

The Hindu & BL Editorials

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Red flag



The Centre must take pre-emptive steps to avoid the possibly perilous situation on NPAs

Lending institutions will need to play a key role in sustaining the ongoing economic recovery by bankrolling consumer spending, financing private investments and funding the expanded Government borrowing programme. That's why the RBI's Financial Stability Report, which contains the central bank's prognosis for the financial system and stress-tests lenders' vulnerability to macro risks, assumes significance. The report sees an 'uneven multi-speed' economic recovery taking hold and notes that the risk appetite is returning among consumers and businesses. It flags weak credit growth and excessive global liquidity inflating financial assets as speed-bumps. It also observes that the Supreme Court's standstill on bad loan recognition could be obscuring the build-up of delinquencies at India Inc, with a high proportion of overdue loans as on August 31, 2020, slipping further by November. This is a warning that far from extending regulatory forbearance on recognition of non-performing assets (NPAs) or tinkering with their definition now, the Centre and the Court need to normalise these metrics quickly, so that timely interventions can be made to salvage borrowers and shore up banks.

On the lenders' financial position, the report starts off innocuously by noting that scheduled commercial banks were on an improving trajectory between March and September 2020, with gross and net NPAs moderating to 7.5 per cent and 2.1 per cent, provision coverage rising to 72.4 per cent and capital adequacy at 15.8 per cent. But stress-testing these numbers for future shocks on macro-variables such as growth, external balance and inflation, it finds that all these metrics can deteriorate

sharply in the event of risks surfacing. The RBI's scenario-analysis finds that gross NPAs for commercial banks can shoot up from 7.5 per cent in September 2020 to 13.5 per cent by September 2021 in a baseline stress scenario, and even to 14.8 per cent in the worst-case scenario of very severe stress. GNPA's of this order would be alarming and would undo much of the painstaking balance sheet repair that domestic banks have managed in the last five years. The silver lining is that the RBI doesn't expect banks as a class to breach capital adequacy norms even with severe stress. It however finds that nine banks may face challenges in the worst-case scenario. The Centre must focus on pre-emptive capital infusion into public sector banks that seem most vulnerable, based on this study.

The Centre must introspect why public sector banks (GNPA's pegged at 17.6 per cent in severe stress) tend to fare much worse than private sector banks (8.8 per cent) or even NBFCs (8.4 per cent) when put to test; this argues for governance reforms at the earliest. The RBI's past stress tests have been known to underestimate the impact on lenders during extreme events. The Centre would therefore do well to heed the warnings in this report and not dismiss it as an academic exercise.

Terror trail: On Pakistan action against terrorists

Pakistan's action against terrorists is welcome, but nowhere near enough

In his **speech to the UN Security Council (UNSC)** marking 20 years since the resolutions that announced a global commitment to the war against terror after the U.S. 9/11 attacks, External Affairs Minister S. Jaishankar made a pitch for greater coordination between counter terrorism agencies worldwide. He highlighted the necessity to streamline the process of the UN's top body in designating terrorists while strengthening coordination in the agencies that check their financial resources. First, the world must acknowledge that terrorist organisations use not only extortion and money laundering, drugs and wildlife trafficking to raise funds, but, in the present and future, will use loopholes in digital security and the "anonymity" provided by block chain technology to access finances. Second, in a clear reference to Pakistan, he spoke of the need to link actions between the UN and the Financial Action Task Force (FATF), and for countries that "wilfully provide financial assistance and safe havens" as well as "5 star" treatment to criminals and terrorists, to be held to account by them. His words are significant given that a FATF committee, the Asia Pacific Joint Group (APJG), is meeting this week to finalise recommendations for the FATF on whether to continue **Pakistan's 'greylisting status'**, downgrade it to a blacklist, or let it off, decisions that India is watching closely. Finally, he pointed to countries that allow their "political and religious" affinities to decide on issues of designation of terrorists, blocking and unblocking requests at the UNSC for such reasons rather than technically evaluate the evidence against these individuals. While the broad message here was for China, which has often blocked India's efforts to designate individuals at the UNSC, this also includes Turkey and Malaysia which have helped Pakistan avoid stringent measures at the FATF thus far.

While Mr. Jaishankar's words were meant for the global struggle with terrorism since 2001, their import is for India's particular problems with Pakistan and cross-border terrorism in the present for the impending decision at the FATF plenary next month. Pakistan's recent actions, including the sudden arrests and quick convictions of most wanted figures **Zaki Ur Rehman Lakhvi** and **Hafiz Saeed**, and the **warrant for JeM chief Masood Azhar**, all in cases of terror financing, indicate that Islamabad is aware of the importance of these decisions for its economic future; for the moment, the government is appearing to fall in line with the FATF's 27-point action plan. By drawing the connection between the actions of the UNSC and the FATF together, Mr. Jaishankar is indicating that India is not only watching what Pakistan does but also how the international community "walks the talk" on "zero tolerance to terrorism".

Final blow: On U.S. policy reversal on Cuba

Biden shouldn't be deterred by the policy reversal on Cuba by the Trump administration

The Trump administration's decision to **redesignate Cuba as a state sponsor of terrorism**, taken in its last days, appears to be a blatantly politicised move, bereft of any strategic or moral reasoning. In the announcement, U.S. Secretary of State Mike Pompeo cited Cuba's hosting of 10 Colombian rebels, a few American fugitives and its backing for Venezuelan President Nicolás Maduro as evidence for its "support for acts of international terrorism". The designation now puts the Caribbean country with **Iran, North Korea and Syria**, and would trigger fresh sanctions, making it more difficult for Cuba to do business. Havana has stated that returning the Colombian rebels would complicate the peace process in which it is a mediator. With regard to Venezuela, Cuba is following a foreign policy which it thinks serves its best interests, dealing with the country's government, irrespective of Washington's opinion. Not even the harshest critics of the single-party communist government in Havana, which faced domestic protests recently for freedom of expression, would allege its involvement in terrorist activities. As the Trump administration prepares to hand over power to a new President, it is taking a host of consequential foreign policy decisions that would make it difficult for Joe Biden to move quickly on his foreign policy agenda. America's acrimony towards Cuba has its roots in the Cold War period. As U.S. President Barack Obama noted when he **opened up towards Cuba**, their adverse relations were a relic of the past. He had taken a more realistic approach towards the Cubans than his predecessors. The U.S. has punished Cuba for decades with harsh sanctions, hoping that the Castro regime would eventually collapse. But the Cuban communists survived even the fall of the Soviet Union. With the Cold War memories fading and a new generation of Americans demanding a reset in foreign policy, Mr. Obama re-established ties, **opened the American embassy and travelled to Havana**, marking a new beginning. The logical approach of his successor should have been taking more confidence-building measures between the two countries and working towards a gradual normalisation of ties. But Donald Trump

did just the opposite. It is strange that the U.S., the world's largest military power that had cooperated with communist China since the early 1970s, still treats this tiny communist country that lies off the Florida coast as an enemy. Mr. Biden, during his campaign, had criticised the Trump administration's Cuba policy and promised a more open approach. He could reverse the terror listing, but it would take time as the decision should follow a review process. Perhaps that is what Mr. Trump, who resisted the November election result till the Congressional certification of **Mr. Biden's victory**, wants. Mr. Biden should not be deterred by these last-minute policy sabotages.