



Big bank theory

For the mergers to work, realising staff cost synergies is key

For its sheer magnitude, the scale and the ability to disrupt the status quo, the mega bank mergers announced by Finance Minister Nirmala Sitharaman on Friday must go down as the most significant the banking industry has seen in the five decades since nationalisation. The bottomline is clear: to create banks of global level that can leverage economies of scale and balance sheet size to serve the needs of a \$5-trillion economy by 2025. The jury is, of course, out on whether this strategy will succeed. Mergers are driven by synergies – in products, costs, business, geographies or technology and the most important, cost synergies. While there may be some geographical synergies between the banks being merged, unless they realise cost synergies through branch and staff rationalisation, the mergers may not mean much to them or to the economy. This is where the government's strategy will be tested. It is no secret that public sector banks are overstuffed. There is also bound to be overlap in branch networks such as in the Canara-Syndicate Bank merger, especially in Karnataka and a couple of other southern States. Ditto with Punjab National Bank and Oriental Bank of Commerce, both of which have strong networks in the north and the west. The success of these mergers, therefore, will hinge on how well these banks handle the sensitive issue of staff rationalisation. The All India Bank Employees Association has already raised the red flag.

It was the Narasimham Committee in the late 1990s that recommended consolidation through a process of merging strong banks. The issue has been the proverbial bee in the bonnet of successive governments since then. What the committee also recommended was shutting down the weaker banks and not merging them with the strong ones as is being done now. But this is obviously not an option politically even for a government with a brute majority in Parliament. The biggest plus of the mergers is that they will create banks of scale – there are too many banks in India with sizes that are minuscule by global standards with their growth constricted by their inability to expand. Yet, this advantage of scale cannot be leveraged without adequate reforms in governance and management of these banks. To be sure, Ms. Sitharaman did announce a few measures to make managements better accountable to the board. But the key reforms to be made are at the board level, including in appointments, especially of government nominees. These are often political appointees, with little exposure to banking. Surely, such practices need to be curbed as the definition of global banks is not just about size but also professionalism in governance. The government will also have to manage the fallout of unleashing four mergers simultaneously which is bound to cause upheaval in the industry. Would it have been better if these mergers had been done one by one? The future will colour the past.

With or without

Boris Johnson seems bent on delivering a no-deal Brexit

Prime Minister Boris Johnson's audacious move on Wednesday to prorogue Parliament for five weeks is a cynical attempt to silence elected representatives on the key issue of Britain's future ties with the European Union (EU). The decision is all the more suspect because the fraught political climate that has prevailed since June 2016 was the consequence of the country having to renegotiate the nature of its ties with its closest neighbours. Those complex questions could only have been addressed on the floor of the house. Mr. Johnson has sought to play down the controversial decision as no more than an intent to commence a fresh legislative session with the Queen's speech charting the government's domestic priorities. But the outrage the country has witnessed suggests that despite its legal correctness, the move may have set a terrible precedent and possibly eroded the Conservatives base. The long suspension announced on Wednesday leaves MPs barely enough time – next week and the second half of October – to avert the risk of a disorderly British exit.

But then, Mr. Johnson, a hardline Eurosceptic, is committed to delivering Brexit with or without a deal. He knew all along that the chances of securing a fresh accord with the EU were next to nil. Brussels will never budge on the question of the Irish backstop, the mechanism that is meant to protect the soft border between Dublin and Belfast. All the same, reiterating that demand in his grandiloquent style put a gloss on the inability to forge a new agreement. Any serious obstacles Mr. Johnson faces to achieve a hard Brexit are entirely domestic. Foremost, the Conservative party's thin majority in the House of Commons renders Mr. Johnson's government highly vulnerable to defeat on two separate counts. One is the move to stop a no-deal exit; a vote of no confidence in the Johnson government is the other. In a bid to avert a cliff-edge exit, the Labour leader Jeremy Corbyn recently invited the opposition and Europhile MPs to back a transition government that would seek another extension to Article 50 and call a general election. The proposal enabled Mr. Corbyn to reset the current narrative, even if it elicited a lukewarm response from a rejuvenated Liberal Democratic party and pro-European Tories. Legislation to prevent a no-deal exit affords an opportunity for pro-European MPs across parties to take the decisive step. Meanwhile, a legal challenge against the prorogation has been mounted by activists drawing on a 2016 ruling that forced the government to consult the legislature before triggering Article 50. Britain's biggest peace-time crisis must be resolved through the democratic process.

Spelling out the government's RBI windfall

The final impact of such infusions on the bank's independence would depend upon the future course of such transfers



PARTHA RAY

The transfer of Reserve Bank of India (RBI) surplus to the government is a routine matter. Every year after the finalisation of the accounts of the RBI its surplus is transferred to the Central government sometime in end-August; this augments the non-tax revenue of the Central government. Normally, an estimate of such a transfer is decided informally between the RBI and the Central government by January and finds a place in the Budget estimate, typically announced in early February. But this year is an exception. The announcement of a huge transfer of RBI surplus, earlier this week, of ₹1.76 lakh crore to the Central government, seems to have generated quite a bit of media attention.

The two narratives

There are perhaps two caricatured folklore narratives about this increased transfer of RBI surplus.

The first one goes as follows: the government, facing a resource crunch, has arm-twisted the RBI to transfer some of its reserves, which is almost in the nature of family silver. This is not good for the economy. As when and if the economy faces a crisis, the RBI may not have adequate money to protect it. Also it denotes an erosion of the RBI's independence. This assumes credence in view of the perceived difference of opinion between the RBI and the Central government, that has been highlighted in recent media reports, as well as the resignation of the former RBI Governor, Urjit Patel in

Item	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1. Income	646.17	792.56	808.70	618.18	782.81	1,930.36
2. Total expenditure	119.34	133.56	149.90	311.55	282.77	170.456
3. Net disposable income (1-2)	526.83	659.00	658.80	306.63	500.04	1,759.91
4. Transfer to funds	0.04	0.04	0.04	0.04	0.04	0.04
5. Surplus transferred to the Government (3-4)	526.79	658.96	658.76	306.59	500.00	1,759.87

SOURCE: ANNUAL REPORT, RBI, 2018-19

2018. The second one, on the contrary, runs on the following lines: the central bank is a unique institution; it is backed by the faith reposed on it by the the Central government, and therefore, a huge amount of reserves with the central bank is in the nature of idle cash which could have been utilised more productively in the economy. This year, the Central government has done precisely this. The RBI decided to transfer this increased surplus after following due process and after accepting the recommendations of the Jalan Committee (i.e., the expert committee to review the extant economic capital framework of the RBI, headed by the former RBI Governor, Bimal Jalan and with eminent central bankers, bureaucrats, economists and accountants as its members).

Are these competing narratives reflective of the political prior of the exponent? Or, are there more differences in substance?

Notes on the RBI

The narrative that the RBI is an overcapitalised institution has been in currency for some time. The Economic Survey of 2016-17 found that the RBI is one of the most capitalised central banks in the world and noted, "There is no particular reason why this extra capital should be kept with the RBI". Later, the former Chief Eco-

nomics Adviser, Arvind Subramanian in his book *Of Counsel: The Challenges of the Modi-Jaitley Economy* (2018) has caricatured the syndrome of treating the government's capital at the RBI by RBI officials as "prudence or paranoia". Folklore estimates of excess capital of the RBI in the range of ₹4.5 lakh crore to ₹7 lakh crore seemed to have been blowing in the wind. The issue became all the more controversial after the resignation of Mr. Patel in December 2018 citing personal reasons.

Against this backdrop, the RBI, in consultation with the Government of India, constituted the Jalan Committee to assess the quantum of economic capital of the RBI (in end-November 2019). The committee submitted its report on August 14 and the RBI's Central Board in its meeting held on August 26, 2019 accepted all the recommendations of the committee; accordingly it finalised its accounts for 2018-19 using the revised framework. According to the accounts, the RBI has ended with an overall surplus of ₹1,759.87 billion in 2018-19 as against ₹500 billion in 2017-18, representing an increase of more than 250% (Table).

But what are the constituents or purposes of the RBI's excess capital? There are two distinct types of items under it. While "Contingency Fund (CF) and Asset Development Fund (ADF) represent provi-

sions made for unforeseen contingencies and amount set aside for investment in subsidiaries and internal capital expenditure respectively", components such as, "Currency and Gold Revaluation Account (CGRA), Investment Revaluation Account (IRA) and Foreign Exchange Forward Contracts Valuation Account (FCVA), represent unrealised marked to market gains/losses" (RBI, Annual Report, 2017-18).

In assessing the economic capital framework (ECF) of the RBI, the Jalan Committee justifiably went by the key premise, "As a central bank is a part of the Sovereign, ensuring the credibility of the RBI is as important, if not more, to the Government as it is to the RBI itself". Insofar as the methodology is concerned, the committee adopted the Expected Shortfall methodology (instead of the existing Stressed Value-at-Risk) for measuring market risk.

An outlook

But what are the risks to the RBI? In view of the RBI's function as a lender of last resort, it needs to maintain some Contingent Risk Buffer (CRB) to insure the economy against any tail risk of financial stability crisis. The Jalan Committee recommended that the CRB needs to be "maintained at a range of 5.5 per cent to 6.5 per cent of the RBI's balance sheet which is

above the available level of 2.4 per cent of balance sheet as on June 30, 2018". Applying its recommendations to the RBI's 2017-18 balance sheet would result in RBI's risk equity levels in a range of 25.4% to 20.8% of balance sheet. In line with the methodology of the Jalan Committee, the amount of transfer of the RBI's surplus to the government has been placed at ₹1.76 lakh crore this year.

In the lingo of a caricatured two-handed economist, several pointers can be flagged towards deciphering the folklore narratives. First, the Jalan committee does not seem to have compromised on arriving at the economic capital framework of the RBI and has calculated the extent of excess capital of the RBI under a set of fairly standard and conservative assumptions. Second, at this juncture of the Indian economy – when the spectre of a slowdown is looming large and when channels of credit disbursements are choked because of a lack of capital with the commercial banks – a transfer of such additional money to the government could enable the government to go in for bank recapitalisation in a big way and would be good for the economy. Third, the transfer of the additional surplus from the RBI could enable the government to pursue efforts towards stimulating the economy while maintaining budget discipline. Remember, in pursuing the fiscal stimulus of 2007-08, fiscal deficit went up from 2.5% to 6%. Of course, the final impact of such actions on the independence of the RBI would crucially depend upon the future course of such transfers. After all, we all know the story of the goose that laid the golden eggs.

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Liberalism runs into national populism

No country has found the golden mean between free-range liberalism and statism



KRISHNAN SRINIVASAN

Just before the G-20 meeting in Osaka in June this year, Russian President Vladimir Putin made headlines in the world media with an interview to the *Financial Times* in which he stated that liberalism had "become obsolete". He went on to say that liberal ideas about refugees, migration and LGBTQ issues were now opposed by "the overwhelming majority of the population". Even some western nations, he went on, had privately admitted that multiculturalism was "no longer tenable". There was a swift and critical response from the President of the European Council, Donald Tusk: "Whoever claims that liberal democracy is obsolete also claims that freedoms are obsolete, that the rule of law is obsolete and that human rights are obsolete." This was in fact not what Mr. Putin had alleged, but the wider question is why the Russian President is saying this now and whether he had a point.

Defining liberalism?

To start with, since liberalism means different things to Mr. Putin and Mr. Tusk, what is liberalism? This complex term, much used in India today in various contexts of opposition to the present Union government – and used in a derogatory sense by supporters of the government in respect of its de-

tractors – might broadly encompass three definitions. There is economic liberalism, which 'emphasises free competition and the self-regulating market, and which is commonly associated with globalisation and minimal state intervention in the economy'. There is political liberalism, which for most commentators is founded on 'belief in progress, the essential goodness of the human being, the autonomy of the individual, and standing for political and civil liberties' as laid out in various United Nations Covenants. And then there is social liberalism, 'linked to the protection of minority groups, and such issues as LGBTQ rights and same-sex marriage'.

Mr. Putin appeared critical of the 'approach of some western governments by specifically mentioning immigration, multiculturalism and LGBTQ issues, and therefore seemed to focus on social and political liberalism'. By no means is Mr. Putin the only world leader who dislikes this aspect of liberalism. The leaders of India, China, Turkey, Brazil, the Philippines and several others, even in Europe, believe highly centralised political systems work better for political stability and economic progress than western liberal democracies.

Nevertheless, liberalism has been the dominant socio-political ideology in the West since the end of the Second World War, where it has been regarded as the norm until recently. However, many even in the West now believe it could be in decline, as evidenced by support for Brexit in the United Kingdom, or support for populist leaders such as President Donald



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Trump in the U.S., Hungarian President Viktor Orbán or (former) Italian Deputy Prime Minister Matteo Salvini. David Runciman, professor of politics at Cambridge, contends that voters everywhere increasingly dislike and distrust elected representatives because western democracy has ceased to work and failed to deliver, and is headed for a long-drawn-out demise. The financial downturn in 2008 marked a major turning point, with impunity for corrupt bankers and an attempt to return to status quo globalisation that allowed markets to determine everything and led to major questions of identity and culture. Now globalisation is heading for a backlash, leading to protection, local solutions and stronger nation states, and the growing conclusion that liberalism needs urgently to justify itself by addressing issues of inequality and the loss of a sense of community.

Against migrants

Mr. Putin said Germany made a mistake by admitting more than one million refugees. He said: "This liberal idea presupposes that nothing needs to be done...because their rights as migrants have to be protected... It has come

into conflict with the interests of the overwhelming majority of the population." There is little doubt that Mr. Trump in America uses the immigration and minority issues, with their racial undertones, to bolster his core support. In European countries such as Greece, Germany and Italy that have been entry points for the recent wave of asylum seekers, attitudes towards immigrants have hardened since 2014. Poland and Hungary do not favour the admission of refugees even fleeing from violence and war, and nearly all European Union members are convinced that the EU has badly mismanaged the question of admission of refugees, which in turn has led to questioning the very basis of Europe's integration project.

Mr. Putin also deplored liberal governments dictating LGBTQ values that "millions of people making up the core population" opposed. "We have no problem with LGBT persons... but some things do appear excessive to us," he stated. Gender parity issues are strongly promoted in the British media and entertainment industry, and a storm arose in England recently over the teaching in primary schools of same sex relationships and gender identity. Boycotts of various kinds, including of major sporting events, have been threatened because of alleged anti-gay sentiments or legal restrictions. Nevertheless, same sex marriage is recognised only in some countries, others have the death penalty for homosexuality, and laws regarding LGBTQ rights vary widely across jurisdictions. As a generality, it can be stated that they are disfavoured in the vast

majority of the non-western non-secularised world.

Liberty vs. protest

Why has Mr. Putin expressed his opinions now to a newspaper considered a flag-bearer of liberalism? The Russian President's position is that 'his country has a specific and different kind of civilisation, where sovereignty trumps democracy and national unity, and stability trumps human rights'. Western-style liberalism that prioritises individual rights over those of society is regarded as a 'challenge to his style of government', which presents an alternative model. The same view is shared by China. The desire for liberty is recognised as universal, but the freedom to protest in unauthorised demonstrations and wilfully shatter the economy and tourism as in Hong Kong, or the freedom to blaspheme and outrage the sentiments of the devout, as in the French *Charlie Hebdo* case, or the freedom to bear arms as enshrined in the U.S. Constitution, are only random examples that show that liberty has limitations, even if they are self-imposed. Russia and China, with good reason, believe that unauthorised demonstrations open the way to foreign interference and 'colour revolutions'. No country has found the golden mean between free-range liberalism and statism. When liberal government and liberal models are under pressure even in the flagship West, it is probably 'as good a time as any for Mr. Putin to make his case'.

Krishnan Srinivasan is a former Foreign Secretary

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.

Unwarranted mergers

The government's move to merge various Public Sector Banks (PSBs) and reduce their numbers to just 12, is wholly unwarranted and clearly aimed at deflecting public attention from the economic slowdown and the mounting criticism the government is receiving on the Non-Performing Assets front. This comes after its decision to merge associate banks with State Bank of India (SBI) proved to be a big failure. One wonders how the government claims that the present proposal would see formation of bigger PSBs when the earlier such move has failed

to yield results. Any such merger will inevitably lead to branch closures, mass transfers of employees and maximum inconvenience to customers. It is a pity that the government did not think it fit to engage the bank unions before embarking on this risk.

J. ANANTHA PADMANABHAN, Tiruchi

Kashmiri identity

The author has argued that the loss to Jammu and Kashmir due to the abrogation of special status under Article 370 may be more symbolic than real, and he may be right in doing so (Editorial page,

"On dilution, bifurcation and 'special status'," Aug. 30). However, for Kashmiris, Article 370 was not a mere provision in the statute book but an article of faith which sanctified the promise made to them by a secular and democratic India in October 1947, when their Muslim-majority State shunned Jinnah's two-nation theory and acceded to the Indian Dominion. The actions of August 5 were antithetical to all that was promised and a strike on both the psyche and the identity of ordinary Kashmiris. It is impossible to fathom the hurt they felt to see their State flag

missing from the roof of the Civil Secretariat in Srinagar. They had toiled hard to see it fly high.

BUSHAN LAL SARAF, Jammu

An underrated actor

It has been my long-time grievance that actor T.S. Balaiah was never adequately feted for his acting capabilities (Friday Review, "Silverscreen's jaunty juggler," Aug. 30). His greatest asset was that he never indulged in overacting. Even when his character had to be shown stumped in a situation, he would express it subtly which only added

more comical quotient to the scene. Though he was not as resoundingly successful as Nagesh, the roles he played continue to be memorable. There was always an element of dignity in his performances. One example is his robust performance as a haughty singer in *Thiruvilayadal*. The song 'Oru nal poduma'

is even now celebrated for M. Balamuralikrishna's singing and Balaiah's acting. It is sad that he was under-utilised by the Tamil cinema industry. However, had he been alive today, he would have, as was his wont, taken this also lightly.

V. LAKSHMANAN, Tirupur, Tamil Nadu

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CORRECTIONS & CLARIFICATIONS:

A sentence in the penultimate paragraph of the article titled "On dilution, bifurcation and 'special status'" (Editorial page, Aug. 30, 2019) read: "For instance, following the 44th Amendment, unlike in the rest of the country, national emergency in J&K could still be imposed on the grounds of 'internal emergency.'" It should have been internal *disturbance*.

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