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## The interests of banks and depositors should be balanced with that of borrowers while deciding on moratorium

**Allowing borrowers to hijack the debate on the hardships caused by Covid and to extend one-sided stimulus packages ignore small savers and depositors**

The Supreme Court has always upheld the law and stood for fairness and equity, something that the country is justifiably proud of. In the quest for fairness though, it is possible that the lines drawn by the founding fathers of the Constitution separating powers between the legislature, executive and the judiciary are sometimes crossed, inadvertently. This is something that the Court needs to be watchful of as it hears the case relating to moratorium on loan repayments by Covid-affected entities and whether 'interest on interest' is justified. The arguments being advanced in this case seem to be getting more and more divorced from the ground realities of commercial banking. The petitioners are persistent that banks, which have already granted borrowers six months' time to service their loans to tide over Covid, ought to extend this privilege longer and waive interest as well. They have also implied that banks are morally wrong to charge 'interest on interest' during such difficult times. Lobby groups such as real estate are demanding that given the *force majeure* situation, banks ought not to treat the accounts of defaulters as NPAs, even if they breach the loan covenants.

The Centre has filed an affidavit offering to foot the bill on the 'interest on interest' component for small borrowers and MSMEs with outstanding loans of up to ₹2 crore. The RBI, which is the banking regulator, is justifiably upset, and argues that such concessions would vitiate the credit culture and that a more durable way to provide relief lies in case-to-case loan restructuring, as suggested by the KV Kamath Committee. The modalities of relief, if any, are best left to the Centre and the RBI. Banks are nothing but a conduit between depositors and investors who have money to spare, and businesses and households who have an immediate need for it. Interrupting the virtuous cycle between bank deposits and loan repayments and lending of these funds can escalate systemic risks and shake depositor confidence in the already fragile banking system. The government has estimated that the bill for waiver of interest on all loans during the moratorium period will be a whopping ₹6 lakh crore. The net worth of banks will be substantially wiped out if they are forced to bear this burden.

Bringing an ethical dimension into the charging of 'interest on interest' ignores the fact that compound interest is only fair compensation for the time value of money — lenders charging compound interest also fork out similar compound interest to the depositors and investors whose funds they source. Allowing borrowers to hijack the debate on the hardships caused by Covid and to extend one-sided stimulus packages ignore small savers and depositors, whose interests also the Court has to protect. The RBI, as the banking regulator, is best placed to take into account the competing interests of depositors and borrowers, and the health of the banking system.

# Signalling optimism: On RBI holding rates

**The RBI has clearly sought to talk up confidence ignoring the risks of inflation**

The **RBI has used its latest monetary policy review** to unequivocally indicate that it will prioritise the revival of economic growth over inflation, at least through the end of the current financial year. The bank's reconstituted Monetary Policy Committee (MPC), with three new external members, unanimously voted to **keep policy interest rates unchanged** even as it categorically stated that the RBI would "continue with the accommodative stance as long as necessary to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy". Interestingly, the MPC none-too-subtly tilted away from its inflation targeting mandate by downplaying the risks on the price pressures front when it assessed that supply shocks were mainly responsible for keeping inflation above the tolerance band for months. These shocks, it posited, should dissipate as the economy unlocks, supply chains are restored, and activity normalises. As part of the shift in priority it also made bold to project that it would stick with the accommodative stance "at least during the current financial year and into the next financial year", a forward looking guidance that immediately prompted one of the new members, Jayanth R. Varma, to dissent and vote against the wording. While one will have to wait for the minutes of the meeting to possibly glean the objections that Prof. Varma, a markets expert, had, the MPC's majority view of ensuring a 'dovish' position on interest rates for at least six months has left it little near-term leeway to tame price pressures.

RBI Governor Shaktikanta Das went to great lengths to emphasise that the current 'inflation hump' was a transient phenomenon that needed to be looked through when taking measures to support the 'emerging impulses' and helping the economy return to its feet. Through a series of liquidity enhancing and credit flow supportive steps, the central bank reiterated its commitment to maintaining stability in the financial markets, at a time when the resources-strapped Central and State governments are expected to resort to substantially higher levels of borrowing to meet their spending needs. There can certainly be no argument at this point that the economy needs all the support it can get to recover from its 23.9% estimated contraction of the first quarter. The RBI sees a gradual recovery, forecasting a marginal growth of 0.5% in the fourth quarter that would narrow the full-year contraction to 9.5%. It is the inflation assumptions, however, that cause disquiet. From a projection of 6.8% for Q2, CPI inflation is posited to sharply ease — 5.4% in Q3 and 4.5% in Q4. In overlooking the risks that the persistence of supply bottlenecks, cost-push pressures from higher taxes on transport fuels and the possibility of food-price inflation becoming entrenched pose to the outlook on prices, the RBI has clearly sought to talk up confidence.

# Food for peace: On 2020 Peace Nobel

**The Nobel for the World Food Programme highlights multilateralism's benefits**

**Alfred Nobel's willed legacy** to reward exceptional work that furthers fraternity among nations, eliminates or reduces armies and promotes congresses of peace has brought the Nobel Peace Prize to a variety of causes — from abolition of landmines, nuclear and chemical weapons to addressing climate change, besides conflict resolution. This year's prize **has been awarded to the World Food Programme** (WFP), of the UN system, for its contribution to combating hunger in conflict and disaster-struck sites. The **Norwegian Nobel Committee took note of the WFP's life-saving role** in the year of the pandemic, staving off catastrophes of hunger in Yemen, Congo, Nigeria, South Sudan and Burkina Faso. The Prize is a fitting tribute to the aid workers who brave hazardous conditions to reach starving people in theatres of war, civil strife and natural disasters, moving food on aircraft, trucks and even all-terrain amphibious vehicles. The decision to honour the WFP echoes the advice of another peace laureate from 1949, Lord John Boyd Orr, the first head of the FAO that peace cannot be built on empty stomachs. That counsel must resonate even more with all countries and foster greater cooperation to close the WFP's funding gap of $4.1 billion, as the world's hunger map presents a depressing picture with more than a quarter of the population facing undernourishment in many countries; in strife-ridden Syria, an estimated 4.6 million people survive on food aid. Clearly, without stronger commitment from the big powers, the challenge to feed the millions who suffer acute hunger due to conflict and failed agriculture can never be met.

The recognition that the WFP has received can help the humanitarian organisation prepare for a decade of ambition and help meet the Sustainable Development Goals (SDG). Of central importance is SDG 2 — achieving zero hunger by 2030 — a target that requires determination to resolve festering armed conflict, and more fundamentally, to mitigate carbon emissions early and avert effects on agriculture from disastrous climate events. As the Norwegian committee has pointed out, the need for international solidarity and multilateral cooperation is more conspicuous than ever. Democracy also needs strengthening to help achieve equitable food distribution and end hunger, a salutary outcome experienced by free societies that also have unfettered media. Several poor countries have suffered a severe setback to their developmental aspirations due to the pandemic, and lack strong institutional governance to manage the crisis. This is a time for the world’s big powers to strengthen the UN system, espousing fraternity, shunning militarism, greening economies and resolving conflicts in the true spirit of the Peace Prize.