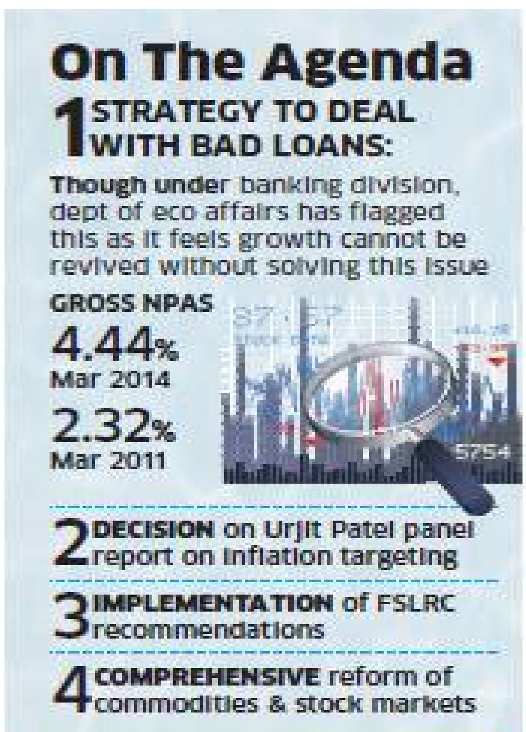
Finance Ministry set to present reform agenda to the new government

The finance ministry has drawn up a blockbuster reform agenda for the new government aimed at freeing up the financial sector and engineering a revival that will put the country back on a high-growth trajectory. The plan will be presented to the new government and includes a new monetary policy framework, a revamp of the stock and commodities markets, a concerted plan to slash state-run banks' bad debts and implementation of recommendations made by the Financial Sector Legislative Reforms Commission (FSLRC).

"Financial sector agenda is huge... There are key issues on which political go-ahead is required," said an official privy to the financial sector road map lined up for the new regime. The department of economic affairs will present a plan for the resolution of non-performing assets (NPAs) to free up banks to push growth, something the ministry feels is not possible with the lenders weighed down by bad loans.

Gross NPAs of state-run banks rose to 4.44% of advances at the end of March from 2.32% in the year ago. The ministry feels recovery efforts will not make much progress unless banks' books are cleaned up and some innovative ideas are in the works to achieve this.



The recapitalisation of banks and an effective strategy to deal with NPAs, which have risen after the global financial crisis, are on top of the finance ministry's plans for high growth. The economy has slumped to two years of below-5% growth, which compares with a pace of about 9% five years ago. Delays in project clearances in the past few years contributed to the rise in NPAs, particularly in the infrastructure sector, and a holistic, non-disruptive plan has been drawn up to resolve the situation.

The report of a Reserve Bank of India panel led by Deputy Governor Urjit Patel has already outlined inflation-targeting as part of the monetary policy framework. It suggested that the central bank target 4% consumer inflation in three years within a 2% band. While consumer price inflation stood at 8.59% in April, the possibility of a weak monsoon could put further pressure on prices.

But tighter policy could be a politically tough call for the new government, which is keen not just to rein in inflation but also to lift growth from its decadal lows. Moreover, industry and the large Indian middle class are also eyeing some respite from high interest rates.

"The new government will have to take a call on this," said the official cited above, adding that a bold move would signal a determined start to the next generation of financial sector reforms. The BN Srikrishna-headed FSLRC had suggested a uniform Indian Financial Code. The panel backed limiting RBI's role to regulating banking operations, monetary policy management, payment systems, consumer protection and micro-prudential management as part of banking supervision. If the new government decides to go ahead with the commission's suggestions, Reserve Bank will no longer manage government debt and will have a narrower span of regulation.

Experts said the FSLRC recommendations provide a blueprint for the next generation of reforms. A revamp of commodities and stock markets to deepen them and usher in global best practices is an imperative, said the official cited above.

Commodities futures markets should be able to support price discovery of various commodities in view of the country's large farm sector. "An effective forwards market will ensure an efficient price discovery mechanism and a risk mitigation platform for farmers," said another government official. A high-level expert panel headed by senior economic advisor in the finance ministry DS Kolamkar has pitched for allowing banks, financial institutions and foreign firms to participate in commodity futures trading to deepen domestic markets.

Getting the economy growth back on track is one of the key poll promises of the Narendra Modi led-NDA government that takes over today. The finance ministry feels the measures can be a starting point for the next finance minister and the prime minster.

(Economic Times)