AatmaNirbhar Bharat – Role of Banking Sector

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The crucial role played by the banks in the economic development of the country can never be over emphasised. Over the years, banks have ensured that the benefits of the various schemes/announcements of the government reach the needy segments of our society. Banks have always provided the much needed last mile connectivity for various government schemes. As is known to all, the outbreak of the COVID-19 pandemic in China and its subsequent spread across the world has created serious economic challenges globally. A pandemic shock is a classic demand-supply shock. The supply inoperability shock emanates from disruption in global value chains. The demand side inoperability shock includes reduction in demand due to social distancing. This impacts both domestic demand as well as external demand of a country. Thus, depending upon the shock, a pandemic can be both inflationary as well as deflationary. Policy response to pandemic is a challenging task due to the inherent circularity because of social distancing leading to loss of employment and supply which amplifies loss of income and demand. The AatmaNirbhar Bharat (ANB) Package announced by the Honourable Finance Minister tried to balance these challenging economic aspects of the pandemic. Read on…

Salient Counters of the Package

ANB is a comprehensive idea elucidated by the Honourable Prime Minister on May 12th. It entails a self-reliant India which stands on five pillars viz. 'economy', which brings in quantum jump and not incremental change; Infrastructure; 'system', based on 21st century technology

driven arrangements; 'Vibrant Demography', which is our source of energy for a self-reliant India; and 'demand', whereby the strength of our demand and supply chain should be utilised to full capacity.

For the first time the approach to growth has truly turned inward towards the internal strength with the slogan "vocal for local" to make it global.

Post-COVID revival strategy of the economy will give major thrust to agriculture and the MSMEs. The Government wishes to create a unified market in agriculture commodities, push investment in agriculture supply chain, and bring modern technology in agriculture. The income generation through agriculture and allied activities is expected to support the MSME sector along with preference for our local products and government procurement.

Thrust to mining, notably in coal and other minerals, introduction of a seamless composite exploration-cum-mining-cum-production regime, civil aviation, privatisation of power distribution and space will bring private interest in these sectors. In a major development, the government has indicated domestic procurement of the "to be notified list" of defence items. Indigenisation of defence hardware will open huge opportunities downstream for domestic manufacturing.

Financial sector related announcements cover a wide turf addressing concerns of all. The de-risking of the MSMEs sector through guarantee, liquidity support to low rate NBFCs and MFs will help in damping volatility and building confidence. Banks will draw lot of comfort from changes announced in the Bankruptcy code for MSMEs and raising of threshold to initiate insolvency proceedings being raised to ₹ 1 crore. Exclusion of COVID 19 related debt from the definition of "default" under the IBC for the purpose of triggering insolvency proceedings is also a welcome move.

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The people centric approach adopted in the package deserves praise. Increase in allocation to MGNREGS by ₹ 40,000 crore to accommodate migrant workers, tax concession for salaried, faster refunds, low cost housing and ease of doing business will cushion against the adverse impact of the COVID-19 crisis. This issue of gainfully employing the migrant workers in the long run and their up-skilling, though not included in the package, should be addressed in due course, possibly through infrastructure push.

Role of Banks

The ₹ 21 lakh crore ANB package gives a major thrust to financial support to different sectors of the economy. All businesses (including MSMEs) will be provided with collateral free automatic loans of up to three lakh crore rupees. In this context, banks need to be fully ready to ensure that the ensuing demands of the businesses are met and even the smallest of the eligible & willing borrower is extended the desired help.

The government has also announced setting up of a fund of funds with a corpus of ₹ 10,000 crore for the MSMEs. This will go a long way in providing equity funding for MSMEs with growth potential and viability. Here again , the banks would be required to ensure that the willing promoters of MSMEs are given debt so as to enable them to re-infuse the same into their ventures as equity.

A Special Liquidity Scheme was announced under which ₹ 30,000 crore of investment will be made by the government in both primary and secondary

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market transactions in investment grade debt paper of Non-Banking Financial Companies (NBFCs)/Housing Finance Companies (HFCs)/ Micro Finance Institutions (MFIs). The central government will provide 100% guarantee for these securities. The existing Partial Credit Guarantee Scheme (PCGS) will be extended to partially safeguard Banks against borrowings by such NBFC through primary issuance of bonds or commercial papers (liability side of balance sheets).

Clearly, ANB package thus places huge responsibility on the banking system to make viable funds for various announcements. It, therefore, goes unstated that public sector banks in particular will have to be the role model in achieving the vision.

Challenges and Way Forward

Steady progress has been made in disbursal of loans under the ₹ 3 lakh crore collateral-free loans proposed for businesses. Commercial banks have sanctioned loans worth ₹ 1.43 lakh crore under the scheme and about half of it has already been disbursed to businesses. Out of ₹ 1.43 lakh crore sanctioned so far under this scheme, ₹ 54,415 crore has been disbursed to the PSU banks while ₹ 43,578 crore has been given to the private banks. As far as the ₹ 30,000 crore special liquidity schemes for NBFCs/HFCs is concerned, ₹ 6,399 crore amount has been sanctioned.

However, for optimal execution of various schemes in ANB banks will face operational challenges. Banks have already been putting in place Business Continuity Plans to tide over the disruption caused by the pandemic. Taking SBI efforts as an example, revamping SME branches is now under process. SBI has also created a new vertical, FI&MM Vertical to focus on various financial inclusion initiatives of Govt. of India as well as exploring opportunities in Agriculture & Microfinance in a big way. Under this initiative, the Bank has segregated around 7,800 RUSU Branches for focussed business growth in Agriculture/ Micro Markets, improved customer service, better liaison with government agencies and outreach efforts towards village community, SHGs, NGOs, small borrowers etc. District Sales Hubs (DSHs) have been created to increase sales reach of the Bank.

The pandemic has suddenly increased the value of contact-less digital banking channel. Banks, not just SBI but others also, will expand their digital product offerings and this will include innovative ways to take forward the vision under ANB. The objective of such an exercise going forward will be to improve connect with the customers and to develop SME Business, to capitalise on the opportunities created by *AatmaNirbhar Bharat* Package.

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From the pure risk perspective, the understanding of risk has undergone lot of changes. It will be a challenge for banks to strike a balance between caution, prudence and responsibility.

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Lastly, going forward, apart from the banks, the role of state governments, too, in ANB will be very crucial. To reap optimum benefits out of the ANB package, some State Governments have decided to chalk out an action plan for implementation of the ambitious programme. Through the Action Plan, States will monitor the fund flow to the targeted beneficiaries. Here again, close coordination with lead banks will become critical in last mile connectivity.■■■