US bank crisis will have little impact on India: CEA

Nageswaran allays fears of global financial contagion after latest bank failures

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New Delhi, 20 March

The impact of the current global financial crisis will be 'low or negligible' for India as it has dealt with its financial system issues in the recent past, Chief Economic Advisor V Anantha Nageswaran told *Business Standard* on Monday.

"Given that India has just emerged from its financial system issues in the past decade, I expect the impact on India to be low or negligible," said Nageswaran, in his reply to some queries sent over email.

He was asked about the impact of events in the US, as well as lessons Indian banks can learn from the failure of Silicon Valley Bank and Signature Bank.

"As for lessons for India, the lessons are always the same. They have not changed. Mind the risks, the risk for the banking system is duration risk and credit risk, which then includes concentration risk. There is nothing new. All principles are known. The key is a consistent application without slackening," said Nageswaran.

By India's financial system issues, Nageswaran was referring to the twin-balance sheet crisis and the spike in non-performing assets (NPAs) of Indian banks, which was seen for most of the 2010s.

On Monday, the Ministry of Finance informed the Lok Sabha that the gross NPA ratio for state-owned banks had declined from the peak of 14.6 per cent in March 2018 to 5.53 per cent in December 2022.

As fears of a global financial contagion spread after the latest bank failures in the US, the Swiss government brokered a deal over the weekend for UBS Group, Switzerland's largest bank, to acquire the crisis-hit Credit Suisse Group AG. UBS is paying more than $2 billion to buy its rival, much lower than the $8 billion which Credit Suisse was valued at on Friday.

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Last week, Nageswaran had said at a public event that global uncertainty has been rising after the latest bank failures and that global growth estimates for 2023 by the International Monetary Fund in January appeared outdated. He had said that governments and businesses should keep 'margins of safety' in fiscal and corporate planning.

Nageswaran was also asked about his earlier point on the lack of seasonally adjusted quarterly gross domestic product data. After the October-December 2022 quarter print came in below market expectations, he had said that growth figures came across as tepid only due to revisions made in earlier years, and had to be analysed in that context. He had said that the latest data was incomplete and could not be compared with third-quarter data of previous years as they had been revised.

"This happens in all countries. I do not have a system or recommendation to make in this regard except that we be aware of this, apply judgement and examine other indicators to form a better understanding and assessment of the economy," he told *Business Standard* on Monday.

When asked if there are discussions in the government to overhaul and improve the process of data collection, he said: "I am not aware of any overhaul at this point. But, over time, high-frequency indicators may be relied upon increasingly to gauge economic activity than low-frequency and survey-based measures."

Nageswaran was also asked about what the Group of Twenty (G20) President India's aims were regarding the indebtedness of poorer nations, and whether the rich lenders, including China, would be asked to take haircuts on their loans.

"The G20 Presidency does not have a view on debt-related haircuts. The Presidency would like to see consensus on the application of the common framework, some beginnings on dealing with the debt vulnerability of middle-income countries and agreement on information sharing between creditors, debtors, and international organisations such that we could prevent debt vulnerability from arising, in the first place, if possible," he said.