TA Pai Management Institution (TAPMI), Manipal - Special Address

Dr. Manoranjan Sharma, Chief Economist, Infomerics Ratings

August 26, 2023

Dr. Manoranjan Sharma, Chief Economist, Infomerics Ratings delivered a Special Address at TA Pai Management Institution (TAPMI), Manipal on August 26, 2023. TAPMI has been consistently rated as one of the top 7-8 management institutions in the country and has been rated highly across the development spectrum for the last 40 years.

Dr. Sharma stressed that we are all “prisoners of our experience” and he, therefore, based his observations on his long and diversified career in banking and finance.

The banking and financial sector is not a silo, it is a microcosm, a miniature model of the broader macroeconomy. Hence he placed the case for the development and structural transformation of the banking sector in a proper historical and comparative perspective.

He explained the paradigm shift from VUCA (volatility, uncertainty, complexity, ambiguity) to VUCA 2.0: Vision, Understanding, Courage, and Adaptability.

He highlighted the confluence of Innovation, Big Data, Artificial Intelligence (AI), Machine Learning (ML), Deep Learning (DL), Robotics, Analytics, Internet and Entrepreneurship. But he brought into focus the views of T.S. Eliot-views, which resonate in a greater measure today. Eliot held “Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?” This progression from information to knowledge and from knowledge to wisdom is sorely missing today.

Despite the triple whammy of demonetization, GST, and COVID-19, the Indian economy has emerged as ‘a bright spot’ despite heightened geo-political uncertainties and a volatile international demand-supply equation. In view of global cues, improved crop sowing, uneven monsoon, good industrial growth, healthy balance sheets of banks and corporates, supply chain normalization, buoyant services activity, buoyant aggregate demand conditions, rising investment activity, and 2 per cent current account deficit (CAD), real GDP growth for 2023-24 is seen at 6.5 per cent. While this growth of 6.5 per cent FY 24 marks a deceleration from the 7.2 per cent growth in FY 23, the Indian economy continues to largely outperform most of its global peers.

Despite some caveats (e.g., July CPI inflation rising to 7.44 per cent, weak global demand, volatile global financial markets, geopolitical tensions, and geo-economics fragmentation), as a consequence partly of global dynamics, India is among one of the fastest growing economies. The RBI’s forward-looking surveys show that economic growth will be sustained until FY25 with the real Gross Fixed Capital Formation (GFCF) expected to rise to 7.4 per cent in FY25 from 6.8 per cent in FY24. Consumer confidence in the domestic economy has been improving post the pandemic.

BANKING LANDSCAPE

Banks have struck a purple patch. The RBI' Financial Stability Report (FSR) shows that greater recovery post the enactment of the IBC, 2016 and rejigging of loans portfolio from corporate loans to personal loans led to GNPAs and NNPAs declining to 3.9 per cent and1 per cent, respectively in March 2023, lowest since 2015. Similarly, return on assets (RoA) rose steeply from a negative 0.2 per cent in 2018 to a healthy 1.1 per cent in 2023. But there is a manifest need to maintain the growth momentum in profits by a broad spectrum strategy.

In this overarching setting, Public sector banks (PSBs) performed remarkably well with profit of ₹ 34,774 crore for Q 1of FY 24. Resuscitating measures included the 4R's strategy of recognition, resolution, recapitalization and reforms, NPAs of banks plummeted to a 10-year low at 3.9 per cent of total advances. Simultaneously, banks recovered bad loans worth over ₹ 8.6 lakh crore in the last eight financial years. The government infused ₹ 3,10,997 crore to recapitalize PSBs from 2016-17 to 2020-21. The reforms focused on credit discipline, ensured responsible lending and improved governance. Besides, there was greater technology adoption, consolidation of banks, and upbeat bankers. What is important is that the growth and structural transformation of banks have to become more sustainable over the medium term.

Bank lending also seems to be in a roll. In aggregate terms, bank loans advanced 16.3 per cent in June. Retail loans rose more than a fifth on year, supported mainly by home and vehicle loans. Bank loans to non-bank lenders climbed as also the disbursements to large companies. India's resilient consumer demand, which will ensure sustained economic expansion, was reflected in the granular data on loans as buyers of homes, cars, vacations or college education accounted for a disproportionately higher share of retail customers in total bank credit raising concerns of concentration risk and higher sectoral NPAs. For, there is a steadily burgeoning body of literature and empirical cross-country evidence that excessively high lending rates inevitably lead to a surge in NPAs and the attendant issues of due diligence, fixing of responsibility, accountability, malafide interest, etc.

With growth in bank credit, low NPAs, and adequate capital and liquidity buffers, the Indian financial Subsequently, he also participated in a series of other programmes, viz., an Industry Round Table discussion with some accomplished leaders across domains, evaluated the final round of CCT Playoffs, and interacted with the faculty members and students on various issues aimed at consolidating the position of TAPMI in the comity of management institutions in the country.