The Reserve Bank of India (RBI) governor Shaktikanta Das warned that India’s economic recovery will be gradual and argued strongly in favour of protecting the interest of depositors amid a contentious Supreme Court hearing on waiver of interest during the loan-moratorium period.

India’s lead economic indicators, which had shown an uptick in June and July, appear to be levelling off, Das said at an event organised by the Federation of Indian Chambers of Commerce & Industry (Ficci) on Wednesday.

“The end-August press release of the National Statistics Office (NSO) was a telling reflection of the ravages of Covid-19... the recovery is not yet fully entrenched in some sectors,” he said. “By all indications, the recovery is likely to be gradual as efforts towards reopening of the economy are confronted with rising infections.”

His remarks came days after the finance ministry said in its monthly report for August that the worst is over for the Indian economy and that it’s on the way to a V-shaped recovery. Though there’s uncertainty due to the pandemic, a positive development on the vaccine front would end that and bring discretionary spending back to pre-Covid levels, the ministry said. Weeks before this, the government unveiled GDP figures for the first quarter of FY21, showing the economy had contracted by 23.9%.

‘Stability of Sector Important’

Das also added that high-frequency indicators for agricultural activity, the Purchasing Managers’ Index (PMI) for manufacturing and certain private estimates for unemployment pointed to some stability in economic activity. The contraction in many other sectors was simultaneously easing, he said.

Wading into the issue of interest waiver and moratorium extension, Das said the primary concern of any bank should be protection of depositors’ interest because ultimately it is their money. “There are crores of depositors while borrowers could be in lakhs,” the governor said. “There are small depositors, middle-class people, retired persons, who depend on deposit income—their interest has to be protected.”

The SC is hearing petitions on waiving interest on loans during the moratorium period that ended August 31. At its last hearing, the court said no account should be declared an NPA that hadn’t been put into that category as of August 31 until further orders. The next hearing is on September 28.
The government and the RBI have held that borrowers should not be compensated at the expense of depositors. Brokerage firm Macquarie has calculated that a waiver of interest will cost the banking system ₹2.1 lakh crore while waiver of compound interest will cost about ₹15,000 crore.

“The aspect of financial stability of the banking sector has to be kept in mind because banking has an important role for economic development in an emerging market economy like India,” Das said. “Both sides have to be balanced. Revival of such businesses will also ensure that NPA levels are kept low and there will be a quicker economic recovery.”

The RBI also wants to prevent the recurrence of financial instability due to a surge in NPAs, Das said, referring to the loan-restructuring plan proposed by the KV Kamath committee, whose recommendations were released earlier this month. “We don’t want to be back in the situation that was five years ago, when NPAs of banks had risen very steeply. But we are also mindful of the fact that Covid has negatively impacted a large number of businesses and they also need relief,” Das said.

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