity of hope" for a country of a billion aspirations is yet to bear result. The new wave of a technological revolution will not be from pure data or access to consumer behaviour. The application of data and their assimilation with solving social problems, enabling better governance and powering elected governments to serve their citizens better is ushering in a new revolution. When Artificial Intelligence is coupled with open data, a real paradigm shift begins. With choice and information-sharing now redefining consumer behaviour, every company is looking to embrace or at least look like it is embracing the new paradigm of data-driven innovation.

Privacy and consent

"Datafication" of businesses has also brought to the fore the criticality of developing data management, storage and privacy laws. The European Union with its General Data Protection Regulation has been a front-runner and other countries, including India, have also adopted a collaborative model to develop privacy laws, which includes deliberations with creators of data (the consumer) and users (corporates).

While concerns around privacy and consent have been well articulated, open government data is a silent but powerful movement unfolding globally. Over 100 governments have already signed a charter to proactively share data collected by various government departments, for public consumption. Fostering collaboration, enabling creative innovations and collective problem-solving are giving accountability and transparency a shot in the arm.

Underutilised asset

Open government data means publishing information collected by the government in its entirety, such as government budgets, spending records, health-care measures, climate records, and farming and agricultural produce statistics. If the advent of data-driven business models was a watershed moment, this is the real pot of gold.

Unfortunately, the potential of this national asset is being grossly underutilised. We need to act on it without further delay for three basic reasons. One, such data collected by governments are for citizen welfare; hence they have an implicit right to benefit from the information. Two, data sets such as government budget usage, welfare schemes and subsidies increase transparency and thereby build trust. Third, and most important, it paves the way to develop technology-led innovations which can unlock massive economic value, thereby benefitting even the poorest of poor, the under-represented and the marginalised.

For instance, availability of data on yearly produce of crops, soil data health cards and meteorological data sets can help companies develop customised crop insurance solutions with specific risk-based pricing. Data points around progress in literacy rates, demographic data and density of educators can help develop customised solutions for villages. Similarly, information on availability of facilities in public hospitals, current occupancy rates, hospital and demographic data can pave the way for curated health-care applications. The cases are endless and technology can have a multiplier effect.

Research by PwC in Australia estimated that open data can add an additional 1.5% to the country's GDP. In the Indian context, this could conservatively translate to about $22 billion. A case in point here is Transport for London, a public utility, which has digitised and shared only about 80 data sets, yet this has led to the creation of multiple technology applications for city transport and maps, unlocking estimated economic benefits and savings for the city to the tune of £130 million.

The power of open data has hardly been lost on the Indian government. The Ministry of Electronics and Information Technology has made some laudable efforts, including a policy around open data. India currently houses more than 1.6 lakh data resources and has published over 4,015 application programme interfaces (APIs) from across 100-plus departments. As a result, India's global ranking by the Global Open Data Barometer has jumped.

This is a good start but not enough. A closer analysis of the Open Data project shows good intent but sporadic execution. Hence, while India publishes data points, very little of it is getting utilised by data consumers, scientists and corporates. Naturally, the socio-economic impact is limited.

Five-point framework

I have proposed a 5C framework to address the current underlying execution gaps of the Open Data project, and believe it can help India achieve its stated objectives to double farmers' incomes by 2022 and provide universal health coverage and micro loans to micro, small and medium enterprises among others.

The first step is to ensure completeness of data stacks opened for use either through machine-readable formats or direct APIs. Completeness would imply a data set. For example, soil data cards will have data on all relevant aspects as well as current emerging technologies such as Blockchain and the Internet of Things to provide the opportunity to automate data collection.

Comprehensiveness of a data stack or various data sets is essential. For example, a comprehensive agri-data set would have digitised data sets on soil data, rainfall, crop production as well as market rates. Currently, data sets shared in India are somewhat disjointed and not comprehensive.

Clustering of relevant data sets and APIs would be the next step. This would mean combining data sets which can lead to the creation of applications such as farm insurance from weather, soil and crop cycle/sale data. Therefore, technology developers have a road map of "innovations in focus" for national development.

The fourth step is building anchor cases or use-cases to encourage data usage. A case in point is Aadhaar/identity data which has seen exponential growth (post identification in e-KYC). Taking the Aadhaar case further, its API has led to the development of market applications, an Aadhaar-enabled payment system, and direct benefit transfers among others which are clearly pushing the "financial inclusion" drive.

The final step would be setting up a comprehensive governance framework which includes an open data council with cross-sector representation to monitor, regulate and build usage after proportionate oversight.

The time is now ripe for the government to create a data-driven governance architecture by building digital trust in the economy and its intent.

Rana Kapoor is the MD and CEO of Yes Bank

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.

Preparing for NEET

Those who are up in arms against the National Eligibility cum Entrance Test (NEET) should not that aspirants will fail not only in the NEET but in other exams as well if their preparations are inadequate and there is a lack of understanding of questions. Students should prepare for an examination in a systematic manner. A word of advice. Passing the NEET is not the be all and end all of life. In today's educational revolution there are innumerable avenues where a student can go in search of courses. Parents should also help enlighten their children.

Jayaraman B.S.,
Coimbatore

■ There is no doubt that merit has to be tapped for the betterment of the country, be it health care, education or the world of business. It is with this perspective in mind that the common entrance examination needs to be supported. The dismal show by aspirants from Tamil Nadu shows the disadvantages of following an anaemic and age-old curriculum which only encourages rote-learning. Most state-run schools also lack the right infrastructure, from not having qualified faculty to the lack of a revised curriculum. NEET coaching centres have also sprung up charging exorbitant fees. The economically weaker sections have been left high and dry. The States must affected must address these issues in the right spirit.

E.S. Chandrasekaran,
Chennai

The cracks appear

It was only a few weeks ago that the Congress and the Janata Dal (Secular) proclaimed themselves the saviours of secularism and tolerance and pledged to work together for the betterment of the people in Karnataka. It is distressing that this seems to be unravelling ("Congress cracks whip on Karnataka dissidents", June 10). All that the political class appears to be interested in is cornering "lucrative" ministerial portfolios. The welfare of the people is secondary.

It may be too early to predict what will happen in the State, but reports on rebellion appearing make one cynical. The bickering also exposes the weaknesses in the alliance.

R.V. Easwar,
New Delhi

Exams in Bihar

It is a pity that malpractices in academic examinations have become a routine feature in Bihar ("Bihar students score over 100%", June 10). This has spread to various entrance and competitive exams. This is bound to demoralise meritorious students besides being a blot on the State of Bihar. Conducting various exams through the online mode can help rectify things in the long run.

Kshirasagara Balaji Rao,
Hyderabad

Ethnic fault lines

The article, "Fear of the abaya" ('Ground Zero' page, June 9), brings to the fore a very complex debate about clothing habits and their relation to the radical facet of religion. While each individual has the basic human right to choose his clothing, I think that conservatism or radicalism with regard to clothing should not be promoted.

Vikas Kamat,
Aquem, Margao, Goa

■ The series of hateful speeches, threats and physical violence against Muslims in parts of Sri Lanka raise serious concerns about the future of inter-community relations in the island nation. The questions being raised against attire are not just guided by communal motives but also reflect a patriarchal mindset. Ultimately, all liberal democracies, including Sri Lanka, need to ensure and protect people's personal freedom to eat or wear what they want according to their likes and conscience. Stoking fresh fires of hate will only lead to another round of instability and strife in a country still struggling to come to a just reconciliation after a phase of traumatic ethnic violence.

Firoz Ahmad,
New Delhi

Halep's win

Simona Halep won her first Grand Slam title with a gutsy performance showing tremendous character and resilience in the French Open final ('Sport' page, "Halep masters her nerve, finally breaks through in Paris", June 10). With her never-say-die attitude and gritty win, she has amply proved that she is a player to watch.

To her credit, Sloane Stephens was gracious in defeat.

C.G. Kuriakose,
Kothamangalam, Kerala

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