GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 52
TO BE ANSWERED ON TUESDAY, THE 2nd FEBRUARY, 2021
(MAGHA 13, 1942 (SAKA)

DISCONNECT BETWEEN FINANCIAL MARKETS AND REAL ECONOMY

52. SHRI SANJAY RAUT:

Will the Minister of FINANCE be pleased to state:

(a) whether RBI has raised concern over the impact of the increasing sovereign debt and the growing disconnect between the financial markets and the real economy;

(b) if so, the details thereof and Government's response thereto;

(c) whether it is a fact that bad loans / NPA's of the banking sector are expected to shoot upto 13.5 percent before September, 2021; and

(d) if so, the details thereof and Government's reaction thereon?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a)The RBI in the ‘Financial Stability Report’ (FSR) released in January 2021 has in Para numbers 1.23, 1.26 and 1.60 commented on impact of sovereign debt. Para Numbers 1.2 and 1.61 of the same report contain remarks on the disconnect between the financial markets and the real economy.

(b)The details are at Annexure A. Government is committed to prudential debt management as envisaged in the preamble of the Fiscal Responsibility and Budget Management Act, 2003.

(c) & (d) Para 2.14 of the Financial Stability Report (FSR) is on bad loans and NPAs of the banking sector. The details are at Annexure B. In RE 2020-21, Government has provisioned an amount of ₹20,000 crore in FY 2019-20 towards recapitalisation of Public Sector Banks to infuse capital into the portfolio.

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Annexure A

The extracts from ‘Financial Stability Report’ (FSR) released by RBI in January 2021 are as follows:

i)Para 1.23: “Government finances are likely to deteriorate in 2020-21, with revenues badly hit by COVID-19 related disruptions even as expenditure pressure remains high on account of the fiscal stimulus.”
ii)Para 1.26: “The large gap between receipts and expenditure has been met primarily through additional market borrowings, as reflected in the revised borrowing calendar announced by the Centre and higher market borrowing limits given to states. Pressures from the spillover of increased government borrowings to the bond markets have so far been contained by the liquidity support measures of the Reserve Bank, besides increase in the limits of ways and means advances, as also relaxation of rules governing withdrawals from the Consolidated Sinking Fund (CSF) to ease the redemption pressure on states.”
iii)Para 1.60: “The adverse impact on government revenue and the resultant increase in sovereign borrowing in a period when fiscal authorities are also required to provide stimulus to economic growth, is increasing sovereign debt to levels that have intensified concerns relating to sustainability with crowding out fears in respect of the private sector in terms of both volume of financing and costs thereof.”
iv)Para 1.2: “Support measures may have unintended consequences as reflected, for instance, in the soaring equity valuations disconnected from economic performance. These deviations from fundamentals, if they persist, pose risks to financial stability, especially if recovery is delayed.”
v)Para 1.61: “The growing disconnect between certain segments of financial markets and real sector activity, pointed out in the last FSR, has got further accentuated during the interregnum, with abundant liquidity spurring a reach for returns. Within the financial market spectrum too, the divergence in expectations in the equity market and in the debt market has grown, both globally and in India.”

Annexure B

Para 2.14 of the Financial Stability Report (FSR) – January 2021 states that:

“The stress tests indicate that the GNPA ratio of all SCBs may increase from 7.5 per cent in September 2020 to 13.5 per cent by September 2021 under the baseline scenario.”

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