

# Old days in Indian banking coming back



Reduction in number of government banks by mutual merging has taken a speed in last six years that was never seen before

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INDIAN banking is on the verge of completing a 360-degree turn. It was in 1969 that Indira Gandhi nationalised 14 major banks, sending a shock wave into financial and corporate circles. The idea was to use banks as tools of social growth and avoid concentration of economic power in a few hands. Before long, in 1980, another 6 private banks were taken over by the Government. In 1993, the Government merged two of these to bring down the total number of nationalised banks to 19. Besides, they owned State Bank of India and its 7 Associate Banks, the total number of Government banks being 27.

But before long, the folly of above move was probably felt and in the early nineties, as a part of liberalisation, a small number of private banks were given new licenses. The kinds of HDFC and ICICI banks emerged out of this. Soon the Government began talking about reducing number of nationalised banks and two associate banks were merged with SBI in the decade beginning 2000. But actual merger work of significance was hardly done until the present NDA government came into power.

To say the least, the reduction in number of government banks by mutual merging has taken a speed in last six years that was never seen before. All the remaining associate banks, five in number, and the Mahila Bank, created in between, were merged with SBI in one go. This

was followed by creating five major banks, Punjab National Bank, Union Bank, Canara Bank, Indian Bank and Bank of Baroda, by merging with them Dena Bank, Vijaya Bank, Oriental Bank of Commerce, United Bank of India, Syndicate Bank, Andhra Bank, and Allahabad Bank. In 2021 Budget speech, the Finance Minister, Nirmala Sitaraman, has talked of privatising two Government banks, probably for the first time not being shy of using the word privatising in lieu of disinvestment, completely abandoning their own earlier policy of merger.

In the meantime, RBI had come out with guidelines in 2013 to give licenses to new banks in private sector including those to NBFCs. But the next Governor on the Mint Street, Raghuram Rajan, found faults in this policy issued by his predecessor and closed the window by issuing merely two licenses. Many in corporate world were kept waiting for the opportunity; Tatas even having withdrawn their application during scrutiny process. Rajan soon opened a new window for new formats of banks like Payment Bank and Small Business Bank to bring on board new banks with limited functionalities.

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The last angle in this 360-degree journey is likely to be completed soon. In November 2020, RBI released the Report of an Internal Working Group to 'Review Extant Ownership Guidelines and Corporate Structure for the Indian Private Sector Banks' seeking comments from the stake holders and members of the public by January 2021. RBI is in-the-midst of reviewing the Report, which has suggested large corporate/ industrial houses to be allowed as promoters of banks, among other things, and the comments received. Considering the mood of the Government in recent past, RBI in all likelihood will come out with new guidelines before long, allowing corporate/ industrial houses to set up new full-fledged banks. Reliance is already half-way through by having a Payment Bank in a joint venture with SBI and the

kinds of Tatas and Adanis, amongst others, may get into banking business soon. This will bring us back to the pre-1969 days, completing the 360-degree circle.

This new move, however, has generated a heated debate whether it is a good idea to allow corporate and industrial houses to own new banks, even though many of them already own

large NBFCs including taking deposits. The new move would certainly reduce the pressure on Government of providing fresh capital funded by tax-payers and managing large NPAs. It may also address India's credit scarcity problems in the long-run, though there is no dearth of liquidity at present. As per a recent data, India's domestic credit to private sector by banks as a proportion of GDP was just 50 per cent. In countries like South Korea (141 per cent), Thailand (112 per cent), South Africa (68 per cent), and Brazil (61 per cent), it is far above, leave alone China (158 per cent).

The worries include the corporate/industrial houses lending irresponsibly to themselves once they own banks. This may also lead to further concentration of economic power, which Indira Gandhi had begun to break 50 years ago. While evaluating the proposals, the RBI will have to find ways to check these aberrations. But option to come in the way of this bold move is not there. The government has no business to be in business and their ownership of banks need to be further reduced to 3-4 large banks like SBI, as professed by them in their recent assertions. This is only possible if private banks backed by strong financial muscle emerge on the new horizon.

(Shiva Kumar is former Managing Director, State Bank of Bikaner & Jaipur, and former president, Edelweiss Group)

## Covid's puzzling decline sparks shopping spree

CHRIS KAY & VRISHTI BENIWAL

FOR the home to the world's second-largest Covid-19 outbreak, life in India is almost back to normal. Shopping mall parking lots are full again. Stores are buzzing, and there are long lines for hair salons and restaurants.

"We just got fed up sitting at home, for how long can you do that?" said Kaniz Zehra, a 32-year-old stay-at-home parent to a toddler and a five-year-old. In recent months, she's flown for two domestic holidays; last month, she braved the crowds at the DLF Mall of India, one of the country's largest, outside of New Delhi. "Initially there was a fear of getting the infection," she said. "But now it appears it hasn't affected Indians as badly as it hit people in other countries."

While the US and large swaths of Europe remain in crisis and China stays vigilant over new outbreaks, concerns about Covid seem to have ebbed across India. Infection and death rates have dropped, and as shoppers like Zehra re-emerge, the economy and consumer companies are posting strong gains, far sooner than most expected.

The steady decline of reported Covid infections in India has puzzled scientists, especially given that many countries are battling second, third and fourth waves. Since daily cases peaked close to 100,000 in September, new transmissions have dropped nearly 90 per cent. Deaths have

Largest retail and consumer companies already reaping the fruit of Indians' pent-up demand



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fallen by a similar rate, from more than 1,000 a day in September to fewer than 100 now. Epidemiologists have questioned those numbers, pointing to low rates of testing and habitual underreporting of causes of death, particularly in rural India. But even if the numbers are artificially low, a lull in the country's Covid wards suggests the trend is real.

Government economists are predicting 11 per cent economic growth for the financial year that begins April 1, enough to reverse the 7.7 per cent contraction in 2020. "Consumer confidence is reviving,"

Reserve Bank of India Governor Shaktikanta Das said in February, pointing to renewed domestic migration, growing demand for energy and electricity and other indicators.

Already, some of the nation's largest retail and consumer companies are reaping the fruit of Indians' pent-up demand. Reliance Industries Ltd. posted record profits for the quarter that ended in December, buoyed by billionaire Mukesh Ambani's growing bet on retail. Aditya Birla Group's fashion retail business also reported quarterly profits, after a corre-

sponding loss in the same period a year ago. Unilever Plc's local arm posted a 20 per cent jump in sales for the fourth quarter. "India after a very difficult period with the virus is bouncing back quickly," Unilever's Chief Executive Officer Alan Jope said in an interview with Bloomberg Television this month.

Passenger vehicle sales have ramped up, along with the import of electronic goods. Traffic at India's airports and on the roads has picked up. On Monday, Nomura Holdings Inc. said its India Business Resumption Index continued to rise, coming within about 2 percentage points of its pre-pandemic level by the end of last week. "In Mumbai and Delhi - the two main cities in India which were also the worst affected - life certainly seems to be back to normal in terms of movement," said Abhishek Gupta, who covers India at Bloomberg Economics.

Returning confidence has so far been offset by worsening poverty, with an estimated 85 million swelling the ranks of the newly poor, especially migrant workers who fled urban centers during last year's lockdown.

Prime Minister Narendra Modi is hoping that the vaccination drive that began in January will spur a wider recovery. So far, vaccine uptake has been slower than officials hoped, as the rollout beset by technical hiccups. Frontline

workers have also reported skepticism about the shots, following the hasty approval of a local shot before it reached final-stage tests.

"I don't think anyone really thinks that without vaccines and a vaccination programme being widely available that we can go back to whatever full normalcy is," said Sireesha Yadlapalli, a Hyderabad-based senior director at the United States Pharmacopeia, a 200-year-old scientific non-profit organisation. "Hopefully this is the slowdown and there's no second wave." It's too early to say whether India's current resilience will persist. Some experts have speculated the country has already achieved herd immunity. A study conducted in the southern state of Karnataka signalled just under half its more than 60 million residents had been infected by August, a number more than 90 times higher than the official figure at the time. Others have also pointed to India's youthful population or to unproven theories that widespread exposure to a high number of tropical diseases confers some protection against Covid. For now, though, "there has been a reduction in fear," said T Jacob John, former head of the Centre for Advanced Research in Virology at the Indian Council of Medical Research. "Whether the South African variant will breach the immunity wall and create a second pandemic with India participating with a new wave - is unpredictable." (Bloomberg)