Performance of Banks under Atmanirbhar Bharat: An Assessment

Dr. Tapas Kumar Parida*

1. Introduction

Since the outbreak of Covid-19, the whole world has witnessed a major downfall in global economic activities which in turn have adversely affected all the income groups around the world. Initially, Government has faced a serious trade-off between *'life vs. livelihood'* but choose to save the life of their people, by imposing full/partial lockdown. India also followed other countries and announced nationwide complete lockdown which came into effect from 25th March 2020. The sudden lockdown impacted the social and economic activities in the economy and has created an uncertain environment in the country. With the postponement of non-essential expenditures which also account for nearly 80% share in GST revenues, the aggregate demand continues to remain depressed. The supply chain disruptions both globally and domestically have brought production activity to halt in almost all industries. While in the service sector, travel and tourism remains the worst hit so far, the effects will be translated to primary and secondary sector as well with declining investment, rising unemployment and depressed consumption resulting in low real output. To overcome the COVID-19 led economic crisis, Government and RBI have taken several measures to boost the economic activity in almost all sectors of the economy. However, special focus has been given to SME and Agricultural sector which have been affected the most during the lockdown. With the Prime Minister's vision, India has considered the COVID-19 led challenges to an opportunity to become an Atmanirbhar Bharat (self-reliant India) to enable the resurgence of the Indian economy.

Against this backdrop, this article aims to analyse the impact of Covid-19 on Indian economy and the role of banks to support the economic recovery. The rest of the article is divided into 3 sections. In section 2, we have analysed the management of Covid-19 by India vis-à-vis other countries. Section 3 summarises India's monetary and fiscal responses to manage Covid-19. The section 4 discusses banks progress under Atmanirbhar Bharat. We conclude our article in section 5, with some policy prescriptions.

2. COVID-19 Management: *India vs Other Countries*

India reached its COVID-19 infections peak on 16 Sep 2020 and declined thereafter however, recently (March 2021), cases have again started to rise. Not with standing this, the government has taken many steps to tackle the spread of COVID-19 virus in the country. India has achieved several milestones in building isolation centers, special COVID-19 hospitals, free testing, door-to-door contact tracing etc. To compare India with other countries in terms of Covid management, we have used some health infrastructure parameter and juxtaposed the same with other countries and the results clearly indicate that despite the fact that India has lower general Government health expenditure as % of GDP and less number of hospital beds per 1000 population, India had much less number of Covid cases. For instance, US has 62 lakh cases more than estimated by the model while India had reported 37 lakhs cases lower than that estimated by the model, thus indicating that overall India had reported around 100 lakhs less

*Senior Economist, State Bank of India.

cases than the US. However, health expenditure in India as a % of GDP is 7.6% lower than the US. Also, hospitals beds per 1000 is 2.2 times higher. Clearly, India despite having a poor health infrastructure, has managed COVID much better than even the best of developed economies having the best health infrastructure.

India's position viz a viz Other Countries			
Country	**No of cases higher than India (in lakhs)**	**Health expenditure higher than India (% of GDP)**	**Hospital beds per 1000 higher than India**
US	100	7.6	2.2
Mexico	48	1.7	0.9
Italy	47	7.7	2.7
France	43	7.3	5.5
Indonesia	39	0.5	0.5
Canada	35	7.0	2.0
Saudi Arabia	29	3.0	2.2
UK	27	6.9	2.3
Russia	12	2.2	7.5
Source: WHO, SBI Research, Economic Survey			

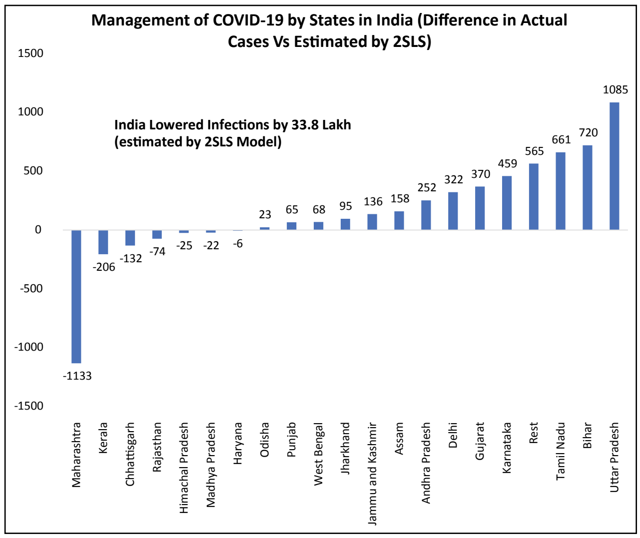
Further, for inter-state comparison in India, we tested a two stage least square (2-SLS) panel model with 20-major states considering the monthly data from April 2020 to February 2021. In this 2SLS regression, we first regressed the state-wise test data on population from Apr'20 to Feb'21 to gauge the number of tests that should have been done given the population difference. In Stage 2, the number of confirmed cases was regressed on estimated test numbers calculated in equation 1 to arrive at model estimate of number of cases if the tests were done in accordance with the population size.

$$T = \alpha + \beta P\ \mu \ .....(1)$$

$$C = \sigma + \rho T + \pounds \ .....(2)$$

Where, T = Number of Tests, P= Population, C = Confirmed Cases

The empirical results indicate that India has managed well the Covid pandemic given the large population. Even the economic survey illustrates the same thing by estimating multivariate model. According to the survey results, actual cases in India are 37 lakhs lower than that estimated by model. Our updated model till February indicates that India has managed COVID-19 very well, by which the infections would have increased by 33.8 lakh. Further, we have averted around 1 lakh deaths if we consider their model. Our model results are almost similar to the Economic Survey results and indicate that Uttar Pradesh has done a good job with actual cases 10.85 lakh less than model estimated cases, followed by Bihar (7.2 lakh), Tamil Nadu (by 6.61 lakh). However, Maharashtra, Kerala, and Chhattisgarh stand at the other extreme with actual cases 11.3 lakh, 2.0 lakh and 1.3 lakh more than the model estimates.



3. India's Response to Economic Recovery

To bring the economy into recovery, Government & RBI has given stimulus of around Rs. 28 lakh crore (or $385 billion), which is almost 12-14% of GDP. The detailed package is outlined below:

3. 1 Fiscal Policy Response

Within 48 hours of declaring a three-week-long complete lockdown, the Government announced the Pradhan Mantri Garib Kalyan Yojana, valued at Rs 1.70 lakh crore (or $23.6 billion). As part of the Package, Government provided free foodgrains to 800 million people, free cooking gas for 80 million families for months, and cash directly to over 400 million farmers, women, elderly, the poor and the needy. In May'20, Government further announced a massive special economic package the 'AatmaNirbhar Bharat

Abhiyan (Self Reliant India Campaign)' of worth Rs 20 lakh crore ($224 billion or 10% of GDP) with an aim to make the country and its citizens independent and self-reliant in all senses. This self-reliant India will stand on five pillars – Economy, Infrastructure, System, Vibrant Demography and Demand. Under the AatmaNirbhar Bharat Abhiyan pacakage, Government has announced a number of measures in various phases covering almost every sector/agent of the economy. Till now Government has announced package worth Rs 16.12 lakh crore (or $224 billion) under Aatma Nirbhar Bharat Abhiyan (or Self-Reliant India Campaign).

Chronology of Government's Announcements to Mitigate the Impact of Covid-19

Date	Scheme	Amount	
		Rs Crore	$ Billion
March 26, 2020	Pradhan Mantri Garib Kalyan Yojana	1,70,000	23.6
May 13, 2020	AatmaNirbhar Bharat 1.0– Part I	5,94,550	82.6
May 14, 2020	AatmaNirbhar Bharat Abhiyan 1.0– Part II	3,10,000	43.1
May 15, 2020	AatmaNirbhar Bharat Abhiyan 1.0- Part III	1,50,000	20.8
May 16, 2020	AatmaNirbhar Bharat Abhiyan 1.0- Part IV	8,100	1.1
May 17, 2020	AatmaNirbhar Bharat Abhiyan 1.0- Part V	40,000	5.6
October 12, 2020	AatmaNirbhar Bharat Abhiyan 2.0	73,000	10.1
November 12, 2020	AatmaNirbhar Bharat Abhiyan 3.0	2,65,080	36.8
Total		**16,10,730**	**224**

Source: Government of India; Assuming 1USD = Rs 72

3.2 Monetary Policy Response

The markets have been awash with liquidity as RBI tried to mitigate the damage done by Covid-19 related disruptions. RBI has adopted a plethora of monetary and liquidity measures. The extent of RBI's measures is worth Rs 11.6 lakh crore ($161 billion). With so much liquidity floating around, and bank credit still on the slow growth trajectory, as a matter of policy, RBI should be directing liquidity flow towards the long-end given the excessive fall in short-end yields. One way of achieving this is by advancing the CRR cut which is expiring on March 27, which would lead to the draining of Rs 1.46 lakh crore from the market. To balance that, RBI should announce a simultaneous open market operation of an equivalent amount. Another possibility could be allowing mutual funds to participate in reverse repo in conjunction with a Standing Deposit Facility so that a floor is established. RBI can also introduce a Market Stabilization Scheme as was done earlier in times of excess liquidity conditions during demonetisation. With inflation not going down significantly and excess liquidity in the system, RBI has to pursue active liquidity management to help the economy overcome the liquidity trap.

RBI's Monetary and Liquidity Measures since Feb'20 (up to Feb'21)

Measures	Amount	
	Rs Crore	$ Billion
LTRO	1,25,000	17.4
Variable rate repo	1,75,000	24.3
SLF for PDs	7,200	1.0
CRR cut	1,37,000	19.0
MSF (dip by 1% in SLR)	1,45,000	20.1
TLTRO	1,00,000	13.9
TLTRO (2.0)	13,000	1.8
On Tap TLTRO	1,00,000	13.9
Net OMO purchases	1,00,000	13.9
Special liquidity facility for mutual funds	50,000	6.9
Refinance to NABARD, SIDBI, NHB and EXIM bank	75,000	10.4
Special liquidity scheme for NBFCs	30,000	4.2
56-day term repo	1,00,000	13.9
Total	**11,57,200**	**161**

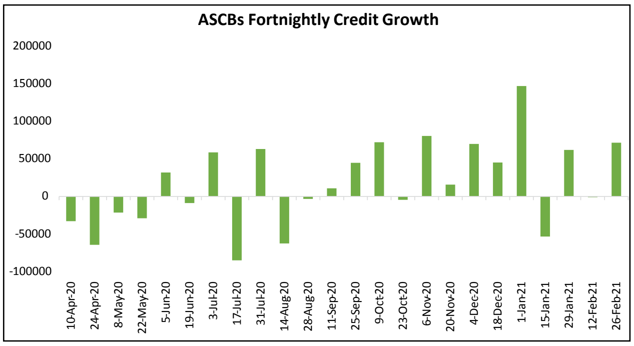
Source: RBI; Assume 1USD = Rs 72

4. Role of Banks in AatmaNirbhar Bharat

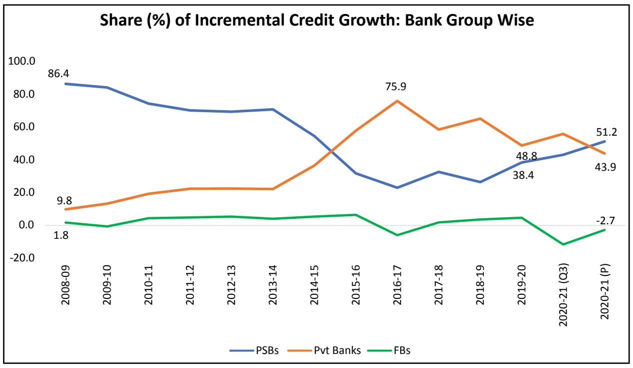
On the domestic front, the policy measures have ensured the smooth functioning of markets and financial institutions, but managing market volatility amidst rising spillovers has become challenging. Movements in certain segments of the financial markets are not in sync with the developments in the real sector. Aggregate banking sector credit remained subdued, pointing to vestiges of risk aversion even as aggregate demand in the economy is mending and reviving. In particular, credit flows to the manufacturing sector have been lukewarm at a time when output of the sector is emerging out of a prolonged contraction. The focus of the policy efforts is shifting from provision of liquidity and guarantees to supporting growth – including consumption and investment. Although a recovery in economic activity from the lows of March and April 2020 is underway, it is far from being entrenched and output remains below pre-pandemic levels. Congenial financial conditions have been put in place to support the recovery. The overarching objective is to mitigate the impact of COVID-19 and strengthen the return to sustainable and inclusive growth with macroeconomic and financial stability.

4.1 Impact on Banking Business

Due to the initial restrictions on movement, the credit growth of the Indian banking industry had declined to 5.1 % by Sept'2020 from 6.1% in March'20, on the other hand, deposit growth has remained robust in the double digits, reflecting precautionary saving in the face of high uncertainty. However, credit offtake has picked up the pace thereafter and touched 6.6% in Feb'2021 (vis-à-vis 6.4% in corresponding period previous year). Even on an YTD basis the ASCBs advances increased to 3.2% (Rs 3.3 lakh crore) in FY21, compared to last year YTD growth of 2.8% (Rs 2.7 lakh crore). Thus, this year's incremental credit growth is 23% higher than the previous year actual numbers. ASCBs incremental credit growth during Jan'21 showed a robust growth in all most all the sectors.



The sectoral data for Jan'21, which accounts about 90% of the total bank credit deployed by 33 SCBs, indicates that the incremental credit has jumped significantly in almost all the major sectors (Agri, Services, Industry & Personal Loans) in Jan'21. The incremental credit growth during April-January, FY21 indicates that credit off-take has been taken place in almost all the sectors except industry and NBFC. The industry credit growth is declining as they might be raising money from bond markets. Within industry, credit to 'mining & quarrying', 'food processing', 'textile', 'gems & jewellery', 'petroleum, coal products & nuclear fuels', 'paper & paper products', 'leather & leather products', and 'vehicles, vehicle parts & transport equipment' registered accelerated growth in Jan'21 as compared to the growth in the corresponding month of the previous year. However, credit growth to 'rubber plastic & their products', 'beverages & tobacco', 'chemicals & chemical products', 'basic metal & metal products', construction' and 'infrastructure' decelerated/ contracted.



Further, RBI's recent report on 'Quarterly statistics on Deposits and Credit of SCBs', indicates that credit by private sector banks moderated significantly to 6.7% in Dec'20 (13.1% a year ago), whereas that for public sector banks has improved to 6.5% in Dec'20 (3.7% in Dec'19). However, on a positive note that the incremental lending by PSBs had sharply increased after 2018-19, the share in incremental credit stood at 43.1% in Q3FY21 (26.5% in FY19), consequently Private banks share declined to 55.9% (65% in FY19). However, the concern is that PSBs are growing (in amount) lesser than PBs in the last 5-years. The initial decline in credit growth of PSBs was because of the initiation of AQR in 2015, with no accompanying resolution and recapitalisation of PSBs.

4.2 Impact on Asset Quality

Due to the various relaxation & liquidity support by RBI, the performance parameters of banks have improved significantly, aided by regulatory dispensations extended in response to the COVID-19 pandemic. The CRAR of SCBs improved to 15.8% in Sept'20 from 14.7% in Mar'20, while their GNPA ratio declined to 7.5% from 8.4%, and the PCR improved to 72.4% from 66.2% over this period.

Among the broad sectors, asset quality improved noticeably in the case of industry, agriculture and services in September 2020 over March 2020, with a decline in GNPA and stressed advances ratios. In the case of retail advances, however, the GNPA ratio declined only marginally and stressed advances remained flat. In view of the regulatory forbearance, however, there are implications for asset quality for the ensuing reporting periods. RBI's macro-stress tests for credit risk show that SCBs' GNPA ratio may increase to 13.5% by Sept'21 under the baseline scenario.

4.3 Impact on Digital Banking

The current pandemic has highlighted the importance of maintaining business continuity, in times of complete absence of physical interaction, and going digital is the only way in this situation. The trend for mobile banking is encouraging. From a measly Rs 76 crore in April 2011, the mobile banking payments have increased to Rs 7.7 lakh crore in November 2020 (Rs 3.6 lakh crore in April 2020), led by COVID led lockdown. If we look at the m-wallet data, there has been a jump in the post-lockdown period to Rs 12,717 crore in Nov'20 from Rs 8693 crore in April'20. Similarly, transactions in UPI has increased from Rs 1.5 lakh crore in April 2020 to Rs 4.3 lakh crore in Jan'21, indicating an increase of 185%. The rapid rise of UPI has been due to features like round the clock availability, single application for accessing different bank accounts, use of Virtual ID which is more secure and requires no credential sharing. This shows that going forward too, banks have to focus on providing safe, secure and easy to use digital applications for the expansion of their businesses and better customer service.

5. Policy Suggestions

Though, India has managed COVID-19 very effectively and saved millions of lives, it is true that many of the skilled and unskilled workers lost their livelihood. In the following paragraphs, we highlight some of the policy interventions pertaining to the areas of agriculture, SHGs, etc. and also give suggestions to increase the financial savings in India.

First, out of the outstanding bank credit of about Rs 12 lakh crore to the agriculture and allied activities sector, Rs 7 lakh crore is for Kisan Credit Cards (60% of the total). The KCC portfolio of banks has come under increasing stress over the years due to a variety of factors like crop losses, unremunerated prices, debt waivers and the rigidity of the KCC product. Currently, the renewal of KCC loans with payment of both principal and interest ensures interest subvention. It is proposed that for renewal of KCC loans of small and marginal farmers and for loans of other categories of farmers for amounts up to Rs 3 lakh, the payment of interest must be a sufficient condition for renewal as with other loans. The above measure has the potential to reduce the credit cost for banks considerably on KCCs as NPAs can be prevented more easily and the interest rate on KCC loans can be further reduced.

Second, there are 11.5 crore farmers who are PM-KISAN beneficiaries - 6.5 crore farmers have KCC. Thus, the remaining 4-5 crore could be land owning cultivators and at least 3-4 crore of such could be tenants/lessees/landless. Currently, such tenant farmers are not formalised into the credit deliveries of scheduled commercial banks. As of now, it requires state interventions for tenancy certificates which is only available in Andhra Pradesh. We propose the formation of a SHG model under the Deen Dayal Antodoya Yojana. The formation of SHGs will formalise tenancy even without formal documentation of tenancy and this will enable formal lending to take place to three crore landless farmers. The government could offer a sweetener for the formation of these types of SHGs that might require only a very nominal fiscal outlay. For example, even a Rs 1,000 outlay for three lakh SHGs could mean only Rs 30 crore fiscal support.

Third, given the significant increase in financial savings of households, it is now perhaps the right time to allow banks and infrastructure financing companies to raise tax free bonds (preferred tenor 15-20 years), and/or tax paid bonds to tap funding from retail investors, wherein the tax on the interest income of such bonds could be paid by the bond issuer — a 10 per cent tax deducted at source under section 193 of the Income Tax Act. Such a structure while being attractive to retail investors will also ensure that the government is not losing on its tax revenue.

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