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Getting the Indian Economy Back on Track

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This article is based on **"A solution: Two bad banks for the Four Balance Sheet problem"** which was published in The Indian Express on 21/12/2019. It talks about measures that should be taken to revive the growth in the Indian Economy.

The **first part of this article** showed that slowdown in India **arrived in two waves**. The **first wave**, the **Twin Balance Sheet crisis**, encompassing **banks** and **corporates** arrived after the global financial crisis in 2009. The **second wave** is centred around the crisis in **NBFCs** and **real estate sector** (because of unsustainable financing and rising inventory of unsold housing).

As a result, the economy now confronts a **Four Balance Sheet (FBS) problem**. This can be resolved by the following steps:

Resolving the Non-Performing Assets (NPAs) crisis

- **Two bad banks** (for Real estate and power sectors) to resolve the Four Balance Sheet problem might be one critical element of the solution.
 - Creation of **special resolution mechanisms** for these two sectors is important because:
 - **Majority of NPAs** are in these two sectors.
 - These sectors are **socially and commercially very important**.
 - In this context, a **holding company or public-sector asset rehabilitation agency (bad bank) can be created**.
 - Holding company would buy stressed assets, based on the recommendations of independent parties, such as investment banks. This would allow the transaction to be seen as fair by all stakeholders.
 - This would free up balance sheets and management attention of banks and allowing them to focus on their core business of supporting economic growth.
 - The holding company can be mandated to sell off the assets within five years, after which it would be dissolved.
- **A New asset quality review** will be needed to get a more honest recognition of the magnitude of stressed assets.
- **Efficient implementation** of policies like **Project 'Sashakt'** should be done to effectively tackle the problem of rising NPAs.
- **Insolvency and Bankruptcy Code (IBC) needs** further strengthening.

Competitive Financial Market

- The government must ensure that banks run in the larger national interest but **commercial decisions are best left to bank boards**.
 - **Banks' Boards** must be empowered to decide on **capital raising plans** from the market within a well-defined framework.
- The **promotion of corporate debt markets** both for performing loans as well as distressed loans needs special attention.

Raising Exports and Demand in Economy

- Government intervention should **comprise steps to spur demand** in the economy, by **raising the purchasing power of the masses**, especially in rural India.
- India still has nearly half of its workforce engaged in agriculture. Therefore, **investment in agriculture will serve twin benefits**:
 - One, of raising rural demand and purchasing power.
 - Two, agricultural exports can check India's unfavourable balance of payment and can emerge as an important source of foreign exchange.

- **Liberalised foreign direct investment norms in the manufacturing sector**, will result in the generation of employment in India and increase the competitiveness of **India's exports**.

India should view current slowdown, not as a crisis but as an opportunity to carry out much-needed reforms, only then it can achieve the goal of becoming a \$5 trillion economy.

Drishti Mains Question

India should view current slowdown, not as a crisis but as an opportunity to carry out much-needed reforms, only then it can achieve the goal of becoming a \$5 trillion economy. Discuss.