



The endgame

Guarantees for the 'bad bank' may help, but not sufficient to fix lenders' woes

Bad bank:

1. The Government has offered a sovereign guarantee to help the new bad bank extract better value from non-performing loans worth ₹2-lakh crore in the banking system.
2. To begin with, the National Asset Reconstruction Company Limited (NARCL) will pitch to take over toxic assets worth ₹90,000 crores that banks have already fully provided for.
3. It will offer a certain value to the lead bank for troubled loans of over ₹500 crores, and pay 15% upfront in cash, and issue the balance as tradable security receipts.
4. The bad bank will then rope in a separate asset manager being incorporated — the India Debt Resolution Company Ltd. (IDRCL) — to add value to the ailing asset, and resolve it as a 'going concern' or liquidate it.
5. The guarantee fee worth 36000 crores will be increased each year as a nudge for NARCL and the IDRCL to speed up resolution.
6. After losing precious time dithering over its pros and cons, the Government now believes this approach will be more expeditious to fix the substantial NPAs that persist despite the existing debt recovery mechanisms including the Insolvency and Bankruptcy Code.
7. Terming banks' high provisioning for legacy loans a 'unique opportunity', the Centre thinks NARCL will also help free up bank personnel to focus on faltering credit growth and spur the economy.

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THE HINDU

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The Government has offered a sovereign guarantee to help the new 'bad bank', proposed in this year's Budget, extract better value from non-performing loans worth ₹2-lakh crore in the banking system. To begin with, the National Asset Reconstruction Company Limited (NARCL) will pitch to take over toxic assets worth ₹90,000 crore that banks have already fully provided for. It will offer a certain value to the lead bank for troubled loans of over ₹500 crore, and pay 15% upfront in cash, and issue the balance as tradable security receipts. The bad bank will then rope in a separate asset manager being incorporated — the India Debt Resolution Company Ltd. (IDRCL) — to add value to the ailing asset, and resolve it as a 'going concern' or liquidate it. The guarantee, worth ₹30,600 crore over five years, can only be invoked once an asset is resolved and will cover any shortfall between the face value of the security receipts issued by the NARCL and the actual amount realised from a bad loan. The guarantee fee will be increased each year as a nudge for NARCL and the IDRCL to speed up resolution. After losing precious time dithering over its pros and cons, the Government now believes this approach will be more expeditious to fix the substantial NPAs that persist despite the existing debt recovery mechanisms including the Insolvency and Bankruptcy Code. Terming banks' high provisioning for legacy loans a 'unique opportunity', the Centre thinks NARCL will also help free up bank personnel to focus on faltering credit growth and spur the economy.

To the extent that the NARCL and IDRCL managements will streamline decisions once a loan is taken over, instead of seeking consensus among multiple lenders as the IBC entails, the idea holds some weight. But banks have already provided for these loans, so this is perhaps a tardy gambit and may not work in jump-starting credit flows unless accompanied by their re-capitalisation. On the likelihood of the guarantee being invoked, the Finance Ministry has said once the assets are pooled together, 'it is reasonable to expect' that many of them will realise more value than NARCL's acquisition cost. This may be a tad optimistic. As the Finance Minister herself said, 28 existing private ARCs are hesitant about taking a job at extracting value from these bad loans, perhaps owing to their size. That begs the question about the calibre of professionals NARCL and the IDRCL would need to outdo private players. The new entities' ability to get a few good men to deliver more bang for sunk capital would be critical, as would structures to pre-empt a moral hazard that the guarantee poses (of not bothering too much about final realisation value). This self-proclaimed endgame of India's bad loans crisis needs sustained attention for a satisfactory culmination.



Done and dusted

The NRC process needs closure, not another reboot

The National Register of Citizens (NRC)

1. While there may have been lulls aplenty, the next twist or turn in the long-running saga of the National Register of Citizens (NRC) update for Assam is never far. The latest seeks to imbue a sense of finality to the exercise, though it has come from what is only a quasi-judicial body.
2. A Foreigners' Tribunal (FT) in Karimganj district of southern Assam, while removing the ambiguity around a man's citizenship, has pronounced that there is no doubt that the NRC published on August 31, 2019, is the final one.
3. The exercise left out over 1.9 million from a list of around 33 million applicants, whose citizenship would be determined at the FTs. The entire updating process was monitored by the Supreme Court and executed by the State's administrative machinery.
4. Unsurprisingly, its publication annoyed political parties across the ideological divide, with some alleging it victimised document-less Bengali Hindus and indigenous Assamese people and others that it targeted the State's Bengali-origin Muslims.
5. Assam Chief Minister Himanta Biswa Sarma is already on record as having said the State government wants 20% re-verification in the districts bordering Bangladesh and 10% in others.

NRC end game problems:

1. The crux of the matter is that post-publication progress on the NRC has been excruciatingly slow, and not just due to the pandemic.

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The crux of the matter is that post-publication progress on the NRC has been excruciatingly slow, and not just due to the pandemic. The new NRC Coordinator's petition is still pending, as is another by the Jamiat Ulema-e-Hind. More crucially, on the execution side, the issuance of rejection slips to those left out of the NRC has not begun, a necessary step to file appeals in the FTs. Another iteration of the NRC, whether led by the judiciary or the executive, would rely on the same administrative set-up. The system has demonstrated dynamism: the list of excluded in the NRC draft released in July 2018 was nearly 4 million, an additional list in June 2019 left out 1,00,000 more, but the final draft absorbed 2.2 million of those. While a Registrar General of India notification has not conferred the stamp of legality on the NRC yet, that, along with kick-starting the appeals process, is perhaps the most prudent path ahead. Mounting another gargantuan exercise at a colossal cost may only yield a new set of discontents.

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The new AUKUS alliance holds some lessons for India

If realpolitik so demands, it must break old shibboleths and strike new partnerships — wherever there is the convergence of interests.

AUKUS surprise:

1. In a surprise, the heads of government of Australia, the UK and the US announced the formation of a trilateral security pact, to be known by the acronym, AUKUS. Without naming China, US President Joe Biden announced, in a press conference, that “in order to deal with rapidly evolving threats,” the US and Britain would share, with Australia, intelligence and advanced technologies in areas like artificial intelligence, cyber-warfare, quantum computing and nuclear submarine construction.
2. The surprise at the formation of AUKUS is for a number of reasons. Firstly, the three nations are already allied to each other, in more ways than one — the US and UK are NATO allies, and Australia, New Zealand and the US are linked by the ANZUS pact. All three are also members of the “Five Eyes” intelligence alliance.
3. Secondly, this announcement, coming just days before the first in-person summit meeting of the Quadrilateral Security Dialogue (Quad), places a question mark over the continuing relevance of this forum and its long-overdue actualisation.
4. Finally, the inclusion of a much-diminished, post-Brexit UK in such a long-range alliance is bound to raise a few eyebrows.



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5. China's description of this alliance as an "exclusionary bloc," should be food for thought for two members of the Quad/Malabar forums — India and Japan — who have been excluded from the new grouping.

Belligerence of China:

1. So far, China has had its way in the geopolitical arena without hindrance from any quarter. In the South China Sea, having staked outrageous territorial claims, and contemptuously dismissed the adverse verdict of the UN Court of Arbitration, China has proceeded to create artificial islands and to convert them into fortified air bases.
2. Regular "freedom of navigation operations" by the US and allied navies have neither deterred nor daunted China.
3. Even more belligerent has been China's conduct along the Sino-Indian border, where it has used massive military deployments to stake claims to large tracts of Indian territory, leading to a sanguinary conflict in mid-June 2020.
4. India, having counter-mobilised, at a considerable economic cost, has stood its ground. Given our limited options, this dangerous confrontation is likely to continue.

Seafoam and Quad:

1. The Quad has neither created a charter nor invested itself with any substance; fearing that it would be dubbed an "Asian NATO." China, on its part, has dismissed the Quad as a "headline-grabbing idea which will dissipate like sea-foam".
2. While uncharitable comments about "Anglo-Saxon solidarity" must be ignored, there may be substance in the belief that the "Anglosphere nations" — which share common cultural and historical ties to the UK — do inspire more confidence in each other.
3. Whether the Quad and AUKUS will reinforce each other, or remain mutually exclusive, will, no doubt, become clear in the forthcoming Quad summit.
4. An issue that should give cause for reflection in New Delhi, arises from Biden's promise to transfer advanced technology, including submarine nuclear propulsion to Australia.
5. It brings into stark relief India's failure to acquire any significant high technology from the US, in spite of bilateral ties, which have steadily grown in warmth and closeness over the past decade and a half.



India-US deals:

1. Some major milestones in the Indo-US security relationship have been: Signing of the pathbreaking Indo-US Civil Nuclear Agreement, in 2008; launching of the Defence Technology and Trade Initiative in 2012; accord of the status of “Major Defence Partner” by the US Congress in 2016; grant of Tier 1 status to India, enabling export of high-technology items; and institution of “2+2 talks” in 2018.
2. The signing of the fourth and last of the key “foundational agreements” in 2020, was supposed to have eliminated the final impediment to closer defence cooperation.
3. While the warming of the Indo-US relationship brings comfort to Indians, we must beware of hyperbole, obscuring reality, in the bilateral discourse.
4. American offers of help “to make India a great power” and overzealous declarations (at the apex level in November 2017) that that “two of the world’s great democracies should also have the world’s two greatest militaries,” must be taken with a generous pinch of salt.
5. China, it is said, owes its pole position to the advanced technology it was given, or it purloined from the US over a 30-year period. All that India has to show for its “strategic partnership,” is approximately \$22 billion worth of military hardware purchased from US companies — a distinctly retrograde step when we seek atmanirbharta and freedom from external reliance.
6. We need all the technologies being offered to Australia, in addition to “know-how” and “know-why” of much else, including stealth fighters, jet engines, advanced radars and, of course, nuclear propulsion for submarines as well as aircraft carriers.

For India to attain its full potential, it will need insurance against hegemony, and breathing space to restore its economy to its earlier buoyant trajectory. This respite will enable it to catch up with technology and boost its military muscle. While preparing to fight its own battles, India will need to seek external balancing. If realpolitik so demands, it must break old shibboleths and strike new partnerships — wherever there is the convergence of interests

With AUKUS dividing the Western bloc, is there a role for India?

India’s interests lie in deeper strategic cooperation with France and Europe as well as the Quad and the Anglosphere.