

Chapter 9

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PUBLIC BANKS AND INDIA'S INEFFECTIVE COVID-19 CRISIS RESPONSE

India's experience with public banking and coronavirus spells a cautionary tale. At the time of writing India is, after the United States, the country with the second largest number of known Covid-19 infections. This is partly a reflection of the country's large population (1.4 billion). The proportion of people infected is relatively low, but the pandemic has overwhelmed India's hugely underfunded public health system and is devastating the economy. Public banks have been given the major responsibility for providing relief but they cannot play the supportive role that was possible in the past, because they have been so undermined, and in some cases even dismantled, over the last two decades.

India's response to Covid-19, which has been primarily monetary, therefore cannot succeed because the banks cannot do the heavy lifting required – in part because they have not been allowed to. Publicly owned banks still comprise the majority of the financial sector, but they are public in name and not in mandate. They are judged primarily by their ability to maximize earnings and profits, which means they can no longer follow the counter-cyclical or long-term goals they did in the past and on which the Covid-19 recovery depends.

Without a fiscal stimulus and autonomous spending to create demand, India's credit-growth policies will not work because the banks are reticent to lend. This is because they are already over-burdened with non-performing assets and fear this can only get worse, reducing profits and incomes still further. This is a problem both for India's recovery from coronavirus and for the future of public banking. The failure of the monetary policies to induce banks to lend will likely strengthen the case of those arguing for privatization as a means for banks to increase their capital. This would spell the end of India's public banking system – and a long and painful path out of coronavirus.

INTRODUCTION

At the time of writing, India is, after the United States, the country with the second largest number of known Covid-19 infections. Given the country's large population of around 1.4 billion, the proportion of the population infected (5.4 million) is still relatively low. However, the pandemic has overwhelmed the hugely underfunded public health and hospital system, prompting the government to impose in panic one of the most severe nation-wide lockdowns, which had and continues to have a devastating impact on the economy. The government's response to the post-Covid economic crisis has fallen short, with the fiscal stimulus placed at a relatively low 1% of Gross Domestic Product (GDP). The dominant effort comes in the form of monetary policy measures – reduction in policy interest rates, injection of liquidity, easing of debt servicing terms and provision of guarantees to facilitate the flow of credit to select sectors.

Given this reliance on monetary policy, public sector banks that dominate India's commercial banking system have become crucial intermediaries in the transmission of the official stimulus. Taking on a social mandate of this kind is not new to the public banking system, which, after its expansion through nationalization in 1969, substan-

tially enhanced credit provision for growth; ensured that there was much greater financial inclusion with credit provided to neglected sectors, regions and sections; and achieved that without the periodic bank failures that characterized the pre-1969 period.

But much has changed since then, especially after 1991 when, based on the reports of two committees, the banking and financial policies were extensively liberalized. Underlying this transition was a decision to change the mandate given to public banks. If the earlier emphasis had been placed on realising socio-economic development objectives to which the profit objective was subordinated, now the demand was for better profitability and innovation in service provision. That not only changed banking behaviour over time, but the subordination of public banking to the needs of what was seen as a private investment-led growth strategy resulted in lending of a kind that increased the volume of bad assets on the books of the public banks. This has made it difficult to ensure that public banks can perform the role they have been given as part of the post-Covid relief and recovery strategy.

PRE-COVID CONTEXT – THE CHEQUERED HISTORY OF PUBLIC BANKING IN INDIA

Ever since the nationalization of 14 major private banks in India in 1969, the country's banking system has been overwhelmingly publicly owned. The entry of many new private sector banks after the launch of neoliberal reform in 1991 has not radically altered that picture. This has meant that, for more than half a century now, the government's influence on banking behaviour and performance has been substantial. However, this has not played out the way that supporters of public banking might have expected.

This chapter shows that mandates matter as much as ownership, as does the macroeconomic environment in which public banks are embedded. This has strongly limited the role that public banks

could play in the relief and recovery efforts required for Covid-19. Banks are the first port of call of a nation's savings. Therefore, ownership and control over the banking system gives the State the power to influence and determine the allocation and use of the financial surpluses of a nation. Using that power, a government can facilitate investment and influence the allocation of financial resources in response to a recession, say, or in pursuit of a medium-term development agenda. The fact that the publicly owned banking system can serve as an instrument of countercyclical policy, expanding rather than reducing credit during a recession and targeting that credit to best aid recovery, is a major source of power. Has that source of power been used to advantage in the response to the ongoing Covid-induced crisis in India?

A feature of a predominantly publicly owned banking system is that the profit motive need not govern the allocation of credit, as would be the case under private ownership. Subordinating the profit motive to social objectives, the government may, for example, direct public banks to ensure adequate lending to farmers despite the risks stemming from monsoon dependence, or increase lending to small, dispersed rural borrowers, despite the higher transaction costs involved. That the private sector could not be persuaded to meet such requirements was clear from the fact that, prior to nationalization, banks in India had allocated just 2% of advances to the agricultural sector that contributed around 50% of national GDP, in violation of central bank guidelines.

Whether the State's influence, through public ownership, over the process of financial intermediation, proves socially beneficial depends in the final analysis on whether the government's policy agenda advances the interests of all or most of its citizens, or just a favoured few. In the immediate aftermath of bank nationalization, State ownership was indeed socially beneficial. Banking policy changed to ensure access to financial services to hitherto neglected sections and regions. The number of scheduled commercial banks (SCBs) in India rose from 74 in 1972 to 270 in 1990. The number

of branches of SCBs rose from 8,262 in 1969 to 32,419 in 1980, and 60,220 in 1991. As a result, the population per branch fell from around 75,000 in 1967 to 18,000 at the end of 1981 and 14,000 by March 1991. Furthermore, the share of rural branches in total SCB branches rose in tandem from 22% in 1969 to 58% in 1990.

At the end of March 2019, public sector banks accounted for 61% of the assets in the commercial banking system, private banks for 32%, and foreign and small finance banks for the rest. Among the 20 public sector banks, the largest – State Bank of India – accounted for 36% of their assets; and Bank of Baroda – the second largest public bank – for a distant 7.7%. Within the private sector, the three largest of the 22 banks – HDFC Bank, ICICI Bank and Axis Bank – accounted for 23.5%, 18.2% and 15.1% of total assets, respectively.

There also was a decisive shift in credit deployment in favour of the agricultural sector. The share of agricultural credit in total non-food credit rose sharply from 2% before nationalization to 9% in 1970-71 and close to 21% in the mid-1980s, before falling to 17% by the end of the 1980s. Small scale and other “priority sector” advances also rose, resulting in the increase in the share of priority sector advances in total credit from 22% in 1972 to as much as 45% at the end of 1980s. The share of small-scale units in total bank credit increased from 7% in June 1968 to 12% in June 1973, and thereafter was sustained in the range of 11 to 14% until the early 1990s. In summary, public ownership, the end of corporate control over banks and the turn to social control over banking resulted in dramatic progress in the direction of enhanced lending to productive sectors and to greater social inclusion.

The perspective that drove these changes in banking behaviour does not frame the government’s policy agenda anymore. With neo-liberal reform from the 1990s, the government’s stated (even if not realized) overall objective was transformed from one of advancing State-led development with redistribution to that of privileging and incentivizing private investment. This has influenced banking policy and the structure of banking. Not only is private presence in

the banking system increasing, but public banks are increasingly judged by their ability to maximize earnings and profit. However, despite these changes, the dominance of publicly owned banks is still a reality. This has meant that the public banking system continues to be used as a direct lever to implement the government's policy agenda. But with that agenda having changed, the role of public banks has changed as well.

THE COVID-19 CRISIS AND INDIA'S PUBLIC BANKS

This changed role for India's public banking is clearly evident in the Covid-19 induced crisis that is ongoing. Public banking was ostensibly given the major responsibility, with flexibility to significantly increase lending supported by central bank injection of liquidity, permission to offer temporary debt service moratoria, and freedom to reschedule debt on improved terms of stressed corporates. However, this shift of a part of the onus of responding to the pandemic onto the banks occurred in a context where public banks were already burdened with large non-performing assets, because they had been persuaded to lend to large, capital intensive infrastructure projects, which proved commercially unviable, leading to defaults. In addition, with the fiscal stimulus offered by the government to counter the severe demand compression precipitated by the Covid-19 crisis and the lockdown response to it, entities looking for credit were unlikely to be in a position to meet the debt service payments when they fell due.

In the second quarter of 2020, India's GDP contracted by 24%, which is much larger than in many other economies severely affected by the Covid-19 pandemic. Despite the central government's claims to the contrary, there is no evidence that a V-shaped recovery would follow. The economy is likely to remain steeped in recession over the financial year 2020-21 (April-March), and that recession is likely to last into the following year as well.

One reason for the severity of the setback is the government's regressive and wrong policy response. Overall, the *additional* fiscal stimulus provided by the central government amounted to around a meagre 1% of GDP. This has also meant that the income and employment support provided by the government to the mass of workers deprived of their jobs and livelihoods has been woefully inadequate, worsening the deprivation of already marginalized sections and pushing many more people into poverty. This has meant that the supply-side shock that resulted from the sudden halt in economic activity triggered by the pandemic and the lockdown response to it has been worsened by massive demand compression. These circumstances warranted resorting to a large fiscal stimulus that the government has not been willing to deliver.

This is because a feature of neoliberal macroeconomic policy is fiscal conservatism, manifested in a combination of lenient direct taxation, controlled fiscal deficits and caps on the public debt. This fiscal conservatism also leads to the privileging of monetary policy instruments (interest rate reduction and liquidity creation) over pro-active fiscal intervention as a means to revive a flagging economy. The dependence on such instruments increases as tax concessions to incentivize private investment limit revenue growth, which in turn, given the self-imposed limits on deficit financed spending, reins in the stimulus provided by the government's spending.

With its embracing of neoliberalism, the Indian government too had veered in favour of monetary instruments even before the Covid-19 shock. So, when the impact of the Covid-19 pandemic and responses to it on an economy already descending into a recession triggered a massive contraction in economic activity, the fiscal response was limited, as noted earlier. The focus of the 'stimulus' – if it could be called that – was a set of monetary policy measures. The government has chosen to let the central bank, with its monetary policy instruments, do the heavy lifting. This does give the public banking system a major role. What is that role and how effective has it been?

INDIA'S 'HEAVY LIFTING' – LIQUIDITY MEASURES TARGETED FOR RESCUE AND REVIVAL

The dominant component of the India rescue and revival package consisted of monetary measures involving a reduction in policy interest rates, injection of liquidity, easing of debt servicing terms and provision of guarantees for new debt provided to select sectors. Principally, public banks have been made the means of transmitting the effects of stimulus initiatives designed and implemented by the Reserve Bank of India, the country's central bank.

In the Reserve Bank of India's own words, its intervention began in March in order to “unfreeze financial market activity and revitalise financial institutions to function normally in the face of Covid-19 related dislocations” (Reserve Bank of India 2020, 101). Besides a series of policy rate or repo rate cuts, measures were adopted to inject cheap liquidity into the system. Swap auctions and open market operations to purchase securities were undertaken. The ability of commercial banks to lend was extended by reducing the cash reserve ratio (CRR) by 100 basis points – from 4% of net demand and time liabilities (NDTL) to 3% – effective March 28, 2020, for a period of one year, releasing liquidity amounting to INR 1.4 trillion (around US\$18 billion) into the market or 1.4% of total outstanding stock of non-food credit advanced by commercial banks. The limit on overnight borrowing by banks under the Marginal Standing Facility was also raised by 100 basis points from 2% of NDTL to 3%.

The central bank also adopted initiatives to push bank credit to specific categories of borrowers. Targeted Long-Term Repo Operation (TLTRO) auctions of three years' maturity totalling INR 1 trillion were held in March and April. To encourage credit flow and ease liquidity pressures, the RBI decided to conduct an initial round of TLTRO auctions that banks could avail of to obtain money at reasonable rates to invest in investment grade bonds, commercial paper and non-convertible debentures of corporates. In a second round, resources were

released for investment in paper sold by non-bank financial companies (NBFCs), which were facing difficulty in rolling over funds mobilized by issuing short maturity instruments and used for long-term lending. By design, at least 50% of the liquidity accessed through this auction was required to be directed to small- and mid-sized NBFCs and microfinance institutions (MFIs). The central bank also instituted a special liquidity facility for mutual funds of INR 500 billion in April to address the severe liquidity pressures faced by them in the aftermath of the closure of a set of six funds investing in debt securities operated by mutual fund major Franklin Templeton.

The central bank's initiatives were directed not only at the corporate and financial sectors, but at other sections of the economy too, such as agriculture, small industry and housing. To support them, special refinance facilities totalling INR 500 billion at the policy repo rate were established. (The repo rate too has been reduced by 1.15 percentage points since March 2020, to 4%, which is its lowest level since 2000). Of the refinance facilities, INR 250 billion was allocated to the National Bank for Agriculture and Rural Development (NABARD) to support lending by regional rural banks, cooperative banks and microfinance institutions. The Small Industries Development Bank of India (SIDBI) was allocated INR 150 billion, and the National Housing Bank (NHB) was provided INR 100 billion to support housing finance companies. While these still existing development banking institutions have been called upon to play a supplementary role, others like the Exim Bank of India have had to be supported. With foreign trade adversely affected by the onset of the pandemic, the Exim bank was unable to mobilize resources through foreign currency borrowing to sustain its operations. In May, the Reserve Bank of India extended a INR 150 billion line of credit available for 90 days and extendable for up to a year, so that the institution could mobilize dollar funding by entering into swap agreements.

In all of these initiatives, commercial banks were expected to mediate the stimulus by using the increased liquidity to provide

credit and transmit lowered interest rates to the final borrower. Interestingly, this use of commercial banks as intermediaries in the rescue and revival effort has been used by the government as well. Even before the Covid-19 pandemic, in the budget for 2019-20, the Finance Minister had announced a partial credit guarantee scheme (PCGS) to support non-bank financial companies (NBFCs) that were seen as facing a liquidity squeeze. To encourage credit flow to the sector, the purchase by *public sector banks* of highly-rated pooled assets of financially sound NBFCs up to a total amount of INR 1 trillion over the financial year was supported with a one-time guarantee to cover first loss of up to 10% of the pool. In December 2019, that guarantee was extended to low-rated NBFCs as well.

Post-Covid, in May this year, this scheme was restructured and extended, with a one-time partial credit guarantee of up to 20% of the pool (or double the earlier limit) for purchases totalling INR 450 billion by public sector banks of low-rated instruments (including unrated paper of maturity up to one year) issued by non-bank lenders. This guarantee is valid for 24 months and the scheme is to be in place till March 2021.

In addition to this partial credit guarantee scheme, in May 2020, the government announced an Emergency Credit Line Guarantee Scheme (ECLGS) under which a Guaranteed Emergency Credit Line (GECL) was to be provided to micro-, small- and medium-sized enterprise (MSME) borrowers, with a turnover of up to INR 1 billion, *holding outstanding credit of up to INR 250 million* from banks, financial institutions and NBFCs. Any past dues on the credit outstanding had to be of a duration less than or equal to 60 days as of February 20 for the unit to be eligible for a GECL. If these criteria were met, the unit could apply for an additional credit line without collateral equal to 20% of its past borrowing. The lender is given the benefit of a 100 credit guarantee from the government's National Credit Guarantee Trustee Company. Loans under the scheme have a tenure of four years with a debt service moratorium of one year on the principal amount. The total credit that can be provided under

the scheme was set at INR 3 trillion and the government promised to set aside a corpus of INR 416 billion over four financial years to fund the scheme.

This combination of schemes, besides sundry others not listed here, defined the rescue and revival package resting on credit from the financial sector, mainly public sector banks, that was pushed by monetary policy initiatives and government guarantees. With the additional fiscal stimulus placed at around 1% of GDP being grossly inadequate, this was the dominant element in the overall economic package designed as a response to the Covid-19 pandemic's effects in India. While elsewhere in the world the Covid-induced crisis had led to a rethink of the adherence to so-called 'fiscal prudence', India has largely continued with the embrace of monetary measures as a substitute for much-needed fiscal activism.

BANKING RISK AFTER THE DILUTION OF DEVELOPMENT BANKING

An aspect of this monetary stimulus based on liquidity injection to provide relief from the sudden shock to the economy caused by coronavirus needs highlighting. Barring a small portion of the credit flow the liquidity infusion was expected to generate, which was partially or fully guaranteed by the government, the risk associated with providing that credit is to be carried by the banks, particularly public sector banks. This burden of increased risk was being placed on these banks at a time when the economic contraction is expected to result in large-scale debt default, if not outright bankruptcies. To reduce the intensity of such defaults, the central bank has allowed banks to offer a temporary moratorium on debt service payments until December 2020 and provided for a one-time debt restructuring scheme. The idea was partly to prevent bunched defaults requiring large loan loss provisions from eroding the capital and solvency of banks. It was in a period like this that the public banks were being required to take on additional risk.

This should not be a surprise. The transfer of the burden of risk associated with addressing a crisis from the treasury and the central bank to the public banking system is also a feature of neo-liberal macro policy. A major change brought about by neoliberal reform was the dismantling of the specialized development banking infrastructure India had built since Independence. In that immediate aftermath of Independence, the turn to and emphasis on development banking was explained by two features characterizing the Indian economy at that point in time: the inadequate accumulation of own capital in the hand of indigenous industrialists; and the absence of a market for long-term finance (such as bond or active equity markets), which firms could access to part finance capital-intensive industrial investment.

Post-independence policy perceived that banks per se could not close the gap for long-term finance, because there are limits to which banks could be called upon to take on the responsibility of financing such investments. Banks attract deposits from many small and medium (besides, of course, large) depositors, who have relatively short savings horizons, would prefer to abjure income and capital risk, and expect their savings to be relatively liquid, so that they can be easily drawn as cash. Lending to industrial investors making lumpy investments, on the other hand, requires allocating large sums to single borrowers, with the loans being risky and substantially illiquid. Getting banks to be prime lenders for industrial (and infrastructure) investment, therefore, results in significant maturity, liquidity and risk mismatches, limiting the role that banks can play in financing long-term productive investment. Other sources need to be found.

This was the gap that the state-created or promoted development-banking infrastructure sought to close. That infrastructure was created over a relatively long period of time and was populated with multiple institutions, often with very different mandates. Funds for the development banks came from multiple sources other than the 'open market': the government's budget, the surpluses of

the Reserve Bank of India and bonds subscribed by other financial institutions. Given the reliance on government sources and the implicit sovereign guarantee that the bonds issued by these institutions carried, the cost of capital was relatively low, facilitating relatively lower cost lending for long-term purposes. Therefore, until the 1990s, India was an exemplary instance of the use of development banking as an instrument of late industrialization.

Other countries, such as Brazil with its development banking behemoth BNDES, followed a similar trajectory. However, they continued to rely on these institutions even after adopting measures of financial liberalization. In fact, in China, the China Development Bank was a post-reform creation and a major player in the long-term financing market. The Indian government, however, chose to dismantle its development banking infrastructure as part of liberalization. In India, the all India development finance institutions, which with budgetary and central bank support and implicit sovereign guarantees were seen as distorting the playing field for commercial banks, were abolished. Some were allowed to atrophy whereas others like the IDBI and the ICICI were allowed to establish commercial banking arms (IDBI Bank and ICICI Bank), with which the parent development banking institutions were 'reversed merged'. However, the need for long-term funds, especially for private investment or public-private partnership projects in infrastructure, remained. In fact, the need for funding had increased because fiscal conservatism had resulted in reduced budgetary allocation for investments in these areas. The result was that the government had to get the public banks to provide the long-term financing needed for investments in these capital-intensive projects.

The share of infrastructure lending in the total advances of SCBs to the industrial sector rose sharply, from less than 2% at the end of March 1998 to 16% at the end of March 2004 and as much as 35% at the end of March 2015. So even as the volume of bank lending to industry rose, the importance of lending to infrastructure within industry has increased hugely. Sectors like steel, power, roads and

ports, and telecommunications were the most important beneficiaries. For commercial banks, which are known to prefer lending for short-term purposes, this turn to lending to infrastructure was a high-risk strategy. Unfortunately, with the pattern of growth under liberalization and the deceleration of the rate of growth in recent years, many of these projects have proved unviable, leading to debt defaults. The result has been a sharp spike in the ratio of non-performing assets (NPAs) to gross advances recorded in the books of the banks, especially the public banks. Government support, in the form of recapitalization funds, to deal with this problem has been far from adequate. This has made banks cautious and forced them hold back on lending to all but the best projects. It was in these circumstances that the new burdens associated with the post-Covid stimulus were placed on the public banks.

PUBLIC BANKS CANNOT DO THE HEAVY LIFTING ALONE

For this reason and because the crisis is not on account of absence of credit but of absent demand, the monetary stimulus is proving ineffective. Six months down the line, it is clear that the assumption that the recovery could be driven from the supply side with cheap credit and inducements to lend (in the form of selective partial or full guarantees) was wrong, rendering the dominant aspect of the stimulus weak and ineffective. Even the presumption that infusion of liquidity would automatically result in increased credit supply and offtake has not been realized. Credit growth has not picked up because of the reticence of banks, already burdened with NPAs, to lend, in the absence – in the view of the banks – of sufficient demand for credit. In the period between April 1 and August 14, 2020, when all of the post-Covid monetary initiatives were implemented, credit outstanding had fallen by 1.5%. Over the year ending August 14, 2020, bank credit grew by 5.5%, as compared to 11.7% over the year ending mid-August 2019.

Besides failing to substantially increase credit disbursements as a 'means' to trigger a recovery, the supply side measures were also far less successful in getting banks to support the most stressed sectors experiencing liquidity shortages. This comes through from the relative success of the different TLTRO rounds that targeted different sectors. The most successful was TLTRO round one, in which liquidity was injected to encourage investment of the capital borrowed at the relatively low repo rate in investment grade corporate bonds, commercial paper and non-convertible debentures. Much of this money was picked up by large corporates like Reliance, India's largest business conglomerate, and engineering and construction major L&T looking to benefit from the low interest rate on borrowing supported by the scheme. According to reports, in the first round of TLTRO auctions, 27 corporates raised INR 266 billion against commercial paper and 18 raised INR 253 billion against medium- and long-term bonds (Gopakumar and Upadhyay 2020).

As compared to this, TLTRO 2.0, directed at stressed NBFCs and MFIs, received a tepid response. On offer in the initial auction under this scheme was a total of INR 250 billion for three years at the repo rate of 4.4%. The RBI received bids for only INR 128.5 billion, which is just above 50% of the offered sum. While some of this capital had to be used to buy low-rated paper issued by smaller NBFCs and MFIs, the cost of that credit was reportedly significantly higher for these entities than for the larger firms with AAA ratings. This obviously increases the probability of default, especially since revenues and surpluses of these firms have shrunk or disappeared as a result of the Covid-19 shock. With public banks already sitting on large NPAs, their reticence to lend, even when offered access to cheap capital was therefore understandable.

Increased lending through the GECL window of the ECLG Scheme to MSMEs has also been tardy. Announced on May 20, the scheme was to provide credit totalling INR 3 trillion to creditworthy MSMEs, backed with a full guarantee from the government. Close to three months later, as of August 18, public and private sector banks

had sanctioned loans of just over INR 1.5 trillion, or 50% of the provision. Disbursements by them were much lower at around INR 1 trillion. Since this was a scheme that was open to private banks to participate and since there was a full government guarantee, private banks too played a role – accounting for almost half the sanctioned loans. However, here again banks blame limited demand for credit as the explanation for indifferent performance. The slow offtake possibly explains the fact that, at the beginning of August, the government widened the scope of the scheme making units with outstanding loans of up to INR 500 million (as opposed to the earlier INR 250 million) eligible for credit. As a result, the number of eligible borrowers rose significantly and the maximum guaranteed credit that could be provided to a single borrower, set at 20% of that borrower's debt outstanding, increased from INR 50 million to INR 100 million. In addition, individual loans given to professionals like doctors, lawyers and chartered accountants for business purposes were also included in the scheme. This was clearly an effort to increase offtake of credit through the scheme, which was sluggish possibly because demand for credit in the midst of the crisis from smaller borrowers is low and the scheme is open only to entities with outstanding loans that had not defaulted on past borrowing.

CONCLUSION

The message is clear. In the midst of a crisis and with no prospect of an immediate recovery, many firms would either fall in the category of those ineligible for additional credit by virtue of being considered uncreditworthy or would be reticent to take on debt given the uncertainty about their capacity to service that debt. In such circumstances, making credit the instrument to drive the recovery does not make sense, unless demand can be raised through autonomous spending of some kind. Such spending can only be undertaken by the government through its fiscal policy. The ineffectiveness

of the many monetary policy initiatives of the RBI to impart any buoyancy to the system only corroborates that perception. Meanwhile, however, public banks are faced with the prospect of a further rise in their non-performing assets. This would strengthen the case of those arguing that the government in India does not have the resources to recapitalize these banks and they must resort to equity sale to private investors to mobilize resources to meet capital adequacy norms. That would, in most cases, require the dilution of the government's stake to a degree that spells the end of a dominantly public banking system.

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