'No recession, recovery likely from Q2'

Amid criticism that the Union government's ₹1.7-trillion scheme is not enough to deal with the Covid-19 crisis, NITI Aayog Vice-Chairman **RAJIV KUMAR** tells **Indivjal Dhasmana** that since the approach followed to give the package is graded, one can assume that more would be announced if there is requirement. Edited excerpts:

"THE RBI HAS INCENTIVISED BANKS TO LEND BY REDUCING THE REPO RATE SHARPLY AND EXTENDING FORBEARANCE TO LENDERS FROM THEIR DEBT SERVICING. ON THE LIQUIDITY SIDE, THE CENTRAL BANK HAS PRIMED THE GUN. AS AND WHEN DEMAND RISES, BANKS WILL BE IN A POSITION TO GIVE ADVANCES WHICH ARE NECESSARY"

RAJIV KUMAR, Vice-chairman, NITI Aayog

Many experts, including former finance minister P Chidambaram and economist Jean Drèze, are saying that the government's package is not enough. Do you think that more is needed and will come?

If you include the package by the Reserve Bank of India (RBI), the total comes to about ₹4.5 trillion. The two packages have to be taken together because both the fiscal and monetary policies have to work in tandem. The total package constitutes 2 per cent of the country's gross domestic product (GDP). Finance Minister Nirmala Sitharaman has clearly stated that we have adopted a graded approach. If there is more need, the government will act accordingly. The graded approach is simply to try and retain fiscal rectitude rather than go overboard. And since it is the graded approach, one can assume that more would be forthcoming as and when needed.

Is RBI's liquidity push at a time when there is little demand for credit going to help the economy?

The criticism of RBI has so far been that it was not generating enough liquidity. More importantly, the RBI has incentivised banks to lend by reducing the reverse repo rate sharply and extending forbearance to lenders from their debt servicing. On the liquidity side, the RBI has primed the gun. As and when demand rises, banks will be in a position to give advances which are necessary. This slack in credit demand is not going to remain forever. Hopefully, it is a short-term phenomenon. Earlier, the credit off-take from banks had been declining sharply and that trend needed to be reversed. Now, the RBI has taken measures to reverse the trend which had for several quarters. Until this lockdown, credit enquiries were much higher than credit supply. NITI Aayog has shown this evidence on several occasions.

But the RBI's most steps are for three months only.

These can always be extended.

There are various estimates that give a very pessimistic view of the economy in 2020-21 or the calendar year 2020. For instance, Moody's Investors Service pegged the growth at three-decade low of 2.5 per cent in 2020. What is your estimate?

Those who are making these annual GDP growth forecasts are very brave people and I am not. The better word is that they are foolhardy and I am not. Given the uncertainty in domestic as well as global markets, I think it is completely premature to talk about growth estimates for 2020-21. It depends on the severity, the length, the spread of this virus-created crisis. I am not going to hazard a guess at this stage. The only thing I can say is that the global economy could well go into recession as Kenneth Rogoff has said. But for India, I am hoping that the present crisis might end by June and the second quarter of FY21 could see recovery and growth. I don't expect two successive quarters of negative growth, which is a definition of recession. So I don't foresee the Indian economy slipping into a recession.

Does this mean April-June quarter will see contraction in GDP?

I am not sure. But April-June will be severely impacted by this lockdown. I am not hazarding a guess.

The effect of lockdown on employment is very severe. Even if the economy is going to recover in the second quarter of FY21, jobs will not come back immediately. How long will it take to generate the jobs which have been lost?

The impact of lockdown is most severely felt on the services sector, including the informal sector. The informal sector's ability to bounce back is as good as its ability to shut down when the demand falls. You can see that agriculture will continue as it is. I see employment coming back sharply in services sector, may not start rising from the previous levels. These sectors are hospitality, tourism, and trade. I can see a sharp bounce back as we normally refer to as V-shaped rather than U-shaped recovery in the services sector, which accounts for about 55 per cent of our economy.

As the government will have to incur much higher expenditure and revenues are not forthcoming, will we have to shun the fiscal deficit targets or come out with a new road map?

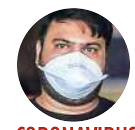
It's not time to talk about fiscal challenges. It is time to talk about how we will come out of this acute contingency in a shape that will minimise employment loss and maximise chances of economic recovery. No country in the world is talking about the fiscal deficit at this moment.

There are so many migrant workers crowded on state borders to go to their homes. Have the chances of the spread of virus not increased, as there is no adherence to social distancing?

That is why the governments — both the Centre and the states — have been emphasising they should remain where they are. All arrangements are being made for that. I am just hoping that better sense will prevail. People moving across states are not going to help anybody.

Essentials are not reaching the people due to lack of transport facility and fear among shopkeepers that they will get infected.

Much has been done to facilitate transport of essentials. Nobody can take away individual's fears. It requires a bit of courage. Prime Minister Narendra Modi in his *Mann Ki Baat* too complimented everybody who is part of providing essential services. There is thankfully very large number of people who are providing essential services and goods. That situation is well managed. The government is doing everything that it can to ensure that essential goods and services are maintained round the clock.



CORONAVIRUS PANDEMIC

90-day loan moratorium a task cut out

Communicating to customers and documenting process key hurdles

HAMSINI KARTHIK
Mumbai, 29 March

The 90-day moratorium on all term loans given to customers is a big relief for banks as well as borrowers, but the initial feedback from the industry is that the documentation process may entail some hardships.

Bankers anticipate operational challenges with respect to communicating the Reserve Bank of India's (RBI's) dispensation to customers, documenting their consent to exercise the option and the requisite paperwork that comes along with it. In the context of the nationwide lockdown and banks operating on bare-bone infrastructure, bankers say some of the basic processes could be difficult to implement in the current scenario. For instance, most of the branches operate with skeletal human resource to carry out just basic work during the lockdown period. "Footfalls in the branches have reduced significantly," says Padmaja Chunduru, managing director and chief executive of Indian Bank. Unless customers approach the branches themselves, which in a lockdown like scenario could be difficult, banks stare a mammoth task of reaching out to them.

Banks say call centres are also working on extremely thin capacities. "Reaching out to customers through call centres may take a very long time," says the retail head of a private bank.

It is also not just about getting the consent but also properly informing the customers that moratorium will mean loan tenure getting extended by three months, which will entail corresponding interest charges and accordingly getting their approval is the key challenge.

As teams in the back-end operations mostly work from home, bankers say there could be some delay in completing the necessary paperwork for the moratorium

Bankers say the staff strength at call centres could be as thin as just 10–30 per cent of optimum capacities. Most banks say they will send out SMS and emails to their customers but how many will respond to their digital communications is a question mark. "Success of the moratorium will depend on how many of the customers react to our messages and email," said another banker. Also, unlike in 2016 (during demonetisation), this time banks will have to digitally document the customers' consent and store it.

As teams in the back-end operations mostly work from home, bankers say there could be some delay in completing the necessary paperwork for the moratorium. But here's the larger debate. The RBI has given authority to banks to decide which customers should be given the dispensation for payment of instalments. Experts say this itself may result in differentiation between customers, particularly in the retail side. "If banks were to take a call on who should get the leeway and who should not, it could have different implications at a later date," said a senior executive of a private bank heading the retail division.

To mitigate any differentiation in customers, it is anticipated that public sector banks could give a blanket moratorium to all customers, while those in the private space are still deliberating on how to implement the moratorium. SBI Chairman Rajinsh Kumar has clarified the moratorium will be automatically extended to all customers. Another managing director of a PSB says most of the state-run banks will follow SBI's decision. However, a similar clarification is awaited from most private banks. "We are still considering how to go about with implementing the moratorium," said a retail banking head of a private bank.

Many public sector bank customers, despite a blanket extension, may not want a moratorium.

BoI reduces MCLR up to 25 bps, deposit rate cut next

Hike in working capital demand likely soon

ANUP ROY & NAMRATA ACHARYA
Mumbai/Kolkata, 29 March

Government-owned Bank of India (BoI) will reduce its benchmark marginal cost of funds lending rate (MCLR) by 15-25 basis points across categories from Wednesday.

This follows the Reserve Bank of India's (RBI's) huge liquidity injection to directly address the stress in financial conditions caused by Covid-19. The MCLR at BoI for a year stands reduced to 7.95 per cent from the earlier rate of 8.2 per cent. The new lending rate for overnight borrowing is 7.25 per cent.

The external benchmark lending rate, linked to RBI's repo rate, has been reduced by 75 basis points (bps) to 7.25 per cent. With this, the bank has passed on the benefit of the rate cut announced by RBI on Friday, to its home, vehicle and small and medium sized (MSME) customers, BoI stated.

RBI has expanded liquidity in the system sizably to ensure financial markets and institutions are able to function normally, in the face of Covid-related dislocation. It also wanted to ensure bank credit flows on easier terms are sustained to those affected by the pandemic.

On an increase in demand for credit due to the sharp rate revision and package, public sector bank executives say working capital usage is expected to go up in the near future, as companies might need funds to pay salaries. The picture on investment credit is unclear. A recovery after control of the pandemic and lifting of the lockdown will provide clues for long-term credit demand.

The surfeit of liquidity in the system will also put pressure on deposit interest rates. A K Das, managing director and chief executive (MD & CEO) of BoI, said they'd revise these, too, as liquidity is not an issue now. When there is huge transmission happening on the asset side, the liability side might also have to be realigned. The asset-liability committee will decide.

Mrutyunjay Mahapatra, MD and CEO at Syndicate Bank, says: "We are looking at ways to quickly transmit the lower rates. The cost of funds also needs to come down. At the same time, we need to keep the interest of depositors in mind."

RBI's other move

Experts are pondering the likely effect of RBI's ₹1-trillion Targeted Long Term Repo Operation (TLTRO). It is thought to be unlikely to help lower rated firms much, as banks would still be interested in buying bonds of top rated entities. However, the benefit might eventually accrue to the weaker ones, as yields across the rating range will fall because of the liquidity support.

"The TLTRO will result in purchase of higher grade corporate bonds in the first place. Lower rated companies might not benefit directly from TLTRO immediately but gradually, due to the reduction in spreads from it on AAA bonds," said B Prasanna, global markets head at ICICI Bank.

After the announcement of TLTRO, yields on AAA-rated bonds fell as much as 165 bps. However, bonds below AA rating are hardly traded in the secondary market. So, it would be hard to gauge the rates till companies start issuing bonds, with the financial year also coming to an end.

According to Prabal Banerjee, group finance director at Bajaj Group, the TLTRO does not automatically improve the plight of lower rated companies. However, the three-month moratorium on all term loan instalment payments has cheered all companies; they'd also like it to be extended.

"There is a need for at least six months of moratorium. Please understand, corporations do not want banks to sacrifice even one rupee; we want banks to get all the money. So, there is no question of forgoing interest altogether — that will be too much to ask and not be fair," Banerjee said, while welcoming the RBI move.

However, on TLTRO being targeted for only investment grade bonds, Banerjee says these companies hardly need money in this environment, when capacity expansion is not happening. It is the lower rated or even unrated firms that should have been given some support.

(With inputs from Abhijit Lele)

IBBI eases timeline for IBC cases

RUCHIKA CHITRAVANSHI
New Delhi, 29 March

The Insolvency and Bankruptcy Board of India (IBBI) has issued fresh guidelines that will give ongoing insolvency cases more time on account of the lockdown.

The guidelines stated that "the period of lockdown imposed by the central government in the wake of Covid-19 outbreak shall not be counted for the purposes of the timeline for any activity that could not be completed due to such lockdown, in relation to a corporate insolvency resolution process." The IBBI notification came into effect from March 29.

The government had recently increased the threshold for default from ₹1 lakh to ₹1 crore to prevent triggering of insolvencies. The step was taken especially to safeguard the small and medium enterprises facing the brunt of lockdown.

The government may also consider scrapping the provision for triggering insolvencies for a period of six months by suspending section 7, 9, and 10 of IBC, which enables a financial creditor, operational creditor or the promoter, respectively, to initiate proceedings against a company.

As Covid-19 grips the markets and economy, firms and lenders are bracing for the impact it would have on corporate bankruptcies.

STATSGURU

India's Covid-19 test

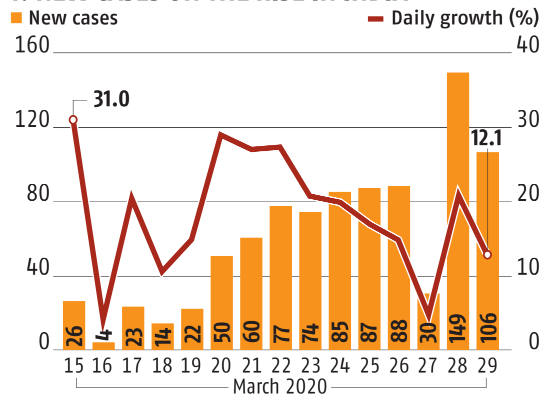
The number of coronavirus (Covid-19) cases has surged across the world, and India is also witnessing an increase. It added more cases in one day (149 on March 28) than its total about less than a fortnight ago (110 on March 15), though the growth rate has been volatile (chart 1). This may well have to do with reporting and testing. However, the spread is undeniable. The number of districts affected has risen from 82 to 132 in a matter of days (chart 2).

The worst-affected states remain Maharashtra and Kerala. They accounted for more than a third of the cases. The majority of them are Indian citizens, though there are some foreign nationals as well (chart 3).

A comparison with the worst-affected countries, including the US, which overtook China to have the most number of confirmed cases last week, shows that India's growth trajectory offers some comfort. The number of cases in India has grown around nine times in the two weeks after crossing the 100-mark. Other countries have seen cases grow by a multiple of more than 44 in a similar period (chart 4). Undeniably, some of this has to do with low testing. South Korea has tested around 20,000 a day. Austria has announced plans to test 15,000 a day. India had tested less than 30,000 individuals in total since the outbreak. The number of deaths as a percentage of confirmed cases is 2.6 per cent. This is lower than in many countries (chart 5). Demographics may play a part. The elderly are particularly vulnerable to the disease. India has fewer people over the age of 65 (chart 6) than the rest of the world.

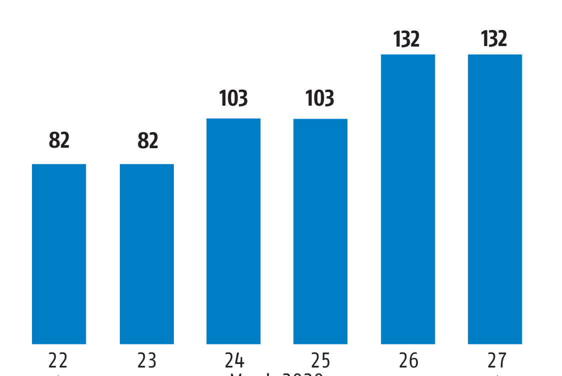
SACHIN P MAMPATTA

1: NEW CASES ON THE RISE IN INDIA



Note: Latest figures as available in the second half of Sunday
Source: Ministry of Health and Family Welfare, *Business Standard* calculations

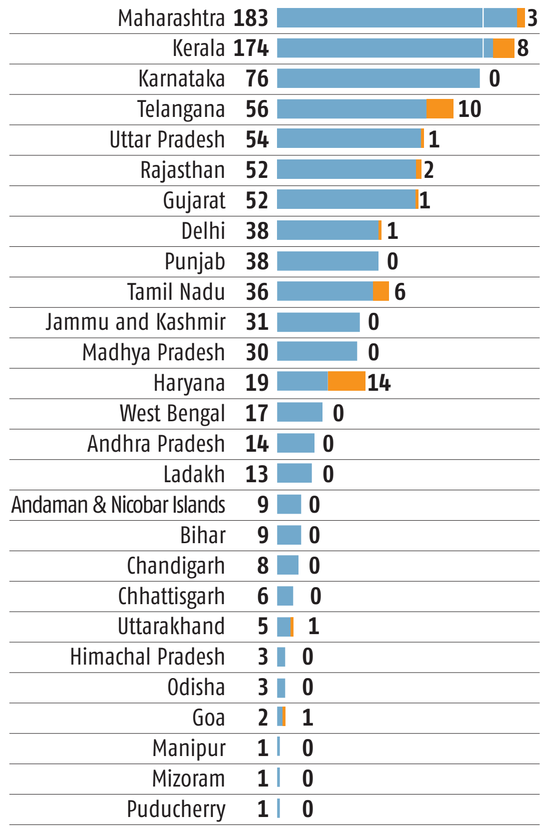
2: RISING NUMBER OF AFFECTED DISTRICTS



Source: Ministry of Health and Family Welfare

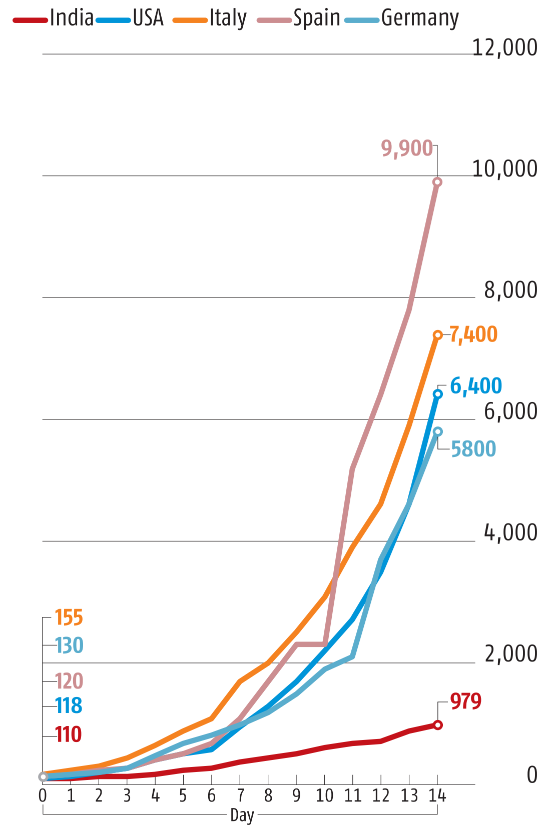
3: MAHARASHTRA AND KERALA ARE WORST AFFECTED

Total confirmed cases ■ Indian nationals ■ Foreign nationals



Source: Ministry of Health and Family Welfare

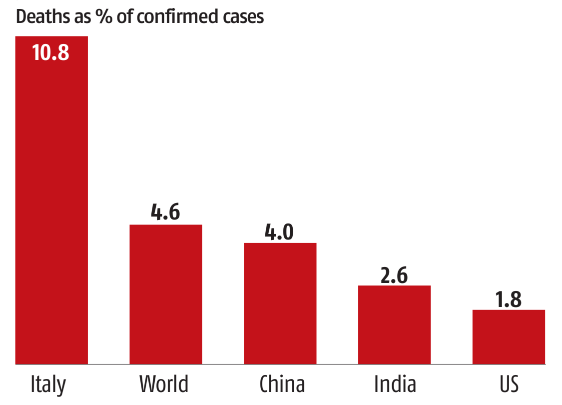
4: RISE IN NUMBER OF CASES IN INDIA LOWER THAN OTHER COUNTRIES



Note: Shows cases from the day the total reached 100
Source: Johns Hopkins University, Ministry of Health and Family Welfare

5: LOWER PROPORTION OF DEATHS IN INDIA

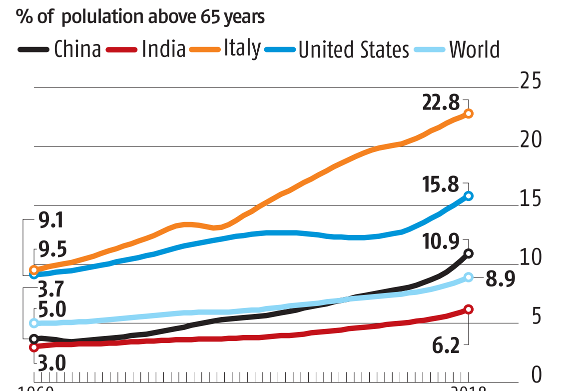
Deaths as % of confirmed cases



Note: Cases from the day the total reached 100
Source: Johns Hopkins University, Ministry of Health and Family Welfare

6: INDIA HAS A YOUNGER POPULATION

% of polulation above 65 years



Source: World Bank

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

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