# India, U.S. eye states to boost trade ties

Taking off:The proposed engagement mechanism is aimed at boosting bilateral trade and investment.

India and the U.S. are working on establishing a state-level engagement mechanism to widen and deepen bilateral trade and investment ties. Towards this objective, the U.S.-India Business Council (USIBC), will unveil within a fortnight a ‘State Engagement Task force’ (SET) to ensure American and Indian companies align their interests with the priorities of the State governments of both the countries.

The move comes as India and the U.S. are set to carry out a comprehensive review of bilateral trade ties. In that exercise, priority sectors will be defence and energy. While the focus in defence would include Lockheed Martin’s proposal to make F-16 fighter jets in India and the proposed sale of General Atomics Aeronautical Systems Inc. or GA-ASI’s ‘Guardian Remotely Piloted Aircraft’ to India, energy ties would cover exports of U.S. natural gas, transfer of U.S. technology on oil and gas refining, as well as the conclusion of pacts between Nuclear Power Corp. and Westinghouse Electric for six nuclear reactors in India and related project financing. Other priority areas would be smart cities (including Ajmer, Allahabad and Visakhapatnam), regional airport development in India through public private partnership, e-commerce , digital payments and medical devices.

On SET, USIBC acting president Khush Choksy told *The Hindu* nominations had been sought from USIBC members. As part of the proposed SET, preliminary discussions had been held on skill development and entrepreneurship promotion in Nagaland, he said, adding that there had also been talks on infrastructure development and job-creating activities in eastern/north-eastern India. Similar discussions would soon be held with the U.S. State governments to identify their priorities.

**China way ahead**

According to the American Enterprise Institute, China was the ‘top import country’ for 23 U.S. States in 2016, followed by Canada (14). India was neither a ‘top import country’ nor a ‘top export country’ for any U.S. State.

Industry inputs for four separate engagement channels — the comprehensive review of trade ties, forthcoming trade policy forum and the bilateral ‘commercial dialogue’ as well as the Global Entrepreneurship Summit in November — would be provided during the Global Entrepreneurship Conclave (GEC) being organised by the USIBC next month. Top government officials from India and the U.S. are likely to participate in the GEC, Mr. Choksy said.

Issues like the U.S. concern over its trade deficit and India’s worries on U.S. visa ‘curbs’ would fall into a proper context once the two countries explore ways to solve the ‘larger puzzle’ of increasing bilateral goods and services trade to $500 billion, from $115 billion in 2016, Mr. Choksy said.

“The USIBC wants a win-win outcome for businesses on both the sides. We are supportive of free movement of goods and services.”

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# After demonetisation

Has demonetisation achieved its original objectives? On November 8, 2016, these were tackling corruption, counterfeit currency, and terror funding. Thereafter the Prime Minister added reducing dependence on cash.

Now that we know that **99% of demonetised money has come back**, the government's estimates of how much **black money** would be extinguished have been proven horribly wrong. The Attorney General told the Supreme Court that he expected 4-5 lakh crore to be "neutralised". Then, a Finance Ministry official told reporters that 3 lakh crore would not return. In the end, just 16,000 crore didn't come back.

No fresh window to return demonetised notes: Finance Ministry

This means previously unbanked money has now been credited to bank accounts. As they yield returns, it will be taxed and that's a clear gain. If large proportions are proven to be black, revenues will increase substantially.

The critical question is, how much of the money can the authorities establish is black? In his Budget speech, Finance Minister Arun Jaitley revealed that 4.9 lakh crore had been deposited in 1,48,000 bank accounts of a minimum value of 80 lakh, each amounting to an average deposit of 3.31 crore. At the time, Business Standard Chairman T. N. Ninan, wrote: "It's all but certain... this is black money unearthed by notebandi." On Wednesday, the Finance Ministry said 18 lakh accounts are under "scrutiny" and "Advance Data Analytics Tools" have identified a further 5.56 lakh. This is a huge number for the Central Board of Direct Taxes to scrutinise given that it only investigates 3 lakh accounts annually.

On the assumption that most black money is detected, the economist Surjit Bhalla has calculated the additional revenue in the first year as 2.5 lakh crore with a further 1.5 lakh annually in perpetuity. If that happens, it's a huge gain, but 'if' is the operative word. For now, all we can say is some black money will be identified and taxed but what proportion that is of the total and what the gain will be is unknown.

Diary of an unusual year: Urjit Patel's continued silence on demonetisation

However, the objective of reducing counterfeit currency seems unachieved. In 2015, the National Investigation Agency established that at any point only 400 crore of counterfeit currency is in circulation. That's 0.028% of total currency. Now, CNBC has calculated only 0.0007% of the returned 1,000 notes as being fake and only 0.002% of the 500 notes. In value terms the total is just 41 crore. So either a lot of fake currency hasn't been detected or didn't exist.

In terms of tackling terror funding, the Finance Ministry has said: "As a result of demonetisation of specified bank notes, terrorist and Naxalite financing stopped almost entirely." If true, this is a huge success, but no proof has been provided.

Finally, have we reduced dependence on cash? Both in number and value, digital transactions increased sharply after November but also dipped sizeably thereafter. There were 671.49 million transactions in November, rising to 957.50 million in December before shrinking to 862.38 million in July. In value terms, it was 94 lakh crore in November, 149 lakh crore in March, and 107 lakh crore in July. So, the use of cash initially diminished but has been steadily increasing thereafter.

This is a mixed picture. There's enough for the government to claim success, but also grounds for the Opposition to be dismissive. Clearly, the demonetisation controversy continues.

*Karan Thapar is a broadcast journalist*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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## Decisive First Step towards Simplified Labour Laws: The Code on Wages, 2017 placed before Parliament

***Deepak Razdan**

The Government took a decisive step towards simplifying and amalgamating the vast mass of labour laws when it presented before the nation The Code on Wages, 2017, a Bill which combines features and provisions of four existing labour laws pertaining to wages. The Bill was introduced in the Lok Sabha during the Monsoon Session of Parliament on 10th August, 2017. Intended to bring relief to both employers and employees, the Code amalgamates, simplifies and rationalises the relevant provisions of the four Central labour enactments, namely the Payment of Wages Act, 1936; the Minimum Wages Act, 1948; the Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976. The four Acts will stand repealed with the passage of the Bill. Facilitating easier compliance of the law, the Code will ultimately create conditions for setting up of more enterprises and fresh employment opportunities.

The Statement of Objects of the Bill said the amalgamation of the laws would facilitate their implementation and remove the multiplicity of definitions and authorities, without compromising on the basic concepts of welfare and benefits to workers. The proposed legislation would bring the use of technology in its enforcement and thereby bring transparency and accountability for effective enforcement of the law. Widening the scope of minimum wages to all workers would be a big step for equity.

The Bill provides for all essential elements relating to wages -- equal remuneration, its payment, and bonus. The provisions relating to wages shall be applicable to all employments covering both organised as well as un-organised sectors and the power to fix minimum wages continues to be vested in the Central as well as State Governments, in their respective spheres. There are clear definitions of employer, employee, worker, minimum wage and wages.

The Code will enable the appropriate Government to determine the factors by which the minimum wages shall be fixed for different categories of employees. The factors shall be determined taking into account the skills required, the arduousness of the work assigned, geographical location of the workplace and other aspects which the appropriate Government considers necessary.

Provisions relating to timely payment of wages and authorised deductions from wages, which are at present applicable only in respect of employees drawing wages up to Rs 18,000 per month, shall be made applicable to all employees irrespective of wage ceiling. The appropriate Government may extend the coverage of

such provisions to Government establishments also.

Ensuring that there is no discrimination on the basis of gender in the payment of wages, the Bill incorporates in its first chapter itself provisions for “Equal Remuneration” in Section 3, which says “There shall be no discrimination among employees on the ground of gender in matters relating to wages by the same employer, in respect of the same work or work of similar nature done by any employee.”

No employer shall pay to any employee wages less than the minimum rate of wages notified by the appropriate Government for the area, establishment or work as may be specified in a notification. While fixing minimum wages in respect of any employment for the first time under the Code, the appropriate Government, which can be Central or State Government, will appoint a committee comprising representatives of employers, employees and independent members, to go into all issues and make recommendations. This would ensure justice to all stakeholders. “The appropriate Government shall review or revise minimum rates of wages at an interval of five years,” says the chapter on minimum wages.

Under the Bill, the Central Government will have the power to fix a national minimum wage, with a provision that there can be different national minimum wage rates for different States or geographical areas. State Governments will not fix any rate lower than the national rate. If any State Government earlier fixed a rate higher than the national rate, it will not reduce its wage rate. The Central Government before fixing a national minimum wage rate will take the advice of a Central Advisory Board. There is provision for payment of overtime work done.

Under its payment of wages provisions, the Code says “all wages shall be paid in current coin or currency notes or by cheque or through digital or electronic mode or by crediting the wages in the bank account of the employee.” Wage payments can be made daily, weekly, fortnightly or monthly and the Bill has fixed time-limits for the payments.

The provisions on payment of bonus say that the bonus has to be paid even to employees who have put in only one month of service. Section 26 says this payment will be “an annual minimum bonus calculated at the rate of eight and one third per cent of the wages earned by the employee or one hundred rupees, whichever is higher, whether or not the employer has any allocable surplus during the previous accounting year.”

The bonus payment will increase proportionately, if the allocable surplus in any accounting year is higher, subject to a maximum of 20 per cent of the wages, the Section says. The available surplus for any accounting year will be gross profits for the year, after permissible deductions including direct tax on income, profits and gains for the year. The allocable surplus will be 60 per cent of the available surplus for banks and 67 per cent for other establishments.

As per Section 39, all amounts payable to an employee by way of bonus under this Code shall be paid by crediting it in the bank account of the employees by his employer within eight months from the close of the accounting year. An employer can get extension of time, but this shall not exceed, “in any case,” two years.

Doing away with inspector-raj, the Code provides for Facilitators who will help employers and employees in the proper execution of the law. The Facilitators can be appointed by the Central or State Governments and given powers throughout the States or such geographical areas assigned to them.

Section 51 of the Code says the Facilitator may within the limits of his jurisdiction, (a) supply information and advice to employers and workers concerning the most effective means of complying with the provisions of this Code; (b) inspect the establishment based on an inspection scheme. The inspection scheme, given by the Government, will provide for generation of a web-based inspection schedule.

The Facilitators can examine workers, “search, seize and take copies of such register, record of wages or notices or portions thereof as the Facilitator may consider relevant in respect of an offence under this Code and which the Facilitator has reason to believe has been committed by the employer,” Section 51 says. The Facilitators will be empowered under IPC and CrPC for their work.

Complaints for offences under the Code can be made by the Facilitator, employees, registered Trade Unions, or the Government. The Code has spelt out elaborate penalties for the offences. If an employer pays to his employee less than the amount due to him under the Code, he shall be punishable with fine which can go up to Rs 50,000. A repeat offence within five years can mean imprisonment extending up to three months, and fine up to Rs 1 lakh, or both.

Contravention of the Code or a rule made thereunder can mean a fine up to Rs 20,000, and a repeat offence within five years can mean imprisonment up to one month, or fine up to Rs 40,000, or both. A Facilitator can give time and opportunity to employer to comply with the Code, and may not initiate prosecution if there is compliance.

Clause 55 of the Bill provides for composition of offences. Only the offences for which there is no punishment with imprisonment shall be compounded. The compounding money shall be a sum of fifty per cent of the maximum fine. There is no compounding for a similar offence compounded earlier or for commission of which conviction was made, committed for the second time or thereafter within a period of five years.

Under various other Sections, the interests of employees are protected by the Code. The burden of proof that the due payment has been made, and without any unjustified deductions, will lie with the employer.

The Code on Wages, 2017 is the first of the four Codes proposed by the Government to give further boost to ease of doing business. The three other Codes will cover Industrial Relations; Social Security & Welfare; and Safety and Working Conditions. While they will bring about a long-awaited clarity in labour legislation, and minimize its multiplicity, their ultimate benefit will help working class know its rights and responsibilities, and look forward to larger employment opportunities.

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**Deepak Razdan, is a senior journalist and is at present Editorial Consultant, The Statesman, New Delhi.*

*Views expressed in the article are author's personal.*

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# Financial Inclusion in Rising India

***Arjun Ram Meghwal**



"***I dream of a digital India where mobile & e-banking ensures Financial Inclusion"***

*Prime Minister Shri Narendra Modi*

**"Financial Inclusion"** is the way the Governments strive to take the common man along by bringing them into the formal channel of economy thereby ensuring that even the person standing in the last is not left out from the benefits of the economic growth and is added in the mainstream economy thereby encouraging the poor person to save, safely invest in various financial products and to borrow from the formal channel when he need to borrow.

Lack of financial inclusion is costly to society and the individual. As far as the individual is concerned, lack of financial inclusion forces the unbanked into informal banking sectors where interest rates are higher and the amount of available funds much smaller. Because the informal banking structure is outside any legislative framework, any dispute between lenders and borrowers cannot be settled legally. **As far as the social benefits are concerned, financial inclusion increases the amount of available savings, increases efficiency of financial intermediation, and allows for tapping new business opportunities.**

State sponsored universal banking has therefore contributed to greater economic diversification in rural areas than is the case in more competitive banking environments. **With structural adjustment programs being introduced in the 1980s and 1990s, financial market reforms swept over many developing countries.** At the beginning of 20$^{th}$ century, India had insurance companies (both life and general) and a functional stock exchange

Scope of the financial inclusion is not limited to only banking services but it extends to other financial services as well like insurance, equity products & pension products etc. Thus, financial inclusion is not just about opening a simple bank account with a branch in an unbanked area.

Adding the common man into the mainstream economy has other advantages as well as *on the one hand* it helps inculcate the vulnerable section of the society to save money for its future and the rainy days, take benefits of the economic activities of the country by participating in various financial products like, banking services, insurance & pension products etc., *on the other hand,* it helps the country to increase the rate of 'capital formation' which in turn, give a push to the economic activities in the economy by channelizing the money from every nook & corner of the country.

In the absence of people of a country financially included in the mainstream, they often tend to park their savings/ invest in the non-productive assets like land, buildings & bullion etc. While, financially included people can easily avail the credit facilities, whether they are sitting in the organised or unorganised sector, urban or rural sector. *Micro Finance Institutions (MFIs)* are the classic examples for providing easy & affordable credit to poor people and have got written innumerable success stories.

This phenomenon of financial inclusion also helps government plug gaps & leakages in public subsidies & welfare programmes as government can directly transfer the subsidy amount into the account of the beneficiary rather than to subsidise the product. In fact, the Government has even saved by around more than Rs. 57,000 crores in its subsidy bill and has ensured that the benefit of the subsidy reaches to the real beneficiary directly to him/her.

The NDA government led by Prime Minister Sh.Narendra Modi made itself committed, since beginning of its term, to give special emphasis on the financial inclusion of every person of the country. One of the most crucial of the several steps taken by this government is JAM- Jan Dhan, Aadhar & Mobile.

***Jan Dhan Yojna*** - with a view to increase the penetration of banking services and to ensure that all households have at least one bank account, a National Mission on Financial Inclusion named as ***Pradhan Mantri Jan Dhan Yojna*** was announced by Prime Minister Sh. Narendra Modi in his independence speech on 15$^{th}$ August, 2014 & the scheme was formally launched on 28$^{th}$ August, 2014. Within a fortnight of its launch, the scheme entered into the Guinness Book of records for opening a record number of bank accounts. Large scale achievement was made by opening 29.48 crores accounts by Mid-August, 2017 out of which 17.61 crores accounts were in rural/semi-urban areas and the rest 11.87 crores in urban areas.

The additional benefits on opening an account under Jan Dhan Scheme is the customer is issued a RuPay Debit Card having inbuilt insurance cover of Rs 1 Lakh. Besides, an overdraft (OD) facility of Rs 5,000/- is granted to the customer for satisfactory operation of account for 6 months. A life cover of Rs 30,000/- has also been granted to customers for opening the accounts up to a certain time period. The scheme has been a great success and the 99.99% households out of the 21.22 crores households surveyed have been covered under this scheme by December, 2016. More than 44 lakh accounts have been sanctioned OD facility of which more than 23 lakh account holders have availed the facility involving an amount around 300 crores.

***Insurance & Pension schemes*** – In order to provide social security system for all citizens and especially to the poor and under-privileged people, the present government launched *Pradhan Mantri Suraksha Bima Yojna* and *Pradhan Mantri Jeevan Jyoti Bima Yojna.*

The former scheme i.e., ***Pradhan Mantri Suraksha Bima Yojna (PMSBY)*** covers the persons within the age slab of 18 to 70 years and a risk coverage of Rs 2 lakhs is provided at an affordable premium of Rs 12 per annum only. As per the date 12th April, 2017, around 10 crore people were enrolled under Pradhan Mantri Suraksha BimaYojana (PMSBY).The later scheme, i.e., ***Pradhan Mantri Jeevan Jyoti Bima Yojna*** covers the persons within an age slab of 18 to 50 years having a bank account. The life cover of Rs 2 lakhs is provided to the insured payable in case of death of the insured due to any reason. As on $12^{th}$ April 2017 3.10 cr person were enrolled under PMJJBY.

***Atal Pension Yojna*** – A scheme launched in 2015 is open to all bank account holders in the age group of 18 to 40 years and they can choose different contributions based on the pension amount. Under this scheme monthly pension is guaranteed to the subscriber and after him to his spouse and after their death, pension corpus as accumulated till the age of 60 years is returned to the nominee of subscriber. Central Government also contributes 50% of the contribution subject to a maximum of Rs 1000 per annum. As on $31^{st}$ March 2017 a total of 46.80 lakh subscribers have been enrolled from Atal Pension yojana with a total pension worth of Rs1713.214cr.

**Varishita Pension Bima Yojana**: All those who subscribe to the VPBY from $15^{th}$ August 2014 to $14^{th}$ August 2015 will receive an assured guaranteed return of 9% under the Policy.

**Pradhan Mantri Mudra Yojna** – Scheme launched in April, 2015 to provide formal access of financial facilities to Non Corporate Small Business Sector. The basic objective of the scheme is to promote & ensure bank finance to unfunded segment of the Indian economy.

In the Mudra Scheme since beginning till $13^{th}$ August 2017, total 8crore 70 lakh loan where distributed out of which 6 crores 56 lakh were given to woman. In this scheme 3 lakh 75 thousand crores were sanctioned (1 lakh 88 crores to woman) and 3lakh 63 thousand crores were disbursed (out of which 1lakh 66 thousand crores were given to woman). The target for 2016-17 was Rs 180,000cr while sanctioned amount is Rs 180528cr which indicate the success of the scheme.

**Other Schemes includes Jeevan Suraksha Bandhan Yojana, Sukanya Samriddhi Yojana: Kisan Credit Cards (KCC) and General Credit Cards (GCC), BHIM App.**

Liberalized policy towards ATMs and White label ATMs. To expand the network of ATMs, the RBI has allowed non-bank entities to start ATMs (called 'White Label ATMs'). The RuPay Cards have significantly increased its market share to 38 per cent (250 mn) of the total 645 million debit cards in the country so far. The card has been provided to the account holders of PMJDY (170 million).

Financial Literacy Centers were started by commercial banks at the request of RBI to give awareness and education to the public to access financial products. Here, RBI's policy is that financial inclusion should go along with financial literacy.

The launch of direct benefit transfers through the support of Aadhaar and Bank Account is one of the biggest developments that activated and retained people in the newly opened account.

**Stand up India** – launched to extend bank loans between Rs 10 lakhs to Rs 1 crore for Greenfield enterprises set up by the SC, ST & women entrepreneurs and to provide them handholding support. By Mid-August 2017 38,477 people were given loan up to Rs 8,277 crores out of which 31000 were woman and given loan up to Rs 6,895 crores.

To further strengthen financial inclusion in the country, government has advised the Banks to deploy Micro ATMs in rural areas and consequently, 1,14,518 micro ATMs have been deployed by December, 2016.

**Venture capital Scheme**: In this scheme SC/ST people were encouraged to be Job Provider instead of Job Seekers. Initially in this Scheme loan were provided from 50 lakh to 15 crores which now is changed from 20 lakh to 15 crores. The government had encouraged SC/ST people to stand on their own. Schemes of 70 venture and Fund of Rs 265 crore were approved, funds to 40 venture were already been distributed. These ventures on the average provide employment to 20-25 people. The rate of interest has been reduced from 10% to 8%.

**Conclusion:**

The government is committed to its target of increasing the inclusion of every household in the financial system so that the masses can get all the legitimate benefits arising out of the growth of the country and in turn, the funds mobilised from the people not earlier in the formal channel could also be brought in the formal channel thereby giving the economy of the country an extra thrust to lead the path of growth.

**The author is the Minister of State for Finance and Corporate Affairs, Government of India.*

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**Focus on 'Optimal Infant & Young Child feeding Practices' during National Nutrition Week**

Ministry of Health and Family Welfare is observing National Nutrition Week from 1st September to 7th September, 2017. The theme of this year's National Nutrition Week is "Optimal Infant & Young Child feeding Practices (IYCF): Better Child Health." During this period, a week-long campaign is also being carried out to create mass awareness about the importance of appropriate nutrition in protection and promotion of health and wellbeing of children.

For promotion of Optimum IYCF practices, MoHFW has launched "MAA- Mothers' Absolute Affection" programme to improve breastfeeding coverage and appropriate breastfeeding practices in the country. Around 3.7 lakhs ASHAs and around 82,000 healthworkers including programme managers at district and block level, doctors (MOs), staff nurses (SNs) and ANMs have been sensitized for breastfeeding promotion strategies under MAA programme and more than 23,000 health facility staffs (MOs, SNs and ANMs) are trained in IYCF training. In addition, more than 1.49 lakh mothers' meetings were also carried out by ASHAs at village level to sensitize mothers regarding importance of appropriate breastfeeding practices.

Community sensitization activities such as mothers' meetings and block/ district level workshops with programme managers, services providers' e.g MOs, SNs and ANMs along with FLWs are also planned during the National Nutrition Week (NNW). Village Health and Nutrition Days (VHNDs) will be held at village level in Anganwadi centres to increase the awareness and bring about desired changes in the IYCF practices in the community. In addition, "National Guidelines on Lactation Management Centres in Public Health Facilities" have been recently released to facilitate establishment of lactation management centres for ensuring that the sick and pre-term babies are fed with safe human breast milk.

Breastfeeding is an important, efficient and cost-effective intervention promoting child survival and health. Breastfeeding within an hour of birth could prevent 20% of the newborn deaths. Infants who are not breastfed are 15 times more likely to die from pnuemonia and 11 times more likely to die from diarrhoea than children who are exclusively breastfed, which are two leading causes of death in children under-five years of age. In addition, children who were not breastfed are at increased risk for diabetes, obesity, allergies, asthma, childhood leukaemia, sudden infant death syndrome etc. Apart from mortality and morbidity benefits, breastfeeding also has tremendous impact on improved IQ.

The trend of breastfeeding has shown an upward trend. As per recent data, initial breastfeeding has been nearly doubled in last decade. i.e from 23.4 per cent to 41.6 per cent (NFHs-3, 2005-06 and 4, 2015-16). Significant improvement has also been reported for exclusive breastfeeding as proportion of children under age 6 months exclusively breastfed, has gone up to 54.9 (NFHS-4) per cent from 46.4 per cent (NFHS-3). However, there is further scope of improving initial breastfeeding rates considering the high proportion of institutional deliveries in the country.

MV/SK

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# Centre tells PSBs to begin merger process ‘immediately’

The Centre late on Thursday dashed off a letter to public sector banks asking them to start the merger process immediately and their respective boards to take up the issue. The government said the approval requirement of Competition Commission to expedite mergers among PSBs had been done away with. According to senior bank officials who received the communication, the government cited the Narasimham committee report and highlighted the need for large-sized bank that could fund the huge infrastructure need of the country. Bankers said this was the first time in recent history that an official communication had come from the government to the banks asking them to start the merger process.

**Larger framework**

The Centre has provided a broad framework to the banks to take the merger exercise forward. According to the framework, once the board approves the merger plan, it has to be sent to the ‘alternative mechanism’approved by the Union Cabinet last week. Banks have also been asked to seek the banking regulator’s view regarding their proposal. SBI Caps has also been given the mandate to identify synergies among the banks that could be merged. “The government wants the merger proposal to come from the bank boards,” said a senior public sector banker, on condition of anonymity.

Bankers said the government had also started preparing the ground to remove certain hurdles for consolidation, such as doing away with the approval from Competition Commission.

Some bankers said the government would wait till the Q2 results, which will be out by the first week of November, before finally deciding which bank will be merged with whom.

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# Switzerland for early India-EFTA pact

Trade talk:Ms. Leuthard says her country wants to bring the FTA negotiations, running since 2008, to an end.PTI

The early conclusion of the proposed Free Trade Agreement(FTA) between India and European Free Trade Association (EFTA) as well as an investment protection framework would boost economic ties between the two sides, said Switzerland President Doris Leuthard on Friday.

EFTA members include Switzerland, Iceland, Norway and Liechtenstein. Speaking at a business session here, Ms.Leuthard said while Switzerland was aware of the sensitivities of both the sides on the pact, “we want to bring the (FTA) negotiations that have been running between India and EFTA since 2008 to an end.”

“I am sure that in this visit, we will have a better understanding and the push by the Indian Prime Minister and me will help the ministers conclude the pending questions,” Ms.Leuthard said. She added, “I would really like to have India as a strong economic partner with trade agreement and an investment protection framework to be the base of the new era of cooperation.”

In her address, Commerce and Industry Minister Nirmala Sitharaman said, “I will definitely sit with my team who are going to meet (with EFTA officials) by end of September, that they look into every issue and wherever they need political guidance and support, we are willing to give that.”

She said India was keen on concluding negotiations for the pact as it would benefit both sides. On the issue of intellectual property rights (IPR), she said India’s IPR regime was in compliance with the global rules and “we shall ensure that the patent, copyrights and trademark rights of any individual or company is respected.” India was ready to address any questions on IPR or concerns on data security, she added.

**Data security**

On the data security issues, Ms. Leuthard said data owners’ rights have to be protected to promote investments. “Internet is evolving at a rapid pace but there is a regulatory gap. How do we close that gap, that needs to be deliberated upon,” she said. Ms. Sitharaman said though the topic was discussed at the World Economic Forum at Davos more discussions were required.

She sought greater participation at the Internet Governance Forum (IGF) to be held in Geneva in December. “Safer Internet for everyone is a way forward...I invite you all,” she said. India-EFTA trade fell to $19 billion in 2016-17 from $21.5 billion in 2015-16. The trade balance was in favour of EFTA members.

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# India’s new-found confidence

As it heads for the 75th anniversary of its independence, has India learnt to behave like a superpower? The sequence of events over the last few months would seem to suggest this. You must have got it by now—I mean the standoff with China and its resolution.

The Indian government deployed a judicious mix of strength and wisdom during the Doklam episode. Two videos may be fresh in your memory. The first was in Doklam, in which Indian soldiers could be seen pushing back the intruders in red from China. In the second, at Ladakh’s Pangong Tso Lake, the physicality of the conflict was palpable. Pelting stones, raining fists and blows on each other, the Indian and Chinese soldiers appeared to be engaged in an intense wrestling match. Episodes such as these have taken place on the border with China in the past too, but it was the first time that the videos were being watched by people in their drawing rooms, in a matter of hours.

The places where this skirmishes took place are inaccessible for tourists. There isn’t even a village in the vicinity. So who shot these videos and why did they go viral? The answer to this may still be a mystery, but by destiny or design, it served a larger purpose. The videos kindled a confidence in the common citizen that our defence forces are second to none. When the occasion demands, they can put up stiff resistance and push back the Chinese. This is a clear sign of a shift in India’s military strategy.

What is significant is that even as India was changing its spots, China was steeped in the old mould—trespassing followed by hollow threats. When its defence ministry said India should remember what happened in 1962, its foreign ministry joined the chorus and added—The way the Indian army went to Doklam, imagine what could happen if the Chinese went and ensconced themselves in Nepal? They unleashed a series of challenges and warnings. For Indians who love sensationalism, this was a different kind of thrill. The two video clips had become a good antidote for their anxieties.

All through this turmoil, the ruling establishment in India displayed extraordinary restraint. Defence minister Arun Jaitley’s brief but consequential response to the Chinese was that the India of today isn’t the India of 1962. A few days later, Prime Minister Narendra Modi said India was ready to resolve every issue through dialogue. That is why the global opinion kept turning against them and ultimately China had to drop its road-building plans. This was the second jolt to our powerful neighbour. First, India boycotted Chinese President Xi Jinping’s pet One Belt One Road Project (OBOR) and now the shelving of road-building. Once bitten, why would India compromise on its sovereignty or on the security of its borders?

Some people believe that after the setback to its ambitious OBOR project, China could not have accepted India’s absence from the BRICS summit. This had the potential of inflicting a serious blow to China’s economic interests. So, it made amends. There is a possibility that India’s policy architects had anticipated this and accordingly taken the blow-hot blow-cold decisions. Before sending out troops on the border, successful governments explore all possibilities on the diplomatic front. That’s what New Delhi did. Prime Minister Narendra Modi is in Beijing at present. In the evolving scenario, he will certainly meet his Chinese counterpart with renewed confidence. One hopes both the countries will prioritise peace and prosperity over other issues. Chanakya wasn’t wrong when he said we can change everything but our neighbours. Alertness, understanding and cooperation are the best policies to deal with a neighbour. China should understand this. Their companies conduct their business in India. If our people turn against China, who will buy their products?

It will be wrong to assume that previous governments have not done enough to defend our borders.

In 1967, during a skirmish near Nathu-La, Indian troops neutralized more than 300 Chinese soldiers but the general public didn’t get a whiff of it. In 1999, it took a long time for the Atal Bihari Vajpayee government to declare the Kargil conflict as a war. Those were the days of hesitant diplomacy.

In a way, the present government led by Narendra Modi has bid goodbye to that policy. Whether it is action against insurgents in Myanmar, surgical strikes against Pakistan or skirmishes with Chinese soldiers, New Delhi hasn’t been reluctant to talk about them. Till now, the US and its allies have been pursuing this policy. We should welcome the tact and maturity that New Delhi has displayed over the last few months. It is a sign of India’s new-found confidence.

*Shashi Shekhar is editor-in-chief,* Hindustan. *His Twitter handle is @shekharkahin.*

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# Economy outlook still cloudy

The government's move this past week to publish economic data for the April to June quarter of this year needs a look. The real growth of GDP, i.e. after removing the impact of inflation, was only 5.7%, much lower than expected. For the past six consecutive quarters, the growth rate has gone down steadily, from 9.2% at the end of the quarter ending March 2016, to 7.9%, 7.5%, 7.0%, 6.1% and now 5.7% at the end of the June quarter.

This steady declining trend in the growth rate is all the more troublesome because the economy otherwise enjoys a rather conducive combination of macroeconomic parameters. Inflation has been moderate, and touched a low of 1.5% recently. Both trade and fiscal deficits are moderate and manageable. So they don't eat up investible resources or precious foreign exchange. Even the interest rate has been cut repeatedly over the past year and a half. The inward rush of dollars is at a peak, both in financial markets (stocks and bonds) and as direct investment. No wonder the stock market index is at an all-time high. Even oil prices, the bane of the Indian economy, have been stable and comfortably low. Finally, the monsoon has been normal. So despite these favourable macro factors, we have not managed to convert them into a higher growth rate.

As cautioned in the Economic Survey tabled recently in Parliament, it looks as if the growth rate will be below 7% this fiscal year. That would be a potential loss of 1% growth, which we can legitimately aspire for. In nominal terms, one percentage less of growth translates into a loss of 1.5 lakh crore of national income. This is a notional loss, or is rather what might have been. It also signifies millions of jobs not created.

If you look closer at the numbers, you find that manufacturing growth at 1.2% is the lowest in the past five years. It's the lowest since we switched to a new methodology (based on Gross Value Added). Some of this downward movement was caused supposedly by the suspension of manufacturing activity prior to the rollout of the Goods and Services Tax (GST) in July, and consequent de-stocking of inventory. But it is also corroborated by data from commercial banks. From April to August bank credit shrank by 1.8%, i.e. negative growth. This is the lowest it has been for at least 13 years. If you remove retail loans such as housing and other personal loans, credit to industry might actually be shrinking. This was flagged back in April also when the annual credit flow from banking for the previous fiscal year clocked a multi-decadal low. A State Bank of India report said that credit growth for the year ending last March was the lowest in 63 years!

The GDP is measured in at least two different ways. The first is by looking at the production side while the second is by looking at the spending side. We look at the aggregate of all spending, whether on consumption, or by foreigners buying our exports, or on investments into new factories and projects. In addition we also have government spending. The growth in GDP can be traced to the growth and vigour of each of these components. Investment, which is between 30 and 35% of the total pie, needs to grow at least in double digits. Investment in future capacity creates GDP growth of the future. It needs to be led by the private sector. Currently, that component is barely growing at 1.5%. This is the single most telling metric. As a result, capital formation (the basis of future growth) is steadily declining for several years. Private sector investment has practically come to a standstill. Despite the push for 'Make in India', reforms for improving 'Ease of Doing Business', increased access to electricity, improvement in infrastructure and private investment are not picking up. This must become the big priority. Initiatives such as Housing For All, Smart Cities and Digital India give room for huge opportunities for private entrepreneurs. Of course the corporate sector and banks have been affected by the twin balance sheet squeeze wherein corporates are over-leveraged, and banks have mounting bad loans. Whether the new insolvency code and regulator and the Reserve Bank of India's aggressive intervention will crack this puzzle remains to be seen.

Another significant challenge to the domestic industry is the ever-strengthening rupee. Since January the rupee is 7% stronger compared to the American dollar. It is stronger than its Asian peer currencies too, including China, the Philippines, Indonesia and Thailand. This directly hurts our export prospects. Since last October, our export growth has begun showing positive growth, after a long phase of negative growth for 18 months. But thanks to the strong rupee, this trend is weakening. Indeed our exports are barely up 12% since January, whereas imports are up more than 30%.

More importantly, the strong rupee hurts the domestic industry since cheaper imports flood the country and eat into the market share of domestic players. The GST regime has given an extra advantage to importer traders since the countervailing duty that they now pay as GST can be offset against other taxes, a concession which was not available earlier. The big jump in imports is also captured in the June quarter of GDP data, which also show a worrying jump in gold imports, again thanks to a strong rupee. It's no use saying that since India is a net importing country, our exchange rate should be stronger. If we remove gold imports, a large part of which is not for consumption but as store of value, then our trade deficit will be much smaller. Besides most of our other imports are oil or capital goods, both of which are price inelastic. The rupee needs to be weakened or else it will hurt domestic manufacturing even more.

Finally, one must not forget the continuing adverse impact of demonetisation. The first half of the last fiscal year, that is the period prior to demonetisation, recorded a real growth of 7.7%. The present April to June quarter's growth at 5.7% certainly includes the negative impact on the informal and rural economy. Investment and consumption spending which were postponed due to cash shortage might recover. But jobs that are lost are lost forever. Even the Economic Survey warns about the deflationary impact of low agricultural prices. The agriculture sector GDP shows nominal GDP growth to be lower than real GDP, which is very unusual. It means that farmers' incomes will be depressed, and doubling of farm incomes in five years becomes that much more of a distant dream.

Perhaps in the coming quarters we may see a rebound. That will crucially depend on a big pick-up in manufacturing and private investment spending. The big structural reforms of GST, the new insolvency code, the new monetary framework and Aadhaar linkage are measures which will show results in the medium to long term. What we need is an immediate stimulus to re-inject the momentum to get us to 8% growth.

*Ajit Ranade is an economist*

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# Investing in the ecosystem

In April 2016, while inaugurating the third Asia ministerial conference on tiger conservation, Prime Minister Narendra Modi paid tribute to nature. Invoking the Buddha, he said, “The forest is a peculiar organism of unlimited kindness. It affords protection to all beings, offering shade even to the axe-man who destroys it.” He went on to emphasise the importance of reimagining the country’s natural ecosystems as its ‘natural capital’ and factoring in the economic, social, cultural and spiritual value of ecosystem services into the calculation of true economic growth and development.

Natural resources are a critical yet often ignored part of our country’s national infrastructure. Boasting 11% of the world’s floral and faunal species, India is one of the 17 most ecologically diverse countries. Blessed with every major ecosystem, these biomes directly contribute billions of dollars to the Indian economy, annually. The financial value of India’s forests, for example, which encompass economic services such as timber and fuel wood, and ecological services such as carbon sequestration, is estimated to be $1.7 trillion.

With increasing economic activity, natural capital assets are on the decline, directly affecting the quality of life and potentially giving rise to future inefficiencies in the economy. ‘Earth Overshoot Day’, a figurative calendar date when humanity’s total annual resource consumption for the year overshoots the earth’s capacity to regenerate it, has advanced every year at an alarming rate. This year it was observed on August 2.

As we approach the limits of natural capital stocks, we need to rethink the cascading effects that this would have on the economy, the environment and society. Scientists have identified nine earth system processes to have boundaries which mark the safe zones, beyond which there is a risk of ‘irreversible and abrupt environmental change’.

Four of these boundaries have now been crossed — climate change, loss of biosphere integrity, land system change and altered biogeochemical cycles, such as phosphorus and nitrogen cycles. This means that human activity has already altered the balance of a few delicate equilibriums, the effects of which are reflected by changing weather patterns, accelerated extinction events for both flora and fauna, and global warming. This stresses the need for a comprehensive evaluation system that takes these undesirable side-effects of economic activities into account.

As the biggest contributor to the economy, business needs to consider evaluating its impacts and dependencies as it would have a direct impact on capital assets and wealth. This translates to broadening valuation and risk management to include natural capital, as it is currently not reflected in market prices. In addition to shareholder wealth, holistic development calls for maximising returns from other key areas such as physical capital, human capital, natural capital and social capital.

If valued properly, natural capital has the potential to optimise resources and thus maximise the net benefits of economic growth and development. There is often a chance of ignoring or undervaluing natural capital, effectively leading to projects with far higher negative externalities compared to the benefits. It is necessary that we are cognisant of the limitations of natural capital and its role as a primary support system for the economy.

Valuing natural capital would require internalising externalities and taking into account the myriad economic and ecological products and services that natural ecosystems make possible. Undertaking natural capital valuation can offer businesses a number of opportunities.

Natural capital risk is one of many risks that an organisation faces, and a thorough natural capital assessment can help integrate this risk into risk management committee deliberations, legal and reputational risk framework. Projects can be reassessed on the basis of their vulnerability to impacts and dependencies associated with the value chain. Companies can consider environmental stress tests for issues such as natural disasters, air pollution, resource scarcity and climate.

Natural capital thinking can also create opportunities to innovate and adopt newer, more efficient technologies. One Californian fashion company demonstrated this by developing a unique waterless ozone technology to address water shortage challenges during a four-year-long drought. The company was able to reduce its water use and water bills by 50%, saving at least $1,300 per month.

While findings from externality assessments are restricted to internal business decision-making, going forward, externality valuation can also contribute towards enhancing organisational transparency by informing stakeholders about the potential future risk to business and preparing proactive responses to these risks.

Unlike the economic value of goods and services, the intangible nature of natural assets is mostly invisible and hence remains unaccounted for. While it may be difficult to put a price tag on nature, unchecked exploitation of scarce natural resources and an inadequate response to India’s unique climate challenges can be a very costly mistake. Making natural capital thinking the norm requires a strong policy push and the adoption of valuation frameworks such as the Natural Capital Coalition’s Natural Capital Protocol. Integrating natural capital assessment and valuation into our economic system is critical to usher in a truly sustainable future for India.

*Rana Kapoor is MD and CEO, YES Bank and Chairman, YES Global Institute*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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# Theories that impede job creation

The government is preparing a new industrial policy, according to the department of industrial policy and promotion (DIPP), “to enable industry to play its role as the engine of growth and to shoulder the responsibility of adding more value and jobs”. This policy will replace the United Progressive Alliance’s national manufacturing policy which was expected to generate 100 million additional jobs by 2022. DIPP will be adopting a consultative approach, the announcement says. The previous plan was also developed consultatively. There were 26 working groups representing all stakeholders, who gathered data, debated issues, and developed strategies to achieve the goals. It would be very worthwhile to understand why the goals could not be reached and incorporate those insights into the new policy.

A major problem was with the implementation of the previous plan. Job creation along with industrial growth requires aligned action on many fronts: infrastructure, skills, finance for small enterprises, a supportive trade policy, etc. It requires “a whole of government” approach. Partial solutions will not work. No matter how good the plan may have been, the absence of coordination among ministries and cooperation among stakeholders stalled implementation. Because jobs have become a principal concern of Prime Minister Narendra Modi himself, and because implementation is his forte, a policy with him at the steering wheel is more likely to succeed.

A greater challenge will be to change old theories in the minds of policymakers, and industry leaders too, about jobs/livelihoods, enterprises, and productivity.

The traditional concept of a good job/livelihood is full-time employment, preferably with a large organization, with assurance of continuity of employment and social security benefits. However, there are many other ways of earning livelihoods. For example: by owning a small enterprise—a small workshop, or street stall; as a member of a cooperative enterprise co-owned by many producers; driving one’s own car as a taxi with Ola or Uber, etc.

A dominant view of an enterprise that creates jobs is a large factory with hundreds of workers in assembly lines. Or, a large BPO (business process outsourcing) centre with hundreds of workers behind computer screens. So, if we want more jobs in the economy, we imagine we must have more such, large-scale, “organized” enterprises whereas the greater creators of jobs and livelihoods are enterprises that are much smaller, and seemingly unorganized (from the point-of-view of those with a fixed view of what an organization should be).

Small enterprises have great difficulty in obtaining resources—finance, space to operate, skilled workers, etc.—and in dealing with the regulatory framework too. According to some economists, India has too many “informal” enterprises. They must be brought into the formal system, which means they must comply with the requirements of formality (which include compliance with regulations) so that they can obtain the benefits of incorporation into the formal system. At the same time, some economists are advocating that small enterprises should be relieved of compliance with all regulations (which implies greater informality) so that they have flexibility to grow. There is conceptual confusion here. Practical solutions should be found unbiased by ideology.

There is a reason why small (and informal) enterprises can create more jobs and livelihoods than large ones. Unveiling the three-year “action agenda” for the country on 24 August, the vice-chairman of NITI Aayog said, “India does not have an unemployment problem; it has an underemployment problem”. The problem is low productivity, he said. In India, two workers do what one worker could do, which also means lower wages for both. Which suggests that enterprises should take measures to remove their extra workers. This will increase productivity—measured as output per worker, and it will increase the wages of the workers who remain with the enterprise. But what about the workers who are no longer employed by the enterprise? They will either become unemployed or join less “productive” enterprises that continue to provide “underemployment”.

How do enterprises increase productivity per worker? By investing more in machines and automation. If the productivity of the entire economy must be increased, small enterprises should also invest more in automation. They will have to find money for this. Since the greatest difficulty small enterprises have is to obtain enough money for their business and at low cost, improving productivity by automation is not a viable option for them. So, fortunately, they will continue to provide “underemployment” to the masses seeking jobs, who are not being employed by large enterprises that invest in automation, reduce employees, and thus substantially improve productivity per employee. For small enterprises, the solution for improving their competitiveness is to improve the skills of their owners for managing their workers and improving utilization of their materials and machines.

Productivity is a measure of how much output is produced per unit of input. The most common measurement of productivity is output per worker. But there can be other measures of the productivity of an economy. If the purpose of economic growth, from the point of view of citizens, is the production of more jobs and livelihoods, and if the scarce resource is capital, the more productive economy will be the one that produces more jobs per unit of capital invested. Perhaps, contrary to the drive for more “scale”, it should be an economy with a greater proportion of small enterprises that use more labour and less capital and have a higher “total factor productivity”. Formation of strong clusters and networks of small enterprises, using technology, can enable them to acquire greater scale to obtain access to markets and resources. The policy should be to make clusters and networks more organized and formal rather than the individual enterprises.

Faster implementation is key. However, unless old theories are set aside and fresh solutions applied, a new policy will also fail in more widespread creation of livelihoods and jobs. As Einstein said, you cannot solve an intractable problem with the same theories that created the problem.

*Arun Maira served in the erstwhile Planning Commission.*

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# The economics of the household balance sheet

It is well known that financial assets play a limited role in the Indian household balance sheet. Higher preference for physical assets, among other things, has resulted in lower penetration of insurance products and the near absence of retirement savings. A committee headed by Tarun Ramadorai, professor of financial economics at Imperial College, London, which submitted its report recently, has taken a comprehensive look at these issues and made recommendations in order to increase the role of formal finance in the household sector.

The committee notes that an average Indian household has 77% of its total assets in real estate, 11% in gold, 7% in other durable goods and just 5% in financial assets. While households in other developing countries such as China also have a higher preference for physical assets, this is significantly different from developed countries where financial assets play a much bigger role in household finances. Interestingly, even households that move towards the top of the wealth distribution do not increase allocation to financial assets—they just shift gold holdings towards real estate. The committee has also found a strong link between lower take-up of insurance products and reliance on non-institutional sources of credit. This basically shows that lack of insurance pushes households to take debt from non-institutional sources. The report highlights that 69% of households depend on informal sources of funding to deal with medical emergencies. Funding from informal sources such as moneylenders comes with higher interest burden and affects household finances.

There are various reasons why households at different levels of wealth distribution prefer physical assets over financial assets. For instance, wealthier households may find it easier to divert their illegitimate income towards physical assets to avoid taxes, as investments in the financial sector are easier to track. For others, as the report notes, "High transactions costs and bureaucratic impediments to efficient participation create a high 'nuisance factor' for households hoping to engage in formal financial markets." Lower- income households often believe that the formal financial sector is only for the rich. The other important reason why households prefer physical assets could be persistent high inflation over the decades.

However, at a broader level, the reluctance of households to engage in the formal financial market shows that the institutional architecture has not worked as desired. If people are reluctant to go to a bank or a financial institution, it suggests that the system requires design changes to be able to serve the needs of an average Indian household. This will not only increase the financial well-being of households, but will also help channelize savings into productive investments. In this context, the government has done well by starting the Pradhan Mantri Jan-Dhan Yojana as well as schemes in the insurance and pension space. It is important to understand that with physical assets, households have only optimized their balance sheets in the given circumstances. Therefore, if the operating environment changes, it is possible that Indian households will adjust accordingly—maybe with some amount of hand-holding by the state.

The committee has made several sector-specific recommendations to address issues on both the asset and liability sides of the household balance sheet. For instance, to improve access to financial products, the committee has recommended end-to-end digital distribution networks, and making the know-your-customer requirement completely paperless. Better use of technology should be able to increase the access to financial products. The committee has also recommended the formation of a regulatory sandbox. This is an idea worth trying. It will allow testing of innovative financial products and monitoring of possible risks. This will help in developing innovative low-cost financial products. It will also enable regulators to adapt to innovation and technology. Financial products in India need to be more flexible so that people working in the economy's large informal sector, with irregular income, can participate. The committee has made a number of other recommendations to improve the overall market structure for different products, including the way interest rates should be set in the home loan market.

One big issue that influences the household preference for an asset class—and not just in India—is awareness. The state and other stakeholders will have to work together to improve financial awareness. However, it will not be easy to change the asset mix of Indian households and a shift will undoubtedly be a long drawn out process. The government and regulators would do well to create an enabling environment where households are able to access simple financial products, backed by a strong mechanism to redress grievances, with ease. Households will only move to financial assets in a big way if products are easily available and they trust the overall financial architecture with their savings.

*Will households benefit from moving to financial assets? Tell us at views@livemint.com*

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# ONGC to raise Rs. 25,000 cr. to buy Centre’s stake in HPCL

War chest:Last month, the ONGC board gave in-principle approval for the acquisition worth about Rs. 37,000 crore.

Cash-rich Oil and Natural Gas Corp. (ONGC) will raise its first debt ever, of Rs. 25,000 crore, to part fund the Rs. 37,000 crore acquisition of government’s stake in Hindustan Petroleum Corp Ltd. (HPCL).

India’s largest oil and gas producer has about Rs. 13,000 crore in cash and will need to borrow the rest to fund the buying of government’s 51.11% stake in HPCL. ONGC has sought shareholder approval for “borrowing/ raising funds in Indian rupee and/ or foreign currency by issue of debt instruments (including bonds, non-convertible debentures and notes) in domestic and/ or overseas market” of Rs. 25,000 crore.

The borrowings would be for “acquisition of projects/ equity shares and/or going concerns, meeting capital expenditure, working capital requirements and general corporate purposes during the period commencing from the date of passing of special resolution till completion of twelve months thereof or the date of the next annual general meeting in the financial year 2018-19, whichever is earlier,” the company said in a shareholder resolution.

The resolution would come up for voting at the company’s annual general meeting (AGM) of shareholders on September 27.

The board of ONGC last month gave ‘in-principle approval’ for the acquisition of the government stake in HPCL, which at Monday’s trading price is worth about Rs. 37,000 crore.

**Stakes in firms**

ONGC holds 13.77% stake in IOC, which at Monday’s trading price is worth Rs. 28,800 crore. It also holds 4.83% stake in gas utility GAIL India Ltd. which is worth Rs. 1,550 crore.

But the company is not likely to sell any of it to fund the HPCL buy, officials said.

A six-member committee of directors has been constituted to examine various aspects of the acquisition and provide its recommendations to the board.

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# RBI includes HDFC Bank in the ‘too big to fail’ list

The Reserve Bank of India has added HDFC Bank — the second largest private sector lender of the country — in the list of Domestic Systemically Important Banks (D-SIBs). State Bank of India and ICICI Bank continue to be in that category.

Following the global financial crisis of 2008, it was observed that problems faced by certain large and highly interconnected financial institutions hampered the orderly functioning of the financial system, which in turn, negatively impacted the real economy. It was decided to identify such institutions and prescribe them higher capital requirements.

The RBI has adopted a system by which banks are plotted into four buckets based on a lender’s systemic importance scores in ascending order. The banking regulator prescribes higher capital requirements — in terms of additional Common Equity Tier 1 (CET 1) capital — for such entities.

“The additional Common Equity Tier 1 (CET1) requirement for D-SIBs has already been phased-in from April 1, 2016 and will become fully effective from April 1, 2019… D-SIB surcharge for HDFC Bank will be applicable from April 1, 2018,” the RBI said.

RBI had started listing D-SIBs from August 2015. SBI and ICICI Bank were identified as D-SIB both in 2015 and 2016.

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## India pitches for a credit rating agency

Prime Minister Narendra Modi on Monday strongly pitched for the setting up of a BRICS credit rating agency to counter western rating institutions and cater to the financial needs of sovereign and corporate entities of developing nations.

In an address at the plenary session of the BRICS Summit here, Mr. Modi said a separate rating agency would help the economies of the member countries and other developing nations.

“Our Central Banks must further strengthen their capabilities and promote cooperation between the Contingent Reserve Arrangement and the IMF [International Monetary Fund],” the Prime Minister said, urging early creation of the BRICS rating agency.

Three western agencies hold over 90% of the sovereign ratings market.

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# The Alchemy of financing

Over 50% of Indian households earn less than Rs500 a day.

For most of us, this statistic conjures up images of hundred-rupee notes being handed out to a daily wage worker at the end of the day, or a field sales executive finding Rs15,000 credited to her bank account at the month's end. The reality is very different—for the 60% households in India that are farmers or in trade, incomes are seasonal and highly volatile. If you plotted their household income across the year, it would find two or three spikes and dead silence in between. The expense curve, on the other hand, is an unrelenting saw-tooth curve ripping into the peace of mind of these households every month. How do these folks then manage to make ends meet? It is through the rigmarole of debt.

While readers of this column fret and fuss on issues such as improving fixed deposit yields, refinancing the home loans, buying life insurance, or dabbling in stocks, the average two-acre farmer is involved in a far more complex life-and-death calculus of making the unpredictable income from two harvests separated by six months last for a whole year of daily expenses, the unfortunate but inevitable health emergency, and life events such as a wedding in the family.

Getting through a year often involves harnessing up to a dozen financial instruments, most of which are informal—Kisan Credit Card loan, credit from the local grocer and agri inputs store, top-up credit from the aarhat (grain trader), health emergency borrowing from local money lender, microfinance loan, chit fund membership, informal credit and savings arrangements with neighbouring households, "money-guard" relationship for shoring-up daily surpluses, etc. For a masterclass on this subject, head no further than the 2009 classic *Portfolios of the Poor*, a thoroughly insightful analysis of the cash-flows of over 250 very poor households across India, Bangladesh and South Africa, and the stories of their incredible ingenuity in using the tools of finance to fund bare necessities as well as survive exigencies.

It is true that the bespoke financing innovations of the informal sector have always saved the day for these folks. But barely, as they come at high costs and without guarantees.

At the turn of the millennium, commercial microfinance started bringing in formality at scale to this fragile financing ecosystem. In the joint-liability-group loan, microfinance found a winning product that came to the doorstep of the customer in a remote village, didn't ask for onerous collateral, and could collect small repayments on a weekly basis at relatively low interest rates, thus unlocking formal financing towards "consumption smoothening" for households that had volatile incomes. Unfortunately, regulatory constraints, and the allure of the almost magically scalable joint-liability lending model have kept "microfinance" limited to microcredit and not reach its full potential; at least until very recently. On the credit side too, the lack of matching repayment schedules to household income-flows has ensured the continued existence of additional informal borrowings at high costs to bridge the cash flow gaps. Most poor households, as a result, are still not able to improve their financial net worth even in the good years.

Microfinance's reliance solely on the boots-on-the-ground approach to distribute and collect loans can't afford personalization. When you run a company with a field force in the thousands serving millions of customers scattered across the country, it is difficult to resist the regimented one-size-fits-all collection model to make the economics work.

All of this will change now. The dream of delivering personalized financing products at an affordable cost to our aspiring billion will be a reality in your pet cat's lifetime.

Thanks to the most audacious technology installation event of the last decade globally, we now have the holy trifecta of JAM—Jan Dhan, Aadhaar and Mobile. That is over 1.2 billion people with a secure digital identity through Aadhaar, 300 million households with access to formal banking system through Jan-Dhan accounts and 400 million active mobile internet users growing at 30 million a quarter.

Then there is the all-important India-Stack that makes it possible for JAM to mesh together and enable the delivery of digital services. In the financial transaction context, Aadhaar offers the authentication layer, bank accounts—the vehicle to transact, and mobile phones—the means to transact.

But it is the India-Stack that provides the plumbing to integrate these elements through a set of common protocols and tools that enables companies big and small to simply plug into the system and deliver financial products digitally at a disruptively low distribution cost.

The combination of almost zero distribution and personalization cost, new underwriting approaches and data sets, and a trust factor in mobile transactions that is now firmly established, now offers us the rare opportunity to mimic the three design principles (below) that have made informal sector financing so successful. And we can finally offer it at a price point that unshackles poor households towards building positive financial net worth. Every year.

**Synchronize:** Match payment schedules (loan repayments, savings contribution, insurance premiums) to when income is generated (seasonal) to avoid refinancing needs

**Sachetize:** Make the size of contributions and payments small enough to be in tune with the household's daily expense and income streams.

**Specify:** Build bespoke products to meet the specific goals and aspirations of each household.

When this vision becomes a reality, financing will no longer be a rigmarole, it will turn into alchemy.

*Kartik Srivatsa is managing partner at Aspada Investment Advisors.* The Bharat Rough Book *is a weekly column on building businesses for the middle of India's income pyramid*.

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# A troubling snapshot of Indian manufacturing

There are a handful of accepted truths about Indian manufacturing. Enterprises in this sector have a growth problem, often turning out to be “dwarfs” rather than “babies”. These dwarfs dominate the sector numbers-wise. They suffer from low productivity given that their small size prevents them from achieving economies of scale, among other disadvantages. However, they employ a huge chunk of the labour force. The recently released *Ease Of Doing Business* report by NITI Aayog and the IDFC Institute, based on an enterprise survey carried out in 2016, lends some welcome empirical heft to these truths, and delineates the problems sharply.

According to the sixth economic census conducted during 2013 and the first quarter of 2014, 131.29 million people are employed in 58.5 million establishments in industry and services. Given these numbers, it’s par for the course that only 21% of the enterprises employ 10 or more workers. Own account enterprises, meanwhile, which were managed entirely by their owners and didn’t employ any other workers, constituted almost 45% of the enterprises.

The enterprises surveyed by the report—in the manufacturing sector, and registered under the Factories Act, 1948—make up a small subset of these numbers. But they are consistent with broader trends. Small firms dominate. Unsurprisingly, the jobs they create are low-paying ones. The wage spread between small and large enterprises is a disquieting 80%. Compare this to China, where the spread is just about half that.

Factor in the trends in young enterprises—described by the report as having been set up 10 years ago or less—and the contours of the problem become clearer. The report finds that “the largest share of young enterprises is in other non-metallic mineral products (15%), food (12%), and textiles (10%)”. These are all labour-intensive sectors. So far, so good. India needs such enterprises to mop up the growing labour force. But those sectors are among the ones where the share of small enterprises is the largest. Non-metallic mineral products heads the table when it comes to small enterprises, while food products come in third. Little wonder 75% of all young enterprises can be classified as small. In short, new enterprises in the manufacturing sector are creating jobs—but low-paying, low-productivity ones.

The solutions are not rocket science. Improving physical infrastructure is essential. This ranges from transport systems to the power sector. The report also mentions the need to improve access to finance for smaller enterprises and making firm entry and exit easier, among other measures. This newspaper has also been a votary of enhancing the flexibility of labour regulations. The report shows that there are two reasons for this. One, of course, is that large firms with larger workforces face a greater regulatory burden in this area. This diminishes their efficiency and provides an incentive for smaller firms to cap their workforce below the point where onerous regulations kick in, feeding into the size problem, or employ workers in an informal capacity.

The second reason is more indirect. The lower wage spread in China goes along with the domination of medium and large enterprises, which together account for over 75% of the workers. The report speculates that this domination of larger enterprises creates an ecosystem where small firms must perforce improve productivity—whether to compete or take advantage of the downstream opportunities created by larger firms. High productivity goes with higher wages.

Out of the box measures might be of some use as well. The report throws up some interesting facts. Most of the young enterprises are located in Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Telangana. Concurrently, unlike in other states, older manufacturing firms in Andhra Pradesh, Telangana, Maharashtra and Gujarat face a lower regulatory burden than younger firms. The latter are thus disadvantaged in the states where they are highly concentrated, creating a barrier to growth and productivity—perhaps a legacy of crony capitalism in states that have traditionally been more enterprise-oriented, with larger firms more effectively able to utilize these networks.

How to address this? For one, it's time the government stopped treating lobbying like a four-letter word. It is a widely accepted practice in developed economies—and bringing in a law to legitimize it and regulate it in a transparent fashion could reduce corruption and give smaller enterprises that band together for advocacy and lobbying a means to have policy inputs.

Political compulsions have often been offered up as an excuse for going slow on such reforms. This is not entirely unreasonable, but it cannot be an answer in perpetuity. At some point, the government of the day will have to bite the bullet.

*How can the government remove barriers to growth in the manufacturing sector? Tell us at views@livemint.com*

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# IDFs yet to make a mark even two years on: Report

Even after two years, infra debt funds (IDFs) have not been able to make a significant impact due to lack of good projects and banks' troubles on asset quality and tepid credit growth, a report said today.

IDFs, which are investment vehicles for facilitating the flow of long-term debt to the infrastructure sector, are "yet to come of age and make a significant impact in the infrastructure financing space", Icra ratings said.

They are likely to remain "marginal players" over the medium term, it said.

In the wake of stress in the infrastructure sector, there are few operational projects with track record of satisfactory performance of one year, said Icra group head for financial sector ratings Rohit Inamdar.

He also blamed banks' "reluctance" to shed operational projects for the low traction in the IDFs, saying the existing asset quality pressure amidst moderation in overall banking system credit growth have impacted IDF business volumes.

The total credit including investments in bonds for IDF-NBFCs -- where the IDF is set up as a company -- was Rs 11,200 crore in March 2017, which is just 1.2 per cent of banks' infrastructure exposure.

L&T IDF, India Infradebt and IDFC IDF have been set up under the IDF NBFC route.

The assets under management for IDF-Mutual Funds -- where the IDF takes trust route -- were Rs 2,900 crore as of June 2017, with a much slower pace of growth, it said.

IIFCL, ILFS and Srei have been set up under IDF-MF route.

The domestic rating agency welcomed IDFC-NBFCs being allowed to invest in public private partnership (PPP) projects without a project authority and non-PPP projects, but flagged a few concerns.

"Rising share of PPP projects without project authority and non-PPP project exposures can alter the credit profile of these entities and thereby portfolio vulnerability over the medium term," it said.

On the capitalisation front, it said all three IDF-NBFCs have witnessed decline, but it is still adequate given the strong institutional ownership and the lower risk weight (of 50 per cent) applicable to operational projects with tripartite agreements.

"IDF-NBFCs would need to raise capital over medium term as they scale up and portfolio mix evolves, and also to maintain prudent economic capital levels," it said.

There have not been any reported instances of asset quality troubles faced by the IDFs till now, it said. AA KRK

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**The Code on Wages Bill 2017**

As part of labour law reforms, the Government has undertaken the exercise of rationalisation of the 38 Labour Acts by framing 4 labour codes viz Code on Wages, Code on Industrial Relations, Code on Social Security and Code on occupational safety, health and working conditions.

1. The Code on Wages Bill 2017 has been introduced in Lok Sabha on 10.08.2017 and it subsumes 4 existing Laws, viz. the Minimum Wages Act, 1948; the Payment of Wages Act, 1936; the Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976. After the enactment of the Code on Wages, all these four Acts will get repealed. The Codification of the Labour Laws will remove the multiplicity of definitions and authorities leading to ease of compliance without compromising wage security and social security to the workers.

2. At present, the provisions of the Minimum Wages Act and the Payment of Wages Act do not cover substantial number of workers, as the applicability of both these Acts is restricted to the Scheduled Employments / Establishments. However, the new Code on Wages will ensure minimum wages to one and all and timely payment of wages to all employees irrespective of the sector of employment without any wage ceiling.

3. A concept of statutory National Minimum Wage for different geographical areas has been introduced. It will ensure that no State Government fixes the minimum wage below the National Minimum Wages for that particular area as notified by the Central Government.

4. The proposed payment of wages through cheque or digital/ electronic mode would not only promote digitization but also extend wage and social security to the worker. Provision of an Appellate Authority has been made between the Claim Authority and the Judicial Forum which will lead to speedy, cheaper and efficient redressal of grievances and settlement of claims

5. Penalties for different types of violations under this Code have been rationalized with the amount of fines varying as per the gravity of violations and repeat of the offences. Provision of compounding of offences has been made for those which are not punishable by a penalty of imprisonment.

6. Recently, some news reports have been published regarding the fixation of minimum wage as Rs. 18000/- per month by the Central Government. It is clarified that the Central Government has not fixed or mentioned any amount as "national minimum wage" in the Code on Wages Bill 2017. The apprehension that minimum wage of Rs. 18000/- per month has been fixed for all employees is, thus incorrect, false and baseless. The minimum wages will vary from place to place depending upon skill required, arduousness of the work assigned and geographical location.

7. Further, the Code on Wages Bill 2017, in the clause 9 (3), clearly states that the Central Government, before fixing the national minimum wage, may obtain the advice of the Central Advisory Board, having representatives from employers and employees. Therefore the Code provide for a consultative mechanism before determining the national minimum wage.

8. Some reports have also been appearing in the media regarding the revised methodology for calculation of minimum wages by enhancing the units from three to six. It was purely a demand raised by Trade Unions in the recent meeting of the Central Advisory Board on Minimum Wages. However it is clarified that such proposal is not part of the Code on Wages Bill.

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# Testing times for public sector banks' leadership

The banking industry has been passing through one of its most trying times since independence. The high ratio of non-performing assets (NPAs) and weak profitability have raised the risks to the sector's stability. The increasing share of weak, highly leveraged corporates in the banks' NPAs has raised the system's credit risk profile. Poor and lopsided credit growth, mostly in low-yielding retail loans, has added pressure on the margins, forcing many banks to resort to raising fees for numerous services and even reducing savings deposit rates.

There are many other serious challenges facing the leadership of public sector banks (PSBs). These emanate primarily from the regulatory, human resources and competitive landscape areas. First, the transition to the new Indian accounting standards has commenced. Consequently, in FY19, the provisioning and tier-I capital requirements of all banks are expected to go up significantly at a time when they are certainly not the darlings of the stock market.

Second, the rapid growth of digitization has disrupted the banking industry with a re-writing of the rules of competition. The incumbent banks are seeing their market shares being cannibalized by far nimbler fintech companies, non-banking financial corporations and new banks. In fact, PSBs lack the skill set necessary to take on the competition, while regulatory restraints hold back these banks from making lateral recruitments to bridge the talent gap. Also, digitization has made price and product comparisons so much easier that the power of choice has been transferred to the customer who is now increasingly transaction-driven rather than relationship-driven.

Third, PSBs are grappling with the challenges posed by the "missing middle" wherein a significant number of retirements have been taking place since 2008 with an inadequate number of sufficiently experienced personnel available to fill up the vacancies. This has been caused by the sudden freeze on recruitment in the early 2000s when core banking and other tech initiatives were taken up by the banks amid the cacophonous clamour for "right sizing".

Fourth, the increasing sophistication of risk management methodology and regulatory oversight has significantly added to the cost of doing business and circumscribed the banks' ability to respond to business opportunities with alacrity. Last and most importantly, the government has recently cleared the proposals for merger of PSBs. This is bound to affect the enthusiasm of personnel in the banks which are about to lose their identities to take any long-term initiatives for improved performance.

The government had organized a couple of "Gyan Sangams" in 2015 and 2016 to brainstorm these various issues with the top leadership of PSBs. It came up with an "Indradhanush" of seven recommendations/action points:

i) Appointment of managing directors and chief executive officers with a non-executive chairman post in place of erstwhile chairman and managing directors (since implemented).

ii) The Banks Board Bureau to be formed and duly empowered to give impetus to the reforms direction. But no major decision has come from this body despite almost 18 months of existence. H.N. Sinor's resignation (and retraction) was probably a pointer to this.

iii) Capitalization of banks. Estimates range from Rs1.8 trillion to Rs3 trillion of fresh capital by 2019. The government's fiscal consolidation objectives stand seriously challenged.

iv) De-stressing of PSBs with faster resolution of stressed assets. The formation of the Insolvency and Bankruptcy Board of India and the introduction of the Insolvency and Bankruptcy Code are a step in that direction. However, it is still too early for the results to show.

v) Empowerment of bank managements (read boards) in decision-making with the government assuring “no interference, only intervention” on its part. Ask any bank chief on this and a cynical smirk is an assured response.

vi) A framework of accountability for performance of banks’ top management around Indian Banks’ Association-drafted key performance indicators. All banks consistently fail to achieve a decent score.

vii) Governance norms in PSBs revolving around P.J. Nayak Committee recommendations, including reduction of government holdings in PSBs to below 50% and transfer thereof to a holding company. Also, the report calls for concomitant improvements in the quality of boards’ deliberations with induction of part-time, non-executive members having domain skills, strategic competence and independent thinking. Most of this is yet to see the light of day.

All banks recognize that their business is undergoing fundamental changes. There is a move away from balance sheet based activities to seeking incomes from investment-related, third-party products, transactions/payments solutions, asset management services, etc. Most banks have begun to leverage technology to focus on customer relationship management, work flow efficiency, risk management and so on.

As such, in the coming years, the stability and growth of PSBs will be determined by the strategic choices their boards make in tackling the emerging threats, and by how quickly they are able to cash in on new opportunities. The selection of an effective leadership having the requisite stamina, professional competence and people skills—not to mention making organizational learning and renewal an integral part of a bank’s DNA—will be key factors in achieving this. In the words of Bradley Leimer, former head of innovation at Santander Bank, in this age of advanced financial technology, banks have to decide between being capital-providing utilities or transforming into technology companies that provide banking services and products. There is hope only for the latter.

*Ashwini Mehra is former deputy managing director of the State Bank of India.*

*Comments are welcome at* theirview@livemint.com

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# Pointers to a future-ready payments policy

Events over the past few weeks have thrown up numerous pointers to what should be included in a future payments-system policy framework.

The Reserve Bank of India's (RBI's) 2017-18 annual report provided the first clue, proving a well-known policy paradigm: competition and freedom of choice are essential tools to avoid distorting markets and the broad economy. An overnight ban on Rs500 and Rs1,000 bank notes—accounting for about 85% of outstanding currency—dealt a body-blow to the economy in terms of jobs, incomes, livelihoods, investment appetite and overall economic growth. The ruinous effects manifested themselves last week: gross domestic product for April-June quarter grew by only 5.7%, the lowest in many quarters.

Demonetisation amounted to suppression of free choice—or freedom to decide how much cash to use, for which transactions—though different reasons were adduced to justify the decision. One of the reasons cited, which has persisted into the post-demonetisation period, is a desire to foster digital payments and to migrate the economy to a less-cash system.

This is a desirable economic objective. However, the policy vectors put in place reveal multiple gaps: lack of a robust competition and innovation policy; uncertainty over the payment regulator's quasi-legislative powers; an unclear road map for achieving financial inclusion; and, an asymmetric preference hierarchy between different payment systems imposed on the consumer. The last one violates democratic principles by coercing the public to move away from a relatively low-cost payment system (such as cash) to a higher cost platform (such as, mobile wallets which involve connectivity costs).

The Supreme Court's (SC's) recent ruling on right to privacy as a fundamental right is likely to complicate the regulatory debate further and might necessitate a systems rethink. The judgement reads: "The balance between data regulation and individual privacy raises complex issues requiring delicate balances to be drawn between the legitimate concerns of the State on one hand and individual interest in the protection of privacy on the other." The nine-judge bench, while acknowledging that the Centre has already appointed a committee under former SC judge B.N. Srikrishna to study the state of India's data privacy and to submit a draft bill, hopes that the Union government will take "all necessary and proper steps".

Still, the right to privacy ruling in itself does set out a future regulatory perimeter for digital financial services. The bench found some pointers in a 2012 report from an **expert group** on privacy, appointed by the erstwhile Planning Commission. Specifically, the report mentions a five-pillar conceptual scaffolding for drafting legislation to protect privacy: technological neutrality and inter-operability with international standards, which is still lacking; multi-dimensional privacy; horizontal applicability to state and non-state entities to ensure a level-playing field; conformity with privacy principles in line with global best practices; and a co-regulatory enforcement regime which envisages co-existence of independent regulators and self-regulating organizations. Ironically, some of these issues are still being debated in the policy space.

There are multiple views on what to make of SC's judgement; for example, Chennai's IFMR Trust, soon after the SC ruling, **published a blog** advocating stakeholder consultation to determine what kinds of data can and should be collected, the desirable regulatory regime for data mining and algorithmic techniques and a legislative terrain to "ensure that use of personal data is tied to legitimate proportional objectives and interests".

There is another critical, and slightly obvious, ingredient necessary in the future regulatory mix:

trust. This was evident when digital payments spiked during November-December 2016 and then tapered off subsequently; people abhor repression and any attempts to increase the value and volume of digital payments must be achieved through trust, not duress. Regulation must have a consumer bias and should not be designed to favour some service providers.

Lack of trust in paper money issued by sovereigns, and controlled by central banks, is growing as is wider acceptance of crypto-currencies. Already six large global banks—Barclays, Credit Suisse, HSBC, Canadian Imperial Bank of Commerce, State Street and the Mitsubishi UFJ Financial Group—have jointly launched a project to use block-chain for clearing and settling financial transactions, reducing time taken for conventional money transfers.

While bitcoins and other crypto-assets are still in an embryonic state in India, the pace of acceptance is slowly picking up. Many community-based initiatives have been advocating block-chain as an alternative to organized finance, viewed as exploitative. The finance ministry appointed a nine-member inter-disciplinary committee to suggest the way forward with crypto-currencies; the committee has submitted its report, which has not been made public yet. Eventually, though, RBI will have to decide whether it will allow money to also exist as crypto-currency, in addition to its role as a commodity (with or without intrinsic value), a financial claim and/or as an accounting entry.

Regulation, almost always, lags technology development. But an opportunity to create a future-ready policy framework now seems close at hand.

*Rajrishi Singhal is a consultant and former editor of a leading business newspaper. His Twitter handle is @rajrishisinghal.*

*Comments are welcome at* views@livemint.com

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# The next superpower in global food supply

Russia is often seen as a country that produces little that the world wants except energy commodities. The oil export dependence looks like a major time bomb under the country's future, given the current focus in the West and in China on reducing the use of hydrocarbon fuels. By an ironic quirk, however, Russia appears to be benefiting from the climate change its energy resources are helping to fuel: Its prospects as the world's biggest wheat exporter and a grain superpower are bright, not least because of the rise in global temperatures.

In the last marketing year, which ran from July 2016 through June 2017, Russia exported 27.8 million metric tons of wheat, more than the entire European Union (EU), to claim first place in the world for the first time since the EU has been counted as a unit. In the current marketing year, the US department of agriculture predicts, Russia will export 31.5 million metric tons, increasing its global lead; it's already facing infrastructure constraints because of the fast growth. It's also a leading exporter of corn, barley and oats. Along with Ukraine and Kazakhstan, it's part of the force increasingly shaping global grain markets.

Alexander Tkachev, Russia's agriculture minister, has repeatedly said that he sees grain eventually displacing oil as the country's biggest export revenue source. That's not a view the Kremlin likes to entertain—it would rather hope for a technology boom—but Tkachev's prophecy may be more realistic for a number of reasons.

The first two of these are outside of Russia's purview: The growing global population and climate change. Global grain consumption grew, on average, 2.8% a year in 2011-2016, and the International Grains Council predicts 1.4% annual increases through 2021. At the same time, climate studies show that, compared to the late 1980s, the time of the Soviet Union's demise, which depressed Eurasian agriculture for more than a decade, the temperature in Eurasia's grain-producing areas will increase by up to 1.8 degree Celsius by the 2020s and by up to 3.9 degrees Celsius by the 2050s, with the greatest increase in winter. This means a longer growing season and better crop yields. More carbon dioxide in the atmosphere is also good for crops.

Climate change means Russian farms can expand northward, to lands that were never used to grow grain. But more importantly, it will help Russia, and to a lesser extent Ukraine and Kazakhstan, reclaim cropland that has fallen into disuse in 1991 through 2000—some 140 million acres. Those lands were abandoned in the early years of post-Soviet capitalism because they required too much investment and yielded little if any profit; that's changing, both for climate-related reasons and with technological advances.

These have been relentless in Russia and the neighbouring grain-growing countries in recent years. The Russian capitalist transition and the almost-free but excessively bureaucratized trade in land have created a few dozen large agricultural conglomerates, which have adopted Western technology to increase yields and which have been receiving increased government support since 2005, when the Kremlin declared agriculture a national priority.

These vertically integrated giants are both a blessing for Russian exports—they have driven the growth—and a curse. A collection of scholarly articles on the Eurasian Wheat Belt pointed out that smaller private farms manage land more efficiently and achieve better crop yields than corporations and recommended that Russia, Ukraine and Kazakhstan reform their land regulations to make it easier for individuals to farm.

Russia has a head start in this, since it liberalized land ownership in the early 2000s. Ukraine doesn't even have a legal land market today, which should explain its slower grain production growth in recent years. But given that much of the country's industrial base is now in a war zone, it has to rely more on agriculture; besides, it's under pressure from the International Monetary Fund to allow the free sale of land. While warmer Ukraine benefits less than Russia from climate change, it still has that huge unused resource.

Together, climate change, population growth, the remaining technological lag between Western and post-Soviet agriculture, and the opportunity to fix regulatory inefficiencies create a huge growth potential for Russia, Ukraine and Kazakhstan. Though their political paths have diverged, these three may, to a degree, share an economic future in the post-oil world.

Of course, a focus on agricultural exports still means a commodity dependence and a vulnerability to global trends in a much less concentrated market than the oil one; Russian wheat sold for more than $350 per ton in 2012, but the price is down to $180 now. Besides, in agriculture, growth depends on government support, unlike in the case of hydrocarbons, where the government can passively draw a rent. The export infrastructure, given the Russian state's hold on transportation, is also a bottleneck that requires taxpayers' money to remove. But the support may eventually pay a dividend if Russia succeeds in developing higher-margin agricultural production—that of meat, milk and vegetables, which the country still imports. The Russian government has been trying to stimulate that development by putting an embargo on Western products, and it has spurred growth, but Russian producers lack the expertise and resources for a real breakthrough.
**Bloomberg View**

*Leonid Bershidsky is a Bloomberg View columnist.*

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# Why is the economy slowing down?

The release of the annual report of the Reserve Bank of India (RBI) and the estimates of economic growth in the first quarter of this year have reignited the debate on the state of the Indian economy. The much-awaited RBI annual report confirmed what many had known for months, that demonetisation has failed to fulfil its stated objectives. While demonetisation certainly hasn’t succeeded in fulfilling the objectives for which it was undertaken, it did contribute to the deceleration in economic activity, with the growth rate of gross domestic product (GDP) and gross value added (GVA) reaching their lowest levels since the National Democratic Alliance government took over.

But blaming the economic slowdown only on demonetisation would be missing the wood for the trees. While demonetisation certainly contributed to the deceleration in economic activity, its role was only to accelerate the slowdown of the economy rather than being its primary cause. Most of the core indicators of the economy over a long period suggest that the economy was already slowing down. GVA at basic prices has been declining secularly since the last quarter of 2015-16, reaching its lowest level in the first quarter of this year, much before demonetisation was undertaken. So is the case with exports which have been declining for almost two years now. Same is the case with private investment in the economy which has continued its declining trend for almost two years now. With the worsening balance sheet of the financial sector, credit growth is at its lowest. The manufacturing sector has also been on a downward path for a long period now, along with construction which saw negative growth with some recovery in the previous quarter.



As I have argued earlier, the real problem in the economy is the decline in demand led by the collapse of rural demand since 2014. Some of the signals of a demand crisis in the rural economy were visible as early as late 2014 with the decline in real wages and commodity prices. It has now spilled over to the entire economy with no effort by the government to push demand in rural areas. The government continues to live in denial with all sorts of explanations which belie any understanding of the Indian economy or even the basic theory. The issue of demand deflation was finally highlighted by the second volume of the Economic Survey and has now been confirmed by the estimates of first quarter with agricultural GVA declining from an average of 9% in the four quarters of 2016-17 to 0.3% in the first quarter of 2017-18 at current prices. This has happened in a year when the agricultural sector is recovering from back-to-back droughts in 2014 and 2015. Further confirmation of the decline in demand is available from the decline in share of private expenditure to 57% in the previous quarter from 62% in the third quarter of 2016-17. A sharp decline from a high during the demonetisation quarter when private consumption was already low due to demonetisation.

But the real impact of the demand deflation is on the manufacturing and the construction sector, both of which have seen a sharp deceleration. The growth of manufacturing has been declining quarter-on-quarter since the third quarter of 2015-16, reaching the lowest of 1.2% in the first quarter of 2017-18. Even this has been achieved by a growth of 1.8% of the quasi-corporate and unorganized sector with private corporate sector declining by 0.9%.

Similar is the case of construction, which has recovered from a decline of 3.7% in the last quarter of 2016-17 to 2% in the first quarter of this fiscal. But even this is misleading, with cement production declining by 2.9% and non-metallic minerals declining by 3.2%. The only reason the construction sector has seen a positive growth is due to growth in consumption of finished steel.

The collapse of the manufacturing and construction sector are serious signs of a crisis in the economy since both of these account for a large majority of non-farm jobs in the economy. Clearly, evidence of job losses is no longer a figment of imagination, but are hard facts. The slow pace of employment creation and declining real wages are sure signs of a demand collapse in the economy.

It is now evident that there are serious problems with the state of the economy and any attempt to brush these as momentary phenomena as a result of demonetisation and goods and services tax (GST) is only going to make it worse. While demonetisation and the hurried rollout of GST did contribute to the worsening of the economic situation, any hopes of the economy reviving on its own as these effects fade out is unlikely to materialize in the short-to-medium term. Growth in the next two quarters is likely to be subdued with agriculture sector not contributing much. With a higher base of 2016-17 and monsoon not very different from last year, agriculture GVA is unlikely to contribute to growth. Much of the growth in the previous quarter also owes itself to significant increase in government spending. But this has also meant that 92.4% of fiscal deficit has been reached by the end of July 2017. With dividend from RBI also declining by half and not much expected from disinvestment, there is not much fiscal space that is available unless the government relaxes the fiscal deficit target of 3.2% of GDP. It is unlikely that government expenditure will provide the same cushion that it did in the previous quarter. If the acceleration in growth of trade is due to destocking due to GST rollout, even the trade sector is unlikely to maintain its growth.

The challenge for the government is to revive the economy with very few options left. It has frittered away the windfall gains from lower petroleum prices which could have been used to increase investment in agriculture and infrastructure. Agricultural investment has declined in real terms and infrastructure investment hasn't picked up given the twin balance sheet problem. But it has also missed the opportunity of injecting demand in the rural economy by expanding public expenditure led employment creation. The revival of funding to the rural job guarantee programme was withdrawn soon after the effects of demonetisation started fading. But the severe cuts in financing of agricultural programmes, rural development, education, nutrition and health also meant that the rural economy continued to suffer from lack of demand and neglect from the government.

It is not, however, too late. But the first task for the government is to acknowledge that the economy is in serious mess. Both in terms of job creation as well as growth prospects. These may turn out to be serious risks to the stability of the government if they persist longer. But these also require that the government may have to give up its fiscal deficit targets in the short run and increase public spending in the rural areas but also in infrastructure and other public services.

*Himanshu is an associate professor at Jawaharlal Nehru University and visiting fellow at Centre de Sciences Humaines, New Delhi*.

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**NITI Aayog calls renewed focus on Nutrition, launches the National Nutrition Strategy**

Leader of the Green Revolution Dr. M.S Swaminathan and Padma Shri Dr. H Sudarshan, today, launched the National Nutrition Strategy, along with Vice Chairman Dr. Rajiv Kumar and Member Dr. Vinod Paul.

With a benefit to cost ratio of 16:1 for 40 low and middle-income countries, there is a well recognized rationale, globally, for investing in Nutrition. The recently published NFHS-4 results reflect some progress, with a decline in the overall levels of under nutrition in both women and children. However, the pace of decline is far below what numerous countries with similar growth trajectories to India have achieved. Moreover, India pays an income penalty of 9% to 10% due to a workforce that was stunted during their childhood.

To address this and to bring nutrition to the centre-stage ofthe National DevelopmentAgenda, NITI Aayog has drafted the National Nutrition Strategy. Formulated through an extensive consultative process, the Strategy lays down a roadmap for effective action, among both implementers and practitioners, in achieving our nutrition objectives.



The nutrition strategy envisages a framework wherein the four proximate determinants of nutrition – uptake of health services, food, drinking water & sanitation and income & livelihoods – work togetherto accelerate decline of under nutrition in India. Currently, there is also a lack of real time measurement of these determinants, which reduces our capacity for targeted action among the most vulnerable mothers and children.

Supply side challenges often overshadow the need to address behavioural change efforts to generate demand for nutrition services. This strategy, therefore, gives prominence to demand and community mobilisation as a key determinant to address India's nutritional needs.

The Nutrition Strategy framework envisages a Kuposhan Mukt Bharat - linked to Swachh Bharat and Swasth Bharat. The aim isensure that States create customized State/ District Action Plans to address local needs and challenges. This is especially relevant in view of enhanced resources available with the States, to prioritise focussed interventions with agreater role for panchayats and urban local bodies.

The strategy enables states to make strategic choices, through decentralized planning and local innovation, with accountability for nutrition outcomes.

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**Department of Financial Services advises all Banks to take immediate steps to put restrictions on bank accounts of over two lakh 'struck off' companies**

Government has stepped up decisive action against companies falling within the ambit of Section 248 of the Companies Act. The names of 2,09,032 companies have been struck off from the Register of Companies under Section 248 (5) of the Act. The existing Directors and Authorized Signatories of such struck off companies will now become ex Directors or ex Authorized Signatories. These individuals will therefore not be able to operate bank accounts of such companies till such companies are legally restored under Section 252 of the Companies Act by an order of the National Company Law Tribunal. The restoration, as and when it happens shall be reflected by change in the status of the company from ‘Struck off’ to ‘Active’.

Since such ‘Struck off`’ companies have ceased to exist, action has been initiated to restrict the operation of Bank accounts of such companies. The Department of Financial Services has, through the Indian Banks Association, advised all Banks that they should take immediate steps to put restrictions on bank accounts of such struck off companies. A list of such companies, Registrar of Companies wise, has been published on the website of the Ministry of Corporate Affairs.

In addition to such struck off companies, Banks have also been advised to go in for enhanced diligence while dealing with companies in general. A company even having an active status on the website of the Ministry of Corporate Affairs but defaulting in filing of its due Financial Statement (s) or Annual Return (s) of Particular of Charges on its assets on the secured loan should be seen with suspicion as, prima facie, the company is not complying with its mandatory statutory obligations to file this vital information for availability to its stakeholders.

DSM/SBS/KA

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Ministry of Steel to take lead role in transforming & turning around Steel PSUs and bringing accountability and result-oriented approach in their working

**Ministry of Steel to take lead role in transforming & turning around Steel PSUs and bringing accountability and result-oriented approach in their working**

**There will be zero tolerance for laxity in performance says Steel Minister Shri Birender Singh**

In his weekly review meeting with senior officials of Ministry of Steel in New Delhi on 5th September, the Union Minister of Steel Shri Birender Singh, tasked the Ministry officials to play active role in transforming and turning around Steel PSUs. Senior Ministry officials will be given responsibility of monitoring the performance of individual steel plants by on-ground visits and reviews, he added. These officials will check the progress of each plant in terms of achievements of the targets set out for them. It is noteworthy that Ministry of Steel had earlier constituted an Expert Committee, which has made recommendations for improving production and productivity of these plants. While outlining the agenda for the future, the Minister remarked that no laxity will be tolerated at any level, and there has to be accountability and a result-oriented approach built into the work culture of Ministry of Steel and the PSUs. He also directed the Ministry officials to work on instituting an award of "Plant of Excellence" for the best performing Plant among Steel PSUs, so that other Plants can get inspired to excel. The steel production target of 300 million tonnes set in the National Steel Policy-2017 will have to be broken down year-wise and exponential annual increase will have to be ensured for realistic achievement, the Minister added.

He appreciated the accomplishments in the past and stated that steel sector has much more potential which needs to be harnessed for the vision of "Make in Steel for Make in India."

The Secretary Steel, Dr. Aruna Sharma, Joint Secretaries and other officials from Ministry of Steel attended the meeting.

YSK/MI

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# Welcome support for the new bankruptcy law

The Supreme Court has delivered a powerful statement in support of the new bankruptcy law. It has instructed all lower courts to take into account the fact that the Insolvency and Bankruptcy Code, 2016 constitutes a paradigm shift. The judgement has come at a time when the Indian central bank has goaded lenders to move against large loan defaulters.

The recent court ruling in the case between ICICI Bank and Innoventive Industries has not received the attention it deserves. The private sector lender had initiated insolvency proceedings against the company because it defaulted on its loan commitments. The Supreme Court judgement is important because it clearly states that the Insolvency and Bankruptcy Code, 2016 overrides the confusing maze of state laws that companies could use in the future to avoid insolvency. Justice R.F. Nariman and Justice Sanjay Kishan Kaul have cited Article 54 of the Constitution to say that a Central law should prevail over state law whenever the two are contradictory.

The court ruling comes even as the Reserve Bank of India (RBI) has asked banks to move against another 28 large defaulters. The central bank action is a clear signal that regulatory forbearance is not an option given the mounting bad loans that now constitute the biggest risk to economic stability. Such firm action is now possible because the Insolvency and Bankruptcy Code empowers creditors for the first time ever.

The Supreme Court has liberally quoted parts of the report by the committee that worked on the reform of Indian bankruptcy law. Some of the arguments are worth reiterating here. First, the limited liability company is a contract between equity and debt. Equity owners are in full control as long as debt obligations are met. Creditors have no say in how the company is run. The situation flips in case of a default. Control should then be passed to creditors. Equity owners have no say.

Second, weak protection for creditors means that they are averse to lending. At least some part of the credit constraints in India can be traced back to this problem. The growth of a corporate bond market is also held back by the lack of a modern bankruptcy framework.

Third, control of a company is not a divine right. The control of a defaulting company should be transferred to the creditors. Speed of resolution is very important. Otherwise management teams retain control over companies despite defaults. This was the overarching approach till now. Management groups did not lose control even when companies had run into trouble.

Sreyan Chatterjee, Gausia Shaikh and Bhargavi Zaveri have built a database from the final orders passed by the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal in the six months since the bankruptcy law has become operational. A range of operational and financial creditors have moved against companies under the new law. However, there do seem to be some teething troubles as well. For example, the average time taken for disposal is 24 days, much more than the 14 days that the bankruptcy law has prescribed.

It is early days yet. There could be some procedural delays given the tight timelines provided in the Insolvency and Bankruptcy Code. There will be some legal setbacks as well. Consider the Supreme Court stay on the NCLT order initiating insolvency proceedings against Jaypee Infratech. Then there is the question of haircuts. The creditors to Synergies-Dooray Automotive will reportedly get only 6 paise for every 100 paise of loans. It remains to be seen how other cases are settled.

The Insolvency and Bankruptcy Code is undoubtedly a shot in the arm for Indian capitalism. The economic reforms till now have been more successful in dealing with the problems of entry rather than the problems of exit. The latter is equally important, since it will allow capital to be reallocated to enterprises that will be able to put them to better use. The threat of loss of management control should also be a signal to management groups—especially the politically influential ones—that they cannot take creditors for granted.

It is good that the highest court in the land has very strongly reiterated the need for the new framework. The ruling should hopefully minimize the legal tangles that could emerge in the initial years of transition, especially from the lower courts.

*Do you think the Insolvency and Bankruptcy Code will help in early debt resolution? Tell us at views@livemint.com*

END

# Govt. warns directors of 2.09 lakh scrapped firms

P.P. Chaudhary

The government has warned directors of the 2.09 lakh companies, which have been struck off the Register of Companies, against siphoning funds out of these firms' bank accounts, for, this could attract punishment that includes at least six months up to three years of imprisonment.

The finance ministry had, on Tuesday, urged banks to freeze bank accounts of 2.09 lakh firms. On Wednesday, the ministry warned that the 'two to three lakh directors' of firms that have been disqualified would face 'strict action' even if they have 'siphoned off any money prior to' banks imposing restrictions on such accounts.

Newly appointed Minister of State for Corporate Affairs P.P. Chaudhary said more shell companies were being identified, as efforts were under way to identify the ultimate beneficiaries behind firms already struck off.

**'Professionals identified'**

Professionals such as chartered accountants, company secretaries and cost accountants associated with such shell companies and involved in illegal activities had been identified in certain cases and action against them was being monitored, he added. "The weeding out of shell companies would not only help in checking the menace of black money but also would promote an ecosystem of 'Ease of Doing Business' and enhancing investors' confidence…

"The financial status of the companies would be reflected in a true and fair manner which would minimise the possibility of frauds and tax evasion… the availability of funds for illegal purposes will also be choked," the minister said.

"... in case the director... of any 'struck off' company tries to unauthorisedly siphon-off money from its bank account, he/she may attract punishment of imprisonment of not less than six months extendable to 10 years," a statement said.

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# Centre sets up panel to suggest on new jobs

The NDA government has constituted a new task force led by NITI Aayog vice-chairman Rajiv Kumar to recommend measures to increase employment by promoting labour-intensive exports.

“While the Indian workforce has high aspirations, a majority of the workers are still employed in low-productivity, low-wage jobs in small, micro and own-account enterprises. An urgent and sustained expansion of the organized sector is essential to address India’s unemployment and under-employment issue,” the NITI Aayog said in a statement on Wednesday.

**Key strategy**

“An important strategy is to enable a shift towards more labour-intensive goods and services that are destined for exports. Given the importance of exports in generating jobs, India needs to create an environment in which globally competitive exporters can emerge and flourish,” the Aayog noted. The committee has been asked to submit its report by November 2017.

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# ‘Rs. 4,900 cr. black money disclosed’

Black money worth Rs. 4,900 crore was disclosed by 21,000 people under the Pradhan Mantri Garib Kalyan Yojna (PMGKY), the stash money declaration window announced by the government post demonetisation, an official said on Thursday.

The Income Tax Department, a top government official told PTI, has collected a tax of Rs. 2,451 crore till now from these declarations.

“These are now the final figures,” the official said, adding that the I-T department is following up legal processes.

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# Social revolution in a JAM

Safe metal box money secure concept symbol vector

In a post on Facebook made on the third anniversary of the Pradhan Mantri Jan Dhan Yojana (PMJDY) last week, the Finance Minister reportedly said: "Just as GST (goods and services tax) created one tax, one market, one India, the PMJDY and the JAM revolution can link all Indians into one common financial, economic, and digital space. No Indian will be outside the mainstream." The suggestion of equality as a criterion of governance that is conveyed by this is to be welcomed. JAM, deriving from Jan Dhan, Aadhaar and Mobile, combines bank accounts for the poor, who barely had the money to deposit in them, direct transfer of benefits into these accounts and the facility of making financial payments through mobile phones. Aadhaar is the pivot here, allowing the government to ensure that benefits reach the poor and enabling them to make payments through ordinary mobile phones. For furthering the latter the government has devised the Bharat Interface for Money (BHIM) app. The Minister spoke of these developments as a "social revolution", perhaps alluding to the feature that the poor are the most direct beneficiaries.

There is no doubt that eliminating leakage in the transfer of welfare payments and enabling the poor to have bank accounts are worthy objectives, and when achieved should be considered significant. Indeed, it is damning that a largely nationalised banking sector had done very little to extend banking services to the poor till recently, and credit goes to this government that it made this a priority. But claims of having achieved inclusion by operationalising the JAM trinity appear somewhat exaggerated. A financial inclusion, in the sense of everyone having a bank account and access to reliable and free electronic payments system, is not the same as economic inclusion. At its most basic level, inclusion from the economic point of view would entail equal access to opportunities for earning a livelihood. This in turn implies employment opportunities. As the demand for labour is a derived demand, in the sense that it exists only when there is demand for goods and services, a significant element in ensuring inclusion is to maintain, directly or indirectly, the level of demand in the economy. Next, even when the demand for labour exists, potential workers must be endowed with the capabilities to take advantage of the opportunity offered. The potential of the JAM trinity for bringing about either of these conditions for economic inclusion is limited. This is so because JAM functions in the digital space while much of our life is lived in the brick and mortar world. In the latter space we have seen very little improvement, not just recently but since economic reforms were launched over 25 years ago.

The economic reforms of 1991 were largely in the nature of liberalisation of the policy regime, meant to make it easier for firms to produce while at the same time exposing them to international competition with a view to increasing efficiency in the economy. What a strategy based exclusively on liberalisation overlooks is that an ecosystem of production is constituted not only by the laws and regulations determining the ease of doing business, but also the access that firms have to producer services ranging from water supply to waste management. These producer services require large capital outlay, often deterring private firms. When private entities do provide these producers services they tend to be expensive, deterring their off-take. It is for this reason that globally they are generally provided by governments. In India the case for public provision of producer services, and there is no reason to provide them free of charge, is particularly high as the overwhelming part of employment is in the form of self-employment. These units are scraping the barrel as it is. Even when producer units employ workers they are poorly capitalised, making it almost impossible for them to generate producer services themselves. Thus the public provision of producer services should be an essential part of public policy. Empowerment in the brick and mortar space would require public infrastructure on a gigantic scale compared to what we have now.

Moving from production to being, JAM cannot even claim equalisation, leave alone empowerment. Amartya Sen effectively settled a longstanding debate on the question of the metric to be used to gauge equality when he proposed that it should be human capabilities. These are the endowments that allow individuals to undertake functionings they value. We would have achieved a social revolution when we have equipped all individuals with the essential capabilities. This happens when a society has, at a minimum, universal health and education infrastructure accessible to all.

We have in recent weeks witnessed governance failure on a major scale in many parts of the country. In U.P.'s Gorakhpur district children have died due to systemic failure that meant that a district's only hospital is not able to maintain a steady supply of oxygen. Later a heavy downpour in Mumbai led to a complete shutdown, widespread loss of livelihood and some of life. And most recently, in Delhi's suburb of Ghazipur a garbage mountain came crashing down, again causing death and disruption. But we would need to turn to Bengaluru to recognise the limits to information technology in solving problems of living. Lakes that are toxic when they haven't been gobbled up by the real estate mafia, traffic snarls and inadequate sewerage make life less than easy in this IT hub aspiring to play first cousin to Silicon Valley.

Given the extraordinary challenges faced by India in the provision of public infrastructure ranging from health and education to drainage and sewerage, the claim made for JAM is breathtaking in its simplicity. JAM ensures seamless transfer of welfare payments and facilitates the making payments in real time. Once again, these are worthy objectives, but fall well short of the social revolution the honourable minister claims for them. Our social revolution will arrive when all Indians are empowered through an equality of capabilities. This would require committing resources to building the requisite social and physical infrastructure and investing time to govern its functioning. JAM may have achieved equality in the digital space but is far from having empowered Indians in spheres in which they are severely deprived at present, an empowerment that they clearly value. The government has leveraged IT smartly in operationalising JAM but the possibility of replicating this to transform the ecosystem of production for firms and the ecosystem of living for individuals is limited. The widespread disempowerment faced by the people of this country predates the arrival of Narendra Modi, but his government appears to give false comfort through its claims.

In a market economy one of the markers of what the public think of the government's policies is the response of private investors. Private investment in India has declined steadily over the past few years. Overall growth had however been maintained, partly through the demand generating impact of public investment. But now even growth appears to be stalling. The latest GDP figures from the Central Statistics Office show growth in the first quarter of the current financial year to be lower than the average for 2016-17. Data actually point to a steadily slowing economy with growth having been successively lower in the past five quarters. There appears to be a mismatch between the government's own assessment of its policies and the private sector's valuation of their worth. The jubilation over JAM is an instance of this.

*Pulapre Balakrishnan is Professor of Economics at Ashoka University, Sonipat and Senior Fellow, IIM Kozhikode. Views are personal*

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# Demonetisation: now a proven failure?

Image for representation purpose only. File | Photo Credit: The Hindu

**Arun Kumar**

Demonetisation as a means of tackling the black economy was destined to fail. It was carried out on the incorrect premise that black money means cash. It was thought that if cash was squeezed out, the black economy would be eliminated. But cash is only one component of black wealth: about 1% of it. It has now been confirmed that 98.8% of demonetised currency has come back to the Reserve Bank of India. Further, of the 16,000 crore that is still out, most of it is accounted for. In brief, not even 0.01% of black money has been extinguished.

Black money is a result of black income generation. This is produced by various means which are not affected by the one-shot squeezing out of cash. Any black cash squeezed out by demonetisation would then quickly get regenerated. So, there is little impact of demonetisation on the black economy, on either wealth or incomes.

## Changing goalposts

The government is highly embarrassed, and to cover it up, it has again changed the goalpost. It now argues that it is good that black money has been deposited in the banks because those depositing it can now be caught. But the government had tried to prevent people from depositing demonetised currency by changing rules during the 50-day period. It is now fighting hard in the Supreme Court against giving one more chance to deposit the demonetised notes that may have been left with the old and the infirm.

The government changed the goalpost earlier in November 2016 when it suggested that the real aim of demonetisation was a cashless society. Now it says that idle money has come into the system, the cash-to-GDP ratio will decline, the tax base will expand, and so on. But none of these required demonetisation and could and should have been implemented independently. Further, anticipating the failure of demonetisation in 2016 itself, the government started saying that demonetisation is only one of the many steps to tackle the black economy.

The government's argument that cash coming back to the banks will enable it to catch the generators of black income, and there will be formalisation of the economy, does not hold. Much of the cash in the system is held by the tens of millions of businesses as working capital and by the more than 25 crore households that need it for their day-to-day transactions.

## Those who bore the brunt

So, large deposits by businesses do not automatically become black. The Income Tax department has to prove that the sums deposited resulted from generation of black income. But it does not have the resources for dealing with lakhs of tax payers. According to the Finance Minister, big data analytics would track black money holders who have deposited cash in their bank accounts. During the Income Declaration Scheme in 2016, the same was said. Nothing came of it and demonetisation was announced.

The big failure of demonetisation is that it was carried out without preparation and caused big losses to the unorganised sector. This has not been factored into the recent data on growth rate, so the loss to the economy would be in lakhs of crores of rupees. Farmers, traders and the youth are all agitating.

The black economy needs to be tackled, but demonetisation is not the way. The brunt of this move has been borne by those who never had any black money. The note shortage is slowly waning and the long-term economic and social effects are becoming evident.

*Arun Kumar is Professor, Institute of Social Sciences*

**Dhiraj Nayyar**

For India to achieve prosperity for all, three ingredients are essential: a transparent, effective government, flourishing of competitive free markets, and huge investment in the poor. In 2012, two decades after liberalisation unleashed significant gains, the very foundation of future prosperity was under threat. Corruption had made the government dysfunctional, crony capitalists flourished at the expensive of honest entrepreneurs, and rampant tax evasion meant that the state did not have enough money to invest in uplifting the capabilities of its most vulnerable citizens. It would have needed a major disruption to make a clear break from the *ancien regime.* Demonetisation did just that.



**Short-term costs inevitable**

There were always going to be costs in the short run — people would be short of currency, businesses would be disrupted, consumption would fall, and GDP growth would take a hit. Critics are making much ado about the fact that 99% of the demonetised currency made its way into bank accounts rather than bonfires. This is hardly surprising, especially after the government announced the Pradhan Mantri Garib Kalyan Yojana where cash could be declared, deposited, and a hefty penalty paid. For any individual, it would make sense to retain some of her wealth rather than destroy it all. And for those determined to deposit their illicit wealth without disclosure, the cash has not become white. It will be scrutinised by the tax authorities and penalties levied.

Consider the gains that may accrue in the coming year once tax authorities have combed through accounts with suspiciously large deposits. According to Finance Minister Arun Jaitley, between November 8 and December 31, 2016, deposits between 2 lakh and 80 lakh were made in about 1.09 crore accounts with an average deposit size of 5.03 lakh. Further, deposits of more than 80 lakh were made in 1.48 lakh accounts with an average deposit size of 3.31 crore. These amount to some two-thirds of the value of the demonetised currency. Obviously not all of this amounts to black money, but even if, say, one-third is, it reveals that a significant amount of black money was sloshing around pre-November 8. That is now in the tax net. Moreover, the holders of these suspicious accounts will now be in the tax net for perpetuity, so the gain is not just one-off.

**Move to a cashless economy**

The other significant gain which has begun to accrue, and will gather momentum, is the move to a cashless economy. In the long run, a move away from the use of cash is the surest way of curbing the black economy. In 2015-16, the value of transactions for debit and credit cards was 1.6 lakh crore and 2.4 lakh crore, respectively; in 2016-17, it was 3.3 lakh crore for each. Also, in 2016, the National Electronic Funds Transfer handled 160 crore transactions valued at 120 lakh crore, up from around 130 crore transactions worth 83 lakh crore in the previous year. Note that the demonetisation impact would only have been registered in the final four to five of 2016-17. The gains in 2017-18 will be even more.

Prime Minister Narendra Modi's government has launched a multipronged attack on corruption and black money. Government discretion has been reduced particularly in the allocation of natural resources. There is a concerted attempt to improve ease of doing business, and technology is being used to deliver public services without leakages. It is far too early to write-off any of these efforts, and demonetisation. There is a future beyond the present.

*Dhiraj Nayyar is Officer on Special Duty and Head, Economics, Finance and Commerce, NITI Aayog. The views expressed are personal*

**Pronab Sen**

Any policy has to be judged in terms of its original intention. It may later have all kinds of side-effects, positive and negative, but nevertheless the touchstone is its original intent. The original intent of demonetisation was to address the issue of black money, or what the Prime Minister called *kala dhan.* There is enough work that suggests that people with black money hold a very small proportion of it in cash. Most of it is usually invested in gold, or real estate, or in the stock market, or abroad, and the share of black cash is 6% of the total black economy. So, the policy was at variance with the intent *ab initio.*

**Original intent**

The entire discourse regarding 3.4-4 lakh crore being extinguished and then coming back to the government in the form of special dividend by the RBI is something that the bureaucracy took up later. To the best of my memory, this was not what Mr. Modi himself said. Even if we go by the expectations of 3.5-4 lakh crore coming back, that has not happened.

Mr. Modi did talk about demonetisation as a way of addressing the large number of fake currency notes circulating in the economy. That time the estimate was 400 crore. Even here the intent was based on a false premise. As it turned out, it was closer to 40 crore. However, this premise was based on statistical studies of fake currency, so one cannot fault the Prime Minister.

Nonetheless, these two, and their linkage to terrorism, were the main components of the reason for demonetisation, and the outcomes for both of them in terms of the way they were articulated are abysmal.

Then the goalposts started shifting when it became apparent that the main reason was not justified by what was happening. First it was cashless, then less cash economy, then formalisation of the economy. The final step was in saying this would give IT authorities the information to go after people who had deposited black money.

As far as all these secondary objectives are concerned, one would have to take stock of them only as things pan out since these are part of longer-term phenomena. Let's first take the issue of a cashless economy or less cash economy. There are two ways this can happen. The first is a shift in payment patterns. There was certainly evidence that the number of electronic transactions went up. But after the money supply started coming back to some semblance of normal, those dropped. Whether Indians have changed the way they make payments is questionable.

Then there is the issue of identifying the holders of black money. When people put money into the bank, something that is anonymous gets tagged with their name. However, not all of that money deposited is black. Perfectly white cash holdings were common. To able to distinguish the black from the non-black would be the responsibility of the IT authorities. They have to analyse the deposits and correlate them with the tax payment records, which is relatively easy to do. What is difficult is to establish is whether the person depositing the cash was liable to pay tax in the first place.

**Asking questions**

What I find objectionable and worrying is that all of us have vilified the RBI and the banking system, neither of which had any prior warning about what was going to happen. The RBI tried its best, but its reputation has taken a serious beating.

On the other hand, what has the IT department done in the last eight months? Questions need to be posed to the IT authorities whether the whole demonetisation episode is not to be an unmitigated disaster.

*Pronab Sen is former Chairman of the National Statistical Commission and country director, India Central Programme of the International Growth Centre.*

**(As told to Anuradha Raman)**

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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**Imposition of Countervailing Duty on Imports of Stainless Steel Flat Products Will Strengthen the Ongoing Efforts of Indian Industry for Moving Towards 100 % Quality Regime for Better Safety and Health of Users, Says Shri Birender Singh, Union Steel Minister**

Welcoming the imposition of Countervailing Duty on imports of Stainless Steelflat products by the Ministry of Finance, Union Steel Minister Shri Birender Singh said in New Delhi today that, “CVD on Stainless Steel will strengthen the ongoing efforts of Indian industry for moving towards 100 % quality regime for better safety and health of users. This will provide a level playing field to the industry to grow to its full potential after attaining 2nd largest rank in stainless steel production in world in 2016.”

The notification issued by the Ministry of Finance, dated 7th September 2017, prescribes a total of 18.95% CVD on imports of Stainless steel flat products from China for the next five years. Reacting to the development Dr. Aruna Sharma, Secretary Steel said, “This is the first case of imposition of CVD on any steel product in India. This would provide the much needed relief to the stainless steel industry from the subsidized imports from China.” Dr Sharma said that this was one among the many steps taken by the Government to help the domestic Stainless Steel Industry. Among the other steps were the imposition of the Stainless Steel Quality Control Order (QCO) and other trade remedial measures.

The CVD investigations were initiated on 12th April 2016 by the Directorate General of Anti-Dumping and Allied Duties (DGAD) in response to a surge in subsidized imports of stainless steel flat products. These imports were distorting the domestic market, which was under huge stress and was leading to financial stress in the industry. Extensive investigations were carried out by DGAD and the final findings were issued by the DGAD vide notification dated 4th July 2017.

The final findings list a possible 81 known subsidies being provided by China. They were categorized into five different heads including Grants (0.55%), Export Financing (0%), Tax & VAT incentives (2.3%), Provision of Goods & services (15.78%) and Preferential loans and lending totaling 18.95%.

YSK/MI

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# ‘Income inequality in India at its highest level since 1922’

*According to a research paper by renowned economists Thomas Piketty and Lucas Chancel, income inequality in India is at its highest level since 1922, the year the Income Tax Act was passed. In December, they will release the first ‘World Inequality Report’ where they will compare India’s inequality trajectory with other emerging, industrialised and low-income countries and suggest ways to tackle global and national inequality.*

*In an e-mail interview,* **Lucas Chancel** *discusses the findings of the paper titled ‘Indian income inequality, 1922-2014: From British Raj to Billionaire Raj?’ Excerpts:*

**Can you summarise key findings of the paper?**

According to our benchmark estimates, the share of national income accruing to the top 1% income earners is now at its highest level since the creation of the Indian Income Tax [Act] in 1922. The top 1% of earners captured less than 21% of total income in the late 1930s, before dropping to 6% in the early 1980s and rising to 22% today. Over the 1951-1980 period, the bottom 50% group captured 28% of total growth and incomes of this group grew faster than the average, while the top 0.1% incomes decreased. Over the 1980-2014 period, the situation was reversed; the top 0.1% of earners captured a higher share of total growth than the bottom 50% (12% versus 11%), while the top 1% received a higher share of total growth than the middle 40% (29% vs. 23%). These findings suggest that much can be done to promote more inclusive growth in India.



**You have said the income inequality has been at the highest level?**

Since the 1980s, India did not only open-up and liberalise its economy, it did it in a way that was very favourable to top income earners and capital owners.

Top tax rates which were very high in the 1970s (up to 98%) decreased to 30% in the 1980s. Wages set by governments in government enterprises were liberalised after privatisations and the dispersion increased.

It is also likely that privatisations principally benefited richest income groups, those who already had capital, rather than the majority of the population which didn’t access equity.

On the other hand, growth at the bottom of the distribution was notably lower than average growth rates since the 1980s.

**Is this finding unique for India?**

To better understand the rise in Indian inequality, let’s look at other emerging countries. China also liberalised and opened up after 1978, and in doing so, experienced a sharp income growth as well as a sharp rise in inequality.

This rise, however, stopped in the 2000s so that inequality is currently at lower level there than [in] India (top 1% income share at 14% versus 22% in India, according to our estimates). In Russia, the move from a communist to a market economy was extremely brutal and today has a similar level of inequality as in India. This shows that there are different strategies to transit from a highly regulated economy to a liberalised one. In the arrays of possible pathways, India pursued a very unequal way but could probably have chosen another path. All this data is available on an open-access website, WID.world.

**There have been counter arguments to your thesis?**

Some commentators argue that without extreme growth at the very top of the distribution, there wouldn't have been high growth in India. There is, in fact, little evidence supporting this claim. The top 0.1% captured more total income growth as the bottom 50% since 1980. Would all income growth have disappeared if the situation had been reversed? We can also doubt this. The highest growth period in Western Europe, after the second world war, was also a period of equitable redistribution of the fruits of growth. Europe grew as a market economy but it was not a market society. It had institutions, rules, norms limiting the power of capital accumulation and of income concentration.

**What do these findings mean for India?**

There are many options and we do not claim to put an end to debates. Regarding rising inequality at the very top of the distribution, we show that after 1980, in India, top Income Tax rates were brought from extreme levels to much lower ones. Land concentration is also an issue in India. where agriculture remains a key sector. Indeed, access to free and quality education and health is crucial to raise bottom 50% incomes.

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# Is India's GDP growth falling?

**What happened?**

As per the estimates released by the Central Statistics Office on August 31, India's economy, as measured by the gross domestic product (GDP), grew by 5.7% in the first quarter of 2017-18, compared with 7.9% in the same quarter a year ago. This is the slowest pace of GDP growth recorded since the NDA came to power in May 2014. India grew by a strong 9.1% in the quarter from January 2016 to March 2016. The growth recorded in the subsequent quarters was 7.9%, 7.5%, 7% and 6.1%. So this is the fifth quarter in a row that the growth has slipped, with the pace of decline picking up momentum in the last two quarters. The gross value-added (GVA) in the economy grew at 5.6% between April and June, the same pace as the previous quarter, but sharply lower than the 7.6% growth in the first quarter of the last year.

**Is this surprising?**

Most economists didn't expect a sharp uptick from the tepid 6.1% mark recorded in the January-March quarter this year, yet few anticipated a decline to 5.7%. The government has sought to divorce the growth trend from the impact of its decision to demonetise Rs. 500 and Rs. 1,000 currency notes last November, but economists believe the lingering effects continue to jolt sentiment. Growth, the government has argued, had begun to slow even before the move to suck out 86% of the currency notes in circulation. With the currency levels reverting close to the pre-demonetisation 'normal,' the bigger disruptive force affecting the latest GDP growth numbers was the introduction of the Goods and Service Tax (GST) from July 1. Businesses nationwide whittled down production in the April-June quarter and focussed on off-loading the existing stock, thanks to the uncertainty about how the new indirect tax regime will treat earlier tax credits on inputs.



This also impacted GVA numbers, as a lot of the inventory that was off-loaded had already been accounted for in the value of production in the earlier periods. Moreover, while firms saw a healthy growth in sales, their margins were dented by a spurt in commodity prices spiking input costs. Lastly, wholesale price inflation turned negative at this time last year, so growth numbers appeared higher as a result of their statistical impact, which is no longer the case, the government has argued.

**Which sectors are hit?**

The manufacturing sector, as a sub-set of industry, led the growth tumble, expanding by just 1.2% in the quarter, compared with 5.3% in the previous quarter and 10.7% a year ago. This was the worst quarter for Indian manufacturing in five years. Overall industrial output also collapsed to 1.6% growth from 7.4% a year ago and 3.1% in the previous quarter.

The construction sector that has been the bulwark of job creation grew by just 2% (in GVA terms) as it grapples with the headwinds of a new regulatory regime (RERA), the GST and leveraged balance sheets of developers. Mining GVA shrank by 0.7%, compared with a 0.9% dip last year.

The services sector offered some semblance of stability, growing at 8.7% compared with 9% in the same quarter last year, but a deeper look suggests this was driven by a rise in trade-related GVA to 11.1% (from 8.9%). This is proof of sorts that the destocking in manufacturing was reflected in higher volumes (often discount-driven) in the trade segment. Agriculture GVA dipped from 2.5% in the first quarter of last year to 2.3%, though crop output increased healthily. Low prices for crops apart, it appears that other agriculture-related activities, such as animal husbandry, have dragged down the sector's overall growth.

**What lies in store?**

The Statistics Office hopes that growth will rebound in the current quarter, “subject to how efficiently companies adapt themselves to the GST.” The new NITI Aayog Vice-Chairman Rajiv Kumar said growth would return to 7%-7.5% between July and September. Analysts are reworking their growth hopes for the full year — rating agency Crisil has curbed it from 7.4% to 7%. Finance Minister Arun Jaitley has admitted that the latest growth print poses a challenge for the economy and the government needs to work harder in the coming quarters to spruce up growth. Watch out for policy actions to spur investment and job creation.

VIKAS DHOOT

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# ‘NPAs: challenge is to avoid delays’

On June 13, the Reserve Bank of India (RBI) came up with an advisory asking banks to file insolvency and bankruptcy proceedings for 12 loan accounts, in which banks had an exposure of more than Rs. 5,000 crore each. This constituted about 25% of the system’s bad loans whose total is estimated at Rs. 7 lakh crore.

The central bank had asked banks to file bankruptcy cases with the National Companies Law Tribunal (NCLT) within June 30. The RBI had also advised banks to make higher provisions for these accounts to be referred to the Tribunal under the Insolvency and Bankruptcy Code (IBC). According to RBI deputy governor Viral Acharya, the move was intended to improve bank provision coverage ratios and to ensure that banks are fully protected against likely losses in the resolution process.

In the last week of August, RBI sent banks another list comprising 26 accounts, which they must resolve by December 31, failing which those cases have to be taken up for bankruptcy as well.

NCLT is expected to admit or reject a case within 14 days of a case being filed. However, bankers said the time taken by NCLT in some of the cases was beyond 14 days.

“It is still early days, but the number of bankruptcy cases which have been filed by operational as well as financial creditors is encouraging. Many cases have been admitted and the 180-day clock (extensible by a further 90 days) for these cases to resolve has already started,” Mr. Acharya said in a speech last week.

**The bell tolls**

The clock starts ticking once a case is admitted. After a case is admitted, insolvency resolution professionals (IRP) are put on the job to find a resolution process. In case no resolution is possible within six months, another three months’ extension can be given. However, if no resolution is reached even in extended period, the company goes for liquidation.

“Swift, time-bound resolution or liquidation of stressed assets will be critical for de-clogging bank balance sheets and for efficient reallocation of capital,” RBI governor Urjit Patel had said recently at seminar on insolvency and bankruptcy.

The IBC, 2016 — which Mr. Patel describes as a watershed towards improving the credit culture of the country — was aimed at time bound resolution (or liquidation) of stressed assets.

The NCLT was constituted on June 1, 2016 with 10 benches and one principal bench. More than 1,000 cases have already been filed with the NCLT, of which more than 220 cases have been admitted. Over 900 insolvency professionals (IPs) have registered with the Insolvency and Bankruptcy Board of India (IBBI).

One of the key aspects of time-bound resolution is the infrastructure of the NCLT. Bankers and insolvency professionals said there is a need to beef up the infrastructure of NCLT as many cases apart from bankruptcy are also being filed at NCLT.

“The staff in NCLT is very limited,” said Ankur Srivastava, insolvency professional, Ezy Laws.

**Separate bench needed**

“Bench is under pressure because there are not enough number of Judges. The same bench will be hearing IBC matters, other company law matters, other merger matters, conversion of private limited company to public limited company — all issues are going to the same bench,” he said.

According to Mr. Srivastava, a separate bench for for insolvency and bankruptcy cases is the need of the hour.

“We need to have a separate bench for IBC matters. If... [we do], then this could solve the problem,” he said.

A recent report by Assocham and EY, titled ‘Experiencing the Code — Corporate Insolvency in India’, said that more than 200 proceedings are now ongoing with the National Company Law Tribunal and more than 900 insolvency professionals (IPs) have registered.

Among sectors, metals and mining is at the top with over 50 cases, followed by engineering and construction (35), food, beverage and hospitality (27), power and electricity (20) and healthcare (7).

Observing that ‘a major challenge foreseen for the Code was the tidal flow of cases to the NCLT’, the report said, “In addition to new cases filed for resolution under IBC, there was a significant backlog of cases that were transferred from the CLB. Also, winding up cases with high courts, corporate recovery cases with the debt recovery tribunals (DRTs) and rehabilitation cases with the BIFR [Board for Industrial & Financial Reconstruction] were transferred to the NCLT.”



There are discussions currently to increase the number of benches and change single-member benches to double-member benches.

**‘Clock should not stop’**

There could be other issues that add to the delays. Essar Steel filing a plea in the Gujarat High Court challenging the initiation of bankruptcy proceedings against the company, is an example.

“There is no provision under the code for going to the high court, but under the constitution of India the high court has the inherent power to accept the writ. But the good thing that happened in the Essar case is that the Gujarat High Court has not touched upon the provisions of the insolvency code. They just touched upon the issue as to whether the RBI is right in targeting just 12 accounts..., which should not lead to discrimination. The high court has not commented on insolvency *per se* ,” Mr. Srivastava pointed out.

The recent Supreme Court order which stayed the insolvency proceedings against real estate firm Jaypee Infratech is also worrying bankers.

“The fact that the NCLT proceedings are stalled..., anything that stops the time clock is not a good thing,” said Abizer Diwanji, partner & national Leader, Financial Services, Restructuring & Turnaround Services, EY.

According to Mr. Diwanji, one of the key challenges in insolvency proceedings is dealing with the insecurity of all the stakeholders.

“The challenge is the level of insecurity of all the stakeholders — financiers, promoters, banks and even IPs,” he said.

“To deal with it, we need to develop a different set of capabilities. What is lacking is capability and not quantity.

“This is applicable for everyone — IPs, courts, NCLT judges — who need to be more pragmatic about decision-making. It will come with time. The quality that is required is not industry knowledge but managing all these people facing insecurity,” Mr. Diwanji said.

**The road ahead**

The important question is whether the stakeholders will find a resolution within the required time frame, that is within six months plus another three months after the case has been admitted. If time-bound resolution does not happen, companies will go for liquidation. Most companies going into liquidation is a scenario that no one wants.

“Till now the timeline that was put out has been maintained. The tougher piece is ahead of us,” Arundhati Bhattacharya, chairman, State Bank of India, the country’s largest lender, told *The Hindu* .

“Because that is when we have to ask for bids and then the bids have to be evaluated and put up. The major piece is ahead of us,” she said.

When asked if cases could be resolved in six months, Ms. Bhattacharya said, “Very difficult to say. At this point, we will keep our fingers crossed.”

The Assocham-EY report also said the real test for IBC timelines would be to get cases resolved within a period of 180/270 days with all necessary approvals.

***The tougher piece is ahead of us. At this point..., keeping our fingers crossed***

***Arundhati Bhattacharya***

***Chairman, SBI***

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# GST: efficiencies have risen in manufacturing

India’s manufacturing sector gives a major thrust to economic growth, contributing to the GDP, creating employment opportunities and attracting foreign investments.

The Industrial Policy Resolution of 1956, known as the economic constitution of India, laid down the structure of the manufacturing sector. Subsequent policies have continued to give importance to the sector.

The share of manufacturing in the GDP was 16% at the beginning of the 12th Five Year Plan. While the service sector’s share is predominant, it is pertinent to note that the manufacturing sector is a major consumer of services.

Till recently, the manufacturing sector was burdened with multiple indirect taxes viz. central excise, service tax and VAT. In addition, non-availability of tax credit for central sales tax increased the cost. Introduction of GST, in the backdrop of the ‘Make in India’ initiative, does away with multi-layered taxation.

For major sectors, tax rates are mostly in line with the present effective tax incidence. Sectors such as consumer durables, construction material and FMCG, GST rates have seen a marginal difference.

State-border check posts, established to scrutinise documents and location-based compliance, adversely impacted the overall production and logistics time, which reduced the efficiency of Indian manufacturers.

These check-posts have been abolished with the introduction of GST. The new tax regime will unify the Indian market and help smooth the flow of goods within the country. Prior to GST, the inter-state sale was subjected to 2% CST without input credit, whereas GST on inter-state supply is available for input credit. This would lead to removal of an extra level of warehousing in the supply chain resulting in cost benefits.

GST contemplates input credit of tax on supply of goods or services. The GST Act provides a list of services for which input credit is not available. Thus the system intends to provide seamless input credit. This welcome change helps businesses plan well on product pricing and estimating cash flows.

Anti-Profiteering rules mandate that any reduction in the tax rate or the benefit of input tax credit needs to be passed on by way of commensurate price reduction. Standing committees, both at the Central and State levels, will examine complaints and refer cases for investigation based on merit.

After investigation, the Directorate General of Safeguards will report to the anti-profiteering authority. The authority will review the report before taking a decision.

The authority, which has a sunset period of two years, has powers to debar an assessee from conducting business, to levy penalty, or to enforce refund of proportionate price reduction.

The GST system excludes certain petroleum products. Natural gas, a clean fuel, is one of them. Certain industries which use them as key input were allowed input credit under the erstwhile VAT system. Keeping natural gas out of the GST system would increase the production cost. The GST Council, which is considering this aspect, has to take quick, positive action in this regard to avoid cost increases.

Another important issue is how exemptions and incentives granted under the erstwhile excise and VAT system would be continued under the GST regime. Central and State governments are yet to come out with a concrete proposal. It has to be ensured that what was intended, while granting the incentive, is continued under the GST system.

**Going forward**

The GST System contemplates seamless input credit. Administrative machinery has to ensure this is implemented in letter and spirit. The GST Council has to constantly watch developments and give suitable directions to achieving the objective of seamless input credit.

The Council should also ensure that actions taken by the anti-profiteering committee are genuine and not arbitrary. This will boost the confidence of the industry in the GST system and embolden them to concentrate on business development.

The Council has to take a pragmatic view in making changes to the tax rate for certain goods and services about which select industries are concerned.

Both the Central and State governments have to be congratulated for implementing the GST system in a smooth manner, without disrupting businesses. The manufacturing sector has always extended its support to the initiatives taken by the Government. Now too, this sector has accepted the GST system and is working well with the governments.

*(The author is chairman, Manufacturing & Digital Excellence Sub-Committee, CII Southern Region, and president & managing director, Flat Glass — South Asia, Malaysia & Egypt, Saint-Gobain India Pvt. Ltd.)*

**This is the fourth instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry**

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# Search for quality: on credit rating agencies

Credit rating agencies may be in for a tough ride as the Securities and Exchange Board of India continues to tighten the screws on them. The market regulator has released a consultation paper seeking feedback on a new set of rules drafted to improve “market efficiency” and enhance “the governance, accountability and functioning of credit rating agencies”. Among them are provisions to restrict cross-shareholding between rating agencies without regulatory approval to 10%, and increase the minimum net worth requirement for existing and new agencies from 5 crore to 50 crore. Another mandates at least five years’ experience for promoters of rating agencies. SEBI has proposed disclosure norms to improve investor awareness about the operations of rating agencies. The spin-off of non-core operations of rating agencies will allow SEBI to focus on regulating just their credit rating operations. SEBI has spelt out its rationale for proposing each of the rules. SEBI’s predominant concern, apart from improving the information available to investors, seems to be to prevent rating agencies from resorting to collusion in reaching decisions. This effort is in line with SEBI’s crackdown on the agencies after the default in 2015 of a highly-rated debt issued by Amtek Auto.

SEBI tightens P-Note rules

The new rules, if they come into force, may not have any substantial impact on the quality of credit rating in India. *Prima facie*, the intended effects of the rules sound convincing. What is unclear are their unintended effects on competition in the rating space. Also, how the rules will address the problem of “rating shopping” that plagues the business of credit rating in the country is unknown. The present business model of rating agencies is seen to allow considerable room for issuers of securities to shop for a favourable rating or avoid negative ratings by severing their ties with these agencies. Prudential regulation is thus justified to tackle this problem. This criticism, however, ignores the reputational damage these agencies suffer after each corporate default. Repeated failures have not affected the business of rating agencies, primarily due to the lack of alternative service providers who can help out investors. Individual creditors have thus had to trust the ratings of the existing rating agencies at their own peril, even after repeated crises. As is well-known today, the Indian credit rating market is an oligopolistic one due to the high barriers to entry. SEBI’s proposed move to impose further quality requirements on rating agencies is unlikely to change things for the better, or raise further barriers. The way forward lies in making it easier for new players to enter the credit rating space and compete against incumbents. This will go a long way towards making credit rating agencies actually serve creditors rather than borrowers.

Rajasthan’s ordinance shields the corrupt, threatens the media and whistle-blowers

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# The ‘3-3-3’ puzzle and what to do about it

That we are in the midst of an unprecedented and alarming widening of income gaps amongst Indian states is becoming accepted as conventional wisdom. My co-author Praveen Chakravarty and I have been documenting this point for the past year, and our research at the IDFC Institute finds mention in last week’s *The Economist* in a very useful report on the topic.

The facts are stark and simply illustrated (*see chart*). The ratio of per capita state income levels as between the richest three and the poorest three of the 12 largest states has been skyrocketing for the past quarter-century, and today stands at well over 300%. We have dubbed this the “3-3-3” puzzle: The three richest states are three times as rich as the three poorest states. It is a puzzle because orthodox economic theory predicts that contiguous economic units which are knitted together by movements of trade and people ought to exhibit convergence, not divergence.

The puzzle deepens because India’s states constitute a federal economic union characterized by—finally, after the goods and services tax (GST)—harmonized taxes and free trade among states. Apart from this, there is suggestive evidence presented in this past year’s Economic Survey that inter-state movement of people is more robust than we had thought. Finally, let us not forget that India’s states constitute not only a customs union and a fiscal union, but a monetary union as well. These are strong forces for convergence that are, evidently, being counteracted by even stronger forces of divergence, leading to widening divergence overall.



The reality of rising regional inequality can no longer be swept under the carpet of rising average incomes across all states. But while the facts are not in dispute, there is little agreement on the causes of, and possible cures for, the 3-3-3 puzzle. Chief economic adviser Arvind Subramanian posits “governance” as a possible explanation, but this theory is unpersuasive. As we document, the data show not only widening income gaps amongst major states, but within those same states: The dubious ascription of state-level governance differences cannot account for this. After all, attributing what one cannot explain to a vague catch-all concept such as governance is little better than providing a label for one’s ignorance.

By contrast, Chakravarty and I have argued that much the most plausible explanation for this pattern of widening divergence is the model of economic development itself, characterized by initial income gaps becoming locked in through economies of scale, network externalities, and agglomeration economies. Our hypothesis is consistent with the fact that, as the chart shows, inequality really began taking off only after the 1991 economic liberalization, suggesting that the move from a state-oriented to a market-oriented development paradigm may indeed be the driver. This is not at all to denigrate economic liberalization—quite the contrary—but to observe that the fruits of liberalization may be unevenly spread, as market-driven differences in opportunities and outcomes overcome the flattening effects of decades of socialist Central planning.

The existence of wide regional income gaps which are not going to go away anytime soon, and which, indeed, are integral to the texture of how our development paradigm has evolved, forces us to think creatively about ameliorative economic policy interventions, forming part of what economists have come to call “place-based” economic policy. These will require, in the first instance, a body of evidence which is lacking at present across a range of policy-relevant domains, even including monetary policy. For instance, computing reliable state-level consumer price indices, using local weights in the basket and local prices, rather than relying solely on a national average and broad aggregates such as urban and rural, would be a very good starting point for exploring the differential regional impacts of pursuing a national inflation target mandate.

*Vivek Dehejia is a* Mint *columnist and resident senior fellow at IDFC Institute, Mumbai. Read*

*Vivek's* Mint *columns at* www.livemint.com/vivekdehejia

*Comments are welcome at views@livemint.com*

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# Narendra Modi govt's growth challenge

The Narendra Modi government is facing fresh challenges on the economic front. The pace of economic growth has slowed considerably, with no clear sign of a sharp pullback in the near term. Gross domestic product (GDP) expanded at a modest pace of 5.7% in the first quarter of the current fiscal. Gross value-added (GVA) growth—the preferred indicator of economic activity—came in at 5.6%, compared with 7.6% in the same quarter last year. The slowdown has surprised analysts and most private sector economists have revised downwards their full-year forecast. It now seems difficult for the economy to get close to the Reserve Bank of India's (RBI's) GVA growth forecast of 7.3% for the current year. Gross fixed capital formation has slipped below 30% of GDP.

Slower growth during the quarter is being attributed to the lingering impact of demonetisation and destocking of inventory before the implementation of the goods and services tax (GST). The manufacturing sector expanded by 1.2%, compared with a growth of 10.7% in the same quarter last year. However, it is also likely that the softening of economic activity, which started before demonetisation, is still continuing. Therefore, it will not be possible, at least in the near term, to gauge precisely which factor is affecting growth to what extent. This makes forecasting the future course more difficult.

What should worry policymakers is that the economy is slowing at a time when global markets are reasonably stable and commodity prices are within India's comfort zone.

So what can the government do to accelerate growth? There are no easy answers and the present economic situation poses a big policy challenge. Some commentators have suggested that the government should give a fiscal stimulus to revive growth. It is likely that a sufficiently large fiscal push will help growth in the short run, but there are at least three big problems with this idea. First, fiscal intervention has costs and there is no guarantee that it will take the economy to a higher growth trajectory in a sustainable manner. The government has increased capital expenditure over the last few years, but it has not resulted in crowding in of private investment. Second, the government doesn't have the fiscal space to give a meaningful stimulus at this stage. It is important to note that state government finances have worsened in recent years and have limited the benefit of consolidation by the Centre. The general government deficit continues to remain on the higher side. Third, breaching the fiscal deficit target yet another time will affect policy credibility and could pose a threat to hard-won macroeconomic stability. Fiscal stimulus, therefore, is best avoided.

Some economists have also suggested that the RBI should intervene in the foreign exchange market more effectively, as overvaluation of the rupee is hurting exports. Although this may not provide an immediate push to economic activity and can have other macroeconomic implications, policymakers would do well to re-evaluate the exchange rate management strategy. As we have argued earlier in these pages, India needs to reassess the kind of foreign flows it wants.

Further, the need for recapitalization of public sector banks cannot be overemphasized. It is highly unlikely that a predominantly bank-financed economy will grow as desired when about three-quarters of the banking system is in deep stress. While the bankruptcy process will help deal with non-performing assets, the government needs to move fast on bank recapitalization. Private investment is likely to remain depressed till the twin balance sheet problem is resolved. The government should take advantage of buoyancy in the stock market to accelerate the disinvestment process and use the proceeds to capitalize banks and push capital spending. The initial signs indicate that revenue from GST will actually be better than estimates. This could be a big relief and can help boost public spending. Ideally, the government should pass on the benefits of higher tax collection by reducing rates, but in the present situation it could perhaps wait for some time and use higher revenue to fund banks and infrastructure projects.

To be sure, the government has taken several steps in the right direction—such as the implementation of GST—which will help the economy in the medium to long run, but there has been virtually no movement on reforms in areas like land and the labour market. The government should go all out and use its political capital to push reforms in these sectors, which will improve the ease of doing business. All this may not lift growth in the next quarter, but will help strengthen the foundation for a sustainable economic recovery.

*What should the government do to revive economic growth? Tell us at views@livemint.com*

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# Capital is back? The fall and rise of the rich in India

A collection of stylised trends makes it seem like the super-rich are back again. | Photo Credit: V.M. Maninathan

To understand the levels and structures of inequality in India, it is necessary to put the rich at the centre of its macro-history.

In Europe and the United States of America (USA) on the eve World War I, wealth held by a fraction of the richest percentile dominated over national income. This wealth fell dramatically over the course of the Great Depression and two World Wars, only to emerge again in the late 1970s. It is this long-run evolution that is at the centre of Thomas Piketty's book *Capital in the 21st Century*.

Much like the developed world, wealth concentration in India seems to have followed a U shape, now recognised as the inverted Kuznets curve. To be sure, India has for centuries housed the richest and poorest people on the planet. My recent research (Kumar, 2017 *Capital and the Hindu Rate of Growth*) asks a question along these lines: Is the state of wealth inequality today a continuation or a sharp break from India's past?

**The decline**

In 1937, the Nizam of Hyderabad graced the cover of *Time* magazine as the wealthiest person in the world. His land, precious metals, and other assets were equivalent to almost 30% of India's national income. He was by every definition of the word, "Super Rich."

Joining him at the top of India's wealth distribution were other ancestral royalty from India's princely states and a handful of business houses. The establishment of independent India along with its newly drafted Constitution created a new paradox — it guaranteed private property but also made tremendous promises of democratisation. It was on these lines that a large-scale dismantling of incumbent and established wealth occurred over the next three decades. It began with the annexation of private (princely) land during the formation of the Indian union.

Over time, as India's tryst with socialist planning proceeded, much of old wealth was confiscated, taxed progressively and nationalised. In development economics, this period (1950-1980) is often referred to as "The Hindu Rate of Growth." For example in 1966, the top 0.1% in India owned the equivalent of 16% of GDP; i.e. almost two months worth of output. By 1986, this wealth was worth less than 5% of national income.

Had India achieved superb equality? We cannot pretend to answer this affirmatively because the Hindu Rate of Growth was an embarrassment relative to what was happening in East Asia. But much like Europe and the USA, a combination of progressive taxation with anti-capital policies broke up the existing rentier class. Private property was also turned into national wealth — not always efficient but the pace and level of the decline amongst the rich was staggering. The term "Tata-Birla" resonates with the Indian imagination because these (and one or two others) corporate houses were the few that made the journey intact.

**Resurgence and metamorphoses**

While the speed of the decline owes much to Indira Gandhi, her successor Rajiv planted the seeds needed to rebuild private wealth. By 1986, inheritance taxation was abolished, other direct taxes diluted and private industry began to flourish again. Eventually nationalisation was reversed with sales of public assets and the globalising market became India's friend. The pace of stock market capitalisation since 1989 easily surpassed India's outstanding GDP growth. Although existing data does not allow a systematic analysis, a collection of stylised trends makes it seem like the super-rich are back again.

The Forbes Rich List published annually showed that by 1996 the richest two persons in India held wealth equal to 1% of GDP. It took thousands of estates to make this figure in 1980. In 2007, exactly seven decades after the Nizam, Mukesh Ambani made the global list as the world's wealthiest person.

At this juncture, India's billionaires club was worth almost 20% of national income. All this points to the possibility that India too has a U-shaped evolution of wealth concentration, indeed these trends were matched by income inequality according to work by Mr. Piketty and Abhijit Banerjee.

The resurgence of the rich was accompanied by a metamorphoses — much of top wealth is still inherited, but instead of hereditary royalty it is now 'corporatised' primogeniture. Unlike the poor investments made by incumbent aristocrats, inherited assets continue to grow. The families dominate private assets, due to closely held equity. But they are also joined by other smart investors and self-made businessmen. Rankings today change frequently based on entries and exits. These fluctuations are in the nature of wealth at the top. Old wealth has made way for the new and even newer wealth keeps emerging. Will national income be dwarfed again?

*(The author is Assistant Professor of Economics at California State University)*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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# Inflation may quicken by 20 bps on loan waivers

Farm loan waivers amounting to Rs. 88,000 crore likely to be released in 2017-18 by seven States, including U.P. and Maharashtra, may push inflation on a permanent basis by 0.2 percentage points, according to an RBI paper.

Farm loan waivers have been announced intermittently by both the central and state governments to provide relief to farmers facing distress due to natural calamities and crop failure. Loan waivers could add to the fiscal burden over the medium term, according to a Mint Street Memo from the RBI.

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# Did liberalization lead to lower income growth for the poor?

One of the strongest justifications for the economic liberalization that began in the 1980s is that it not only raised growth rates, but that growth percolated down to the poorest people. True, liberalization has increased inequality, but that is rationalized as the price to pay for higher growth. After all, it wasn’t just us staunch members of the bourgeoisie who said these things—even Comrade Deng Xiaoping advised the Chinese people to “let some people get rich first”.

Folks unimpressed by Deng may choose to believe economist Simon Kuznets instead, who said that inequality will increase initially as an economy develops, but will ultimately drop. The resultant Kuznets curve, as this depiction of the trajectory of inequality is named, is an inverted ‘U’. So a rise in inequality is perfectly fine, it’s just the effect of high growth in the economy. Those of us who are in the best position to profit from that growth, either by virtue of higher initial wealth, or higher educational opportunities, benefit the most, of course. But the important point is that everyone gains, even the poorest.

The French economist Thomas Piketty had poured cold water over this argument in his best-selling book, *Capital in the Twenty First Century*, which debunked our cherished belief that a rising tide of economic growth will necessarily lift everybody’s boats. Even so, we assumed that while this may be true for the developed economies as their factories are increasingly automated and their jobs vanish to emerging markets, it was different for developing economies. Surely, the evidence was all around us, as vast populations were able to move above the poverty line, thanks to the higher growth ushered in by liberalization? Surely the forest of satellite dishes in slums, the motorcycles parked in front of thatched huts, the ubiquity of mobile phones all pointed to rising prosperity even among the poor?

Apparently we were all deceived. A much-discussed recent paper by Piketty and Lucas Chancel titled *Indian income inequality, 1922-2014: from British Raj to Billionaire Raj?* denies that liberalization has been beneficial for the poor in India. Baldly stated, their paper finds that while average real annual per adult income growth for the bottom half of the population was 2.2% between 1951 and 1980, it fell to 1.94% between 1980 and 2014 (*See chart 1*). In other words, the bottom half of the population saw higher income growth in the decades before liberalization than in the decades after it. Sure, their incomes too have gone up after liberalization, but at a slower pace than earlier. Were those supposedly socialist decades really better for the poor?

Nor is the paper upbeat about the situation of the “middle class”. It finds that what it calls the middle 40% of the population (this is somewhat of a misnomer because it denotes individuals above the bottom 50% and below the top 10%) hasn’t done too well from liberalization either.

Average annual real per adult income growth for this “middle 40%” was 1.9% during 1951 and 1980, which went up to 2.02% between 1980 and 2014. The increase was a mere 0.12% per year, an increment any self-respecting worker in the formal economy would laugh at. The saving grace is that growth has been above 2% from the middle of the last decade for the bottom half of the population and from around the year 2000 for the “middle 40%”.

Piketty and Chancel do not deny that overall growth went up after liberalization. According to the paper, average annual real per adult growth for the entire population in the 1951-1980 period was 1.7%, well below the 3.25% growth notched up in the 1980-2014 period.

So the question is: in spite of overall growth being so much higher, how is it that people in the lower 90% of the population saw a decline in income growth or just a minor improvement? The rather obvious answer is that the top 10% of the population hogged the lion’s share of the growth in income.

Of the total income growth between 1951 and 1980, the bottom 50% of the population captured 28%, the “middle 40%” got 49%, while the top 10% had to remain satisfied with appropriating 24% of the growth (*See chart 2*). But these proportions changed dramatically after liberalization began in the eighties. During 1980-2014, the bottom half of the population got a mere 11% of the growth, the middle 40% captured 23% and the top 10% of people captured two-thirds of growth. With the top 10% appropriating so much of the increase in income, it’s little wonder that the rest of the population saw little benefit from liberalization. It’s also worth noting that the top 1% of the population captured 29% of the growth in incomes between 1980 and 2014.

Interestingly, China, which too went in for liberalization after 1980, saw its middle 40% capture 43% of the growth in incomes between 1980 and 2014. Growth there has been much more egalitarian than in India, although this may partly be the legacy of the earlier Maoist era.

What is income inequality now in India? The paper has data for 2014, which shows that the average income of an adult in the top 1% is about 70 times the average of the bottom half and 35 times that of the “middle 40%”.

The paper concludes that ‘“Shining India” corresponds to the top 10% of the population (approximately 80 million adult individuals in 2014) rather than the middle 40%. These findings will be very controversial as it upsets the established narrative on growth after liberalization. It is certain to start a lively and heated debate. The full paper can be accessed here.

*Manas Chakravarty looks at trends and issues in the financial markets.*

*Respond to this column at manas.c@livemint.com.*

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# The dangers of India's Billionaire Raj

Speaking from the ramparts of Red Fort in New Delhi last month, Prime Minister Narendra Modi was at pains to put fairness at the heart of his political agenda. He promised "a New India, where there is equal opportunity for all" by 2022, the 75th anniversary of independence. But on the most important indicator of this agenda—income inequality itself—the country is slipping dangerously backwards.

This conclusion is inescapable from a paper published last week by the celebrated French economist Thomas Piketty, along with his co-author Lucas Chancel. Its conclusion is striking. The share of national income taken by the top 1% of Indian income earners is now at its highest level since records began, when the British Raj began collecting income tax records in 1922.

Piketty's new Indian data suggests a pattern that is worryingly familiar from his opus *Capital*, which warned of galloping inequality in the industrialized world. In the West, the relative wealth of the ultra-rich dipped in the mid-20th century before bouncing back in the last two decades. India now shows the same trend, albeit mostly for different reasons.

Piketty and Chancel's evidence is comprehensive, but far from unique. International Monetary Fund (IMF) research last year showed India, alongside China, to be the most unequal major economy in Asia. A recent study by Credit Suisse, the investment bank, suggested that India's 1% now own a staggering 58% of national wealth—one of the world's highest rates, and akin to notoriously stratified nations like South Africa and Brazil.

The same is true at the very, very top. Harvard's Michael Walton has shown that India has an unusually high proportion of national wealth held by its swelling ranks of billionaires. Piketty's paper broadly supports this view, showing that the share of income held by the "0.001%" has also increased rapidly. The paper's subtitle poses a question: Is India becoming a "Billionaire Raj?" In truth, the evidence for this is now overwhelming. The question should be: why does it matter, and what can be done about it?

Over recent decades India laboured under the misapprehension that it was an oddly egalitarian nation. This was partly a hangover from the socialist era, when the rich still lived modestly by global standards. There were no Indians on *Forbes* annual billionaire rankings until the mid-1990s (now there are well over 100, more than in any other country bar America, China and Russia). There were methodological issues too, namely that research often focused on consumption rather than income or wealth, giving a false picture of inequality.

Beneath this there lay a peculiar intellectual consensus. On the right, thinkers like economist Jagdish Bhagwati argued that rapid growth mattered more than its distribution. But even on the left, Bhagwati's rival Amartya Sen focused more on conditions at the bottom, and the fact that economic expansion had failed to boost indicators of human development. For both, the gap between rich and poor was a secondary concern.

There was a logic to Sen's argument. Almost all successful economies in East Asia have grown rich by investing heavily in basic health and education, which helps poorer workers to move from farms to factories. Modern India more often looks like a Latin American economy, with a weak social safety net but yawning inequality.

There are good reasons to be worried about this gap too. Mainstream economists often used to be relaxed about inequality, arguing that it at least did little to harm growth. But more recent research, much of it again from the IMF, has overturned this consensus, showing that unequal nations tend to grow more slowly and are more prone to financial instability. Unequal countries also find it harder to form the kind of social consensus needed for structural economic reforms, a point made by Harvard's Dani Rodrik.

The reasons for Indian inequality are complicated. Some of it stems from positive factors linked to liberalization, like entrepreneurs building large companies linked to global markets. Factors such as rising urbanization and increasing returns to education also play a role. Many countries become less equal as they industrialize, only to reverse that trend later.

Still, India appears to be growing unequal more quickly and more starkly than most, a trend that will be hard to reverse later. It is also hard not to conclude that poor public policy, along with problems of corruption and cronyism, are partly to blame.

It also leaves a dilemma. The gap between rich and poor is likely to grow if Modi ever succeeds in his ambition of hitting double-digit growth rates. Certainly, this was what happened during the 2007 boom, a period when India's billionaire wealth rivalled Russia, and Reliance Industries' chairman Mukesh Ambani was briefly thought to be the richest man in the world.

Fixing this problem, so growth is more broadly shared, will be complicated. But there are obvious places to start, not least tax collection, in a country where an improbably tiny 48,000 people admitted to earning more than Rs1 crore in 2015. Beyond this a far more radical agenda is needed, to improve basic social services at the bottom, while using competition policy and regulation to stamp out crony capitalism and entrenched corporate power at the top.

For all of his talk of fairness, Modi is doing little of this. If he does not change course, the Billionaire Raj is only going to grow stronger.

*James Crabtree is a senior research fellow at the Lee Kuan Yew School of Public Policy in Singapore, and a former Mumbai Bureau chief for the Financial Times. His book on India,* The Billionaire Raj*, will be published in mid-2018 by Random House and One World.*

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# Addressing India's income inequality

Thomas Piketty has thrown a flaming dart into the Indian economic debate. In a new paper written in collaboration with Lucas Chancel, the superstar French economist has shown that income inequality in India is now at its highest level since income tax was first levied in 1922. The title of the study is suitably eye-catching—*Indian Income Inequality 1922-2014: From British Raj To Billionaire Raj*. The data here has quite naturally sparked off a lot of excited debate about the nature of Indian economic policy.

Indian inequality data has traditionally been derived from consumer surveys that understate the extent of the problem. Chancel and Piketty have calculated inequality from tax data, national income accounts and sample surveys—a much better method, though the way these disparate data sources have been integrated leads to potential methodological tangles that could lead to an overstatement of the extent of inequality in India. For example, the use of tax data for the top 5% and the use of survey data for the rest of the population assumes that only the top sliver under-reports income. How realistic is that?

The two economists show that income inequality has been rising steadily since Rajiv Gandhi became prime minister. This is not a unique finding. The International Monetary Fund has earlier estimated that the Gini coefficient, a popular measure of inequality, rose from 45 to 51 between 1990 and 2013. The LIS Data Centre in Luxembourg has come to similar conclusions. These are far higher than the official Gini estimate of 37 derived from consumer surveys.

The most obvious conclusion to be drawn is that economic reforms have relatively benefited a tiny group at the top of the Indian income pyramid, though absolute incomes have gone up across deciles since 1980 while the poverty ratio has plummeted. However, the uneven distribution of higher growth needs more public attention.

There are two important lessons to be gleaned from a careful reading of the data that has been released. First, the increase in income inequality coincides with the sharp rise in Indian economic growth after 1980. Also notice the very significant drop in income inequality during the stagnant 1970s. This points to the famous hypothesis put forth by Simon Kuznets—that inequality tends to rise during periods of rapid growth thanks to the uneven pace at which people move from low productivity to high productivity activities. Piketty wrote a sharp critique of the Kuznets hypothesis in Capital In The Twenty-First Century, his wildly popular (but perhaps unread) book. The correlation between economic growth and income inequality since 1965 needs to be worked out in a statistically rigorous manner.

Second, income inequality is not just about the share of national income going to the top 1%. There are deeper distributional issues. A comparison with China tells us a lot. Chancel and Piketty show that the share of national income captured by the bottom half in both India and China after 1980 has been broadly similar. The big difference between the two countries is in the fact that the middle 40% in India got 23% of the increase in national income since 1980 while the same group in China got 43%—a massive gap of 20 percentage points. This difference of 20 percentage points was largely captured by the top 1% in India.

So a stylized view is as follows: The Indian top 1% has done extremely well, the Chinese middle has benefited far more than the Indian middle, and the bottom half in both countries has had broadly similar experiences.

This newspaper believes the answer to this paradox lies in the failure of labour-intensive manufacturing in India compared to its massive success in China. The latter could absorb millions of people who left farming because of the rapid expansion of large enterprises, as was the case in most other successful structural transformations in Asia. India has failed on this front. The proportion of the labour force in agriculture has come down, but the workers who have left farms have not got jobs in modern factories or offices. Most are stuck in tiny informal enterprises with abysmal productivity levels.

There are two major political economy lessons that flow from these trends. First, that a sustainable attack on mass poverty should be focused on job creation in the modern sectors of the economy rather than redistribution through fiscal spending that is eventually destabilizing. Second, widening income inequality weakens public support for liberal economic reforms, as economist Dani Rodrik has shown. Economic populism takes over, as was the case during the tenure of the second United Progressive Alliance government led by Manmohan Singh. The gradual drift of the Narendra Modi government in the direction of populism and interventionism deserves to be seen against this backdrop.

It is also apt to once again underline the historical fact that no country has been able to win the battle against mass poverty without rapid economic growth. China is the latest example. Inequality is a problem that deserves more public attention—but the solution is more inclusive growth rather than misplaced nostalgia for the miserable 1970s.

*How can India reduce income inequality? Tell us at views@livemint.com*

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# In economics, what is 'Paradox of aid'

This refers to the paradoxical situation wherein countries that are blessed with good institutions to achieve economic growth have no need for foreign aid, while countries that possess poor institutions that inhibit their growth do not benefit from any amount of foreign aid. It was proposed by British development economist Peter Thomas Bauer in his 1971 book, *Dissent on Development*. The paradox of aid emphasises the importance of good institutions to achieve better economic conditions in the developing world, and the ineffectiveness of foreign aid to achieve a substantial improvement in living standards in the absence of the right institutions.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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# Time for course correction: on India's declining growth rate

What do the latest numbers on national income indicate? What are the chances of the Indian economy moving out of the current phase of relatively low growth? Or are we stuck at a new ‘Hindu’ rate of growth?

About a week ago, the Central Statistics Office (CSO) released the estimates of the gross domestic product (GDP) for the first quarter (April-June) of 2017-18. The numbers showed that in **Q1 of 2017-18, GDP grew by 5.7%**. Gross value added (GVA) at basic prices grew by 5.6%. Whichever measure you take, the growth rate has fallen below 6%. In the corresponding quarter of the previous year, GDP grew at 7.9% and GVA at 7.6%. What accounts for the decline in growth rate by almost 2 percentage points? Certainly, demonetisation must have had a negative impact. Also, the destocking of goods which might have happened prior to the introduction of goods and services tax (GST) must have also had a negative impact.

However, it might be inappropriate to attribute the entire decline of 2 percentage points to the two factors. What has been happening is a steady decline from the first quarter of 2016-17 when the growth rate of GVA was 7.6%. By the third quarter of 2016-17, the growth rate had declined to 6.7%. Since then it has fallen by another 0.9 percentage point. Given the growth rate of 5.6% in Q1, it is unlikely that the growth rate for the year as a whole will exceed 6.5%. For this to happen, the growth rate in the next three quarters will have to be 7%. The most disappointing aspect of the first quarter numbers is the steep fall in the growth rate of manufacturing to 1.2%. Because of the good monsoon, agriculture will do better. Since agricultural growth rate last year was also good, the increase may not be that much.

If the economy has to get back to the high growth rate seen earlier, we need to understand the factors that might have been operating to bring down the growth rate.

Why India’s GDP growth is falling?

One of the arguments attributed to the low growth rate is the poor performance of the external sector. Growth is fuelled broadly by two types of demand, domestic and external. High export growth has propelled the growth rate of many countries, including China’s. In India’s own experience, the high growth phase between 2005-06 and 2007-08 saw exports growing at an average annual rate exceeding 20%.

India’s declining growth rate has also coincided with poor export performance. Export demand has been weak because of the tepid growth rate of the advanced economies. Both in 2014-15 and 2015-16, the export growth rate was negative. However, the export growth rate has become positive since the second half of 2016-17. While undoubtedly export demand is critically important to sustain high growth, the sharp decline in growth rate noted in the last few quarters cannot be attributed to poor export performance. In fact, as compared to the previous year, the export performance has improved.

The fundamental problem has been the sharp fall in the investment rate. Gross fixed capital formation rate stood at 34.3% in 2011-12. This started falling steadily and touched 29.3% in 2015-16. It fell further to 27.1% in 2016-17.

According to the latest numbers, in the first quarter of 2017-18, it stood at 27.5%. Since the public investment rate has not shown any decline (it stands at 7.5% of GDP), it is the decline in private investment, both corporate and households, that has been responsible for the steady fall. While the fall in corporate investment is steep compared to what was achieved in 2007-08, it has more or less stabilised at a lower level of around 13%. Household investment, however, has continued to decline even in recent years. Household here includes not only pure households but also unincorporated enterprises.

Where the jobs are: on the unemployment rate

Deep concerns have been expressed about the fact that the growth that we have seen in recent years has not resulted in an increase in employment. The current period has therefore been described as one of 'jobless growth'. It may be noted that data on employment are not very reliable. Firm data are available only for the organised sector. The rest are estimated through surveys. In fact, in the case of unorganised sectors, very often the position is one of 'underemployment' rather than unemployment. Growth can occur because of two reasons. One, it results from better utilisation of existing capacity. Two, it can come out of new investment. Whatever growth we have been seeing recently has come out of better utilisation of capacity rather than new investment. It is real growth spurred by new investment that generates more jobs.

Another intriguing factor about the falling investment rate is that the last few years have shown a steady and substantial increase in foreign direct investment (FDI). FDI inflows in 2016-17 were at an all-time peak of $60 billion. In the first quarter of 2017, the inflows were $10.9 billion. With this type of inflow and if the investment rate has not grown, the one surmise that one can make is that much of the FDI has gone into acquiring old assets rather than going to greenfield projects. All this implies is that domestic investors continue to remain shy.

What can be done to stimulate private investment? First, in creating an appropriate investment climate, reforms play an important role. Some of the noteworthy changes that have happened in the last few years are the passing of the bankruptcy code and GST legislation, and modifications in FDI rules.

We must continue with the reform agenda and there is still a lot to be done in the area of governance. Second, financing investment has taken a beating because of the poor health of banks. Banks in India today are universal banks providing both short-term and long-term credit. The sharp reduction in the flow of new credit has also put prospective investors in a difficult situation. To resolve the non-performing asset (NPA) problem, banks need to take a haircut. To bring banks back to good health, recapitalisation has become urgent. The government should go beyond the amount indicated in the Budget regarding disinvestment and fund banks through the money raised by disinvestment. Third, a close look must be taken at stalled projects to see what can be done to revive those which are viable. This is indeed a low-hanging fruit. In fact, this must be part of an overall effort to hold consultations in small groups with investors to understand and overcome the obstacles that come in the way of new investment.

Not all investor groups are plagued with intractable problems. Industry-by-industry consultations and analyses are needed to pinpoint problems and their solutions. Fourth, even though the progress of small and medium industries is very much dependent on the fortunes of the large, a separate look at medium and small enterprises may be needed to prod them into new investment.

To sum up, the growth rate in 2017-18 is unlikely to exceed 6.5%. Once the glitches and fears of the GST are over, the growth rate may pick up. Our goal must be to achieve and sustain a growth rate of 8% and above over an extended period. The Achilles heel is private investment, which has been steadily falling. However, there has been a slight pick-up in public investment recently. That is not enough. Only when the two engines of public and private investment function at full throttle will India fly high.

*C. Rangarajan is former Chairman of the Economic Advisory Council to the Prime Minister and* *former Governor, Reserve Bank of India*

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# Slow creep: on petrol and diesel prices

Petrol and diesel prices have crept up slowly over the last three months, but without inviting the kind of anger and criticism usually directed at such fuel price hikes. The price of petrol in Delhi, for instance, has cumulatively increased by almost 5 since the introduction of the daily pricing policy on June 16 this year. **Daily pricing** is now being seen by many as a ploy to increase prices while allowing the government to escape any political backlash. The government, for now, **has ruled out any change to the current pricing policy** arguing that it, in fact, ensures that the benefit of lower international crude oil prices is passed on to domestic consumers. A comparison of crude oil prices with domestic petrol and diesel prices, however, suggests that this argument is far from convincing. In 2012, when India purchased a barrel of crude for around $120, a litre of petrol was sold at around 65 in retail fuel stations. Today, when the Indian crude basket price has dropped to around $50, the retail price of petrol is well over the 70 mark. This does not come as much of a surprise. The deregulation of petrol and diesel pricing, in 2010 and 2014 respectively, caused fuel prices to be determined primarily by the forces of supply and demand rather than input costs. Traditionally, fuel prices were determined on a cost-plus basis, which led domestic prices to fall in line with the cost of inputs like crude oil.

Hike of fuel prices: On a glide path?

Still, lower international crude oil prices should have led to lower domestic fuel prices even under the free pricing regime, if not for the heavy taxes imposed on domestic fuels. Excise duty and value added tax are the main culprits in this regard. In fact, about half the price paid by the Indian end-consumer for petrol goes towards paying these taxes. The government’s excise duty collection, for instance, has more than doubled during the period 2014-17, from 99,184 crore to 2,42,691 crore. This suggests quite clearly that the government, not the consumer, has been the biggest beneficiary of lower crude oil prices since 2014. These taxes impose an artificial limit on the amount of supply that can be profitably sold to the Indian consumer, which in turn leads to consumers paying higher prices for petrol and diesel. In fact, an alternative tax such as the goods and services tax (GST), even at its highest slab of 28%, would substantially lower the current tax burden on fuels. Apart from making petrol and diesel more affordable to many more people in the lower rungs of the economy, it will also decrease the economic distortions caused by extraordinarily high taxes imposed on automobile fuels that are widely used. Along with lower taxes, greater competition in the fuel retailing market will allow further cost efficiencies to kick in and lead to lower prices for consumers.

Rajasthan’s ordinance shields the corrupt, threatens the media and whistle-blowers

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# Equality for what?

In 1820 the German philosopher Georg Wilhelm Friedrich Hegel, in his magnificently crafted *Philosophy of Right*, had written with some despair of the moral squalor and of the ravages that poverty brings in its wake. The state of poverty, he argued, is not an aberration, it is a product of industrial society, of the overproduction and underconsumption which marks this social order. But it is precisely society that banishes its victims to the twilight zone of collective life. Here, removed from the advantages of solidarity that civil society offers, the poor are reduced to a heap of fragmented atoms, rabble, *poebel*. When the standard of living of a large mass of people falls below a certain subsistence level, he wrote, we see a loss of the sense of right and wrong, of honesty and of self-respect. “Against nature man can claim no right, but once society is established, poverty immediately takes the form of a wrong done to one class by another.”

Hegel suggests that poverty is a social phenomenon. One, society is complicit in the creation and recreation of poverty. Destitution, that is, is the outcome of a skewed economy. Two, poverty breeds unfortunate consequences, such as suffering, which seriously demoralises human beings. Three, the existence of large numbers of the poor pose a direct threat to the social order, simply because the poor are (justly) resentful of their exclusion from the benefits of society.

We should be seriously reflecting on Hegel’s criticism of a society that refuses to correct the wrongs it has heaped on its own people, in the light of the research findings of the economist Thomas Piketty and his colleague Lucas Chancel.

In a paper aptly titled ‘Indian income inequality, 1922-2014: From British Raj to Billionaire Raj?’, they conclude that income inequality in India is at the highest level since 1922, when the country’s income tax law was conceived, and that the top 1% earners corner 22% of income. These research findings should send a powerful warning signal to power elites, leaders who prefer to concentrate on the politics of beef, brutal repression of dissent, and curtailment of basic human freedoms, even as the lives of thousands of Indians are mired in mind-numbing poverty.

Income inequality in India at its highest level since 1922, says Lucas Chancel

There is more to the proposition that some persons are poor beyond belief, and others are rich beyond belief in India. P is poor, we can say, when she does not possess access to the basic resources which enable q, or s, or m to consume nutritious food, avoid ill health, attend school, take up a job, and own a home, let alone go on holiday or possess a car. This implies that p is not just poor, she is unequal to q, s, or m, since the latter three, unlike p, have access to certain advantages that p does not. Poverty is the effect of inequality as well as the prime signifier of inequality. And inequality is demeaning.

Arguably, inequality is not only a matter of statistics. It is a shattering reflection on the kind of society we live in. Logically, if the economic ordering of society is responsible for ill-being, it is obliged to remedy the wrongs that it has visited upon the heads of the poor. This constitutes a basic code of justice. People who have been wronged are entitled to ask for justice. If justice is not delivered, inequalities are reinforced and compounded over time.

The selfish way to combat inequality

Resultantly, people fated to occupy the lowliest rungs of the social ladder are not only denied access to basic material requirements that enable them to live a decent life, they are likely to be socially overlooked, politically irrelevant except in times of elections when their votes bring parties into power, disdained, and subjected to disrespect in and through the practices of everyday life. To be unequal is to be denied the opportunity to participate in social, economic, and cultural transactions from a plane of equality.

Starkly put, the presence of massive inequality reflects sharply and pejoratively on the kind of social relations that we find in India. Because these social relationships are indisputably unequal, they cannot but be entrenched in massive discrimination and exploitation. Can we reflect on inequality without taking on exploitation and discrimination? And unless we confront these background inequalities directly, will not inequality continue to be produced and reproduced along with the production and reproduction of a lopsided social order, indeed as an integral part of this order?

Let us not understate the implications of inequality, it violates a basic democratic norm: the equal standing of citizens. Persons have equal standing because each human being has certain capacities in common with other human beings, for instance, the capacity to make her own history in concert with other human beings. Of course the histories that persons make might not be the histories they chose to make, but this is not the issue at hand. What is important is that each person realises this ability.

The everyday embrace of inequality

The principle of equal standing generates at least two robust principles of democratic morality. For one, equality is a relation that obtains between persons in respect of some fundamental characteristic that they share in common. Equality is, morally speaking, a default principle. Therefore, and this is the second postulate, persons should not be discriminated against on grounds such as race, caste, gender, ethnicity, sexual preferences, disability, or class. These features of the human condition are morally irrelevant.

These two postulates of political morality yield the following implications. To treat persons equally because they possess equal standing is to treat them with respect. The idea that one should treat persons with respect not only because some of these persons possess some special skill or talent, for example skilled cricketers, gifted musicians, or literary giants, but because persons are human beings, is by now part of common sense morality. If someone were to ask, ‘equality for what’, we can answer that equality assures equal standing and respect, and respect is an essential prerequisite for the making of human beings who can participate in the multiple transactions of society from a position of confidence and self-respect. If they cannot do so, the government is simply not taking the well-being of its citizens seriously.

There is urgent need, in the face of government inaction and insensitivity towards people trapped in inequality as a social relation to invoke the collective conscience of Indian citizens. If the right to equality is violated, citizens should be exercised or agitated about this violation. But for this to occur, for society to feel deeply about the right on offer, we have to incorporate the right to equality into political thinking, into our values, and into political vocabularies. The project requires the harnessing of creative imagination and courage on the one hand, and careful reasoning, persuasion, and dialogue on the other. The task also demands the investment of rather high degrees of energy and time. But this is essential because a political consensus on what constitutes, or should constitute the basic rules of society, is central to our collective lives. The political is not a given, it has to be constructed, as Karl Marx had told us long ago, through determined and sustained political intervention.

*Neera Chandhoke is a former Professor of Political Science at Delhi University*

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# An elusive recovery: explaining the economic slowdown

A view of the BSE building in Mumbai. | Photo Credit: Shashi Ashiwal

Growth in industrial output, according to the Index of Industrial Production released by the Central Statistics Office on Tuesday, has slumped to 1.2% in July as against a much higher rate of 4.5% recorded during the same month last year. July's industrial output growth is still higher than the growth rate of -0.2% witnessed in June. Retail price inflation, as measured by the Consumer Price Index, rose to a five-month high of 3.36% in August as compared to 2.36% in July. These numbers follow the slowdown reported earlier this month in the growth of gross domestic product (GDP) during the first quarter of 2017-18.

The implementation of the goods and services tax (GST) has caused significant uncertainty among businesses about the tax rates and other rules to be followed under the new tax regime. This has led to a drop in business activity across the value chain, which in turn is reflected in the lacklustre industrial output numbers. In addition, the economy has been contracting for the last five consecutive quarters, starting well before the implementation of GST or the demonetisation of high-value rupee notes in November last year, before growth in the latest quarter hit a three-year low. Many have attributed this to the drought in private investment which has lasted for years now. The current slowdown is thus very likely the result of both short-term disturbances caused by GST as well as other secular influences.

The slump in economic growth in recent years has led to increasing pressure on the Reserve Bank of India to provide a boost to the economy by cutting interest rates aggressively. The underlying belief is that printing money can grow the economy. The rise in retail inflation in August, however, probably rules out any form of aggressive monetary stimulus by the RBI in its next policy meeting due to be held in October. Even so, at least some part of the lost growth may be recovered over the next few quarters as the economy adapts to GST and other related short-term disturbances. A sustained recovery that puts India on the high-growth trajectory for years, as recommended by former RBI Governor Raghuram Rajan, however, may be possible only after the government implements structural reforms in the labour and land market.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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# We need to talk about rural distress

A century ago, farmers in Bihar's Champaran district were forced to set aside 15% of their land to cultivate indigo under the *Tinkathia* system. Once planted, the farmers were still subjected to a variety of extortionist cesses, or *abwabs*. They rose in revolt but were crushed by the East India Company until the arrival of a barrister from South Africa. Yet, a century after **Mahatma Gandhi fought against the exploitation of farmers**, India's agrarian community still remains under siege.

At a granular level, marginal farming in India is a highly complex and decision-intensive process. Farmers have to make a variety of decisions starting with the choice of crops (annual or short term) and their time of tillage. Then there are rising prices of agricultural inputs, availability of water, soil suitability and pest management. All these factors create a narrow window of economic benefit for the marginal farmer. A wrong decision can wreak havoc.

This uncertainty is reflected in rural debt levels. A Panjab University study showed that in Punjab, large farmers with holdings greater than 10 hectares typically had a debt-to-income ratio of 0.26, while for medium farmers, 4-10 ha, and semi-medium farmers, 2-4 ha, it was 0.34 — all seemingly affordable. However, small, 1-2 ha, and marginal farmers, less than a hectare, faced a greater burden of debt, with a debt-to-income ratio of 0.94 and 1.42, respectively; over 50% of their loans are from non-banking sources.

With average landholding size decreasing from 2.3 ha in 1971 to 1.16 ha in 2011, and average input prices rising, cultivation costs have also increased. A farmer now typically earns 2,400 a month per hectare of paddy and about 2,600 a month per hectare of wheat, while farm labourers earn less than 5,000 a month. Real farm wages have grown at an average annual growth rate of 2.9% between 1991 and 2012, with farm wages declining between 2002 and 2007. Effectively, about 30.5 million left farming between 2004-05 and 2010-11, seeking employment in the secondary and tertiary sectors. In 2011, the Planning Commission estimated that the size of this agricultural workforce would shrink to less than 200 million by 2020.

Farm suicides get attention of Supreme Court

The consequence is farmers committing suicides. Farmer suicides have also grown primarily in States with limited irrigation and variable rainfall, comprising 87.5% of all farmer suicides in 2015. Over 3,21,428 farmers committed suicide in the last 20 years.

Large farmers in Maharashtra typically have access to modern pumps, consuming huge amounts of water and leaving hardly anything for small and marginal farmers. Fertilizer and pesticide prices have also risen, causing marginal farmers to adopt organic means. The limited availability and high cost of high-yielding seed varieties also hampers agricultural productivity. Given such constraints, farmers have limited scope for crop diversification, choosing to focus primarily on staple crops such as wheat and rice, where the government offers a price guarantee for produce and the availability of post-harvest infrastructure.

Institutional support has been provided in various forms since Independence. Established in 1982, the National Bank for Agriculture and Rural Development has sought to provide financing support for tube-well irrigation, farm mechanisation and other ancillary activities. The introduction of a nationwide agriculture loan waiver in 1990 had a deleterious impact on the provision of rural credit, providing a short-term palliative while breeding credit indiscipline among farmers and leading to a shortfall in rural credit growth.

Why can't the government provide a higher income for farmers, asks M.S. Swaminathan

The 2004-05 Union Budget sought to double agricultural credit, while a 2% interest subvention was provided in 2006, allowing farmers to avail of kisan credit card (KCC) loans at 7% per annum (up to 3 lakh). Another agricultural loan waiver was sanctioned in 2009, just before the Lok Sabha election. In 2011, the government provided a further 3% interest subvention for farmers making immediate payments on their KCC loans. More recently, the **Uttar Pradesh government's farm loan waiver scheme** has been replicated in Maharashtra, Punjab and Karnataka and estimated to total up to 0.5% of India's GDP. Similar demands are growing in Madhya Pradesh, Rajasthan and Haryana. Small and marginal farmers certainly deserve greater support from the government. However, India's agricultural policy has historically disincentivised the creation of a formal credit culture among farmers. When the next election is likely to bring about another farm loan waiver, why would any farmer seek to pay off his loans early? Such schemes can also prompt farmers to take on risky ventures that are beyond their capacity.

Ideally, India ought not to have rural distress. We have the second largest amount of arable land in the world. Yet, less than 35% of this land is irrigated, with the remainder subject to fluctuations in rainfall.

The writing is on the wall. India's small and marginal farmers will need another agricultural loan waiver. However, this cannot continue in the future. There are other ways to mitigate their plight. Greater subsidies could be extended for the purchase of agricultural equipment, fertilizers and pesticides, while the medical insurance coverage could be expanded through the Rashtriya Swasthya Bima Yojna. In addition, the scope of the Mahatma Gandhi National Rural Employment Guarantee Act could be increased. Allowing marginal farmers to be paid for tilling their own fields could reduce their input costs. Such measures could also increase their net income.

Finally, we need a national conversation on rural distress. Unlike the Champaran Satyagraha, national attention has been curiously lacking. We ought to discuss the Swaminathan Commission's report in a full week's sitting of Parliament and decide which direction India's agriculture goes. With empathy for India's farmers and a truthful assessment of on-the-ground farming reality, we must make the right choices for Indian agriculture.

*Feroze Varun Gandhi is a Member of Parliament representing the Sultanpur constituency for the BJP*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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# Why inclusive growth is indispensable to India

On 15 August India marked 70 years of independence from the British empire, a monumental triumph in social and political liberalization. Today, India is in the midst of an equally monumental struggle in economic liberalization. The stakes could not be higher. An economic future of broadly shared prosperity and vanishing poverty for more than 1.2 billion people is within grasp. To get there, however, calls for advancing inclusive growth.

India's economic performance in recent years has been outstanding in relation to both its own historical record and the global economy. Between 2010 and 2016, for example, annual real gross domestic product (GDP) growth in India averaged 6.7% despite a relatively weak post-crisis global economy that averaged only 2.7% annual gains. Yet the economic optimism in recent years is now tempered by a growing recognition that many deficiencies in the economy remain deep-seated and if not effectively addressed could undermine future growth.

Front and centre is the concern over employment growth.

Despite strong economic growth in the last decade, job growth averaged only approximately 2% a year in the formal sector. Such growth is basically flat when adjusted for the growing population. In the coming decades, some 12-15 million Indians will enter the labour force each year, and if the current job **growth trends persist**, fewer than half of them will be able to secure formal employment of any kind. For those who fail to find formal employment, their only option is to work in the informal economy.



It is estimated that about 80% of **India's labour force** works in the informal economy. Jobs in the informal economy are typically insecure, with neither employment contracts nor regular pay, and very often workers are engaged on a day-to-day basis. The working conditions in the informal economy therefore resemble a low-productivity trap.

Employers have no incentives to invest in training workers who are seen as transient and interchangeable or to invest in better tools and equipment for them. Without some assurance of future income, workers find it difficult to plan for the long term, let alone find the means to invest in learning new skills. The informal economy thus embodies the exact opposite of inclusive growth: workers are effectively excluded from accessing many of the resources they need to make themselves more productive and thereby improve their life chances.

This is why advancing inclusive growth is so important in India today. At the most basic level, economic growth results from labour force growth and productivity growth of workers. With 80% of the labour force stuck in low-productivity activities in informal employment, it is not surprising that the Indian economy is performing far below its true potential.

For the Indian economy to reach its growth potential, ways and means must be found to move workers from informal to formal employment. Ultimately, the economy can reach its full potential only when the hundreds of millions of Indian workers can escape the trap of low productivity.

The good news is that recent reform initiatives are preparing the ground for greater inclusion. The biometric-based unique identification system, Aadhaar, now ensures that the poor are no longer invisible and, therefore, more empowered. A bank account for every adult now ensures universal access to financial services, at least in principle. When combined with Aadhaar, such access will accelerate financial inclusion. The shock of demonetisation and the introduction of the new national goods and services tax will gradually expand India's tax base and eliminate incentives for businesses to operate in the shadow of the formal economy.

Critics of the government’s recent reforms are quick to decry their disruptive effects. But this is to miss the woods for the trees. Any reforms that have an impact and are worth doing are necessarily disruptive. Without short-term cyclical effects, there are no longer-term structural gains. Much greater gains will be realized when the different reforms begin to converge to bring more people into the mainstream economy altogether. What is needed is to sustain the push for more reforms, not fewer.

Reducing the size of the informal economy is pivotal to inclusive growth. It allows India to reach its growth potential and deliver broadly shared prosperity for the vast majority. Sustaining a real GDP growth rate of 7% each year until 2040 will quintuple per capita GDP to $28,000 on a purchasing power parity basis. By 2040, India will also reach its maximum share of the working-age population. This is a glittering prize—endowing its youth bulge with meaningful, well-compensated and rewarding formal employment in a society where prosperity is broadly shared and absolute poverty has become a thing of the past.

The historian Ramachandra Guha has argued (*India After Gandhi: The History Of The World’s Largest Democracy*, New York: Harper Collins, 2007) that India is both the world’s largest and least likely democracy. The odds were daunting that India could hold as a democracy, and yet it did. At 70, what India needs to do next is clear: democratize productivity through inclusive growth to finally reach its full economic potential.

*Yuwa Hedrick-Wong and Manu Bhardwaj are, respectively, chief economist at Mastercard, and vice-president, research and insights, Mastercard Center for Inclusive Growth.*

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**“Digital inclusion is the foundation of financial inclusion” - sh. Ravi Shankar Prasad**

Speaking at a conclave on ‘*Financial Inclusion*’ organized by the United Nations, **Shri Ravi Shankar Prasad,** Union Minister for Electronics & Information Technology and law & Justice said, *“Digital inclusion is the foundation of financial inclusion. We have certain fundamental approach for commitment as far as digital platform is concerned. The first and foremost is, we want to become the leaders in the field digital revolution in the world. Second important attribute of our initiative is, we simply don’t want to digitize India, but we want to create a technology that is transformative, which will empower India, and also empowers Indians.”*

*“This is the age of information, and information is power. This is the age of technology, and technology is power; and this technology must empower India. We also want to create a digital ecosystem, which leads to digital inclusion. Digital India is more for poor and underprivileged. WE are undertaking a lot of transformative initiatives like Digital India, Make in India, Start-up India, Smart Cities, Skill India. These are all technology based programmes; digital inclusion must be the common thread.”* added **Shri Ravi Shankar Prasad.**

*“Three more attributes are important to be kept in mind when we talk about digital inclusion. First, technology must be affordable; second, technology must lead to inclusion, and, third, technology must be developmental.”* concluded **Shri Ravi Shankar Prasad.**

On the completion of 3 years since the launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY), one of the largest financial inclusion programmes in the world, India‘s example for leading innovations in financial inclusions, access and technology can provide important learnings for other countries. The United Nations in India is bringing together leaders of this financial revolution, with senior level stake holders from the government, the banking sector, innovators, technology partners, intergovernmental organizations and the UN.

The daylong conclave focused on physical access and infrastructure of financial inclusion, maximizing financial access and literacy for women and marginalized groups and using technology and innovation to determine the way forward.

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# Building a new India: Pledge to Double Farmers Income by 2022

In order to improve the economic condition of the farmers, Prime Minister, Shri Narendra Modi has set up an ambitious target in front of the nation. The goal is to double the income of the farmers by 2022. It has been for the first time, a Prime Minister has put such a target in front of the compatriots for the welfare of the farmers. Under the able guidance of Prime Minister, Shri Narendra Modi, the Agriculture and Farmers Welfare Ministry has to achieve this target by 2022. The Ministry is committed to making his dreams come true. Farmers and officers are implementing schemes to increase the income of the farmers. Krishi Vigyan Kendras (KVKs) organised pledge taking ceremonies in 562 districts of the country between August 19 to September 11, 2017, as a clarion call to farmers to double their income by 2022 and a total of 47,08,47 farmers and agricultural workers participated in it.

- KVKs organised this program in the 562 districts of the country. The program saw the participation of the State Government and the Central Government officers, Agricultural Officers, Students and a large number of farmers in each district.
- Speaker Smt. Sumitra Mahajan attended one of the events.
- In two places, the Governor of the respective states participated.
- Chief Ministers of three states attended four pledge-taking ceremonies.
- Union Agriculture and Farmers Welfare Minister, Shri Radha Mohan Singh attended five ceremonies.
- 49 Central Ministers participated in pledge taking ceremonies at 79 locations (Districts).
- In 284 places (Districts), Members of Parliament attended the program.
- In 111 locations (Districts), State Ministers attended the program.
- In 350 locations (Districts), the MLAs attended the program.
- In 398 places (Districts), Chairman of District Panchayat attended the program.

Kindly click here for State wise details.

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**SS/ AK**

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# Sliding economic growth: What is to be done?

Policymakers and pundits alike have been unpleasantly surprised by the sharp decline in gross domestic product (GDP) growth in the first quarter of 2017-18 (Q1 2017-18) to only 5.7%. The surprise is unwarranted because quarterly growth has in fact been steadily declining from a peak of 7.9% recorded in the first quarter of 2016-17 (Q1 2016-17).

The growth decline was announced the day after the Reserve Bank of India (RBI) released data indicating that almost 99% of the demonetized notes had come back. Hence the critics and defenders of demonetization re-engaged with renewed vigour in debating its impact. To that has been added the adverse growth impact of de-stocking due to the implementation of the goods and services tax (GST). However, it would be a serious mistake to believe that the dip in growth is largely attributable to these temporary shocks. The slide in growth had started well before either of these shocks hit the economy.

Demonetization, whatever its actual purpose, was an administrative disaster. Had adequate preparations been made to build up supplies of new notes before demonetization and quickly re-monetize the economy, we would not have seen the cash rationing, the endless queues, the chaos and the hardship that followed. Unfortunately, the disruptive impact has also been concentrated in a few employment-intensive segments of the economy: the unorganized sector, real estate and construction, as I had anticipated in my 18 November 2016 column *(goo.gl/bi99c6)*.

We are virtually data-blind about the specific impact of demonetization on employment or output in the unorganized sector since GDP in the sector is estimated indirectly by benchmark blow-up methods linked to the corporate sector. We do know from the valuable 73rd round of the National Sample Survey that there were 63 million such un-incorporated non-agricultural enterprises in 2015-16 employing about 111 million workers, i.e. less than two workers per enterprise. Over 60% of these were single worker "own account enterprises". These unorganized sector enterprises were more or less evenly divided among manufacturing, trading and other services. Productivity was extremely low in the sector at less than Rs2 lakh per worker and the total value addition of the sector was only Rs11.5 trillion.

While demonetization may have had a severe negative impact on employment and output in the sector as some have suggested, its negative impact on last year's annual growth on that account would have been modest because of the low total value addition in the sector. By our reckoning, the overall negative growth impact of demonetization was less than 1% of GDP in 2016-17, and extending into the first one or two quarters of the current year, as I had noted in my 20 January column (goo.gl/xXKgwW).

GST related de-stocking has also had an adverse impact as is evident from the sharp decline in stocks growth to only 1.2% in 2017-18 (*see table*). However, this is a temporary disruption, triggered by uncertainty about how GST would be applied to goods already produced before the tax was rolled out. It will be eliminated once the administration of the new tax system settles down.

To recapitulate, the adverse impact of demonetization and GST on growth is relatively modest and temporary. As noted at the outset, the steady decline in quarterly growth started long before these shocks hit the economy. What then accounts for the slide in growth?

The answer will be evident from the adjoining table which shows how different components of aggregate demand in the economy have behaved in the last five quarters. Growth today is rather like the flight of a six-engine plane where one engine is going full throttle while the other five are slowing or shutting down. The engine propping up growth is government final consumption expenditure. It grew by 17.2% in Q1 of 2017-18, which is higher compared to growth in Q1 2016-17. All the other positive components of demand have been slowing down while the negative components have grown dramatically.

The largest component is private final consumption expenditure, accounting for more than half of GDP. It grew by 6.7% in Q1 2017-18, which is not low but much lower than the 8.4% growth recorded in Q1 2016-17 (*see table*). In advanced countries, consumption is driven by income and wealth effects. In a low middle-income country like India, consumption demand is mainly dependent on income. Hence the slowdown in consumption growth is a reflection of sliding GDP growth rather than its autonomous determinant.

The two main autonomous drivers of demand growth, apart from government consumption expenditure, are fixed investment or gross fixed capital formation (GFCF), and the balance of trade. Of these, GFCF declined quite sharply to only 1.6% in Q1 2017-18, down from 7.4% in 2016-17Q1 (*see table*). The slippage appears even more sharply in the index of industrial production data, which shows that production of capital goods actually declined by 3.9% in Q1 2017-18. The decline in June was by as much as 6.8%. This decline reflects the sharp slowdown in private investment.

This particularly worrying trend has persisted since the investment rate peaked at over 34% in 2011-12. By 2016-17, it had come down to 29.3%. Private investment, which accounts for the bulk of investment, came down from 27% in 2016-17 to only 21.9% in 2016-17. The decline has continued in 2017-18. Despite the pump priming efforts of the government, attempts to reduce infrastructure bottlenecks and improve the ease of doing business, nothing seems to be working. Many Indian entrepreneurs are reported to be increasingly investing abroad rather than in the country.

Saying that investment is an autonomous driver of growth was an oversimplification. Private fixed investment depends very much on recent trends and prevailing business conditions. These include the logistics and power constraints, the difficulty of doing business and the failure to come to grips with non-performing loans (NPL), especially in public sector banks, which has shrunk the flow of credit. Only irrational exuberance can lead us to believe that the private investment cycle will revive without a significant turnaround in these conditions.

The other major autonomous source of demand is the external trade balance. In India's case, this is a leakage of demand to the rest of the world, a negative component, since India runs a trade deficit. This negative trade balance has gone up by an alarming 295% in Q1 2017-18 compared to Q1 2016-17 (see table). This is a massive negative shock to the economy, arising from the slowdown in export growth while imports have grown by over 13% in real terms. The sharp rise in imports has occurred despite prices of commodities, especially oil, remaining subdued. On the export side, weak global demand is no doubt a part of the problem. But other competing countries have done better and raised their share of global exports while India's share has declined.

This sharp deterioration of the trade balance is primarily attributable to appreciation of the exchange rate, which has made imports cheaper and exports more expensive in relative terms. Annual fluctuations apart, the 36-country trade weighted real effective exchange rate (REER) compiled by the RBI has seen a rising trend for several years. It is about 18% higher now compared to 2006-07. The appreciation has been particularly marked since January this year. Hence the sharp rise in the trade deficit.

Two remaining elements of aggregate demand require brief remarks. I have commented on the slowdown in stock growth, clearly an impact of GST related uncertainties. The other component is valuables, which presumably includes gold, jewellery, paintings, antiques and other such exotic items. This component, which has grown by about 200% in Q1 2017-18 compared to Q1 2016-17, is a diversion of demand from current streams of production.

Given this depressing picture of demand, what is surprising is not that GDP growth has declined in 2017-18 Q1 but that it has not declined further. The key question is what can the government realistically do to turn around this dismal trend.

It is quite easy to set out a long menu of all that needs to be done. But two points need to be kept in mind. One is state capacity. As is evident to every citizen, there are limits to what the state, in particular the executive branch, can deliver. Overloading the government with too many goals, policies and programmes simply leads to a growing gap between the goals on paper and achievements on the ground.

The other point is that the government is now well into the fourth year of its term. The final year leading up to the 2019 election can be written off for policy or reform purposes since the government will be in election mode. Politically popular measures will get priority over all else. In other words, there is only a very narrow window, if that, to attend to any serious policy measures.

Given that context, it may be best for the Central government, and the RBI, to focus on just a couple of key measures that are implementable and could have a quick positive effect. The first is to control and turn around the appreciation of the exchange rate, something that the RBI could easily accomplish in cooperation with the government. The several available options to do this are well known. The second move would be to finally bite the bullet on the NPL problem of public sector banks. The bankruptcy code and other related developments have set the stage for this to be done. What is required is the will of the political leadership to get it done.

These two moves alone could bring about a sea change in the business environment and the outlook for economic growth. That in turn would provide the space to attend to other reform measures in a more calibrated manner over the medium to long term to place the country on a sustainable and employment-intensive high-growth path.

*Sudipto Mundle is emeritus professor at the National Institute of Public Finance and Policy and was a member of the Fourteenth Finance Commission.*

*Comments are welcome at theirview@livemint.com*

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# Good and simple tax: on the GST regime

India’s goods and services tax regime is nearing the end of its first full quarter since roll-out this July. Revenue collections from the first month appear robust, with just 70% of eligible taxpayers bringing in 95,000 crore. At this rate, the total tally could well surge close to 1.2 lakh crore. This would be significantly higher than the 91,000 crore indirect tax target for the Centre and the States on an overall basis. This initial trend will need to be corroborated by inflows for subsequent months, but with many more taxpayers registering in August, the GST appears to have begun well as far as the exchequer is concerned. If revenues remain healthy, the government would, over time, get the necessary fiscal room to rationalise multiple GST rates into fewer slabs and possibly lower levies as a stimulus. However, for businesses the going has been far from smooth, with firms of all sizes across sectors struggling to file their first set of returns under the GST due to significant glitches in the GST Network, its information technology backbone, and issues of connectivity. The government has extended the deadline for GST returns for the first month twice, with GSTR-3 now required to be submitted as late as November 10. A group of Central and State ministers has been tasked with resolving the GSTN’s challenges. To inspire confidence, this group must act not only expeditiously but also transparently — especially with regard to the GSTN’s operational capacity.

GST countdown

However, as it stands now the delay in filing returns for the first, and therefore subsequent, months means that taxpayers expecting a refund from the authorities on taxes already paid (for example, by exporters) will end up waiting for almost four months (for the period of July alone). This is bound to crimp their working capital availability and create an unjust burden on their finances, impacting their ability to scale up production ahead of the high-turnover festive season. The problem is most acute for exporters, for whom the Council has now formed a special committee under the Revenue Secretary. Provided there are no further setbacks on these timelines, these procedural problems need to be resolved as soon as possible for industry to be comfortable with this switch-over. Amid all this, the GST Council has already changed the announced tax rates on over 100 products and services within about 75 days of the roll-out. An ever-changing policy landscape is hardly conducive for attracting investment. The fact that industrial output grew just 1.2% in July may not be a coincidence. Clearly, a lot of things were not thought through or tested (such as the GSTN) when the government opted for a July 1 launch for GST instead of the September 16 date that the constitutional changes made last year allowed. Admitting to the errors of judgment so far is essential for a genuine course correction.

Rajasthan’s ordinance shields the corrupt, threatens the media and whistle-blowers

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# Understanding the slowdown

India’s economy **is slowing down**: GDP growth has lost momentum in each quarter since the one ending March 2016. With every passing quarter, the slowdown is explained away either as a transitory phenomenon or as happening for reasons beyond the government’s control: deficient rains, the sluggish world economy, or lately due to demonetisation and the goods and services tax (GST). The reasons offered change. The economic trend does not.

In the boom years during the United Progressive Alliance’s (UPA) tenure, four engines powered the economy: exports, government investments, private consumption, and private investments. Of these, government investments and private consumption were still running at the time the National Democratic Alliance (NDA) took office. The other two were, and remain, out of steam. Official numbers have captured the weakness consistently — in exports for the past three years, and in private investments for more than five years. Yet, the debilitating impact of these on growth has received inadequate policy attention. The pain has begun to spread to the rest of the economy: growth in government investments and private consumption started slowing down in the quarter ending June 2017. The economy’s four growth engines are stalling or slacking.

Government investments and private consumption depend on how well the economy is doing. As incomes improve, private spending and tax collections pick up. Let’s look at exports and investments. The global economic downturn that followed the 2008 financial crisis dealt a body blow to exports, before which exports were growing smartly. Recovery in the global economy has lifted exports of most Asian countries, but Indian exports are stagnating, their competitiveness eroded by the overvalued rupee.

India’s economic future can improve significantly with investments-led growth. The share of investments, the principal growth engine in the economy, in the GDP has declined steadily for the past five years. The decline in private investments is so sharp that it has offset the increases in government investments. The steps taken for improving the ease of doing business and the foreign investments regime have proved insufficient in restarting the private investments cycle. As a result, new jobs are not getting created. Without new jobs, consumption will only grow up to a point.

Time for course correction

Why are investments on hold? The returns-risk projections of projects are not favourable. Companies are not convinced that new factories will be sufficiently profitable. Among the variables that affect investment decisions are costs and availability of finance, land, labour, technology, logistics, and taxation. Market prices, or consumer prices inflation, is also a determinant of profitability. The government is politically sensitive. So, it has set a low target for consumer price inflation. For the same reason, it is unable to progress on land and labour reforms. The flow of credit in the economy has thinned to a trickle, as the government moved on bad bank loans belatedly and inefficaciously. Even if big companies can raise finance from alternative sources, the smaller ones cannot. Most of the other factors have escaped policy attention altogether. Additionally, in an environment of constant shocks and unanticipated policy changes, investment decisions tend to get postponed. If people feel unsettled, they are unlikely to invest.

Even though dark clouds loom over the economy, the situation is not irreversible. But the policy response so far has been feeble and misses urgency.

It’s not as though there is policy paralysis. In fact, decision-making is speedy, perhaps too much so. The ill-informed idea of demonetisation and the GST rollout demonstrate the growing disconnect between policy tools and objectives. The provisional official statistics show demonetisation proved to be a drag on an already slowing economy, even as we wait for its full impact to be estimated. The damage to the (more vulnerable) informal economy is being measured, and will be plugged to GDP estimates. On revision, past quarters' GDP growth may turn out to be even slower. The complicated design of the GST may have added to the vulnerabilities of the informal sector.

Demonetisation: now a proven failure?

The government insists these measures will prove beneficial over time. There is an inexplicable reluctance to take decisions that will deliver positive results quicker, such as reversing the investments slowdown and the exports stagnation. Politically difficult structural reforms have fallen off the agenda: liberalising land, labour, and agriculture.

Part of the problem seems to be the inadequate regard for sound economics and trained economists. The government is inert even to the advice of its own economists; the analyses documented in successive editions of its own publication, the Economic Survey, influenced policy minimally. Chief Economic Adviser Arvind Subramanian has diligently raised red flags over damages to the economy: from bad bank loans to the slowdown of investments, the distorted signals to farmers on what to grow and how much, and the GST's suboptimal design. The government must start paying heed.

*Puja Mehra is a Delhi-based journalist*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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**Government for market borrowing to incentivize speedy execution of new urban missions**

**Minister of Housing & Urban Affairs says SPV to tap market**

**Minister asserts urban missions doing well and targets will be achieved**

**Comprehensive review of JNNURM to further improve urban planning, execution**

**National Conclave of States for mid-term review and road ahead**

Ministry of Housing & Urban Affairs is considering market borrowings to incentivize speedy execution of urban infrastructure projects under various new urban missions launched over the last two years. this was stated by the Minister of Housing & Urban Affairs Shri Hardeep Singh Puri while addressing 'Public Affairs Forum of India' on challenges and opportunities of rapid urbanization here today.

Shri Puri said "To overcome the severe infrastructure deficit accumulated over long years, huge order of investments is required. To meet various contingencies and to ensure fund availability to meet the targets under new urban missions, we are thinking of mobilizing resources from the market. We have undertaken an assessment of requirement of funds till 2022 and likely flow of funds. To ensure assured fund flow, setting up of a Special Purpose Vehicle to tap the market is under examination. Once this idea is firmed up, we will take it forward in an appropriate manner".



The Minister assured that the Government led by Prime Minister Shri Narendra Modi will spare no efforts to realize a new Urban India and will work shoulder to shoulder with State and city governments in the true spirit of Team India. He further noted "These are happening times in India and Urban India is an integral part of this exciting and challenging journey. I am confident that success will be with the people of India".

Elaborating on the ongoing efforts to further improve urban governance, planning and execution, Shri Puri announced that a comprehensive evaluation of implementation and outcomes of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) will be undertaken which will serve several purposes, it being the first concerted effort to make a difference in urban sector. He said "The terms of evaluation will cover the extent of realization of stated goals of JNNURM, an assessment of improvement in urban governance further to implementation of reforms, identification of lacunae and reasons for shortfall in physical and financial progress. This evaluation will provide useful guidance to city and State Governments in the context of current thrust on urban rejuvenation".

JNNURM was implemented during the period 2005-14, before it was wound up by the previous government. This government, however, continued to finance some of the incomplete projects based on certain criteria, to enable their completion.

Referring to the impact on the ground of new urban missions, Shri Puri said that though the new Missions like Smart City Mission, AMRUT and Pradhan Mantri Awas Yojana (Urban) were launched only a little over two years back, substantial work is being executed on the ground with hundreds of projects under implementation. He asserted that visible impact will be visible in the next few months and expressed confidence that targeted outcomes will be achieved within given time frames. To prove his point, the Minister gave an account of performance during 2014-17 and the earlier ten years.

Elaborating on the paradigm shift in urban development approach of this Government, the Minister said "The city level action plans for improving urban infrastructure under different new missions have not been drafted in Delhi. They all emanated from the ground level and are collective expression of the aspirations of the citizens and city governments. Ownership of these plans is with them and not with Delhi. So, they have the obligation of ensuring their timely implementation".

Shri Puri announced that a National Conclave of States and Union Territories will be organized for a high level mid-tem review with Ministers of the progress of various urban missions, for sharing of experiences for mutual benefit and a structured discussion on speeding up of implementation to meet time bound targets.

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## Note on MGNREGA

Implementation of MGNREGA Scheme has seen major changes in the last two years. Use of ICT tools, space technology, focus on improving livelihood resource base of people, provision of diversified livelihood opportunities through convergent programme implementation are some of the major features of changes brought in programme management. High budget allocation to meet the objectives of the Act and strengthening of monitoring system have been ensured. Measure like electronic fund management system (eFMS), Aadhaar seeding, Geo tagging of assets and strengthening of Social Audit System are some steps towards bringing in more transparency and accountability in the programme implementation. Emphasis on proper work file maintenance, setting up of Citizen Information Boards as part of Janta Information Systems are some of the other measures.

The current Financial Year is marked by the highest ever budget allocation of Rs. 48000 Cr. The table below gives a glimpse of the revised estimate at the Centre's level and the expenditure in the States/UTs over the last 7 years.

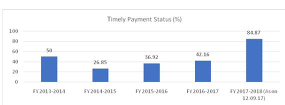
| Year | Revised (Cr) | Expenditure (Cr) |
|---|---|---|
| 2011-12 | 31,000.00 | 37,072.82 |
| 2012-13 | 30,287.00 | 39,778.29 |
| 2013-14 | 33,000.00 | 38,511.10 |
| 2014-15 | 33,000.00 | 36,025.04 |
| 2015-16 | 37,345.95 | 44,006.56 |
| 2016-17 | 48,220.26 | 57,946.72 |
| 2017-18* | 48,000.00 | 35,436.92 |

** Figures as on 12.09.2017*



Availability of funds is not a constraint for the implementation of the program. The Government is committed to provide funds for implementation of MGNREGA.

To ensure that MGNREGA workers receive their wages on time, National Electronic Fund Management System (NeFMS) has been put in place. Almost 96% of wages are being paid directly to the beneficiaries' bank accounts. Additionally, intense monitoring and fixing accountability for delays in payments has shown significant result in the current financial year. Around 85% of the wages are being paid to the workers in time. This is almost double the percentage in comparison with last FY as can be seen in the graph below:

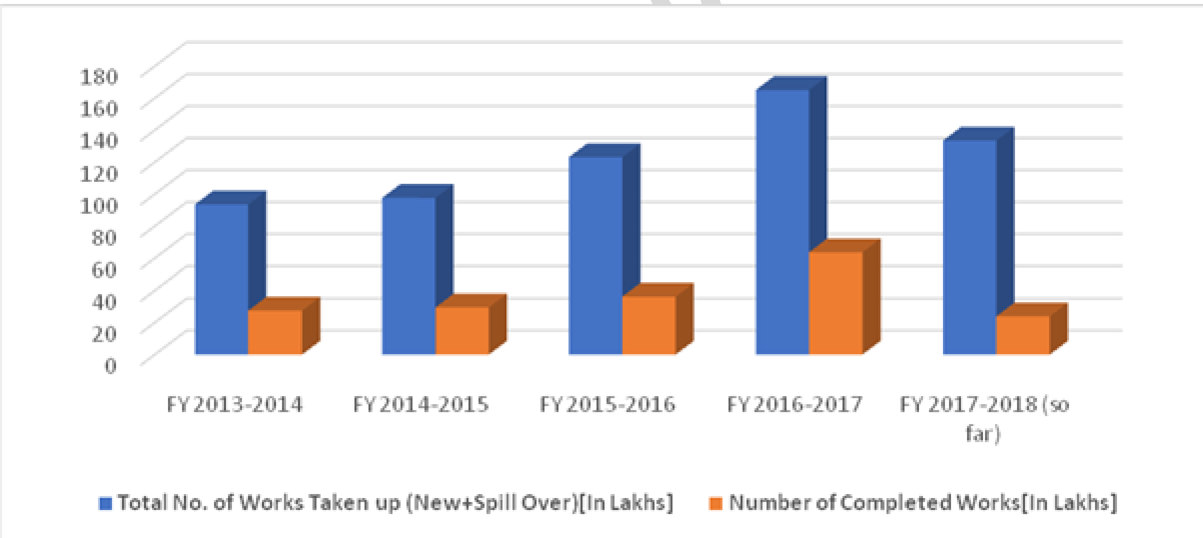


All efforts are being taken by the Ministry to further improve the situation. FTOs for Andhra Pradesh and West Bengal are pending for payment for specific reasons. Internal Audits conducted by the Ministry in the recent past in both the States have detected irregularities in implementation for which the States have been asked to take appropriate steps to rectify the situation. Funds will be released to them once complete and sufficient response is received. The Ministry reviews the financial status of all States/UTs on daily basis and the issue of release of further funds to the States/UTs wherever FTOs are shown as pending is under examination. It is pertinent to mention that around Rs. 36500 Cr (76% of total allocation) have already been released in this financial year, leading to timely payment of wages in 85% cases.

Through a bottom-up participatory approach, every year the GPs prepare the shelf of works to be executed in the next financial year. These works are taken up considering the 155 permissible activities under the Scheme, which are revised periodically depending upon State requests. The Centre safeguards the decisions of the local bodies through its emphasis on creation of shelf of projects in the GPs and in no way attempts to undermine their authority. However, in accordance with the NREGA Act, Central Employment Guarantee Council (CEGC) under the aegis of the Ministry is expected to guide, regularly evaluate and monitor the implementation of the program on the ground.

Strengthening the livelihood resource base of the poor is one of the main objectives of MGNREGS. Apart from meeting the demand for wage employment on the ground, the government is laying stress on strengthening the livelihood resource base of the poor and the vulnerable. Close to 1.5 Cr works are taken up every year under MGNREGA. In the last FY, strong push towards work completion led to the highest work completion of 62 Lakhs.






These completed works have been geo tagged and made available in public domain improving and enhancing transparency in programme management. More than 2 Cr assets have been geo tagged so far. Now, the Ministry has made it mandatory to geo tag three stages of an asset creation.

In order to optimize public investments, adequate focus is also being laid on convergence of MGNREGS with other schemes. A good example of convergence is houses being constructed under Pradhan Mantri Awas Yojana (PMAY). While 33 Lakhs houses were constructed in FY

2016-17 with Rs. 18000 from MGNREGS as unskilled wage labour contribution to every house, the current financial year's target is 51 lakh PMAY houses. Besides, MGNREGA provides Rs. 12000 for construction of household latrines in every PMAY house. Through such examples of convergence, the Ministry is trying to ensure gainful and proper utilization of funds along with provision of wage employment seeking work.

Independent Social Audit Units have been set up in 24 States and 3100 State Resource Persons have been trained to conduct social audit as per auditing standards. Large scale training of Self-Help Group women as Village Resource Persons for social audit is being undertaken.

All initiatives under MGNREGS have been taken in consultation with the States and UTs. The government is committed to make the implementation of the program as effective as possible so that the objectives of the Act can be met.

Multiple assets to a household for augmentation of livelihood potential is a major thrust under MGNREGS. Besides this, skilling the MGNREGS workers through Barefoot Technician program is another initiative. So far, 5380 Bare Foot Technicians (BFT) have been trained so far in 19 States to provide technical support at field level.

The Ministry had set up a Committee under the Chairmanship of Additional Secretary with representatives of relevant Central Ministries and five State Governments to examine the issue of Alignment of MGNREGA Wages with Minimum Agricultural Wages. The MGNREGA Wages were notified under Section 6.1 of the MGNREGA Act on 1st December, 2009. For the States where minimum wages were higher than Rs.100/-, those wages were taken as MGNREGA wages. For States where minimum agricultural wages were less than Rs.100/- MGNREGA wages were notified as Rs.100/-. On 1st December, 2009 only for 4 States, viz. Goa, Haryana, Mizoram and Kerala had minimum wages for agricultural labour was higher than Rs.100/- and these were protected by December, 2009 Notification. Since then, MGNREGA wages have been indexed to Consumer Price Index for Agricultural Labour. The present divergence between MGNREGA wages and minimum wages for agricultural labour is on account of the fact that the States do not follow a scientific and uniform system of indexation of wage rates while MGNREGA wages are increased based on changes in Consumer Price Index for Agricultural Labours.

The Government has provided much higher allocations to the Ministry of Rural Development in the last three years. As is evident from the table below, the allocation to Rural Development programmes for creation of infrastructure, rural housing and employment has gone up from 0.50% of the GDP in 2012-13 to 0.63% of the GDP in 2016-17:

**MGNREGA & MoRD EXPENDITURE**
**Rs. Crores**

| Year | GDP at Current Prices (2011-12 Series) | MGNREGS Exp. | % of GDP | Releases by MoRD for all Programmes | Releases as % of GDP |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 2012-2013 | 9944013 | 39,778.82 | 0.40 | 50,161.86 | 0.50 |
| 2013-2014 | 11233522 | 38,552.62 | 0.34 | 58,623.08 | 0.52 |

| | | | | | |
|---|---|---|---|---|---|
| 2014-2015 | 12445128 | 36,025.04 | 0.29 | 67,263.31 | 0.54 |
| 2015-2016 | 13682035 | 44,002.59 | 0.32 | 77,321.35 | 0.57 |
| 2016-2017 | 15183709 | 58,354.21 | 0.38 | 95,096.04 | 0.63 |

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**SNC**

END

# Trade pacts stuck ahead of summit

Up close:Angela Merkel and Narendra Modi during a meeting at the Chancellery in Berlin in May.AP

With the India-European Union (EU) Summit just three weeks away, officials in Brussels and Delhi have told *The Hindu* that formal talks on the proposed bilateral Free Trade Agreement (FTA) have yet to be scheduled, despite a public push from Prime Minister Narendra Modi and German Chancellor Angela Merkel in May.

The officials said India had sent repeated reminders at the levels of the Commerce and Industry Minister, the Commerce Secretary and the Chief Negotiator to restart the talks that stalled in 2013, but the EU had not yet given any official indication on the re-engagement.

The Delegation of the EU to India (and Bhutan) declined to comment on specific questions sent by *The Hindu* on the status of negotiations and reasons for the EU having ‘ignored’ the Indian requests.

It is learnt that the current sticking point is regarding whether an India-EU Bilateral Investment Treaty (BIT) can be finalised first, as demanded by the EU, or take forward India’s plan to make ‘investment protection’ a part of the negotiations on the proposed comprehensive FTA — officially called the Bilateral Trade and Investment Agreement (BTIA) — and include it in the BTIA as a separate chapter.

The deadlock over ‘investment protection’ followed the EU’s concern over what it called India’s “unilateral termination” of separate BITs with “a significant number of” EU countries.



**‘Gap in protection’**

EU Trade Commissioner Cecilia Malmström had written last year to Union Finance Minister Arun Jaitley and the then Commerce Minister, Nirmala Sitharaman, saying: “Given that the EU Member States do not have the possibility to renegotiate the BITs with India, the unilateral termination of the existing BITs by India would ... create a gap in investment protection and consequently discourage EU enterprises from further investing in India.”

**Variance over duties**

The FTA talks are also stuck due to differences over the EU’s demands on elimination of India’s duties on goods such as automobiles and wines and spirits, and India’s pitch for a ‘data secure’ status (important for India's IT sector to do more business with EU firms) as well as to ease norms on temporary movement of skilled workers.

While the chief negotiators of India and the EU met informally in July in Brussels on the margins of the EU-India Sub-commission of Trade, and are likely to meet again on the sidelines the EU-India Summit in Delhi on October 9 and 10, no decision has been made yet on the formal resumption of the BTIA talks.

An effort by Mr. Modi and Ms. Sitharaman and their EU counterparts, who met in April 2016 in Brussels, also failed to break the impasse.

Asked if ‘Brexit’ and the related complications were among the factors causing uncertainty regarding re-starting the BTIA talks, an Indian official said, “Brexit is not an issue here. Look at the progress on the proposed EU-Japan Economic Partnership Agreement [EPA] even after the Brexit referendum [in June 2016].”

In July 2017, the EU and Japan reached an in-principle agreement on the EPA’s main elements.

**WTO-level negotiations**

“So, if they [the India-European Union] were really keen, they could have given us [India] the dates to restart BTIA talks. But they have not indicated any interest so far, despite many high-level requests from India,” the official said.

The EU-India Summit is also likely to include discussions on issues relating to WTO-level negotiations as well on strategic cooperation between Indian police agencies with Europol on intelligence sharing and fighting terror.

END

# Across the aisle: Clueless in New Delhi

The time for boasts is over. India is no longer the fastest growing large economy of the world. Our misguided jibe against China lasted all of seven quarters.

In five successive quarters, the growth rates of GDP and GVA have declined (see graph):

GDP may stabilise at 5.7 per cent or it may decline further in Q2 of 2017-18 (July-September). The effects of demonetisation have not yet dissipated completely. GST, a good idea, was translated into a flawed law that suffered from bad and hurried implementation, and affected many industries in the manufacturing sector. Floods have disrupted normal activity in many parts of India for several weeks.

**Empty Boast**

In 2016, China's economy grew at 6.7 per cent; in 2016-17, India's economy grew at 7.1 per cent. The size of China's economy is USD 11,200 billion, India's economy is USD 2,300 billion. Even if in a year China's economy grew at a rate lower than India's, the value of the domestic product that China added that year was several times more than what India added in the same year. No country, including China, took our boast seriously; it is therefore prudent to be modest.

Every economist is agreed that India's economic growth has slowed down. The Chief Economic Adviser has candidly admitted the fact, only his government is in denial! If a government is in denial about the slowdown, it is fair to conclude that it is also clueless about the causes of the slowdown. My column today will explore the causes.

There are four engines that drive growth: government expenditure, exports, private investment and private consumption. Growth rates of the four drivers will determine the growth rate of the economy. What were the rates in 2016-17 and in Q1 of 2017-18?

The table speaks for itself. The government has clutched at the straw of 'spending its way to prosperity'. At the end of July 2017, the government had exhausted 92.4 per cent of the annual target of fiscal deficit. It cannot go much further unless there is an unexpected surge in revenues or it abandons fiscal prudence. The first is not likely and the second is not advised. So, government expenditure would have to be moderated between now and March 2018. The engine can run but only at a steady speed.

**Three Engines Sputtering**

Exports no longer drive growth. In the 10 years of the UPA government, exports rose to USD 314 billion in 2013-14, registering a CAGR (compound annual growth rate) of 17.3 per cent. In the last three years under the NDA government, exports have remained far below the peak: USD 310 billion, USD 262 billion and USD 276 billion. Mr Swaminathan Aiyar has pointed out that no country has achieved a GDP growth of 7 per cent or more if its exports had not grown at 15 per cent a year.

Private investment is also not driving growth. In the last three years, Gross Fixed Capital Formation (GFCF) as a percentage of GDP has been 31.34, 30.92 and 29.55 per cent - well below the peak of 34.31 per cent achieved in 2011-12. Another indicator of private investment is growth of credit to industry. That has been negative for every month since October 2016. The worst hit are medium enterprises where the bulk of the jobs are. Outstanding credit to medium enterprises declined from Rs 1,19,268 crore in July 2015 to Rs 1,00,542 crore in July 2017 - a shrinkage of 16 per cent! (Yet government wants us to believe that jobs are being created in the industrial sector!)

The Index of Industrial Production (IIP) rings a bell every month, but no one seems to care or even understand. In April-July 2017, overall IIP grew by a mere 1.7 per cent; manufacturing IIP grew by 1.3 per cent. The July numbers were abysmal: overall 1.2 per cent and manufacturing 0.1 per cent.

# Country of a chosen few

The paper by Thomas Piketty and Lucas Chancel, 'Indian Income Inequality 1922-2014 - From British Raj to Billionaire Raj?', is now in the public domain. Piketty needs no introduction - his Capital in the Twenty-First Century has been one of the most influential books on economics in the past decade. Piketty uses Indian data over the decades - including the "household survey of consumption", "fiscal" and "national accounts data", the newly released set of tax data from 1922 to 2014, as well as UN statistics, and other Human Development Survey data collected between 2005 and 2012 - to estimate the "income distribution pattern" of the population of India, as it evolved between 1951 and 2014. At first sight, the integration of the various data sources, including the necessary adjustments to cover the divergences, appear to have been undertaken with due care, to ensure credibility. Prima facie, the conclusions appear to be compelling. Note that Piketty has not referred to "black" income in his computations - the income disparities would be sharply higher than estimated by him.

In brief, what are the paper's main findings? Between 1980 and 2014, the share of the top 1 per cent of India's population in income increased from 6 per cent to 22 per cent. During the same period, the share of the top 10 per cent increased from 30 per cent to 50 per cent; the share of the middle 40 per cent (the middle class) fell from 43 per cent to 30 per cent; the share of the bottom 50 per cent fell from 24 per cent to 15 per cent. More astonishingly, the top 0.1 per cent of earners captured a higher share of the total growth than the bottom 50 per cent (12 per cent vs 11 per cent). These are astounding figures.

The period after the year 2000 saw the highest growth of the economy compared to the five preceding decades. In other words, the period 1980-2014 saw the top 0.1 per cent grow at 550 times the rate of the bottom 50 per cent. The top 1 per cent grew at 130 times of the bottom 50 per cent. The middle 40 per cent grew at a three times higher rate than the bottom-half. Note that more segregated data in percentiles is not computed for the bottom-half. Assuming the same skewed growth pattern within the bottom-half, for the bottom 10 per cent these ratios would be significantly higher. Ten per cent of India is about 14 crore, a population higher than that of most countries.

Let us assume for a moment that Piketty is largely right in his conclusions - there is no reason to question his logic or methodology, or indeed his findings. Why has this state of affairs not been brought to our notice by our economists and statisticians? Have Montek Singh Ahluwalia and economists of his generation forgotten that every economics lesson in the London School of Economics on "income generation" would have a parallel connection with "income distribution"?

Perhaps the next generation of economists, who imbibed their lessons at Harvard or Chicago had not heard of the "Gini coefficient" or such concepts like "Theil or Entropy Index". Perhaps these were not seen to be applicable to Indian conditions. The fact is that most of our economists learnt their trade in the foreign conditions of developed countries, where the land/capital/labour inter-relationships are quite different to those in India. Economics was always considered an esoteric, abstruse "science" in India - our politicians had left our economy in the hands of our economists, with, as can now be seen, disastrous results.

It is astonishing that we have not built "inclusion" and "income distribution" as an integral part of every national policy. High-income differentials are possibly tolerable, subject to the lowest strata having minimum living conditions. This is not the case in India. Kamban, who brilliantly wrote the Ramayana in Tamil, some say with even greater elegance and poetry than Valmiki, had described "Ram Rajya" as a place where "Everyone had everything he needed and therefore there was no 'rich' or 'poor'."

In short, there has been no "inclusive growth", to put it mildly. Apparently, this country is meant only for the rich. We had been ruled by the British and the Mughals, by sultans, nawabs, and zamindars. The new rulers are the politicians, the businessmen - nothing has changed in this "democracy". Even not accounting for the wealth stashed away in the Cayman Islands and Lichtenstein by the business community, or the benami property of ex-chief ministers and their kin, or the 30-odd bank accounts of the sons of ex-ministers, and the election expenditures of our legislators, the Piketty-computed income share in the top-most brackets seems obscene.

Is the country sitting on a powder keg? Does India belong to a chosen few? Surely, the arrival of Digital India, 4G etc would convey graphic details of the lifestyle of those driving Lamborghinis or living in gated communities to the poorest in the rural countryside. In a situation where there is an inability to increase employment, this is a dangerous mix for the stability of our democracy.

Tony Atkinson recently defined the necessary conditions to be followed by state policy to bring in inclusivity, and mitigate income disparity. While one may not agree with all his prescriptions, it may be worthwhile to examine them to assess their applicability in Indian conditions. With the advent of technology, coupled with poor education standards, unemployment could become a major issue in a country like India, compared to developed countries. The taxation structure also needs to be looked at for examining correctives like "gift tax", "wealth tax", "estate duty" and the like.

The present skewed income growth pattern needs to be sharply curbed. The prime minister has promised to double the real income of the farmers within five years. This commitment needs to be fulfilled. He surely means this with great sincerity and purpose but where is the roadmap? Will the system be able to overcome large vested interests to meet this goal?

The country has learnt through bitter experience not to trust politicians. Politics is too important to be left to politicians. Likewise, the economy is too vital to be left to economists.
The writer is a former Cabinet Secretary

END

# Tweaks to pact with S. Korea mooted

India is looking to plug loopholes in its Free Trade Agreement (FTA) with South Korea following concerns over a recent sudden surge in imports of gold and related articles from that country.

Authorities are also learnt to be probing a possible ‘criminal angle’ behind the recent rapid rise in imports of the yellow metal from South Korea. The rise has happened due to certain firms, ‘owned and operated by some Indians’, allegedly misusing the India-South Korea FTA that allows duty-free import of the precious metal and its articles.

**GST, the cause**

Gold imports from South Korea had shot up to about $340 million in the period July 1-August 3, 2017, compared with about $71 million for all of FY17. The implementation of the Good and Services Tax (GST) from July 1 led to the import surge.

Pre-GST, gold imports through the non-FTA channel attracted a 10% basic customs duty (BCD) and an additional 12.5% countervailing duty (CVD), while those from the FTA route were levied a 12.5% CVD (as the FTA eliminated the customs duty on gold imports) — which discouraged such gold imports. Under the new tax regime, a 3% GST replaced the CVD.

This meant gold imports from the non-FTA route attracted 10% BCD and 3% GST, while those from the (S. Korea) FTA channel paid only 3% GST, which could be later claimed as input tax credit. What has raised eyebrows is that South Korea is not among the world’s leading producers or exporters of gold and related items.

Significantly, the authorities are examining a possible criminal angle in such transactions as those entities were allegedly sending gold medallion directly from Dubai to South Korea and then exporting to India, violating FTA norms. Under the FTA, duty-free import of gold medallion into India is currently allowed only if it has met the norm of ‘Change in Tariff Heading’ under the Harmonised System Code.

This means one could send gold bars and rods from a third country to South Korea, convert them into medallion there, export to India and avail the zero-duty benefit. Though the Centre had last month ‘restricted’ imports of jewellery, precious metal and related items from South Korea, official sources said it was only a temporary measure.

In an upcoming trade meeting with South Korea, India will push for inclusion of tighter norms in the FTA on imports of gold and its items to prevent misuse.

India will insist on a clause in the FTA specifying the criteria of (at least 35%) ‘value addition’ as well as ‘Change in Tariff Sub-Heading’ to ensure that the item has undergone substantial transformation in South Korea, and not been just routed through that country to take advantage of duty-free norms.

Only those furnishing the required certificate, stating the criteria have been met, will be allowed FTA benefits. Else, such imports from South Korea will attract 10% duty. Since gold is a sensitive item for India, the other plan is to shift gold and articles to the negative list in the FTA. Work is also on to impose safeguard duty (12.5%) on gold imports from South Korea.

END

# Decoding shell companies

*The Centre has initiated action against more than two lakh shell companies as part of Operation Clean Money. Separately, the market regulator Securities and Exchange Board of India has identified 331 companies and initiated action against them. Here is all you need to know about shell companies.*

**What are shell companies?**

The Companies Act, 2013 has not defined what a ‘shell company’ is and as to what kind of activities would lead to a company being termed a ‘shell’.

Shell companies are typically corporate entities which do not have any active business operations or significant assets in their possession. The government views them with suspicion as some of them could be used for money laundering, tax evasion and other illegal activities.

**Is there a law governing shell companies?**

In India, there is no specific law relating to “shell companies.” However, some laws help, to an extent, in curbing illegal activities such as money laundering and can indirectly be used to target shell companies — Benami Transaction (Prohibition) Amendment Act 2016; The Prevention of Money Laundering Act 2002 and The Companies Act, 2013.

**Is it easy to strike off a shell company from the records?**

According to Anant Merathia, a Chennai-based corporate lawyer, companies can be removed from the rolls of the Ministry of Corporate Affairs by two means: strike off by Registrar of Companies (RoC) — (Section 248 (1) of the Companies Act, 2013) and voluntary strike off — (Section 248 (2) of the Companies Act, 2013). Voluntary closure can be done with the approval of the board and shareholders and the firm should have nil liabilities.

**What scenarios can lead to a company’s name being struck off by the RoC?**

The strike off happens in case of companies which have failed to commence business within a year of incorporation.

Also, in case of companies that are not carrying on any business or operation for a period of two immediately preceding financial years and have not made any application within such period for obtaining the status of a ‘dormant company’ under Section 455 of the Companies Act can be struck off by the RoC unless cause is shown to the contrary.

The RoC issues a show-cause notice to such companies and their directors seeking their response within 30 days. If the response is not satisfactory, the company’s name would be removed from the register.

**What is a dormant company?**

According to Mr. Merathia, as per Section 455 of the Companies Act, 2013, a company that does not have significant financial activity or has been inactive can apply to the RoC and obtain the status of a dormant company.

The company shall be a dormant company on the rolls of the RoC until it follows all the provisions of Section 455. If it fails to do so, the RoC shall have powers to strike of their names from the Register of Companies.

**What is the difference between dormant and shell companies?**

A dormant company gets its title in two ways: it has chosen to get a ‘dormant’ status from the RoC by way of an application and is in compliance of the requirements of Section 455.

Further, in case a company has not filed financial statements or annual returns for two financial years consecutively, the RoC shall issue notice and include it in the register of ‘dormant’ companies. But a shell company is one which is typically suspected of illegal activities.

END

# Gold imports increase threefold to $15 billion

The country’s gold imports recorded a three-fold jump to $15.24 billion during the April-August period of the current fiscal, Commerce Ministry data showed.

Gold imports, which has a bearing on the country’s current account deficit (CAD), stood at Rs. 5.08 billion in April-August 2016-17.

In August this year, imports of the precious metal rose to Rs. 1.88 billion from Rs. 1.11 billion in the same month of the previous fiscal.

Surge in gold imports last month contributed to the widening of trade deficit to $11.64 billion as against $7.7 billion in August 2016.

The imports are expected to increase on account of the forthcoming festival season, which will start from the end of this month.

Increase in inbound shipments of gold is also one of the reasons for higher CAD.

CAD rose sharply to $14.3 billion — or 2.4% of GDP — at the end of first quarter of 2017-18. In general terms, CAD refers to the difference between inflow and outflow of foreign exchange that has an impact on exchange rate.

Worried over surge in gold imports from South Korea, with which India has a free trade agreement, the government has restricted inbound shipments of the precious metal.

END

## The spectre of current account deficits, surpluses

Having a large current account deficit relative to a country's gross domestic product (GDP) has often been viewed as making it more vulnerable to "sudden stops" or reversals in foreign capital inflows. In 2013, investment bank Morgan Stanley termed Brazil, India, Indonesia, Turkey and South Africa the "Fragile Five", due to their relatively large current account deficits (*see Chart 1*), which were accompanied by slowing growth in some cases (Brazil, India and Turkey) and high fiscal deficits in others (India and South Africa). The need to finance their current account deficits left these countries exposed when foreign investors panicked after the then US Federal Reserve chairman Ben Bernanke signalled tapering of the Fed's quantitative easing (QE) programme on 22 May 2013. The Indian rupee suffered the largest decline among the Fragile Five, depreciating by 23.5% to 68.8 against the US dollar by end-August 2013.

The Fragile Five have reduced their current account deficits to various degrees in subsequent years (*see Chart 1*). India reduced its deficit from nearly 5% of GDP in 2012 to less than 1% in 2016. India's current account deficit widened to 2.4% of GDP in the first quarter of the current financial year, but remains well below the level reached in 2012. As a result of improvement in macroeconomic fundamentals, the Indian rupee remained fairly stable when the Fed tapered its QE programme between December 2013 and October 2014. Reactions to the first US Fed rate hike in December 2015, and subsequent increases in December 2016, March 2017, and June 2017 were also muted.

Macroeconomic theory suggests that current account deficits have a counterpart in saving-investment imbalances—a deficit usually arises when domestic savings fall short of investment. An implication is that capital should flow from countries with surplus savings to those where domestic savings are not keeping pace with domestic investment. The former group includes countries with crude oil resources, such as the Gulf Cooperation Council (GCC) countries, as well as countries running large trade surpluses stemming mainly from manufactured exports, notably China and Germany (*see Chart 2*).

The latter group includes the US, which has mostly run current account deficits for several decades in a row. This benefit is conferred by the privileged status of the US dollar as the world's main reserve currency, as pointed out by economist Robert Triffin in his critique of the central role of the US in the international monetary system. Developing countries with investment opportunities and need for external financing also tend to run current account deficits.

Similar to current account deficits, large current account surpluses can also become problematic in certain circumstances. The recycling of petro dollars by the oil-rich West Asian countries with large surpluses was linked to the Latin American debt crisis in the early 1980s. The global imbalances in the 2000s arising from China's large surpluses (and corresponding deficits of the US) were also blamed for loose liquidity conditions in the US, which, among other factors, fuelled a housing market bubble and eventual bust in 2006-07. China's large and persistent current account surpluses that have allowed it to accumulate foreign exchange reserves of about $3.1 trillion have been criticized (fairly or unfairly) as arising from "currency manipulation" or policies to maintain an artificially-undervalued exchange rate with the aim of promoting exports. More recently, Nobel Prize-winning economist Paul Krugman has argued that Germany's large trade surpluses, and the associated excess savings of German households, may have acted as a drag on the rest of the euro zone economy. Countries running large and persistent current account surpluses such as China and Germany also face economic costs, including relatively low yields on foreign (typically US and European) government bonds held as part of their foreign exchange reserves, and possible currency appreciation that can harm future exports.

Current account surpluses and deficits will continue to be part of an interconnected global economy, given differences across countries in savings rates, demographics, levels of development, productivity, and investment opportunities. However, a persistent current account surplus that results from an undervalued currency may require policy actions aimed at moving towards fully flexible exchange rates and promoting domestic demand. Developing countries that usually run current account deficits also need to take proactive policy measures, given the fickle nature of foreign portfolio capital. These can include building an international reserve cover, prudential regulations to prevent asset price bubbles from large capital inflows, measures to attract longer-term foreign direct investment, and implementing capital account liberalization in a manner consistent with the level of sophistication of the domestic financial sector.

*Sanket Mohapatra is a faculty member at the Indian Institute of Management, Ahmedabad.*

*This article presents the author’s personal views and should not be construed to represent the institute’s position on the subject.*

END

# Time for caution - on India's current account deficit

India’s external balance sheet may have improved significantly since the infamous taper tantrum of 2013, but there are now signs that warrant more caution from policymakers. Last week, the current account deficit (CAD) widened to a four-year high of $14.3 billion in the first quarter of the current financial year, **standing at 2.4% of gross domestic product**, compared to 0.1% last year. The widening CAD was driven by a greater increase in merchandise imports than exports. A strong capital account surplus, however, has helped the country pay for its import bills without much trouble. Foreign investors starved of yield have been stepping up their investments in India, which remains one of the few places offering higher yields. Compared to last year, net FDI almost doubled to $7.2 billion in the first quarter, while net portfolio investment jumped about six times to $12.5 billion. The strong inflow of foreign capital has also led to a significant increase in foreign reserve holdings, thanks to the Reserve Bank of India which has been busy buying dollars to weaken the rupee. Forex reserves were at an all-time high of $400.7 billion for the week ending September 8, while the rupee has appreciated by over 6% against the dollar this year. Low global oil prices over the last two years have also helped contain a good portion of its import bills.

All this might change with the impending tightening of monetary policy by the U.S. Federal Reserve and other central banks. After all, emerging Asian markets have been the biggest beneficiaries of loose monetary policy in the West, so any change in stance would most definitely affect them. Indian companies, for instance, have aggressively tapped into the market for rupee-denominated foreign debt, which can work against them if the flow of foreign capital turns volatile. The RBI has been regulating the amount and quality of such borrowings, so it may seem like things are under control for now. Further, India’s total external debt declined by 2.7% during the financial year 2016-17, standing at $471.9 billion, driven by a fall in external commercial borrowings and deposits by non-resident Indians. The World Bank, in fact, has said that India’s external dynamics remain very favourable given the size of its economy and foreign reserve holdings. But a prolonged period of unfavourable trade balance when combined with volatile international capital flows can lead to unsavoury macroeconomic situations. According to a report by India Ratings & Research earlier this year, a 10% depreciation of the rupee combined with a 50 basis point interest rate hike can severely affect most Indian borrowers. It added that as much as 65% of foreign debt exposure of Indian companies may be unhedged. As the world looks to withdraw from an era of historically low interest rates, it would be wise for India’s policymakers to be ready with an emergency plan to tackle a period of significant volatility.

Rajasthan’s ordinance shields the corrupt, threatens the media and whistle-blowers

END

# A powerful move

The government's decision to offer 10 coal mines for auction could be the first step in meeting a long-standing requirement of the country's energy sector. The opening up of the coal sector to new players will break the 41-year old stranglehold of the state-owned Coal India Limited (CIL) over commercial mining. The current regulation that restricts such operations to CIL - and Singareni Collieries Limited, a comparatively minor player - is among the major reasons for the energy-strapped country not being able to tap the full potential of its coal reserves. India is the third largest coal producer in the world. But it is also its third largest importer.

In March, the Competition Commission of India (CCI) described the near monopoly exercised by CIL as "patently unfair". The fair trade regulator found CIL and its subsidiaries to be "in contravention of the provisions of Section 4(2)(a)(i) of the Competition Act, 2002, for imposing unfair/discriminatory conditions in fuel supply agreements with power producers". It slapped a fine of Rs 591 crore on CIL. The public sector outfit's stranglehold over commercial mining has also had a bearing on the quality of coal in the Indian market.

Indian coal, on average, has about 45 per cent ash, much higher than the 25-30 per cent ideally required for the efficient burning of the fuel in thermal power stations. While geological factors are the primary reason for this lacuna, CIL's overwhelming dominance of commercial mining has made the outfit stingy in investing in technology - coal washing, for example - that increase the efficiency of coal. Less than 20 per cent of the coal produced by CIL undergoes coal washing. Thermal power plants also have to reckon with stones in the coal they procure, which adds to their production costs and contributes to the wear and tear of their equipment. In April, the Coal Controller's Organisation - the national watchdog of coal quality - downgraded 177 CIL mines because of quality concerns.



Introduction of competition in coal mining could address such concerns. To begin with, four mines each in Odisha and Chhattisgarh and one mine each in Madhya Pradesh and Jharkhand will be opened up for auction. The royalty earnings from these auctions will boost the revenues of these states. A caveat, though: The downturn in the economy means that demand for coal is likely to remain tepid in the near future. In July, the India Ratings Report noted that the coal consumption growth is likely to remain low "on account of subdued demand from thermal power plants, with an expectation of power plant capacity utilisation remaining sub-65 per cent in the medium term". However, this should not deter reform. In the long-run, competitive fuel supply arrangements and improvement in coal quality will benefit power suppliers, enhancing the country's energy security.

END

# There are 1.77 million homeless in India, but the State is blind to them

They can be found everywhere but somehow the Indian State fails to notice them. They are the homeless people of India. According to the government's definition, homeless or houseless are those who live in "the open or roadside, pavements, in hume-pipes, under flyovers and staircases, or in the open in places of worship, mandaps, railway platforms etc." Yet when it comes to providing them the basic needs, governments have been failing to spend even their allocated funds. There are 1.77 million homeless people in India.

Last week, the Supreme Court took the Centre and states to task, saying that there should be an audit by the Comptroller and Auditor General of the money disbursed by the Centre to the states for a scheme under the National Urban Livelihoods Mission (NULM), and observed that these funds, which are meant for a specific purpose, should not be diverted.

This is not the first time the SC has rapped the Centre. In 2016, the apex court slammed the Centre and states for their lackadaisical approach in providing shelters to the poverty-stricken in urban areas despite availability of sufficient funds.

It had also observed that the mission of the NULM scheme "remains a distant dream even after lapse of a long period."

The NULM was launched in September 2013 to reduce poverty and vulnerability of urban poor households. The Centre had earlier told the court that an amount of Rs 1,000 crore, released under the NULM, does not pertain only to urban homeless but to other activities also.

The good news is that there has been an overall decline in the houseless population from the last Census. While there has been a 28% decline reported from rural India, there has been a 20% increase in houseless people living in the cities. But still there is a long way to go.

But only spending money will not solve the problem. Here's what needs to be done.

First, the State needs to identify and address the structural causes of homelessness; second, a national moratorium on forced evictions and demolitions should be introduced; third, enhanced policy coherence and convergence between housing schemes in urban and rural areas and schemes for the provision of water and sanitation; fourth, the central and state governments should put in place effective and timely mechanisms to collect data on evictions, including with disaggregation of the persons who are evicted by age, gender, disability, caste and religion.

Prime Minister Narendra Modi has set a target for the nation – every Indian must have a house by 2022. This is a tall order. However it is possible if the state undertakes the right sort of planning and judicious spending of funds.

END

# Norms eased for fund raising by REITs, InvITs

The Securities and Exchange Board of India (SEBI) has relaxed the guidelines for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) in order to broaden the scope of fund raising by such instruments.

The board of SEBI, which met on Monday, decided to allow REITs and InvITs to raise capital by issuing debt securities while also giving approval for the former to lend to an underlying holding company or a special purpose vehicle (SPV).

The regulator also allowed single-asset REITs on similar lines as InvITs while amending the definition of ‘valuer’ for both REITs and InvITs. REITs allow investors to invest in real estate, while InvITs allow one to invest in infrastructure projects.

Market participants said the relaxation would help these investment products gain traction as only a few entities have so far managed to raise such funds. On the BSE, only two InvITs, India Grid Trust & IRB InvIT Fund, are listed.

“Through these proposals, SEBI has reiterated its intent to adopt a consultative approach in refining the regulations to make REITs and InvITs successful platforms in India,” said Bhairav Dalal, partner, real estate (tax), PwC India.

END

# ‘Bankruptcy law, GST may increase FDI’

Reform measures such as the foreign direct investment reforms, GST and a simplified bankruptcy code are likely to increase FDI in India, according to Moody’s Investors Service.

“FDI has already increased substantially, albeit from a low base. Combined with reforms such as the introduction of a goods and services tax, which lowers the cost and complexity of doing business, and a simplified and clarified bankruptcy code, FDI is likely to rise further,” it said in a report on Monday.

It, however, added that the benefits of these measures are likely to really have an impact when the global economy improves.

END

# Questions about the GST cess

As part of the Goods and Services Tax (GST) reforms that have been implemented in the country, a new levy called the GST Compensation Cess has been introduced to make good apprehended losses to States in the first five years of GST implementation. The Cess has been introduced through the GST (Compensation to States) Act, 2017 and is levied on inter- and intra-State supply of notified goods such as aerated drinks, coal, tobacco, automobiles and the ambiguous category of ‘other supplies’. The proceeds of the cess will be distributed to loss-incurring States on the basis of a prescribed formula. The schedule to the Act mentions the maximum rates of the cess, which extend to 290%. The levy would be over and above the four GST slabs of 5%, 12%, 18% and 28%.

The cess has been making headline news due to frequent changes in the rates, the latest being the increase in the rate of luxury, mid-sized cars and sport utility vehicles. While the policy flip-flop on the tax rates reveals the ad hoc implementation of the cess, there is much to say about the legal validity of the Act in terms of legislative competence and conformity with the Constitution.

A cess is a levy for a specific purpose which may bear the characteristics of a tax or a fee. The quintessential feature of a cess is that it is levied for a ‘specific purpose’ and the proceeds are earmarked as such. Under Article 270 of the Constitution, a cess tax has special privilege as the proceeds can be retained exclusively by the Union and need not be shared with States. The object of granting this special status is to ensure expenditure for a specific purpose, as is evident from the Fourth Finance Commission Report.



A cess must have an earmarked purpose and the contributor and beneficiary must be relatable. In the past, cesses were imposed by the Central government to raise finances for specific industries and labour welfare within chosen industries. If compensating State governments is considered to be a specific purpose, any general revenue raising measure can be considered to be backed by an earmarked purpose. Once the money is transferred to State governments, it can be used to fund just about any scheme and may even be used merely to adjust the respective State government’s fiscal deficit. Further, there is no relation between the persons contributing to the cess and the recipients, the State governments. All these factors make the cess look more like an additional tax or surcharge which becomes problematic as surcharge on the GST is prohibited under Article 271.

Section 18 of the 122nd Constitution Amendment Bill, 2014 proposed a 1% additional tax to compensate States but this was withdrawn while enacting the Amendment Act. The version of Section 18 adopted in the Amendment Act, 2016 merely says that Parliament shall, on the GST Council’s recommendations, provide for compensation to States for a period of five years. There is no provision for an additional tax. As per Article 279A(4)(f), the GST Council’s power to recommend a special rate is confined to raising additional resources during any natural calamity or disaster. The cess cannot be justified under such power. Moreover, pursuant to the 101st Constitution Amendment Act, 2016, Article 271 has been amended to state that an additional tax/surcharge cannot be imposed over and above the GST tax rates. Thus it appears that by enacting the cess, Parliament is seeking to do indirectly that which cannot be done directly, which amounts to it being a colourable piece of legislation.

The goods identified in the Act, such as aerated drinks, coal, tobacco, automobiles and the ambiguous category of “other supplies”, do not form a distinct category or class deserving the liability to pay the cess so as to compensate States, and it is doubtful it will succeed if tested under the anvil of the right to equality under Article 14. While the sin goods argument is alluring, it is erroneous, looking at misfits such as coal and aerated drinks and the uncovered sin goods including luxury goods, jewellery, gadgets and the like. Similarly, “other supplies” leaves much to the unfettered discretion of the government.

The cess reflects the same lack of coherence as the GST regime in general, the appeasement measures being weighed down by the legal entanglements created therein. It also raises the question as to whether the targeted goods have been chosen merely because of their inelasticity — less dependence of demand on price change — ensuring the generation of not just adequate but also surplus funds for the government. While the Delhi High Court has granted relief to a coal trader against implementation of the Act, it remains to be seen if the legislation will be tested by courts on legislative competence and colourable action.

*Ashrita Prasad Kotha is Assistant Professor, Jindal Global Law School and Pradnya Talekar is Advocate, Bombay High Court*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

END

# When Cassandra and Goldilocks wait for Godot

The Bank for International Settlements (BIS) has always played the role of Cassandra, the daughter of the Trojan king in Greek mythology, whose warnings about the fall of Troy lamentably went unheeded. The global bankers' bank has been admonishing policymakers for years about the negative effects of keeping policy rates too low, which has led to a dangerous build-up of global debt and fanned runaway asset prices, among other undesirable effects. But, both policymakers and market players have kept the party going, blithely ignoring the doomsayer's advice. The bank's latest quarterly review continues this fine old tradition.

This time, though, the BIS report agrees that the market rally has as its basis the Goldilocks scenario prevailing across the globe, where the economy is "not too hot, not too cold, but just right". The JP Morgan Global Composite Purchasing Managers' Index for August indicated that the world economy expanded at its fastest pace since early 2015. The recovery was especially strong in Europe, but the US economy has been doing pretty well too, with unemployment in July falling to levels last seen in 2001. Emerging market economies too, in general, have done their bit, with growth in China holding up better than expected.

Yet central banks in the developed economies have been reluctant to raise their policy rates and that has led to the continuation of easy liquidity conditions. Market participants too have become increasingly sceptical about central banks withdrawing the punch bowl in a hurry. That confidence is reflected in the very low volatility in the markets. It has enabled another round of risk-taking, leading to increased flows into equities and to capital flows to emerging markets.

These flows have driven up equity valuations worldwide. Yet the BIS report acknowledges that while stock valuations may appear stretched, they may not be out of line considering the exceptionally low levels of bond yields.

But what is it that is keeping bond yields so low in the developed economies? Why are their central banks so reluctant to raise their policy rates? Simply put, it's the lack of inflation. Despite the recovery in the global economy, inflation has remained remarkably subdued. The Bank of America Merrill Lynch survey of fund managers report defines Goldilocks as "above-trend growth + below-trend inflation". The key to the trajectory of the markets, therefore, lies in the behaviour of inflation.

As Claudio Borio, head of the BIS's monetary and economic committee put so admirably, "This puts a premium on understanding the 'missing inflation' because inflation is the lodestar for central banks. It feels like *Waiting for Godot*. Why has inflation remained so stubbornly low despite economies approaching or surpassing estimates of full employment and unprecedented central bank efforts to push it up? This is the trillion dollar question that will define the global economy's path in the years ahead and determine, in all probability, the future of current policy frameworks. Worryingly, no one really knows the answer."

But while no one knows for sure, there's no dearth of guesses. Economists have advanced a menu of options about what's keeping inflation low, ranging from the impact of an ageing society to technological marvels such as the rise of Amazon, to lower Chinese growth rates, with its effect on commodity prices. Lower oil prices have, of course, had a big impact on headline inflation, but core inflation too has been restrained. The BIS annual report had talked of secular disinflationary pressures associated with globalization and technological pressures, which have together sapped both the bargaining power of labour and the pricing power of firms, making the wage-price spirals of the past less likely. Lael Brainard, a member of the US Federal Reserve's Board of Governors, said in a speech earlier this month that a long period of low inflation has led to lower inflation expectations and that is what is dragging down core inflation, which is a bit like a dog chasing its tail.

There are other guesses. Perhaps rising inequality is keeping consumption on a leash, while the higher incomes of the top 1% fuel an asset price boom? Others believe it’s much ado about nothing and it’s only a matter of time before inflation goes up. Recent inflation readings have generally seen upside surprises. Eurozone wage growth has improved. Commodity prices have moved up. This is benign inflation—the result of growth—and even if policy rates are raised the market will take it in its stride.

But haven’t we seen this movie already? Before the financial crisis, central bankers in the developed world patted themselves on the back for ushering in The Great Moderation, when their allegedly superior monetary policy skills had banished inflation. Surely the lesson of the financial crisis was that central bankers had been lulled into a false sense of complacency because they did not see any inflation on Main Street, while rampant asset inflation on Wall Street went unnoticed? They may well be making the same error again and this time, another mistake will be catastrophic.

As the BIS annual report warned, “The main cause of the next recession will perhaps resemble more closely that of the latest one—a financial cycle bust.”

*Manas Chakravarty looks at trends and issues in the financial markets. Respond to this column at manas.c@livemint.com.*

END

# India’s economy: dark clouds and silver linings

The recent headlines on the Indian economy have been stark. Economic growth has declined for six quarters in a row. Inflation has more than doubled in the three months since June. The current account deficit in the first quarter of the current fiscal year was at its highest level in four years as a proportion of gross domestic product (GDP). Is it time to hit the panic button?

Some of the worries are overdone. Inflation was expected to jump back from an absurdly low level in June. The current account deficit is still being comfortably financed by strong capital flows, though the dominance of debt investments as well as the spurt in electronics and gold imports deserve closer examination. And at least some of the sharp decline in economic growth in the three months to June can be explained by inventory destocking by companies ahead of the launch of the goods and services tax (GST), so a cyclical bounce back is quite likely over the next two quarters.

Yet, there is no doubt that the Narendra Modi government faces its biggest economic challenge as it enters the final stretch of its tenure. It got an unexpected bonanza early on thanks to the collapse of global crude oil prices. It was a positive in terms of trade shock that acted as a growth driver. The sharp decline in the current account deficit added at least an extra percentage point to economic growth.

The government prudently used the oil bonanza to strengthen its finances rather than immediately pass the benefits of lower global prices on to consumers. Monetary tightening by the Reserve Bank of India also helped secure macroeconomic stability after nearly five years.

That hard-earned stability does not seem to be at risk—despite the latest numbers on inflation and the current account deficit. The more serious problem is economic growth. It is right now devilishly difficult to figure out how much of the sharp decline in economic momentum is structural and how much is a cyclical blip because of the two consecutive exogenous shocks given to the economy—first demonetization and then the transition to GST. The economy should be able to claw back some of the lost ground as the effects of these two shocks abate, especially if there is no hysteresis. In other words, do not brush aside the possibility of a pleasant surprise in the next two GDP releases.

But that is not the entire story.

There is an important structural element to the economic slowdown as well. The Indian economy began losing momentum well before the demonetization decision was announced in November. The question is what is to be done. This newspaper continues to believe that the answer does not lie in either dramatic interest rate cuts or a large increase in the fiscal deficit. Economic stability is a public good that is difficult to secure but easy to gamble away, especially in an election season.

The key to a sustainable recovery is the investment cycle. The private sector is still struggling with excess leverage. The banks are struggling with bad debts. Capacity utilization figures show that higher demand can be met through existing capacity. The clean-up of the banks seems to have begun in earnest, though it is hard to see how the job can be done in less than two or three years.

The macroeconomic strategy will thus have to delicately balance between the need to push public investment on the one hand and keep the fiscal deficit under check on the other. And remember that the state governments today collectively account for more of the public investment than New Delhi does, and many of them seem to be snipping their capital spending plans to release money for farm loan waivers.

So where can the money come from?

First, the extra taxes that the GST is expected to send into the treasury should hopefully create fiscal space for higher public investment.

Second, the government should push ahead with a privatization programme that should be used as a way to switch assets—from airplanes to roads, for example.

India may see a small cyclical recovery in the months ahead. However, a sustainable recovery will depend on investment activity. Public investment will have to hold the fort till the private sector deleverages, banks are cleaned up and excess capacity is worked out of the system.

*Do you expect a revival of economic growth in the next GDP release? Tell us at views@livemint.com*

END

# What does the wage data say about the economy?

There is now an emerging consensus that the economy is in a downward spiral with little hope of it reviving in the near future. While this is certainly evident from the quarterly national account estimates released last month, data released subsequently by other sources confirm the trend is continuing.

It is also clear that much of the distress which has now become obvious has been going on for quite some time even though the situation has worsened after the twin shocks of demonetization and hurried implementation of the goods and services tax (GST).

Much of the impact of these two shocks is still unfolding but it is now evident that domestic demand in the economy has slumped with the agricultural and unorganized sector being the largest casualties. Some of this was already made clear in the second volume of the Economic Survey presented last month.

The second issue, which continues to plague the economy is the absence of job creation, which has also been recognized by most economists as the biggest pressure point on the economy. This again is now more or less confirmed by data from various sources, public as well as private.

While the government has continued to remain in denial mode on most indicators, citing an absence of concrete data or has taken recourse to blaming "technical issues", the reality is that there is now much more convergence by various data sources on the state of the economy than what the government would like to believe.

An important source of data in this regard is the trend in real wages of casual workers in agriculture and non-agricultural areas in the villages. These remain incontrovertible and an important measure of the state of the economy. In fact, wages are not just an indicator of the earnings of salaried and casual workers—they are also an independent source of information on the labour market.

The information on wage data is available from the labour bureau on a monthly basis, the last being June 2017. These are available for various agricultural and non-agricultural occupations, including general agricultural labourers and non-agricultural unskilled workers.

The trend from these shows a sharp deceleration in real wages for both agricultural and non-agricultural sectors since 2013-14. Real wages of casual workers in agriculture and non-agricultural areas were increasing at 7% per annum between 2007-08 and 2012-13. As against this, real wages in agriculture between 2013-14 and 2016-17 have slowed to 1% per annum. Unlike agriculture, real wages in non-agricultural occupations have actually declined in real terms with wages of unskilled workers declining in real terms by 0.1% per annum.

The increase in real wages of casual workers during 2008-2013 was not just responsible for insulating the economy from a severe shock following the financial crisis and the drought of 2009, but it also contributed to poverty reduction between 2004-05 and 2011-12.

The increase in wages was a result of many factors, including the increase in agricultural productivity but was supported by buoyancy in the construction sector which absorbed a large number of workers released by the agricultural sector. It was also helped by the expansion of the National Rural Employment Guarantee Scheme (NREGS) which not only contributed to tightening the labour market in rural areas but also provided a floor for private wages with NREGA wages being pegged at minimum wages.

The deceleration in real wages was evident even before the present National Democratic Alliance government took over, with real wages turning negative in 2013-14. The subsequent collapse of the rural economy in the wake of the commodity price crash and back-to-back droughts further aided the deceleration.

The cutback in expenditure on NREGA since 2011-12 has worsened the situation. Not only did the government cut back the expenditure, but it also froze minimum wages, depriving rural workers of alternative opportunities. Some of these could have been reversed but for the twin shocks of demonetization and GST roll-out which hurt the rural economy and the rural informal sector.

The deceleration in real agricultural wages and a real decline in non-agricultural wages not only confirm the worsening demand situation in rural areas but also confirm the lack of job creation in rural areas.

The last time real wages decelerated on this scale was the period between 1998 and 2003, a period of crisis in rural areas, particularly in agriculture. The deceleration this time not only coincides with a similar phase of rural distress and agrarian unrest but also a decline in construction activity which had contributed to insulating the economy from the vagaries of monsoon failure and price fluctuations. The deceleration this time is confirmation of a collapse of demand in rural areas. Given the government's denial of jobless growth, the collapse of rural wages is clear evidence of the lack of employment creation in the last three years in the economy.

The decline in wages is not just a serious and indisputed indicator of the state of the economy but it is also a pointer to the stress in the rural economy. Given that almost one-third of all rural workers and households are dependent on wage work, it will certainly affect the significant gains in poverty reduction that were achieved in the previous decade. But the sheer size of the rural casual workforce also implies that any attempt at reviving the economy will have to include efforts to create employment and raise wages in rural areas.

*Himanshu is an associate professor at Jawaharlal Nehru University and visiting fellow at Centre de Sciences Humaines, New Delhi.*

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**First ever National Conference on “Mission Mode to address Under-Nutrition” to be held in New Delhi tomorrow**

**Three States to be awarded for reducing prevalence of stunting in population**

The Ministry of Women and Child Development will hold the first ever National Conference in New Delhi tomorrow on *Mission Mode to address Under-Nutrition* in the country. In his curtain raiser briefing in New Delhi today, the Secretary WCD, Shri Rakesh Srivastava said that this conference is being organized by the Ministry of Women & Child Development in collaboration with Ministry of Drinking Water and Sanitation and Ministry of Health & Family Welfare, keeping in mind the goal of **“Malnutrition Free India-2022”**.

Giving details about the conference, the Secretary WCD said that the Government has decided to lay focused attention on this issue and for this said purpose, Ministry of Women and Child Development has identified 113 districts across the States/UTs based on the composite index of NITI Ayong and prevelance of stunting from NFHS-4 data. At least one district has been selected from each State/UTs so that the action taken in the selected district can be emulated in the other districts also, he explained.

Shri Srivastava said that the National Conference, first of its kind, aims at bringing convergence at District/Block levels of the three key Departments (Health & Family Welfare, ICDS/Social Welfare and Drinking Water and Sanitation) wherein a roadmap would be drawn to evolve an appropriate strategy in tackling the problem of stunting, under-nutrition and wasting comprehensively and conclusively.

The conference would be sensitizing the District Collectors/Deputy Commissioners/District Magistrates as well as the District-level officers of Health & Family Welfare, Nutrition (ICDS/SW), Drinking Water & Sanitation Departments in the 113 High Burden Districts along with the Principal Secretaries/Secretaries, in-charge of these three Departments of all States/UTs on a multitude of topics relating to stunting, under-nutrition and wasting and the key strategic interventions which are urgently required.

The District Magistrates/District Collectors/Deputy Commissioners in these 113 high burden districts, through a dashboard, will regularly monitor and review the schemes covering the aspects of nutrition across the line departments within their jurisdiction at least once in a three month period. Such a review and monitoring at district level would be done in an exclusively and dedicated manner (between 1st to 10th of January, April, July and October every year) to address implementation of schemes having a direct bearing on nutrition and Health.

Shri Rakesh Srivastava said that three States will be awarded at the conference tomorrow. These three states will be awarded for showing good progress in the area of reduction in stunting as measured between NFHS-3 and NFHS-4. These States are Chattisgarh, Arunachal Pradesh and Gujarat.

Joint Secretary WCD, Dr. Rajesh Kumar said that several important steps have already been taken by the WCD Ministry recently for a multipronged strategy to manage malnutrition. This includes training ICDS functionaries, developing a curriculum for ECCE, food fortification guidelines among others. He further stated that the WCD Ministry has developed a world class software 'ICDS-CAS' for real time monitoring of nutrition related parameters in 8 States. This system is one of its kind in the world and 60,000 Anganwadis have already been given tablets to report growth parameters on a daily basis with the help of this system, Dr. Rajesh Kumar explained.

The problem of malnutrition is inter-generational and is dependent on multiple factors which inter-alia, include proper Infant & Young Child Feeding (IYCF) practices, Immunization, Institutional Delivery, Early Childhood Development, Food Fortification, Deworming, access to safe drinking water & proper sanitation (WASH), Dietary diversification, full ANC checkup, early initiation of breast feeding, ICT enabled real time monitoring and implementation of Anganwadi Services, Improving infrastructure of Anganwadi Centres along with training of Anganwadi workers and other related factors. These factors can also be Area specific or dependent on particular geographical conditions. Further, it requires a convergent approach among all the three departments i.e. Health & Family Welfare, ICDS/Social Welfare and Drinking Water and Sanitation to tackle the issue of malnutrition comprehensively and conclusively.

Some of the important sessions at tomorrow's conference include efficacy of food fortification, sustainable solution through breast feeding, dietary diversification, improving maternal & child health through Mission Indradhanush, improving program delivery effectiveness, accelerating Real Time Monitoring among others.

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# GST refund: ‘mini-social crisis’ brewing

Cash flow:FIEO has mooted an e-wallet for GST payment s on inputs; money is re-credited on proof of export .Reuters

Exporters are troubled by the ‘inordinate delay’ in getting Goods and Services Tax (GST) refunds. On Tuesday, representative assocations told the Centre that since the working capital crunch (owing to the delay) is occurring in the middle of the festival season, it was causing difficulties in paying salary and Diwali bonuses to workers.

In a meeting with Revenue Secretary Hasmukh Adhia, who chairs the Committee on Exports to address GST-related problems, exporters sought the Centre’s immediate intervention to avert what they called a ‘mini social crisis’.

**‘Affecting payments’**

Claiming that the delay in getting GST refunds was severely affecting their cash-flow, P.K. Shah, former chairman and currently board member, EEPC India, the apex body for engineering exporters, said in a statement, “All this is happening when we are in the middle of the festival season, and the workers employed in the trading and manufacturing units have to be paid their dues including Diwali bonuses.”

EEPC India said the authorities ought to release at least 90% refunds immediately after the shipments and let verification and adjustment be done at a later stage. “This will help small and medium exporters to tide over their blockage of funds, and allow them to pay salaries and bonuses of workers in the festival season. Our members have pointed out that they are in a desperate situation and hence the government must intervene to avoid a mini social crisis.”

**Exemption sought**

The demands of the apex body for the country’s exporters, the Federation of Indian Export Organisations (FIEO) include seeking an outright exemption from the GST regime. The FIEO said in a statement that “It is not fair to expect micro and small units to borrow to pay for taxes, which in any case will be refunded. Why not an outright exemption window be provided to exporters?” It added that alternatively, an e-wallet may be created so that money flows out while paying GST on inputs required for exports or procurement of exports goods by Merchant Exporters, and money is re-credited to the wallet once the proof of exports is given.

The FIEO also mooted that Merchandise Exports from India Scheme (MEIS), Service Exports from India Scheme (SEIS) and Duty Credit Scrips be permitted for payment of Integrated GST and Central GST. Besides, utilisation of the Scrips could be considered for payment of bank interest, it said. Exporters also sought exemption from IGST on imports under Advance Authorisation and Export Promotion Capital Goods schemes.

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# India needs to push for a new deal

Global trade and intellectual property are at a crossroads. In a time when multilateral consensus is languishing on a large number of issues, the Trump administration is considering pulling the U.S. out of most free trade agreements on the ground that it needs a more favourable environment for its companies and its people. Much will be written about the carnage as far as jobs, wages and national sovereignty that the current American onslaught on trade deals brings to the fore. Here, I focus on a critical issue — how trade deals are becoming the new Trojan horse to ensure stronger patent protection and continued profits to global companies.

A bit about the historical trajectory of events. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) embodied an international regulatory regime for the first time, in 1995. Although it represented a major compromise for most developing countries, it was only the starting point for many other nations, which have since then promoted excessive protection of private investor interests through bilateral trade agreements, often at the expense of wider public interests. Corporate libertarians, riding high on increased market power, continue to lobby their governments for absolute protection of intellectual property (IP) rights of corporations.

For the U.S. in particular, which has never made any qualms about the importance of its domestic corporate interests, trade agreements are a prime vehicle to supplant its strong domestic standards of IP protection in partner countries, in a bid to ensure the same level of privileges for its companies abroad. Over the past 20 years, the American strategy has been a neat one: to pursue bilateral agreements with individual countries one by one to ensure stronger IP protection across markets, by sidestepping the multilateral regime.

In an inter-connected and highly globalised world, what goes around comes around quite fast and often with drastic consequences for all. In this case, the crux of the matter lies in how these stronger rules are changing the global corporate landscape. For years now, while patent protection is getting stronger in all sectors in a large number of countries, the conditions for its grant are becoming greatly relaxed. Not only do such lax patenting requirements allow companies to claim patents more broadly — or consecutively, with little show of original effort as in the case of evergreening — but also patents can be claimed on all possible inventions (and discoveries) that are of relevance to the present, and even to the future. A large number of countries have already foregone many degrees of policy freedom by signing up to ‘TRIPS-Plus’ standards of protection. This, in conjunction with other trade measures, is disintegrating existing markets and rigging established rules of the game. A superstar firm today is not necessarily one with the greatest technological breakthroughs or the largest research and development labs, but surely is one that has a large IP portfolio, engages in extensive litigation on patent issues, and thrives on licensing revenues. Noting the gravity of the situation, *The Economist* in 2016 produced two short opinion pieces on how corporate profits and returns on capital are at near record levels in the U.S. and what might be wrong with it. It argued that established companies are “becoming more entrenched” in existing markets worldwide, and made the case that high profits may be a sign of a sickness rather than growth and called for reining in IP rights.

At the global level, these sectors are stratified, with profits neatly split up between large corporations and new kinds of non-innovator firms that simply amass patents speculatively in upcoming, promising technologies for spurious returns. The non-innovator companies are the patriciates of the system: when they hit the technology jackpot, they control the market and have the power to shift wealth and control competition. An example that beautifully captures the situation is Qualcomm Inc., an American company that is the legal patent holder of thousands of patents that are considered critical to build mobile phones with wireless technologies, accounting for a total profit of $5.7 billion through intellectual property licences in 2016 alone.

For India, the fate of its pharmaceutical and software sectors swings in the balance, and guaranteeing fair and unfettered competition will be critical to ensure that we do not lose more ground to global companies abroad and at home. The United Nations Conference on Trade and Development (UNCTAD)'s recent Trade and Development Report calls for stronger measures to protect domestic sectors against the undue domination of large companies, particularly in high-profit sectors such as pharmaceuticals, media and information and communications technology (ICT), where foreign companies still account for most of the transfer of profits across borders. Warning against trade deals that seek to protect the status quo, the report identifies patents as an instrument of unfair market power across markets. The report uses data for U.S. multinational companies (MNCs) and their foreign affiliates in India to show that patent reforms have led to significant increases in the rates of return to affiliates of American companies by enabling monopoly profits when compared to publicly listed and locally headquartered companies, which are increasingly being left behind. In the pharmaceutical sector, for example, the analysis that ranges 20 years (from 1996) shows that profits of domestic companies are in sharp decline since the late 2000s while those for the American MNC affiliates operating in the Indian market are rising steeply. A similar trend is visible in the ICTs sector as well.

It is important to take these findings in the broader perspective of what India's growth drivers will be in the years to come. Our high-technology sectors are already taking a beating because they operate in a volatile global environment. Supporting IP standards that simply follow a 'winner takes all' ideology without emphasis on technological advancement and competitive markets will be a regrettable mistake. What India needs right now is a clear and tough stance on intellectual property both in domestic policy and at the multilateral level. At home, support for innovation has to be accompanied with instruments that guard against the misuse of market power, coercive bargaining and aggressive merger and acquisition strategies if local firms should survive and flourish.

Heated negotiations in the run-up to the upcoming WTO Ministerial Conference in Argentina already show that these issues will be central: there are ongoing attempts by big business to push for new rules in areas such as e-commerce to slice up profit-making opportunities of the future. Other proposals being made will largely limit the ability of governments to constrain corporate behaviour in the public interest even if they succeed partially. In such an international context, we need to stop soft-peddling on these issues in the pretence that we aspire to be a major IP player in the same vein as the U.S. What we need is a return to old-fashioned pragmatism that clearly shows the West that India recognises the fallacy of the current IP system and leads the way to broker a global new deal. This new deal should not only call for a return to business in the WTO by tackling the forgotten issues of the Doha Round but also firmly reopen the discussion on balancing the global IP system with development. That way, even if we don't win in Argentina, we will have made an ambitious start in redefining the global trade and IP agenda.

*Padmashree Gehl Sampath, a policy expert at the United Nations Conference on Trade and Development, is one of the authors of the Trade and Development Report 2017*

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# Fiscal push is needed now, not later

India's quarterly GDP (gross domestic product) growth declined for the sixth consecutive quarter in the three months ended 30 June. Since the first quarter of last year, growth rates have been 9.2%, 7.9%, 7.5%, 7.0%, 6.1% and 5.7%. These cannot be explained only by temporary disruptive factors like demonetization or destocking prior to the roll-out of the goods and services tax (GST). Nor can this steady decline be explained solely by global conditions.

Other key indicators also corroborate this longer-term decline. Fixed capital formation as a share of the GDP has been declining for five years. Credit flow to industry has been drying up. This of course is a manifestation of the twin balance-sheet problem, namely over-leveraged corporates, and stressed bank loans. The big picture is that from a spending and demand-side perspective, all four drivers of growth are sputtering. Private investment spending (as evidenced by fixed capital formation) is growing at barely 1.6%. Exports have grown only about 1.2% last quarter. Consumer spending growth, normally a reliable and consistent driver, has dropped to 6.6% from 8.6% a year ago. Even government spending which grew at 20% last year has slowed down.

This is a head scratcher. If macro context is conducive, in terms of moderate inflation, stable currency, plentiful inflows, soaring stock markets and a reasonably low fiscal deficit, and a normal monsoon, why then is growth declining? Are the lingering effects of demonetization more severe than anticipated? Are high interest rates the main culprit? Is consumer confidence dipping for some other reasons? Are exports hurting because of the strengthening rupee?

Whatever may be the proximate causes, in light of the fact that all four demand drivers are losing steam, this is a prime case for a fiscal stimulus. That's because the other three demand drivers will take time to energize. Exports will gather momentum mainly when our destination economies do better, and also with some help from rupee depreciation. Private investment spending will need healthier and less leveraged balance sheets, and improvement in capacity utilization. Private consumption spending will need improvement in sentiment, confidence and evidence of higher incomes and job growth. It is thus government spending which can provide a quicker boost. This age-old Keynesian wisdom is still relevant. Monetary measures like reducing interest rates take time to have an impact on economic growth, due to delays inherent in imperfect transmission.

Fiscal consolidation has been one of the prized achievements of the present government. The gains from falling oil prices did not lead to a spendthrift budget. This year the budgeted fiscal deficit of the Central government is 3.2%, which will fall further to 3**%** in the following year. The expert committee on FRBM (fiscal responsibility and budget management) too has recommended bringing down the fiscal deficit to 2.5% by 2023, and also cap the debt to GDP ratio at 60%. But as the dissent note in that FRBM report observed, mindlessly sticking to numerical targets can be pro-cyclical, i.e. make a slowdown worse. In a downturn, tax revenues decline, which necessitates cutback in government spending to achieve the fiscal deficit target.

This makes the downturn worse. That is why a downturn should allow higher deficits, which are then compensated in boom times. The FRBM report does recognize such exigencies and provides for an exception, or escape clause. But that condition is too stringent—it says GDP growth has to drop by 3 percentage points sharply compared to recent average. Such a steep fall is a huge macroeconomic shock. Instead it is better to achieve fiscal discipline ratios over an entire cycle of boom and bust. The growth rate of 5.7% is indeed 3.5 percentage points lower than 9.2% achieved five quarters ago, but is not sharply lower as compared to recent average. But it is better not to be the proverbial frog in the slowly boiling water.

The 3% fiscal deficit holy grail number has origins in the number agreed by the European Union in the Maastricht treaty, there is no theoretical basis for this. For a country with a young demography like India, the number of unborn taxpayers far outnumbers the currently alive taxpayers. So passing a lighter per-capita tax burden on future unborn generations, through a higher fiscal deficit, is much more feasible for India than Europe. India is a developing country which is bound to have higher debt and deficits. It is also amusing to note that the earliest violators who breached the Maastricht ceiling were the largest economies of Europe, i.e. France and Germany. In the course of the European debt crisis, even the International Monetary Fund recommended abandoning fiscal austerity.

India needs to expand fiscal spending in at least three specific sectors: (a) affordable housing, through interest subventions and assistance to states to acquire contiguous land to provide to developers. This can be potentially a big booster; (b) subsidy to employers, by way of full funding of pension funds or part of wage payment of workers and apprentices. This was done in a limited scale in the package announced for textile sector last year, but can be expanded to other labour-intensive sectors; (c) enhanced fiscal support to manufacturing and services exports schemes.

The downside of this fiscal policy is a possible threat to India's international rating. Given that India's rating has been anomalous, if not unfair (as pointed out by the government's chief economic adviser), this is hardly a reason to forebear. The positive and immediate impact on growth will outweigh the costs of the fiscal boost.

*Ajit Ranade is chief economist at Aditya Birla Group.*

*Comments are welcome at views@livemint.com*

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# ‘Peer-to-peer lending platforms are NBFCs’

RBI had floated a consultation paper in 2016 on such lending platforms.

Peer-to-peer lending (P2P) platforms will be treated as non-banking financial companies (NBFCs) and thus regulated by the RBI, the central bank said.

P2P lending is a form of crowd-funding used to raise loans which are paid back with interest. It can be defined as the use of an online platform that matches lenders with borrowers in order to provide unsecured loans.

“The Reserve Bank of India...specifies a non-banking institution that carries on ‘the business of a peer to peer lending platform’ to be an NBFC,” the RBI said in a notification.

As per the RBI, the business of a P2P lending platform is defined as the service of loan facilitation, via online medium or otherwise, to “the participants who have entered into an arrangement with that platform to lend on it or to avail of loan facilitation services provided by it.”

The RBI had floated a consultation paper in April 2016 on such lending platforms.

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# The new technology, of trust

What is blockchain?

Blockchain is the backbone technology on which bitcoins run. Simply put, it is a digital public ledger that records every transaction. Once a transaction is entered in the blockchain, it cannot be erased or modified. Blockchain removes the need for using a trusted third party such as a bank to make a transaction by directly connecting the customers and suppliers. Each transaction is recorded to the ledger after verification by the network participants, mainly a chain of computers, called nodes. Blockchain today may be compared to what the Internet was in the early 1990s. While we have witnessed how the ‘Internet of Information’ has changed our society over the past two decades, we are now entering a phase where blockchain may do the same by ushering in a new paradigm comprising ‘Internet of Trust’ and ‘Internet of Value’, as per a Deloitte and Assocham study.

Where did it originate?

While the origin of the technology is not clear, it is widely believed that a person or group of people by the pseudonym Satoshi Nakamoto, who invented bitcoins, released the technology to support cryptocurrency.

What are the use cases?

Bitcoin is just one of the applications for the technology, whose use is being tested across industries. It is witnessing a lot of traction within India, in sectors such as banking and insurance. In most of these industries, players are coming together to form a consortium to realise the benefits of blockchain at an industry level.

For example, in India, there is a consortium ‘BankChain’ which has about 27 banks from India (including State Bank of India or SBI and ICICI) and the Middle East as its members. The consortium is exploring using usage of Blockchain technology to make business safer, faster and cheaper.

The Institute for Development and Research in Banking Technology (IDRBT), an arm of the Reserve Bank of India (RBI), is developing a model platform for blockchain technology.

What are the benefits?

The benefits of using blockchain will vary from case to case. However, according to a Deloitte and Assocham report on the issue, blockchain becomes a good fit when there is a lot of data that is shared across multiple parties with no trust mechanism among the participants.

Financial players are the first movers to capitalise on this technology. As per a study by the World Economic Forum, “With over 90 central banks engaged in Blockchain discussion globally, over 2,500 patents filed over the last three years and 80% of the banks predicted to initiate Blockchain and distributed ledger technology (DLT) projects by 2017, the Blockchain technology is on its course to become the new normal in the world of financial services.” Non-financial players too have been paying attention to and looking for ways to leverage the opportunities that blockchain offers, the report adds, pointing out that the front runners among them are retail, travel, health care, telecommunications and public sector industries. “The major use cases applicable to these industries are focused on the decentralized data storage, data immutability, and distributed ownership features of Blockchain,” it says.

Blockchain is expected to improve the efficiency of a transaction by eliminating the middlemen, while also reducing the cost of all transactions. It is also likely to increase transparency. and bring down fraud as every transaction would be recorded and distributed on a public ledger.

What is happening in India?

A high-level committee, which consists of officials from the Ministries of Finance, Home Affairs and IT as well as SEBI, the RBI, SBI, and NITI Aayog, is currently deliberating on whether or not cryptocurrencies should be banned in India. However, the discussions till now are learnt to be in support of encouraging the use of blockchain technology.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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# Taxpayer rights and obligations

“It is better to be roughly right than precisely wrong.” These words of British economist John Maynard Keynes best sum up the wave of reforms in the domain of tax administration in India in the last few years. While tax administration has seen some paradigm shifts both in the domain of direct and indirect taxes, the taxpayer still seems to be wanting for greater certainty and fairness in the levy, assessment and collection of taxes. This is where an internationally recognised concept such as taxpayer rights holds well even in the Indian context.

The Central government has development strategies in the form of campaigns like ‘Make in India’ and ‘Startup India’. The recent introduction of the Goods and Services Tax (GST), which is the most significant overhaul of the taxation system in India ever, also aims to achieve a unified market across the nation for the first time. The intent of the government is clear. It wants to transform India into a manufacturing, investment and research and development hub and consequentially, there would also be an increase in revenue generation. In the light of such economic aspirations, a fair balance between taxpayer rights and obligations will only ensure a higher degree of trust between the tax collector and taxpayer, thus leading to a higher tax yield. But one may ask, isn’t the level of trust already there? Well, not entirely.

India has seen key tax disputes ever since a similar growth-oriented road map was adopted by the government in the early 1990s. For instance, in order to attract investments, the government signed Double Taxation Avoidance Agreements (DTAAs) with states like Singapore and Cyprus on similar treaty terms as the India-Mauritius DTAA signed in 1983. As ambitious as these agreements were, they proved to be detrimental in the long run for India. Multiple disputes relating to capital gains surfaced due to exploitation of legal loopholes in these DTAAs. Another example is of ‘transfer pricing’ mechanism (the rules and methods for pricing transactions between enterprises under common ownership or control), where there was little clarity with respect to international transactions between associated enterprises before April 2001. Even after the introduction of a dedicated transfer pricing segment in the Income Tax Act, the chaos could not be curtailed as the determination of arm’s length price (the price of such international transactions in open market conditions) would almost always be a contentious exercise. India ended up being party to more than half of the global transfer pricing disputes by 2014.

After the debacle the government had to face when it lost to Vodafone on a capital gains dispute in the Supreme Court, it came up with an aggressive set of corrective measures not only to augment its revenue generation capabilities but also to counter any such abusive avoidance strategies by taxpayers henceforth. Retrospective amendments were made to the Income Tax Act to supersede the adverse judgment of the Supreme Court in 2012, which were not limited in effect to only Vodafone but several such disputes relating to taxation of capital gains and deemed income of numerous MNCs having their interest or investments in India, directly or indirectly. A step further was the implementation of General Anti-Avoidance Rules (GAAR) in India. The GAAR provisions have been made effective in India from April 1, 2017, and they can be considered as the latest chapter on the mismatch between taxpayer rights and obligations. Some major concerns with respect to taxpayer rights are left grossly unaddressed. A major example is the revocation of ‘presumption of innocence’ of the taxpayers. It is now a burden *ab initio* on these business entities to prove that their tax mitigation techniques do not qualify as ‘impermissible avoidance arrangements’. This goes against the fundamental principle of ‘innocent unless proven guilty’.

As for the GST, while the government has apparently achieved a balanced model of fiscal federalism through a dual GST system, the path ahead is simple neither for the taxpayer nor the tax collector. For example, the GST Network will process billions of invoices every month, with its concomitant economic and fiscal impacts of technical glitches and other such situations. These snags will impact traders with genuine transactions, as the processing of their tax collections, input tax credit claims and tax refunds might get affected. A precedent is the GST in Malaysia which was implemented in 2015: cash crunch woes due to the delayed refunds were among the prominent grievances of the trading community.

Clearly, the whole economic perception of India is at stake due to some fault lines in its fiscal administration. What is positive to note though is the constructive approach of the government, aiming to improve tax administration and as a result ensuring better tax compliance. The recommendations of the Tax Administration Reform Committee, submitted to the Finance Ministry in 2014, tried to reintroduce a fair balance between the rights and obligations of taxpayers. Several of these recommendations, such as improvement in taxpayers' service, enhanced use of information and communication technology, exchange of information with other agencies, expansion of tax base, compliance management, etc. have either been accepted or implemented to ensure a better relation between the taxpayer and the tax collector.

Tax administrators in India have for long implemented enforcement-based strategies and it is only in recent years that there has been a shift in stance to service-based strategies. They have further propagated the same intent by the introduction of a citizen's charter in both direct and indirect tax statutes of India. Though the charter does not by itself create new legal rights, it surely helps in enforcing existing rights. India has also renegotiated the much-abused provisions in some of its DTAAs, namely with Switzerland, Mauritius, Cyprus and Singapore. Capital gains-related issues and exchange of information on taxation matters have been better addressed in these amended agreements.

Taking everything into account, at least the awareness on taxpayers' obligations and rights seems to be clearer than before. While attempts are there to increase the rights and to provide better service for genuine taxpayers, the taxpayers who deliberately abuse tax provisions should not expect much leniency. A quest for balance between the rights and obligations of a taxpayer is evidently on, though it still needs to be seen when the right equilibrium between the two is achieved.

*Kinshuk Jha is Assistant Professor and Assistant Director, Centre for Comparative and International Taxation, Centre for International Trade and Economic Laws, Jindal Global Law School*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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# Beyond social media

On September 4, the Cell for IPR Promotion and Management (CIPAM) under the aegis of the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, launched a social media campaign to promote Geographical Indications (GIs) with the hashtag #LetsTalkIP.

The press release says that GIs are of utmost importance to the country as they are an integral part of India's rich culture and collective intellectual heritage and that their promotion is in line with the Government's 'Make in India' campaign. It adds that it is an area of strength and optimism for India as the "GI tag" has accorded protection to several handmade and manufactured products, especially in the informal sector. CIPAM proposes to talk about interesting facts and stories on GIs using social media.

With legislation enacted in 2003 — the Geographical Indications of Goods (Registration & Protection) Act, 1999 (the GI Act) — for their protection and 295 names registered with the Geographical Indications Registry, GIs today need no introduction.

The proposed campaign is certainly heartening because goods branded as GIs can be made indigenously by local communities independently and in a self-sustaining manner. And India, with its rich cultural heritage and diversity, has GIs. It is an added advantage that if protected the correct way, GIs can promote rural development in a significant manner and could be fitted in as the most ideal intellectual property right to bolster a programme such as 'Make in India'.

But there is a catch. A GI is supposed to convey to a consumer the assurance of a certain quality, reputation or other characteristics of the goods on which it is applied, which are essentially attributable to its geographical origin. For example, when you see the name Scotch for whisky, a registered GI under the GI Act, on a bottle of whisky, you expect it to originate from Scotland and possess certain qualities that you would not associate with other whiskies. Does the GI Act ensure that all the GIs registered thereunder meet such expectations?

The keywords here are "quality control". This is the sine qua non of any GI protection. In fact, the European Community Regulation 1151/2012 for the protection of GIs is titled as a regulation "on quality schemes for agricultural products and foodstuffs". The emphasis laid on quality must be underscored here. Recital 46 of this regulation states that the added value of GIs is based on consumer trust and that it is only credible if accompanied by effective verification and controls. Further, the quality schemes should be subject to a monitoring system of official controls to ensure verification of compliance with the law and rules relating thereto, and should include a system of checks at all stages of production, processing and distribution.

In the Indian scenario, the question arises whether the GI Act provides for quality control measures and verification of compliance. The word 'quality' itself appears in the GI Act only in two instances, first in Section 2(1)(e) which defines a GI, and second, in connection with Section 11(2) that stipulates that the application should state as to how the GI serves to designate the goods in respect of, *inter alia*, quality. Unlike the European Regulation, the GI Act does not provide for monitoring mechanisms at multiple levels. In fact, there is no single reference to an inspection or monitoring structure in the Act. Though there is a mention of it in Rule 32(1)(6)(g) which lists what should be the content of the statement of case, it is quite perfunctory in that it states, "particulars of the inspection structure, if any, to regulate the use of the geographical indication". In contrast, the European Regulation stipulates multiple monitoring measures, both within the GI-controlling body and outside it.

Currently, there is a proliferation of GI registrations in India without any legal provisions stipulating post-registration quality control measures that are to be employed in the production of goods branded as GIs. This is detrimental not only to the protection process of GIs in India but also to the very existence of these GIs, because prolonged failure to meet consumer expectations would dilute the premium and credibility of GI-branded goods. Why would a customer pay a premium to a GI branded product if there is no difference in quality as compared to similarly placed goods?

While the campaign is a wonderful idea to promote awareness, there is more work that is required at the legislative level to ensure credibility of the GI protection process in India. To make such efforts more meaningful and worth the passion put in by bodies such as CIPAM, we need to first fill the legislative gap in ensuring quality control through monitoring mechanisms.

*Latha R. Nair is a partner with the IP law firm K&S Partners. E-mail: latha@knspartners.com*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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## The US Fed ends an era

The US Federal Reserve has announced the unwinding of the biggest experiment in the history of central banking. It will start the process of normalizing its balance sheet from October. Since the markets were largely prepared for the announcement, the reaction has been muted. The US central bank also left policy rates unchanged.

Although the Fed is moving with extreme care, which is expected to give markets enough time to adjust, the process will be keenly watched.

Quantitative easing resulted in lower yields and its unwinding would have an opposite impact—and at some point it will start influencing asset prices. However, this is not the only thing to watch out for.

The biggest puzzle at the moment is inflation. The Fed has taken this all-important decision even as inflation continues to undershoot its target of 2%. The central bank acknowledges the fact that it is not clear why inflation is low. The big question, therefore, is what will happen to prices when financial conditions begin to tighten, relatively. Will the Fed be able to move forward as planned?

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# The missing jobs

Not even a tenth of the 30.67 lakh youth who had received or were undergoing training under the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) as on early-July have obtained job placement offers, according to a report in this newspaper. The percentage could be even lower if actual placements, as opposed to offers, are taken. So, can this be seen as a failure of the Narendra Modi government's flagship skills training and certification scheme? Jobs are not simply a function of the country's workforce acquiring formal skills making them employable. More fundamental to job creation is a vibrant economy, in which investment and consumption fuel demand for labour, skilled and unskilled. We did see this happen, for instance, between 2004-05 and 2011-12. During that period, an estimated 52 million non-farm jobs were created, nearly half in construction and the rest in the services and manufacturing sectors. Today's crisis is not one of employability, but of investment and economic activity leading to shrinking job opportunities, whether for IT service professionals, draughtsmen, masons or fitters.

The problem with PMKVY is not its poor job placement record. The question to ask is whether a scheme of this kind - seeking to impart industry-relevant skill training to 10 million youth over four years (2016-2020), largely through private accredited "training partners" and with the Centre meeting the entire fee expenses - is required at all. Ideally, the government's focus should be on providing decent education. That would mean ensuring minimum standards in schools, colleges, polytechnics and industrial training institutes (ITI). If just over 43 per cent of class VIII students in rural government schools can solve three-digit by one-digit division problems and only 45 per cent are able to read simple sentences in English - as the NGO Pratham's Annual State of Education Report for 2016 reveals - that's what needs fixing. Training of broadband and mobile handset repair technicians, CNC machine operators, customer care executives, air hostesses or beauticians are better left to the private sector. The Rs 12,000-crore outlay for PMKVY - mainly towards training modules of 150-300 hours duration, whose utility is doubtful - can instead be used to beef up the infrastructure and course content in 2,284 government ITIs.

This is not to say that formal skilling - currently restricted to hardly three per cent of India's workforce - isn't important. But skills are mostly job-specific and acquired at the workplace. The government would do a great job by just concentrating on basic education, labour reforms and improving the ease of doing business. The market has ways to address skills gap: You don't need PMKVY or a ministry of skills development for that.

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# What ails rural Rajasthan

After Maharashtra and Madhya Pradesh, farmers from Rajasthan came out on the streets demanding loan waiver and implementation of the Swaminathan Committee report. Protesting against government policies and demanding their share in the country's development, which they argue have been denied to them, the farmers have shown unity across caste and class lines. However, it is not merely the farm-related economic anxieties that explain this massive farmer's mobilisation. These movements have to be contextualised in the evolution of the present model of development and the way it has reshaped societies.

Much like Maharashtra and Madhya Pradesh, where the farmers' agitations were located in the economically better-performing districts, the epicentre of the farmers' movements in Rajasthan were districts that have seen a qualitative change in the rural economy and society in the past three decades - Sikar and Sri Ganganagar. One can see shops selling branded items and luxury cars on the roads in Sri Ganganagar. There are similar shops in Sikar as well. Today, Sikar looks very different from what it was 10 years ago.

The district has seen the emergence of a strong private education sector in the last three decades which has given a boost to its economy. Sikar's proximity to Jaipur has also resulted in the emergence of a new middle class which has urban aspirations. Government data shows that in 2009 there were around 94 colleges in Sikar which increased to 124 in 2013. Coaching centres have also mushroomed in the district.

Traditionally, Sikar has been amongst the few districts in Rajasthan (also Jhunjhunu and Churu) which have a large number of educated people. Despite economic hardships, dependence on rain-fed agriculture and a lack of alternative income resources in the rural areas, the district has a relatively high literacy rate of 70 per cent. Two-and-a-half decades ago, the educated youth was an active participant in the organised sector. However, since 1991, the state has gradually withdrawn from providing jobs in general and in the education, health and engineering sector in particular.

Sikar's educated youth got accommodated in the private education industry in the region due to growth in engineering, medical and other private enterprises. However, with the state's withdrawal from various employment generating avenues and the gradual decline in employment opportunities in the private sector - a regular feature of Rajasthan's political economy in the past few years - the youth have no other option but to go back and work on their farms. They also look for employment opportunities in the informal education sector.

Sri Ganganagar and the nearby district, Hanumangarh, has also witnessed significant rural-agrarian change in the past three decades. The two districts are beneficiaries of the Green Revolution with irrigation water from the Ganga Singh Canal and Indira Gandhi Canal available to them. In the initial years, the region benefitted from using new agricultural technology. A new wealthy agrarian class emerged, which has invested heavily in an urbanised life style and also in the education of their male children. The cropping pattern in the region has also shifted towards cash crops like mustard and cotton (Sri Ganganagar contributes 18 per cent of Rajasthan's cotton production). A gradual increase in the cost of farm inputs has led to a rise in the cost of agricultural production.

Increasing access to education and high income levels in the two districts has led to consumerism among the rural youth. This economic change was, however, not accompanied by changes in social and cultural values. The youth became urbanised but have retained their rural cultural essence. The older values of rural community prestige have been clubbed with the urban values of extravagant marriages, heavy spending on rituals or religious activities, wealth accumulation and, above all, an individualised life.

This gap between the social and economic spheres is clearly visible in Sri Ganganagar and Hanumangarh districts. Despite a high per capita income, Sri Ganganagar has a very poor sex ratio. A large part of the farmers' income in these districts goes in dowry or in rituals related to birth and death or in organising satsangs and jagrans. The Dera Saccha Sauda enjoys a lot of support in the two districts. In the last few years, expenditure on education and health has increased in the districts. The areas are also victims of a health crisis created by the overuse of chemicals in the production of food items, including vegetables and fruits.

The emergence of an expensive yet non-productive lifestyle on the one hand, and the state's withdrawal from the job market on the other, has created a severe socio-economic crisis. There are a large number of educated yet unemployed youth in all these districts. In their bid to bridge the gap between social aspirations and economic realities, they fall into a debt trap. Falling farm incomes, lack of jobs and absence of alternative sources of income on one hand, and increasing expenditure on health and education on the other, has destroyed the rural economy in these newly emerging zones of prosperity.

Demonetisation delivered the final blow to the economy and society of these regions. The rural-agrarian cash economy which used to provide some income to the youth in the countryside collapsed after demonetisation. The state has tried to preserve traditional ethos and cultural traditions, rather than promote scientific temper amongst the younger generation. The situation was thus rife for a psychological outburst.

The state's policy towards rural development has been ad-hoc and devoid of a long-term vision of sustainable development. The Sikar, Sri Ganganagar and Hanumangarh models, despite their differences, have produced a generation of people who have expectations but lack the opportunities to fulfil them. Farmers are the worst victims of this unguided and unplanned process of change. In the changing nature of the rural structure, they have been left with no option but to agitate and demand short-term relief from the state.

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# Stairway to prosperity

The World Bank's *Atlas of Sustainable Development Goals* paints a striking image of India's poverty reduction record in the past 25 or so years. India extricated 120 million people from extreme poverty between 1990 and 2013. However, this process was relatively slow. Over the same period, China reduced the number of people living in extreme poverty from 756 million to 25 million.

If we factor in economic growth, between 1995 and 2012, the growth elasticity of poverty reduction for India is just over 0.12. By contrast, countries such as Brazil, Mexico, Ecuador, and Thailand - that witnessed relatively low economic growth rates - emerge as positive outliers, exhibiting higher growth elasticities of poverty reduction than many high-growth countries, including India. While the growth elasticity of poverty reduction for China is a little over 0.28, the numbers for Mexico and Brazil are 3.28 and 1.14 respectively.

In the popular children's game Snakes and Ladders (now called Chutes and Ladders), rapid upward mobility is matched by equally rapid descent. This is an apt metaphor for the resistance of poverty to rapid growth. Growth - the ladders - is an uncertain process for many individuals; benefits are elusive and, if attained, always at risk. Therefore, an essential element in any enduring poverty alleviation strategy is the prevention of large declines in household incomes that are caused by a variety of shocks - in effect, blocking off the chutes.

In each of the positive outliers mentioned above, state-sponsored anti-poverty and social protection schemes have played a significant role in reducing poverty. The World Bank's Francisco Ferreira estimates that in the absence of redistributive transfers, the headcount index in Brazil would have been higher by approximately five percentage points in 2004. Research - most notably by Martin Ravallion - also contrasts Brazil's experience with that of India, where rising inequalities have been found to dilute any impact growth had on poverty reduction. Studying poverty reduction in Kazakhstan, Kudebayeva and Barrientos (2017) find that growth was responsible for about four-fifths of the poverty reduction between 2000 and 2009. But, when the "poverty gap", which takes into account the distance of households from the poverty line, is considered, the contribution of redistributive social assistance measures increases to nearly one-third of the reduction in poverty.

Conditional Cash Transfers (CCTs) have been proposed as an effective instrument in this situation. An added attraction of such schemes is that, beyond the immediate safety net objective, they could also serve longer term objectives through behavioural changes in households. Explaining the channels through which CCTs can reduce poverty, Ferreira and Robalini (2010) explain: "The objective is to alleviate current poverty while simultaneously seeking to break the inter-generational transmission of poverty by encouraging investment in the human capital of poor children."

But do the desired behavioural changes actually take place? In Declining Inequality in Latin America, editors Lopez-Calva and Lustig conclude that while education attainment among the poor has increased, the redistributive momentum is at risk of being lost due to persistent divergences in the access to quality education: "The poor and middle ranges of the distribution receive an education of significantly lower quality than the top 10 per cent, members of which usually attend better-quality private schools." Research from Brazil similarly estimates the failure to advance is higher by four percentage points for CCT-covered children than others.

Even for health outcomes, research finds that the Brazilian CCT Bolsa Familia has failed to increase child immunisation rates, and has had no impact on health indicators of children between

12 and 36 months. Similarly, the impact of Mexico's Oportunidades on health outcomes has been inconsistent, owing to variations in the quality of health infrastructure, scarcity of medicine, low level of care, and discourteous treatment by health professionals.

The lesson that emerges is the ability of cash transfers to serve as both "ladders" and for blocking off "chutes" depends on how education and health outcomes for the poor change, which in turn is predicated not just on the behavioural changes the transfers induce, but also on the quality of social infrastructure. Cash transfers are able to act as effective ladders and reduce long-term poverty only as long as they are supported by a social infrastructure that facilitates an improvement in outcomes. As Fiszbein and Schady (2008) write: "Policy makers and program managers for CCTs in Latin America, the region where such programs have the longest tradition and the most established status, increasingly are casting CCTs as part of a broader system of social protection."

India's strategy to address both persistent and recurring poverty among households would be well served by addressing both the ladders and the chutes dimensions of the problem. India's latest Economic Survey has mooted a Universal Basic Income as a "safety net against health, income and other shocks." The UBI has been hotly debated on both feasibility and desirability considerations. However, drawing on the discussion above, at a conceptual level, it focusses squarely on the "chutes" aspect of the poverty problem.

The Survey makes clear that the primary function of the UBI is to block the chutes that threaten to subsume the poor. While blocking the chutes smoothens the consumption curve temporarily, even the most ambitious cash transfers will fail to reduce poverty permanently, unless they are complemented by a well-functioning social infrastructure that is able to provide quality education, health, and nutrition, across the board.

To maximise the bang for the buck, an effective poverty strategy should pay attention to the short-term safety-net aspects of any transfer-based programme, the medium-term behavioural effects, and perhaps most critically, the longer-term changes in outcomes.

The aim therefore should be to minimise the chutes and maximise the ladders - for this, access to the right mix of social services is critical.

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# Globalization is not ending, it’s changing

In India, as in other parts of the world, people have grown accustomed to the benefits of globalization. Access to global products, transformation of consumer and business technologies, and falling barriers to trade and travel have redefined life over the last 20-30 years. That “phase” of globalization appears to be over. The dominant narrative now in political circles, corporate boardrooms and the mainstream media is that nationalism and protectionism are on the rise, and globalization is in retreat.

It is true that nationalism and protectionism are on the rise; however, drawing from Mark Twain, we believe that “the reports of [globalization’s] death are greatly exaggerated”. How else do we understand the number of travellers crossing international borders since 2005 increasing annually by around half, to 1.2 billion, of which only a small fraction are refugees? Or that the number of people using the Internet globally has soared from less than a million in 2005 to more than three billion today—with more than four billion projected by 2020; even as the number of connected digital devices more than triples to nearly 21 billion?

Globalization isn’t ending, it’s changing. What we are witnessing is the emergence of a new global economy, an economy without borders propelled by digital rocket boosters.

Companies that have learnt to thrive in this increasingly connected world have built large global businesses at astonishing speeds. Uber, for example, penetrated more than 80 countries in just six years.

Netflix launched its streaming service in 2010, and has expanded to more than 190 countries in less than seven years, while the augmented-reality game *Pokémon Go* was being played in over 125 countries and generated nearly $1 billion in revenue just six months after its launch.

These examples point to business models that operate very differently from the past. During previous phases of globalization, a country or group of countries emerged as an economic “pole”, such as Britain and other maritime powers in the late 19th century, the US after World War II and China more recently, driving global GDP (gross domestic product) growth and global trade.

Globally shared “rules of the game” were introduced and enforced by institutions such as the World Trade Organization (WTO) and the International Monetary Fund, which were strongly influenced by the Western economies. Global economic growth and free trade took precedence over politics and multilateralism over nationalism.

All this is in a state of flux. Economic nationalism (and protectionism) are growing. WTO data indicates that India and the US rank among the countries with the most number of trade restrictive measures in recent years. Global Trade Alert reports that in 2016 alone more than 500 discriminatory measures (and only 300 liberalizing measures) were introduced worldwide.

At the same time, the ability of multilateral institutions to establish and enforce shared rules seems to be weakening and the dominant role of the multilateral financial institutions that traditionally have provided global capital appears to be receding, as new financial institutions, such as China-backed Asian Infrastructure Investment Bank and the New Development Bank, emerge.

Equally profound are the structural changes taking place in the world economy, set in motion by various digital technologies, such as advanced digital manufacturing and global digital platforms.

Advanced digital manufacturing systems (“Industry 4.0”), for example, are enabling businesses to alter their global production and distribution networks by making it feasible to operate smaller, more flexible facilities closer to customers, instead of concentrating production in large plants in countries with low labour costs.

While this is taking place, the global market has been expanding in ways never before imagined, as both traditional companies, such as General Electric, and relative newcomers, such as Uber, Airbnb and India's Flipkart, gain access to borderless global markets through their information technology platforms and networks of local partners.

Together, these shifts are giving rise to a very different kind of globalization, more-fragmented, with decentralized supply chains and more countries involved.

This creates a host of challenges for global corporations.

The traditional practice of assessing prospective markets on the basis of GDP, per-capita income and market penetration may be obsolete. To recognize opportunities, companies need to look beyond macroeconomic statistics. For companies with the right business models, pockets of opportunity may exist even in slow-growth economies, especially in the rapidly expanding digital marketplace.

Chinese company Alipay, for example, is building a global business serving China's rapidly growing market of overseas travellers, who use the mobile payment platform as an alternative to credit cards at department stores and retail chains in more than 100 countries.

The emergence of a new model of globalization does not mean, of course, that the old ways of engaging with the world will suddenly become irrelevant.

Nor are we at an unprecedented moment; the ebbs and flows of globalization are nothing new. Each previous wave of globalization was halted by some crisis, but was then redefined by new technology. And each time, globalization emerged stronger than ever. The current era is no different.

The precise contours of the new global economy have yet to be defined. We do know this, however: instead of tracking cross-border flows of physical goods, money and people, it is becoming increasingly important to measure connected consumers, communities, devices and machines, and to monitor the flow of data and ideas.

Companies that recognize these underlying shifts, identify the new opportunities and adapt to change are likely to thrive in the new world of globalization.

*Arindam Bhattacharya is a senior partner and director at the New Delhi office of the Boston Consulting Group (BCG). He is also director of Asia hub of BCG Henderson Institute (BHI), where he is researching and writing about new globalization. His experience ranges across private, public and social sectors.*

*Rajah Augustinraj is a project leader at BCG's Chennai office and an ambassador at BHI. He specializes in the topics of new globalization, global operations, supply chains and public infrastructure.*

*BHI is BCG's strategy think tank, dedicated to explore and develop new valuable insights from business, science, and technology. It engages leaders in discussion and experimentation to expand the boundaries of business theory and practice.*


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**Aspiring Business Leaders should to build a culture of Inclusiveness: Vice President**

**Inaugurates 15th edition of ISB Leadership Summit 2017**

The Vice President of India, Shri M. Venkaiah Naidu has said that aspiring business leaders should to build a culture of inclusiveness and shape their actions to have a positive impact in the lives of those who need support. He was addressing the gathering after inaugurating the 15th edition of ISB Leadership Summit 2017 at the Mohali campus of the Indian School of Business on the theme “Transforming Tomorrow: The Future Unraveled”, in Mohali, Punjab today. The Governor of Punjab & Administrator of UT Chandigarh, Shri V.P. Singh Badnore, the Minister of State for Civil Aviation, Shri Jayant Sinha and the Minister of Health & Family Welfare, Research & Medical Education, Parliamentary Affairs, Government of Punjab, Shri Brahm Mohindra were also present on the occasion.

The Vice President said that an area of concern has been the growing inequalities and exclusion of certain sections of our population. He further said that we must be attentive to these trends and see that we build a culture of inclusiveness. He advised the ISB students that the *antyodaya* approach advocated by Gandhiji, Dr. Ambedkar and Deen Dayal Upadhyayaji should serve as our guiding principle. The students must listen to diverse voices, especially those which are feeble and almost inaudible now, he added.



The Vice President said that the students should break new ground. He further said that innovation, thinking outside the box and accessing knowledge from across the globe and adapting it to our country context would be crucial. He also asked them to mindful of the ethical dimension while building the physical, material and intellectual wealth. Let us remind ourselves of what Gandhiji had said about the means and ends, he added.

The Vice President called for a collective resolve to root out corruption and undesirable elements like communalism, casteism, fundamentalism, criminalization of politics, gender discrimination and atrocities on women and weaker sections. We must recognize the devastating impact of terrorism and launch a coordinated strategy to root it out, he added.

The Vice President pointed that there was a general recognition, echoed in the assessment of the World Bank in 2017, that India is the fastest growing economy in the world, and said that it was time to capitalize on the demographic dividend by enthusing, equipping and empowering youth who constitute 65 per cent of country’s population.

The Vice President said that while the country could be legitimately proud of what was accomplished so far, the India of tomorrow will have to be a country which would translate the dreams of our freedom fighters into tangible reality.

- It will be an India that will transform the quality of life of the citizens.

- It will be an India that will internalize and live the values of democracy and inclusion as a way of life.
- It will be an India that places ‘people’, especially those who are the poorest of the poor at the centre of the development process.
- It will be an India that encourages each Indian to realize her or his own potential.
- It will be an India where women get equal opportunities along with men.
- It will be an India that will foster innovation in all spheres.
- It will be an India that will celebrate its infinite diversity and rich cultural heritage.

If this is the future India we wish to unravel, we have to build it individually and together, he added.

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**Bio-Innovations: Propelling the Bio-economy of the Nation**

**Dr. Harshvardhan Inaugurates Two-Day Innovators Conclave and Bio-Innovation Fair**

“The Government is focused on making India a global hub for innovation and BIRAC is playing a crucial role in shaping the biotech innovation ecosystem of India”, said Dr. Harshvardhan, Union Minister for Science & Technology, Earth Sciences and Environment, Forest and Climate Change, while inaugurating BIRAC’s Innovators Conclave & Bio-Innovation Fair at New Delhi today. The Minister further added, “DBT is playing a catalytic role in building a 100 billion-dollar Indian bio-economy and is now effectively leveraging the research and entrepreneurial capabilities of this sector to address the needs of our people by creating affordable products that have the potential to change lives and catapult India in to a brighter future.”



Speaking on the occasion, the Minister of State for Science & Technology and Earth Sciences Shri Y.S. Chowdary said, “Over the last 5 years, a foundation has been laid for making India a global leader in biotechnology research and development. We are ensuring that our innovators and indigenous products receive the encouragement and support to make their mark on the international biotech stage. We are very proud of the impact that BIRAC has generated in such a short span and this Innovation Conclave is testament to it.”

On the occasion, the Dignitaries also released two books, namely (i) BIRAC Innovations: Propelling the Bio-Economy and (ii) The BIRAC Star Entrepreneurs

Biotechnology Industry Research Assistance Council (BIRAC), a public sector undertaking of the Department of Biotechnology (DBT), Ministry of Science & Technology has organized a two-day Innovators Conclave & Bio-Innovation Fair at the India Habitat Centre, New Delhi. The theme for the conclave is BIRAC Bio-Innovations: Propelling the Bio-economy. The Conclave brings together nearly 300 innovators and startups, scientists from industry and academia, public and private sector, policy makers, and national and international organisations.

Biotechnology Industry Research Assistance Council (BIRAC) is a not-for-profit Public Sector Enterprise, set up by Department of Biotechnology (DBT), Ministry of Science and Technology Government of India, to empower the emerging biotech industry to undertake strategic research and innovation. BIRAC is a new industry-academia interface and implements its mandate through a wide range of impact initiatives, be it providing access to risk capital through targeted funding, technology transfer, IP management and handholding schemes that help bring innovation excellence to Indian biotech firms and make them globally competitive. BIRAC has initiated several schemes, networks and platforms that help to bridge the existing gap between industry-academia research and facilitate novel, high quality and cost-effective affordable technologies. BIRAC has initiated partnerships with several national and global partners to collaborate and deliver the salient features of its mandate.

Prof. VijayRaghavan, Secretary, DBT and Chairman, BIRAC during the event said, “The country’s biotech startup landscape has shown immense growth over the last five years. BIRAC was created to bridge the space between policy, industry and academia in the biotech sector and bring all stakeholders together on one platform. Our impact on the biotech innovation landscape is clearly visible.”

Dr. Renu Swarup, Senior Advisor, DBT and Managing Director, BIRAC said, “BIRAC has transformed the biotech innovation ecosystem in the country. Our investments in the Indian innovation ecosystem are bearing fruit and our innovations are now showing real impact and producing tangible benefits for society. This Innovation Fair is the perfect occasion for us to showcase what our up and coming investigators are working on and how they hope to transform India. This fair also gives us the opportunity to showcase the potential for scale-up of these innovations to relevant stakeholders and decision-makers.”

The keynote address was given by Dr. Anil Kakodkar, former Chairman of Atomic Energy Commission of India.

The conclave was host to a bio-innovation fair and an innovation market place and featured a number of key panel discussions including “The Startup Conversation: Gaps, Opportunities and the way forward” featuring venture capitalists and angel investors and a discussion on “Pathways to create impact through Biotech Innovations to the power of Infinity” featuring decision-makers and experts. The conclave ended with the bio-innovation fair awards. The bio-innovation fair played host to more than 65 innovations supported under various initiatives of DBT and BIRAC.

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## Government provides additional Rs.12000 Crores to tackle malnutrition

The Government has provided an additional Rs.12000 Crores to fight malnutrition over next three years in the country by revising cost norms for supplementary nutrition provided in anganwadis and in the scheme for adolescent girls. Briefing media persons in New Delhi today, Secretary, WCD Shri Rakesh Srivastava said that the government has effected a quantum increase of about 33% in cost norms, which have been revised for the first time since 2011 in the case of ICDS. In the case of Scheme for Adolescent Girls, cost norms have been increased first time since 2010. With this, an additional Rs.9900 Crore have been given for supplementary nutrition in anganwadis over the next three years and Rs.2276 Crores in the scheme for adolescent girls over the next three years, he explained. This reflects commitment of the government to tackle malnutrition on a war footing as reflected in Prime Minister Narendra Modi Ji's vision, Shri Srivastava said.

The cost norms have now also been linked to the Food Price Index which will enable the government to increase the cost norms annually without any hindrance. Shri Srivastava disclosed that in the recently held national conference on malnutrition, the district collectors and district magistrates have been asked to take responsibility for eliminating malnutrition in their districts. They have been asked to review comprehensively the nutrition/helath status of children and women once in three months and also ensure 2% to 3% decline in malnutrition/stunting per year.

The WCD Secretary announced that a separate policy/protocol for Severly Acute Malnourished Children will be released at the earliest to enable States to deal with this problem effectively.

The revised Supplementary Nutrition cost norms for the beneficiaries of Anganwadi Services and for Adolescent Girls (11-14 years out of school) under the Umbrella ICDS Scheme, as approved by the Government are as under:

| S.No. | Category | Existing Rate Rs./day/beneficiary | Revised Rates Rs./day/beneficiary |
|---|---|---|---|
| 1 | Children (6-72 months) | Rs.6.00 | Rs.8.00 |
| 2 | Pregnant Women & Lactating Mothers (PW&LM) | Rs.7.00 | Rs.9.50 |
| 3 | Severely Malnourished | Rs.9.00 | Rs.12.00 |
| 4 | Adolescent Girls (11-14 years out of school) | Rs.5.00 | Rs.9.50 |

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# The lowdown on the petrol pricing policy

Amid protests against the recent spike in petrol and diesel prices, Union Petroleum Minister Dharmendra Pradhan has ruled out the possibility of an end to the recently introduced policy of revising fuel prices daily. Since June 16 this year, petrol and diesel prices across the country have been revised on a daily basis, against the previous policy of revising prices every fortnight. By opting for daily pricing, India has joined advanced countries like the United States and others which follow the practice.

The daily pricing policy is in line with the government's efforts over the years to deregulate the pricing of essential fuels. The prices of petrol and diesel were first deregulated in 2010 and 2014 respectively, bringing in the practice of fortnightly revision of prices. The new daily pricing policy, the government argues, will now allow oil marketing companies such as Indian Oil, Bharat Petroleum Corporation, and others to price their products even better, that is, in accordance with their fluctuating input costs. The oil companies need not wait a fortnight to change prices, and it is believed that this would allow them to quickly pass on the benefit of lower crude oil prices to retail customers. Also, daily price revisions will reduce the risk of huge revisions in prices, which is more common under the fortnightly pricing policy.

The daily pricing policy has been blamed in recent weeks for the sharp increase in petrol and diesel prices. Fuel prices fell in the initial days after the implementation of the new policy, but have seen a sharp acceleration ever since. The price of petrol in metro cities like Delhi and Kolkata, for instance, has risen by more than Rs. 5 since the introduction of daily pricing. The government has blamed supply constraints due to floods in the United States for the present rise in prices. A wider criticism, however, is that domestic fuel prices have also failed to match the drastic fall in international crude oil prices over the last few years. Petrol, for instance, sold at a retail price of Rs. 65 in 2012 when the price of the Indian crude oil basket was around $120. Today, even as the price of crude oil has dropped by more than half to hover around $50, the retail price of petrol stands at well over Rs. 70. The surprising divergence in the cost of crude oil and domestic fuel prices has caused a lot of anger. What is being missed is the fact that fuel prices are determined by market forces, not costs. So lower crude oil prices need not necessarily lead to lower fuel prices. Costs only determine the profits of oil companies, whose operating margins have naturally improved since deregulation.

Taxes are the main culprit stopping petrol and diesel prices from reflecting the fall in international crude oil prices. About half the retail price paid by consumers for petrol and diesel goes towards paying the excise duty and the value added tax imposed on them. These taxes increase the price at which oil companies can profitably sell essential fuels to consumers, thus restricting supply and keeping prices high. Taking on the Opposition's criticism, Finance Minister Arun Jaitley on Wednesday dared the States ruled by the Congress and the CPI(M) to reduce VAT on petroleum products and forgo their share of the Centre's revenue from fuel taxes. He said 42% of the Central tax receipts from petrol go to the States. Mr. Pradhan has called for petrol and diesel to be brought under the GST to lower the tax burden. This will help bring down their prices, but only when it is combined with better competition in the oil sector. Otherwise, lower taxes will merely improve the profits of oil companies without any of the benefits, whether it is lower crude oil prices or any other fall in input costs, being passed on to consumers.

PRASHANTH PERUMAL J.

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# ‘GST: MSMEs to gain via better competitiveness’

Booster potential:The market for MSMEs will grow as tax complexities of interstate sales disappear.Gettyimages/istock

The Goods and Services Tax (GST) is all set to enhance the competitiveness of the almost five crore Micro, Small and Medium Enterprises (MSMEs) that account for 25% of employment, 40% of industrial output and 45% of exports of the country. This, by making them a part of organised commerce and offering them a level-playing field.

A simplified tax structure and a unified market are the two great promises of GST but the key benefits for MSMEs, a majority of whom are getting into the indirect tax net for the first time, include lower freight costs, which is estimated to come down by 1.5-2%. Significant benefits will be seen in lower cost of raw materials (in the past 2% CST was applied to raw materials imported from other states), and a lower tax burden. These benefits will have a more significant effect on boosting the cost competitiveness of MSMEs — a sector comprising tens of thousands of self-funded proprietary firms, private self-help groups, private cooperatives, khadi, village and coir industries.

The market base for MSMEs will grow as tax complexities of interstate sales disappear. Original equipment manufacturers and corporates will come forward to procure components, semi-finished and finished products from MSMEs irrespective of location. Since there is no burden of tax on interstate sales, MSMEs will also have no issues in accepting orders from other States. They can also compete with low-cost imports, as the tax is the same for both locally manufactured as well as imported products — especially those coming from overseas low-cost producers.

GST treats sales and services as one and the same. Hence, there is no additional tax burden for MSMEs that operate on the sales and services model of business.

MSMEs will also enjoy ease of doing business as there will be no complexities in registration. Centralised registration has now replaced multiple tax and registration rules in different states. There will be no, or minimal, physical interface of bureaucracy as registration, payments, input tax credit and tax liability adjustment, returns, and refunds will now happen electronically. This will bring transparency in compliance and will also reduce the compliance cost.

Thus, GST will allow flexibility in transfer of goods across states and reduce the cost of doing business for MSMEs.

**‘Varying impact’**

However, the impact of GST on MSMEs will not be the same for all segments — electrical equipment, for instance, is expected to benefit from lower freight costs and tax rates, while there may be no big positive impact for leather and footwear sectors that are facing stiff foreign competition.

On the other side, the cost of compliance is a big issue for MSMEs that do not have enough specialised manpower, managerial bandwidth, access to facilitation services. GST-registered organisations will have to file returns more often and regularly.

MSME staff are, mostly, not familiar with using computers and web portals. Hence, they may have to seek the help of intermediaries to use a technology-enabled platform like the GST.

In this context, it is important that there is handholding for MSMEs in transitioning them to this new tax regime. There is also a need to educate MSMEs about the various provisions and compliance requirements under GST for MSMEs through seminars, conferences, training sessions.

There is a view that availing input credit only for tax paid by the supplier shifts the onus on to the customer and this could affect the trust between supplier and customer, especially for one-time transactions. On the other hand, there will be a new situation where the customer and supplier relationship will be based on compliance.

That is, customers will prefer to do business only with suppliers who are compliant. MSMEs will have to get used to regularising the filings of their returns, as compliance will become a business imperative.

GST is a massive reform and some hiccups in the initial months are unavoidable. The advantages of having a unified tax system and easy input credits will outweigh the teething troubles the industry may experience in the short term.

MSMEs can hope that most of the current challenges will be a story of the past soon. If the government can take corrective measures in a proactive manner, the GST system will prove to be a boon for industry in general, and MSMEs in particular.

*(The writer is chairman, CII Andhra Pradesh State Council and CEO, Better Castings)*

**This is the fifth instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry**

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# Making the most of the new industrial policy

The framing of the new industrial policy should be seen as an opportunity to chart a meaningful path for industry's role in India's development. The recently released discussion paper by the department of industrial policy and promotion mentions two points that need to be examined closely to grasp the headwinds industry will have to navigate: first, industry's inadequate expenditure on research and development (R&D). And second, micro, the small and medium enterprises sector facing tough competition from cheap imports from China and other countries with which India has free trade agreements.

To put the first point into context, Huawei's R&D expenditure (around $6.5 billion) is about the same or more than that of Indian industry, while Microsoft spends (around $12 billion) about the same as the Indian government. Regarding the second point, the consequence of the inflation-targeting framework and its impact on Indian industry via the exchange rate (resulting in cheaper imports from China) would need to be studied in greater detail.

**Industrial R&D—India an outlier**

If India has to realize its ambition of increasing the number of global Indian companies in the Fortune 500 list, and raise its share of manufacturing in GDP (gross domestic product) to around 25% from 17% currently, industry will have to significantly step up its R&D expenditure. Currently, R&D spending amounts to around 0.9% of GDP. The private sector in India accounts for around 35% of the country's total R&D spending, compared to many advanced economies as well as China, where the corresponding number is around 70%. This will need to be addressed by the new industrial policy, else it risks remaining a structural headwind that will continue to weigh on India's productivity growth going forward.

While the new policy will look to provide a fillip to Make In India, policymakers should be cognizant of "Made in China 2025". One is aware of the high credit to GDP ratio in China and the fact that the Chinese economy has been slowing gradually—although a look at indicators in China, such as loan growth, electricity production, railway freight and fixed asset investment (FAI), suggest that GDP growth in China should remain comfortably within the 6.5%-7.0% range and is unlikely to fall off the cliff any time soon. China is an $11-trillion economy, and its R&D spending as a percent of GDP is around 2.1%. Indian industry has some way to go.

In the list of the top 2,500 global R&D spenders, there are 26 Indian companies compared to over 300 Chinese companies. In the top 10 global industrial R&D sectors by spending, India has a presence largely in three sectors—pharmaceuticals and biotechnology, automobiles and parts, and software and computer services. It has very little or no presence in other top sectors (*see table*) as opposed to China that has a presence in each of them. The new industrial policy should aim to push for technological deepening in sectors where Indian companies are globally competitive and also provide a road map to enable industry to diversify across sectors. Healthcare is one sector where there is significant potential to increase both public and private R&D expenditure. Focusing on healthcare equipment and services for example, where India has no R&D presence, would assist in technological deepening within the healthcare sector—and also in providing affordable and accessible healthcare through "frugal" medical devices.

**Is the inflation-targeting framework hurting industry?**

Turning to the issue of tough competition from cheap imports from China—recent articles in Mint have spoken about the impact of a strong rupee on Indian industry and the economy. The Indian rupee has been overvalued for quite some time (on a real effective exchange rate basis for over two years now). This was also raised by my colleague Rajan Govil **in an article in May 2015** published in the *Financial Express*, in which he made a case for the inflation targeting framework being inappropriate for India. While framing the new industrial policy, it would be important to study the extent to which the inexplicably higher interest rates under the framework may have encouraged strong capital flows resulting in rupee strength that is hurting domestic industry (due to cheaper imports). The higher interest rates have also hurt credit to industry.

China's exports to India totalled over $60 billion in FY2016-17. This is not insignificant given that Indian manufacturing on a gross value added basis is around $315 billion. In the current fiscal year, China's exports to India have grown almost 17% year-on-year on a year-to-date basis as of July. Demand in India for Chinese electronics and electrical equipment from globally competitive Chinese firms can be expected to grow going forward (currently around 35% of the total Chinese exports to India are items such as electrical machinery and equipment and parts). For now, Indian firms may have to contend with a stronger rupee. To successfully compete with their Chinese counterparts, they will need to spend a lot more than they currently do on R&D. By all means, make the industrial policy a consultative process, but it would need to be well coordinated across various ministries and backed by strong research.

*Janak Nabar heads the Centre for Technology, Innovation and Economic Research, and is co-founder at Marketnomix. Comments are welcome at theirview@livemint.com*

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## The faltering economy — On the weak numbers

A set of weak economic numbers has left the Central government scrambling to do something to set things in order. Finance Minister Arun Jaitley last week promised **appropriate action to revive the economy** without going too much into the details of what could be in store. There is, however, talk that increased fiscal spending to the tune of 50,000 crore or more may be approved by the government to make up for lack of private investment. This comes after the expansion in gross domestic product slowed to a multi-year low of 5.7% in the first quarter of 2017-18, and industrial output growth dropped to 1.2% in July, compared to 4.5% a year earlier. In addition, retail price inflation jumped to a five-month high of 3.36% in August from 2.36% in July, further dimming the prospects of a monetary stimulus from the Reserve Bank of India to help boost the economy. The demonetisation of high-value rupee notes in November, and the implementation of the Goods and Services Tax this year seem to be the most proximate causes behind the lacklustre growth numbers released so far. But, as many have pointed out over the last few months, the economy has been decelerating for the last five quarters. In such a case, demonetisation and GST have merely brought to the fore a more fundamental weakness in the economy.

Increased fiscal spending is unlikely to provide more than short-term relief to this problem, as it will not address any of the production bottlenecks in the economy. In addition, any loosening of the fiscal deficit target will affect India’s standing among global investors and project the image of a government resorting to fiscal stimulus to make up for the lack of more meaningful reforms. The real antidote to the current slowdown, on the other hand, is known all too well. The various rigidities in the market for land and labour have been holding back the economy for decades now, stopping investors from risking their capital on large-scale projects needed to boost growth. Further, the overall unease involved in doing business in the country and the even larger uncertainty looming around the rules that govern the conduct of business have seriously held back growth. It is no surprise then that, as reflected in the sluggish credit offtake numbers, private investment has failed to make sufficient use of the country’s relatively high private savings rate. But successive governments have found it easier to kick the can down the road rather than enact politically uneasy reforms needed to address the problem facing the economy. India’s major macroeconomic numbers, despite the recent worsening of the current account deficit, are still quite stable compared to a few years ago. The government must rise to the challenge and enact tough structural reforms, instead of finding an easy way out through the fiscal door.

Rajasthan’s ordinance shields the corrupt, threatens the media and whistle-blowers

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# A sketchy roadmap

Last month, the NITI Aayog released the Three Year Action Agenda (TYAA) for the government, a roadmap for reforming the various sectors of the economy. Here we look at its agenda for the agriculture sector, and how best it can rescue the sector whose growth has plunged to just 1.8 per cent annually in the first three years of the NDA government.

In doing so, we also touch upon the recommendations of some important committees constituted by the current government in the realm of agri-food. These are the High Level Committee (HLC) on Management of Foodgrains and Restructuring FCI (headed by Shanta Kumar, January 2015), the Task Force on Agriculture headed by the Vice-Chairman of the NITI Aayog (May 2016) and the four volumes (out of 14) of the Committee on Doubling of Farmers' Income (August 2017). The government, thus, has ample reference points for reforming the food and agriculture sector.

The TYAA basically talks of action pertaining, first, to increasing productivity of land and water, second to reforming agri-markets on the lines of e-NAM, third, reforming tenancy laws, and finally, relief measures during natural disasters. There is nothing new - and nothing wrong - in these recommendations; they have been made by the committees cited above. The TYAA, however, does not prioritise policy actions, nor does it talk about the role of trade policy in agriculture, or reforming the massive system of food and fertiliser subsidies. Nevertheless, the hard question is whether the government is ready to bite the bullet.

# Going beyond the idea of fiscal stimulus

The government of India is working on a plan to revive the economy after growth slipped to a modest rate of 5.7% in the first quarter of the current fiscal compared with 7.9% in the same quarter last year. Media reports suggest that it is mulling a fiscal stimulus to boost growth, which could increase the fiscal deficit. The idea is that in the absence of sufficient investment demand from the private sector, higher government expenditure will help boost gross domestic product (GDP) growth. It makes political sense. The Narendra Modi government will present its last full budget in February and the Bharatiya Janata Party will be facing a number of crucial assembly elections before the 2019 general election. However, there are sound economic reasons why the government should adhere to its fiscal commitments.

First, the deceleration in growth is partly being explained by the lingering impact of demonetisation and destocking before the implementation of the goods and services tax (GST). The impact will peter out and output affected by these events doesn't need fiscal support. But since growth started decelerating before these shocks, policy intervention needs to go beyond fiscal stimulus. Opening the fiscal tap at the moment would mean that crucial reforms in areas such as improving the ease of doing business might get postponed.

Second, there is no guarantee that expanding the deficit will take India to a higher sustainable growth path. In fact, the economy already has a fair amount of fiscal support with the combined fiscal deficit running in excess of 6% of GDP. Expanding the deficit by another half a percentage point, for instance, is unlikely to change things materially on the ground. Furthermore, the government has exhausted over 90% of the estimated fiscal deficit for the year in the first four months, but it has not resulted in the desired level of growth. All this shows that increasing government spending may not be sufficient to boost growth in a sustainable manner.

Third, expanding the deficit can complicate policy choices for the Reserve Bank of India (RBI). It can affect RBI's target of keeping inflation around 4% on a durable basis. The Indian central bank has been extremely sensitive about fiscal discipline and the latest minutes of the meeting of the monetary policy committee (MPC) show that members continue to remain watchful. Governor Urjit Patel, in his remarks, for instance, said: "…the implementation of farm debt waivers by the state governments has significantly increased the fiscal risks and poses an upside risk to the inflation outlook." Similarly, another member, Chetan Ghate, noted: "...both farm loan waivers and proximity to the 2019 election year suggest that fiscal impulses could contribute to inflationary pressures." Clearly, fiscal expansion is not something that the MPC will be comfortable with and it will reduce the chances of monetary accommodation in the foreseeable future.

Fourth, even though it has deviated from fiscal commitments in the past, macroeconomic stability is one of the biggest achievements of the Modi government. It should not do anything that will compromise this. If the government decides to expand the deficit in the current year, a reversal will be unlikely in the next fiscal, as it will end close to the general election. This means that the deficit will remain elevated for a considerable period and would affect investor sentiment. It is often suggested that the government should not pay much attention to international investors and rating agencies. This is a mistaken view. It is in India's own interest to keep its house in order and minimize risk from external shocks. Also, if India needs fiscal support at a time when the global economy is recovering and financial markets are relatively stable, what will happen if some of the economic or geopolitical risks actually materialize? This option should only be used in extreme circumstances.

Economic growth has slowed considerably and the economy needs policy intervention that goes beyond running a bigger deficit. Also, as India learned the hard way a few years ago, it is never easy to cut the budget deficit. What the economy needs is deeper and broader structural reforms that will help attain sustainable higher growth in the medium to long run. To be fair, the government has implemented big-ticket reforms like GST and the bankruptcy code. But it needs to keep moving. For example, factor markets such as for land and labour, and public sector banks need immediate attention.

On the fiscal front, government should address all the issues in the functioning of GST. If revenue gets affected because of operational issues, fiscal management will become extremely difficult. Higher tax revenue from GST will help push public expenditure. The government should also aggressively pursue disinvestment and privatization, which will help augment resources. Irrespective of the slowdown, the Indian economy needs higher public investment, but it need not come at the cost of fiscal discipline.

*What should the government do to revive growth? Tell us at views@livemint.com*

END

# India, S. Korea to upgrade FTA at ‘earliest’

Even as the India-South Korea Free Trade Agreement (FTA) will be expanded soon to boost bilateral trade and investment, New Delhi has voiced concerns about the low utilisation of the FTA by India due to the ‘complicated’ provisions in the pact as well as South Korea’s regulations.

According to official sources, the recent bilateral talks in Seoul saw India cite the difficulties being faced by its English teachers in getting permission to teach in South Korea. Though, going by the FTA, Indian English language teachers should be getting opportunities to teach in primary and secondary schools in South Korea, this is not being implemented effectively in practice. This is because the ‘English Program in Korea’ (EPIK) stipulates that those eligible to teach English in South Korea must “be a citizen of a country where English is the primary language.”

**South Africa example**

The EPIK specifies that “EPIK teachers must be citizens of one of the following countries: Australia, Canada, Ireland, New Zealand, U.K, U.S., or South Africa.” India has now asked that it be included in the EPIK country-list by pointing out that South Africa was on the list though that country has 11 official languages including Afrikaans, and English was only one of them.

India is also keen on sending its yoga teachers for short-term work while Seoul has stated their services may not be needed since many Koreans are now learning yoga in India and returning to teach it in South Korea.

On the goods side, India is keen that norms are eased to upgrade the FTA in a way that Indian goods get greater market access.

Since the implementation of the FTA in 2010, India’s trade deficit with South Korea has increased from about $5 billion to more than $8 billion.

To ensure greater market access for Indian products, India is seeking a set of mutually accredited bodies for export inspection.

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## Solving food challenges with more research

The world's population is booming. According to estimates, the global population is likely to exceed 9 billion by 2050, with 5 billion people in Asia alone. The capacity to produce enough quality food is falling behind human numbers. Food production in the region must keep pace, even as environment sustainability and economic development are ensured. The answer to these challenges lies in research for sustainable development. As the second goal of the UN's Sustainable Development Goals says: "End hunger, achieve food security and improved nutrition, and promote sustainable agriculture."

India's fivefold increase in grain production over the past 50 years is largely the result of strong scientific research that has focussed on high-yielding crop varieties, better agronomic practices, and pro-farmer policies. However, India continues to face challenges such as food insecurity and malnutrition, particularly in rural areas.

Providing the world's growing urban population with safe and healthy food requires both a rural and a peri-urban agricultural movement — a huge challenge, but also an opportunity for ingenuity. Integrating agricultural production, nutrition, and health is emerging as a key focal point throughout Asia, with policymakers shifting their attention to the role of biodiversity and the power of local farming systems to improve nutritional status.

There is considerable potential in targeting underused crops such as millets, pulses, and vegetables as a sustainable means of increasing agricultural production and improving nutrition and health in high-need areas. In one project, researchers tested the sustainable use of traditional crops, vegetables, and fruit trees, as well as greater livestock diversity, to increase income and improve food and nutrition security in rural India. This project demonstrated that in three Indian "agro-biodiversity hotspots", home gardens could provide households with up to 135 kg of legumes, vegetables, tubers, leafy greens, and gourds per year — more than double the amount of vegetables they were buying in local markets. These crops add value to existing farming systems by providing an additional source of income and/or more nutritious food for the family. The Food Security Act of 2013 was welcome, as was the inclusion of millets in the Public Distribution System as millets are superior to common grains in many ways and are also climate-resilient. Bio-fortification is also important in overcoming hidden hunger caused by micronutrient deficiencies such as iron, iodine, zinc, vitamin A, and vitamin B12.

Studies show that women make up nearly half of agricultural labourers, yet they carry out approximately 70% of all farm work. Women are among the most disadvantaged because they are typically employed as marginal workers, occupying low-skilled jobs such as sowing and weeding. Our research shows that empowering women is one of the best ways to improve nutrition. Research needs to continue focussing on the needs of women farmers to ensure that they are the direct recipients of development impacts, such as access to markets and income, to improve theirs and their children's access to adequate and diversified diets.

Most importantly, it is crucial to continue to identify issues and seek evidence-based solutions through research. Building on the momentum of recent efforts by the government to improve understanding of India's nutritional situation, there is considerable potential in building partnerships to extend the reach of research for development and to improve the connections between agricultural and nutritional research with extension services and policy. Taking a multisectoral approach that links agricultural and nutritional outcomes will help India sustainably grow, feed its people, and maintain the agricultural sector over the coming decades.

India's research community is poised to be a leader in meeting new food challenges by increasing food quantity and quality to improve food security and nutrition. The world needs to tap into India's research excellence to experiment, innovate, share knowledge, and scale up effective solutions.

*M.S. Swaminathan is the founder of the MS Swaminathan Research Foundation, and Jean Lebel is the President of Canada's International Development Research Centre*

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

END

# The government’s six big economic mistakes

The slowdown in economic growth (5.7%, year-on-year, in the first quarter of fiscal 2017-18), the near-total absence of bank credit growth to industry—small or medium or big—and the lacklustre growth in industrial production, to name a few, have brought many experts out of the woods. There is near-total unanimity on the need for a fiscal stimulus in India. Discussions of solutions must take into account costs and alternatives considered and discarded. Otherwise, solutions could end up becoming the case of committing a second wrong to right the first wrong. Let us examine the mistakes that the government committed and then reflect on whether fiscal stimulus would rectify them.

First, it had not prepared for being in power at all, in terms of using it as an instrument for economic advancement. It inherited the budget projections of the previous government without question. The mid-term economic appraisal of 2014-15 pointed out that the true fiscal deficit inherited could have been of the order of 1.1 to 1.8 percentage points more than the official number of 4.5%. The National Democratic Alliance government thus engaged in a massive fiscal consolidation even as the economy was limping back to normalcy. Had it done its homework and put out a white paper on the economic mess it had inherited in various areas, it would have prepared the ground for a gradual fiscal consolidation. Thus, it could have used the windfall from the oil price crash to recapitalize banks rather than working overtime to legitimize the previous government’s fiscal projections. That brings us to the second mistake.

It did not take the emerging banking sector woes seriously enough. Today, the problem has grown bigger and is even yet to peak. Short of drastic reforms to the banking ownership and governance models, the problem of non-performing assets (NPAs) is likely to persist and remain a big drag on growth. Nor is it any more a question of recapitalizing the banks alone. Governance is a serious issue. After all, without collusion by bank staff, not all banned notes would have made it into bank accounts. Drastic reforms are made infeasible, partly because of resistance from ideologues aligned with the Bharatiya Janata Party and because of the government’s unwillingness to commit political capital to see them through. Above all, the reluctance to confront the problem stems from the facile assumption that economic growth would wash away the sins that lenders and borrowers committed. That brings us to the third mistake.

It was to believe in the economic growth numbers that the central statistical office (CSO) put out. The CSO put out growth numbers based on its new methodology and new base year that bore no resemblance to reality. That was readily apparent because the growth numbers even for the “disastrous” United Progressive Alliance years of 2011-14 were revised higher to appear almost respectable. So, the government felt rather proud that it was able to achieve fiscal consolidation and yet achieve good economic growth. Its mistake lies in not being sceptical enough of CSO calculations and asking them to be thorough and transparent and fix the economic growth calculations methodology especially since many competent economists inside the system had expressed reservations on the numbers. The role of bad economic statistics in India’s current economic plight is a story that has to be told. That would put data collection, methodology, accurate and timely reporting an urgent priority for future governments.

The fourth mistake is its implicit and explicit anti-big bias. India’s economic structure in farms and factories is fragmented, inefficient and primitive. The numbers are shocking and beyond belief. India cannot “make it” with such extremely nano and micro-sized farms and factories. The solution is not to favour the current big firms but to favour potential enterprises becoming big or to encourage firms to start big. There are an estimated 63.4 million non-agricultural unincorporated enterprises (excluding construction) contributing gross value added (GVA) of Rs11.5 trillion only. In contrast, only 189,468 registered (with the Annual Survey of Industries) factories generate

Rs11.6 trillion of GVA. More startlingly, just 4.1% of them have 500 or more workers and they contribute 60% of the GVA of the registered factories. But, the anti-big bias is evident in the fact that the government had stopped (or, been stopped) in its tracks to reform the corporate tax system. Mudra loans without screening and without strings attached will not result in enhanced scale and efficiency but would be a big opportunity cost in a resource-constrained economy.

The fifth big mistake is in continuing with and even strengthening tax terrorism. Economic policymaking has been reduced to one of and only of (tax) morality. That is a slippery slope because it is impossible for politicians to set a personal example and demand reciprocity given how elections are funded. Revenue neutrality is easily achieved in spreadsheets but it happens in reality only when economic activity happens. Note ban has been seen almost only as an exercise in broadening the tax base and not as a transformative exercise from its pigmy sized farms and factories.

The sixth and final mistake could be the wellspring of the other five. Leaders have to surround themselves with advisers who can speak truth to the power. Now, we can decide how many of these mistakes could be possibly reversed by a fiscal stimulus.

*V. Anantha Nageswaran is senior adjunct fellow (geoeconomics studies) at Gateway House: Indian Council on Global Relations, Mumbai. These are his personal views. Read Anantha's* Mint columns at [www.livemint.com/baretalk](www.livemint.com/baretalk)

*Comments are welcome at baretalk@livemint.com*

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2nd India-Indonesia Biennial Trade Ministers’ Forum Meeting agrees to early meeting of Working Groups on Trade & Investment and Trade Facilitation & Remedies

**2nd India-Indonesia Biennial Trade Ministers’ Forum Meeting agrees to early meeting of Working Groups on Trade & Investment and Trade Facilitation & Remedies**

The 2nd Biennial Trade Ministers Forum (BTMF) meeting was held at New Delhi between delegations led by the Minister of Commerce and Industry of India, Shri Suresh Prabhu and the Minister of Trade of the Republic of Indonesia, Mr. Enggartiasto Lukita. The meeting was preceded by a Senior Official’s meeting where ground work was done for the BTMF meeting. Both Ministers agreed for convening early meeting of the Working Group on Trade & Investment and the Working Group on Trade Facilitation & Remedies, to address the issues impeding trade and identifying means of facilitating trade and investment between India and Indonesia. These Working Groups will also look into facilitation of services and areas of mutual interest between both the countries.

Shri Prabhu and Mr. Lukita also agreed to hold a ‘Meeting of Regulators’ to resolve issues concerning the Pharma and Health sectors.

The Commerce Minister of India raised the issue of market access and regulatory barriers concerning Pharma, Health, Dairy Products and Bovine Meat. The Indonesian side agreed to conduct inspection visits for registering Dairy Products, Fresh Food of Plant Origin and Meat Processing facilities. The issue of market access to automotive and auto components manufactured in India was raised, along with the greater investment opportunities for joint ventures, textile machinery manufacturing, textile parks and Special Economic Zones.

The Ministers agreed to deepen economic cooperation and bilateral trade by having greater cooperation of the stakeholders, including Government business, entrepreneurs etc. The Minister of Commerce and Industry of India urged his Indonesian counterpart to utilise the opportunities presented by the ‘Make in India’, ‘Invest India’ and ‘Start-up India’ initiatives.

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# India’s imminent economic crisis

Poor macroeconomic management, both by the central bank and political regimes over the past several years, is leading India toward an imminent vicious cycle of low growth and high inflation, making it exceedingly vulnerable to emerging domestic and geopolitical risks. The low growth-high inflation scenario will lead to higher fiscal and current account deficits, consequent capital outflows, a weaker currency and a lack of confidence in the economy among investors. The authorities need to undertake meaningful structural reforms and loosen monetary and exchange rate policy at the earliest to arrest the decline before it culminates in an external and financial crisis. A loose fiscal policy (increased government expenditure) at this juncture with a likely low fiscal multiplier would be counterproductive and accelerate the pace of economic decline.

Economic growth in India has likely been lower than the 7% rate that has been estimated by the Central Statistical Authority for the past two-three years. A sustained 7% gross domestic product (GDP) growth has been inconsistent with other major indicators, including credit, investment, index of industrial production, and exports growth slowing for at least the past four years. A slower 5.7% official GDP growth in 2QFY18 is therefore not surprising. In fact, before the switch to a new series of GDP numbers in early 2015, GDP growth estimates were 4.7% for FY14, according to the old series. New methodology introduced in the new series raised them to 6.7% for FY14, inconsistent with other indicators. Amongst other flaws, value added in manufacturing, which has been consistently significantly higher than other indicators would suggest, is arrived at from a corporate financial database maintained by the ministry of corporate affairs. It would be impossible to arrive at a true measure of value added in manufacturing from financial accounting data for even a few large firms such as Reliance, especially in an era where production of goods and services is becoming increasingly integrated.

Economic output and growth depend mainly on productivity growth and on increases in labour and capital; most commentators mistakenly tend to focus instead on the uses of this output—consumption, investment and exports. Productivity growth, the main driver of growth, depends on structural reforms that would require better institutions and improving human skills.

Structural reforms are reforms aimed at changing the structure of the economy to make it more market-oriented, and consequently efficient and productive. India needs to focus on reforms in several areas—liberalizing markets, legal, civil service, tax structure, financial sector, education, and labour, amongst others. In competitive markets, any price different from the market-determined one (e.g. controls such as minimum or maximum prices) leads to a decline in output, ensuring reduced GDP.

To foster higher economic growth and job creation, the authorities need to focus on productivity enhancing structural reforms that would encourage the private sector—domestic and foreign—to invest in India. Specifically, the innumerable controls on markets and administered prices need to be freed up, including food and agricultural prices, water, electricity, pharmaceuticals, fertilizers, seeds and railways, amongst others that reduce output and lead to a misallocation of resources. The direct tax structure needs to be simple and transparent with retrospective taxes eliminated. Public sector banks need to be recapitalized and privatized. The education system needs to be opened up to investors—domestic and foreign—as a profit-making sector, both at the school and higher education levels. These are minimal measures to attract investments.

The inexplicably tight monetary policy of high interest rates and overvalued exchange rate have been damaging to the economy. The insistence of the Reserve Bank of India (RBI) to engage in foreign exchange market intervention to maintain an overvalued currency has encouraged further volatile debt inflows. This has increased India’s external vulnerability and inhibited financial markets development.

Overall, RBI's high interest rate and overvalued exchange rate policy has hurt credit growth, especially to industry, hurt firm-level debt sustainability and in turn bank balance sheets, and damaged exports and domestic industry further via cheaper imports. India is the only major economy in Asia with a negative credit gap (deviation from trend), according to the International Monetary Fund.

Fiscal policy has largely been unimaginative and a tighter fiscal policy with tight monetary policy has meant no policy support for growth over the past several years. Tax policy has mainly been one of raising tax rates—excise duties on petrol and diesel mainly and service tax rates that have increased from 12% to 18% over the last three years. At the same time, little effort has been made to simplify tax rules; indeed, the new goods and services tax structure with multiple rates is the most complicated globally. This structure with a smattering of controls has kept money out of India.

The fiscal multiplier is low; around 0.3 for emerging economies, according to some estimates. This means an increased fiscal expenditure of Rs40,000 crore (0.3% of GDP) being mentioned in the press would yield a negligible additional growth of 0.1% to GDP, raising growth from 5.7% to 5.8%.

The costs of this misguided fiscal expansion (government expenditure) could be significantly high. It would not lead to sustainable growth or increased investments from the private sector. The larger fiscal deficit, along with slowing growth reducing tax revenue, and a consequent worsening fiscal situation would lead to more borrowing from the RBI. At the same time, the deteriorating economic situation would lead to capital outflows, slowing the economy further, draining liquidity from the system and raising interest rates, further dampening economic growth.

To conclude, the government needs to undertake structural reforms on a war-footing to encourage investments to grow the economy and increase revenue growth. Interest rates need to be reduced by the RBI. Misadventures such as expansionary fiscal policy will not be sustainable and will lead to low growth, higher fiscal deficit, high inflation, less competitiveness that would trigger capital outflows and lead to an external and also a financial crisis if financial sector weaknesses are not addressed.

*Rajan Govil is managing director at Marketnomix and a former International Monetary Fund economist.*

*Comments are welcome at theirview@livemint.com*

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# Need to move away from garden-variety monetary policy

It is widely accepted that India's economy is in a protracted slowdown. Interestingly, there is no more inconsistency between the trend suggested by high-frequency indicators and the quarterly GDP estimates. The Reserve Bank of India's (RBI) industrial outlook survey too reveals a waning of optimism in Q2 about demand conditions and other parameters like capacity utilization, profit margins and employment. The government's increasing reliance on counter cyclical buffers like agricultural loan waivers and rural flagship schemes and the recent move to set up an Economic Advisory Council to propel the economy, reflect its growing worries over economic outlook.

Moreover, the economic slowdown is structural rather than cyclical in nature and a broad-based economic revival is seen several months or even years away. According to Asianomics, Asia's leading independent economic research provider, "this is not a simple cyclical slowdown or a case of the economy working through one-off exogenous shocks i.e. demonetisation and the introduction of GST. There are structural hurdles to overcome – including the roll-out of GST, the resolution of bank bad loans and corporate sector debt and capacity overhangs. Overcoming these hurdles will put the next economic upcycle (and long-term growth) on a strong footing but it will take time to get there and it will be painful". Against this background, there is a need for RBI to implement its flexible inflation targeting framework in true spirit. Under flexible inflation targeting, the central bank aims at stabilizing inflation around the inflation target, and at the same time put some weight on stabilizing the real economy. Under flexible inflation targeting, the objective is not only to achieve inflation target but also to control the "output gap" (i.e., the difference between potential and actual output). Unfortunately, there is no perfect way to measure "potential output" (i.e., country's productive capacity with stable inflation), especially for a developing country like India due to serious data gaps and measurement errors.

However, sustained weak prints for growth in industrial production, exports and bank credit, low capacity utilization rates and the slow corporate de-leveraging process since 2011 do suggest deep-rooted stresses in the broader economy and an urgent need to stabilize the real sector.

On the inflation front, the headline CPI has averaged at 2.5% during 2017 so far—way below RBI's target of 4% on the back of near collapse of food inflation and weak aggregate demand. However, CPI inflation spiked to 3.4% in August on the back of higher food inflation (mainly vegetables—due to supply distortions), higher fuel inflation (due to global factors) and higher core inflation (due to house rent allowance and GST effect). But these pressures entirely reflect cost-push rather than demand-pull elements in the inflation trajectory.

Going ahead, CPI inflation may inch up due to the unfavourable statistical base, adverse impact of floods and erratic rainfall on food price inflation, rising global crude prices and the impact of GST. These fears would certainly weigh on RBI and could induce it to tighten rather than loosen monetary policy.

Coming to the fiscal side, despite a muted growth in revenues at 2.1% during April-July 2017, total expenditure of the central government has grown at 7.5% during the same period (with maximum spending on agriculture sector followed by defence). The central government's fiscal deficit has already touched 92% of budget estimates. Even the state governments' fiscal position remains stretched primarily on account of Ujwal DISCOM Assurance Yojana (UDAY) scheme to turn around power discoms and increasing proportion of farm loan waivers.

The current combination of relatively lax fiscal policy and monetary policy fixated on a specific inflation target brings us to an important argument by Alan Blinder—the noted monetary economist who showed how the mix of expansionary fiscal policy and contractionary monetary policy pushed aggregate demand sideways in the US in 1980s, while keeping interest rates sky high. That was the phase when President Ronald Reagan pushed spending while the Federal Reserve under Paul Volcker declared war on inflation. As a consequence, the US economy faced very high bond yields, stronger dollar and an acute economic slowdown. This compares well with Indian situation today as we too are facing very high real interest rates, overvalued currency, acute industrial slowdown, weak exports and rising current account deficit, when global growth is getting stronger and government is taking a fiscal risk to support growth through counter cyclical spending.

According to Blinder, a central bank is expected to practice garden variety monetary policy (maintaining a bright and inviolable line between fiscal and monetary policy) only under normal circumstances. However, in a phase of severe economic slowdown, a dedicated focus on inflation control may be counterproductive. Such situations warrant lower interest rates and accommodative stance by a central bank to enable sound companies to raise capital at reasonable costs from bond and primary equity markets—a necessary step to boost the languishing manufacturing sector.

*Dr Rupa Rege Nitsure is group chief economist at L&T Financial Services. Views are personal.*

*This is the first in a series of columns ahead of RBI's bi-monthly monetary policy meeting on 3 and 4 October.*

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**Insolvency and Bankruptcy Board of India (IBBI) registered National E-Governance Services Limited (NeSL) today as an Information Utility (IU) under the IBBI (Information Utilities) Regulations, 2017**

The Insolvency and Bankruptcy Board of India (IBBI) registered National E-Governance Services Limited (NeSL) today as an Information Utility (IU) under the IBBI (Information Utilities) Regulations, 2017. This registration is valid for five years from the date of registration.

IU stores financial information that helps to establish defaults as well as verify claims expeditiously and thereby facilitates completion of transactions under the Insolvency and Bankruptcy Code, 2016 in a time bound manner. It constitutes a key pillar of the insolvency and bankruptcy ecosystem, the other three being the Adjudicating Authority (National Company Law Tribunal and Debt Recovery Tribunal), the IBBI and Insolvency Professionals.

NeSL becomes the first IU registered by the IBBI. According to the information submitted for registration, its Board of Directors comprises:

| Sl. No. | Name and Profession of Director | Position |
|---|---|---|
| 1 | Mr. N. Rangachary | Independent Director and Chairman |
| 2 | Dr. Nivedita Haran | Independent Director |
| 3 | Prof. S. Sadagopan | Independent Director |
| 4 | Dr. Ajay N. Shah | Independent Director |
| 5 | Mr. T.S. Vishwanath | Independent Director |
| 6 | Mr. Sekar Karnam | Director |
| 7 | Mr. Gurpreet Singh Chawla | Director |
| 8 | Mr. P. Sanker | Director |
| 9 | Mr. S. Ramann | Managing Director |

The shareholding pattern of the NeSl as on the date of registration is as under:

| Sl. No. | Name of Shareholder | Percentage of Shareholding |
|---|---|---|
| 1 | Life Insurance Corporation of India | 6% |
| 2 | State Bank of India | 10% |
| 3 | Canara Bank | 10% |
| 4 | Bank of Baroda | 10% |
| 5 | ICICI Bank Ltd. | 9.9% |
| 6 | Axis Bank Ltd. | 9.5% |
| 7 | Karnataka Bank Ltd. | 6% |
| 8 | HDFC | 5% |
| 9 | Indian Bank | 5% |
| 10 | Punjab National Bank | 5% |

| | | |
|---|---|---|
| 11 | New India Assurance Company Ltd. | 5% |
| 12 | Union Bank of India | 5% |
| 13 | Central Depository Services (India) Ltd. | 4% |
| 14 | Dena Bank | 4% |
| 15 | NABARD | 2% |
| 16 | United India Insurance | 2% |
| 17 | SIDBI | 1.6% |

NeSL has appointed Mr. G.M. Srinivasa Bhat as Compliance Officer under regulation 11 of the IBBI (Information Utilities) Regulations, 2017.

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**DSM/SBS/KA**

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# UK: India launches programme to attract UK investments

LONDON: India today launched a new initiative here to attract investments from small and medium enterprises (SMEs) in the UK by providing them the hand- holding.

Access India Programme (AIP), launched by the Indian High Commission in the UK along with knowledge partner UK India Business Council (UKIBC), will work as a market entry support system for smaller companies with a potential to expand into the Indian market.

At a launch event in India House in London, Indian high commissioner to the UK, Y K Sinha, described it as a "first of its kind" initiative that will feed into the government's 'Make in India' programme by providing support for SMEs.

"The SME sector in the UK is very robust and vibrant and this programme will provide them the hand-holding they would need to access India," he said.

He highlighted that in the last three years India has received Foreign Direct Investment (FDI) worth USD 175 billion and that the government of India remains "committed and focused" to improving India s ranking in ease of doing business.

The new AIP initiative will be geared towards implementing the 'Make in India' concept by facilitating investments from the UK but will not be limited to just 'Make in India'.

The Indian High Commission and UKIBC will study and thereafter identify UK SMEs which have considerable potential to succeed in the Indian market.

"We will not charge anything. It is a facilitation programme. We want to make sure that SMEs, without the deep pockets and battery of legal experts at the disposal of bigger companies, are able to access the Indian market," said Dinesh K Patnaik, deputy high commissioner of India to the UK.

The AIP will include six annual workshops and mentoring programmes to encourage a flow of SMEs into India.

A group of about 50 companies will be initially identified by the end of this year to begin their entry process from early 2018.

With the use of diagnostics and analysis of SME potential, the AIP will work towards creating a blended plan to link SMEs to a strong support network of prime manufacturers, OEMs, trade bodies and Chambers of Commerce.

"The programme is far-reaching, and will be implemented with the support of not only the concerned central and state government ministries in India, but also by engaging key industry partners who can support UK companies in various aspects of market entry into India.

These will include advisory, law, taxation and accounting firms," an official statement explains.

Some larger UK companies with operations already established in India will provide mentoring support to the selected AIP SMEs.

The UKIBC will assist the Indian high commission in London to plan, structure, implement, coordinate, and monitor the AIP with other programme partners, and assist in the entry of selected UK companies into India.

"This is further proof that the UK-India economic relationship is ever-strengthening at a crucial time for both countries," said Richard Heald, CEO of UKIBC.

"As an organisation with specific contracts with the UK Government and Indian Government through dialogues such as JETCO, EFD and the UK India CEO Forum, we are well placed to deliver. Once implemented, we re sure that this partnership will go some way to ensuring UK businesses get the platform they need to succeed in India," he said.

A similar model for access to India by SMEs has been trialled in Germany and the AIP in the UK has been created by improving on that model.

Based on its success, the programme could be rolled out around the world to attract investments into India. AK NSA

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At a launch event in India House in London, Indian high commissioner to the UK, Y K Sinha, described it as a "first of its kind" initiative that will feed into the government's 'Make in India' programme by providing support for SMEs.

"The SME sector in the UK is very robust and vibrant and this programme will provide them the hand-holding they would need to access India," he said.

He highlighted that in the last three years India has received Foreign Direct Investment (FDI) worth USD 175 billion and that the government of India remains "committed and focused" to improving India s ranking in ease of doing business.

The new AIP initiative will be geared towards implementing the 'Make in India' concept by facilitating investments from the UK but will not be limited to just 'Make in India'.

The Indian High Commission and UKIBC will study and thereafter identify UK SMEs which have considerable potential to succeed in the Indian market.

"We will not charge anything. It is a facilitation programme. We want to make sure that SMEs, without the deep pockets and battery of legal experts at the disposal of bigger companies, are able to access the Indian market," said Dinesh K Patnaik, deputy high commissioner of India to the UK.

The AIP will include six annual workshops and mentoring programmes to encourage a flow of SMEs into India.

A group of about 50 companies will be initially identified by the end of this year to begin their entry process from early 2018.

With the use of diagnostics and analysis of SME potential, the AIP will work towards creating a blended plan to link SMEs to a strong support network of prime manufacturers, OEMs, trade bodies and Chambers of Commerce.

"The programme is far-reaching, and will be implemented with the support of not only the concerned central and state government ministries in India, but also by engaging key industry partners who can support UK companies in various aspects of market entry into India.

These will include advisory, law, taxation and accounting firms," an official statement explains.

Some larger UK companies with operations already established in India will provide mentoring support to the selected AIP SMEs.

The UKIBC will assist the Indian high commission in London to plan, structure, implement, coordinate, and monitor the AIP with other programme partners, and assist in the entry of selected UK companies into India.

"This is further proof that the UK-India economic relationship is ever-strengthening at a crucial time for both countries," said Richard Heald, CEO of UKIBC.

"As an organisation with specific contracts with the UK Government and Indian Government through dialogues such as JETCO, EFD and the UK India CEO Forum, we are well placed to deliver. Once implemented, we re sure that this partnership will go some way to ensuring UK businesses get the platform they need to succeed in India," he said.

A similar model for access to India by SMEs has been trialled in Germany and the AIP in the UK has been created by improving on that model.

Based on its success, the programme could be rolled out around the world to attract investments into India. AK NSA

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Cabinet approves signing of (i) Inter-bank Local Currency Credit Line Agreement and (ii) Cooperation Memorandum relating to Credit Ratings by EXIM Bank under BRICS Interbank Cooperation mechanism

**Cabinet approves signing of (i) Inter-bank Local Currency Credit Line Agreement and (ii) Cooperation Memorandum relating to Credit Ratings by EXIM Bank under BRICS Interbank Cooperation mechanism**

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has given its approval to the signing of the (i) Interbank Local Currency Credit Line Agreement and (ii) Cooperation Memorandum Relating to Credit Ratings by Exim Bank with participating member banks under BRICS Interbank Cooperation Mechanism. As both the Agreement and the MoU are umbrella pacts, and are non-binding in nature, the Board of Directors of Exim Bank has been authorized to negotiate and conclude any individual contracts and commitments within their framework.

**Impact**

The Agreements will promote multilateral interaction within the area of mutual interest which will deepen political and economic relations with BRICS nations.



Signing of the Agreement will position Exim Bank in the international platform along with large development finance institutions, like CDS, VEB and BNDES. At an appropriate time, Exim Bank, leveraging this umbrella agreement, could enter into bilateral agreement with any of these member institutions to raise resources for its business. As and when an opportunity arises for co-financing in commercial terms, by any two member institutions (say India and South Africa), lending in single currency by both the institutions would also be possible.

**Background**

Exim Bank finances, facilitates and promotes India's international trade. It provides competitive finance at various stages of the business cycle covering import of technology, export product development, export production and export credit at pre-shipment and post-shipment stages and investments overseas.

**Interbank Local Currency Credit Line Agreement**

The initial Master Agreement on Extending Credit Facility in Local Currency under the BRICS Interbank Cooperation Mechanism had a validity of five years, which has expired in March 2017. It is understood that some of the member banks (like CDB and VEB; CDB and BNDES) have entered into bilateral agreements for local currency financing under the Master Agreement signed in 2012. Although the current conditions are not conducive to usage, it was useful to keep the same alive as an enabling feature in case a suitable opportunity materializes in future. Exim Bank raises resources in the off-shore market in diverse currencies and swaps to mitigate the risk. The umbrella Agreement would serve as an enabler to enter into bilateral agreements with member banks subject to national laws, regulations and internal policies of the signatories.

**Cooperation Memorandum Relating to Credit Ratings**

It would enable sharing of credit ratings amongst the BRICS member banks, based on the request received from another bank. This would be an ideal mechanism to mitigate the credit risks associated with cross-border financing. In future, such a mechanism could also serve as pre-cursor to the proposal of having an alternate rating agency by BRICS nations.

The Agreement and the MoU have also been highlighted in the BRICS Leaders Xiamen Declaration made in Xiamen, China on 4th September 2017.

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Cabinet approves signing and ratification of the Bilateral Investment Treaty between India and Belarus on investments

**Cabinet approves signing and ratification of the Bilateral Investment Treaty between India and Belarus on investments**

The Union Cabinet chaired by Prime Minister Shri Narendra Modi has given its approval for signing and ratification of the Bilateral Investment Treaty (BIT) between the India and Belarus on Investments.

The Treaty is likely to increase investment flows between the two countries. The agreement is expected to improve the confidence of the investors resulting in an increase in FDI and Overseas Director Investment (ODI) opportunities and this will have a positive impact on employment generation.

The signing and ratification of a BIT between the two countries will work as a strategic initiative as Belarus is the member of the Eurasian Economic Union (EAEU). India has already initiated the BIT text with the Kyrgyz Republic and is in talks with the Russian Federation for a new BIT, based on the Model BIT text.

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## Challenges faced by advanced and emerging economies

The World Economic Forum’s Global Competitiveness Report 2017 comes in the backdrop of dynamic global developments that threaten the liberal political and economic order of international relations and world trade, built up assiduously in the post-war era.

Calling for more innovative solutions to tackle the bottlenecks to inclusive growth, the report puts into perspective the challenges faced by the advanced and emerging economies alike. Although inequality measured across nation-states—in other words, global inequality—has decreased, there is a recent rise in inequality within countries.

Disruptive technology has contributed to labour market polarization, implying a ‘hollowing out’ of middle-level skills and growth in low- and high-skilled jobs.

The Global Competitiveness Index monitors the performance of 137 countries based on a set of 12 pillars, namely institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business application and innovation.

These pillars are further grouped into three categories—resource-driven, efficiency-driven and innovation-driven. The weights assigned to the different sub-indices depend on a country’s level of development.

For instance, for economies that are largely resource-driven, a higher weight of 60% is placed on the ‘basic requirements index’, compared with innovation-driven economies that only receive a weight of 20% for the basic index. Similarly, for economies transitioning from being resource-driven to efficiency-driven, the weight on the basic requirements index ranges from 40-60% and for those transitioning from being efficiency-driven to largely technology-driven, the weight for the basic requirements index ranges from 20% to 40%.

For transition economies, there are minor methodological differences in the computation of the 2017-18 GCR index. But for India, which has been classified as a resource-driven economy, the weights attributed to the sub-indices do not change over the years, thus capturing India’s performance in real terms. Although the change in weighting for the other 35 transition economies may influence India’s ranking on the overall index, this effect is expected to be small, assuming the change in weighting accurately captures the stage of development of the transition economies.

Having made great strides in its ranking in the past two years (improved 32 positions between 2014-15 and 2016-17), India has stabilized at the 40th position in 2017-18. Although India’s overall ranking has dropped by one point from 2016-17, its absolute score has improved on the whole from 4.52 to 4.59. Its current score stands at the highest ever in the current methodology. Importantly, as seen in the table below, India’s score on each of the sub-indices has improved. (*See Chart*)

India has performed remarkably in terms of market size to be placed at the third position among 137 countries. It has witnessed improvements across the board, particularly with respect to infrastructure where it has climbed two positions to the 66th rank, higher education and training where it is up by six positions to be placed 75th, technological readiness where it is up by three positions at the 107th rank, institutions where it is up three positions to be placed at the 39th rank and labour market efficiency where it up by nine positions to the 75th rank.

Additionally, it is placed very well globally in terms of business sophistication and innovation at 39th and 29th positions respectively. India is imagined along with China and other Asian countries to become a centre of innovation. That's the good news. At the same time the report also highlights some thorny issues impeding India's competitiveness such as inadequate infrastructure, poor work ethic, inadequately educated workforce, restrictive labour regulations, poor public health, complex tax regulations, and insufficient capacity to innovate.

There are some key policy findings that India could draw from this report. These include distributional, banking sector and labour market dilemmas facing India. The report places stress on inclusive growth and in the light of widespread income inequality brought to the forefront by a recent paper by Thomas Piketty and Lucas Chancel (2017), it is imperative that distributional policies be revitalised. The imminent improvement in tax collections following the goods and services tax (GST) should spur more redistribution but to be effective must be accompanied by an improvement in states' capacity to implement policy and prevent leakages.

In addition, the emergence of automation and the fourth industrial revolution means that creating conditions for a smooth transition for workers is imperative. This implies adequate protection of workers' rights combined with a degree of labour flexibility that will enhance and not weaken competitiveness. The report also highlights the banking sector woes in India with the proportion of loans classified as non-performing going up from 4% to 9% in two years.

Addressing these challenges is imperative given the enormous gains to be made from improving competitiveness. This will help rebalance the economy and move the country up the value chain to ensure more solid and stable economic and employment growth.

*Rajat Kathuria is director and chief executive, Indian Council for Research on International Economic Relations (Icrier)*

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# India and Republic of Korea review progress of CEPA during visit of Commerce and Industry Minister, Shri Suresh Prabhu to Seoul

**India and Republic of Korea review progress of CEPA during visit of Commerce and Industry Minister, Shri Suresh Prabhu to Seoul**

The Minister for Commerce and Industry, Shri Suresh Prabhu visited the Republic of Korea from September 21-23, to participate in the 7th Asia-Europe (ASEM) Economic Ministers meeting and the 3rd Joint Ministerial Review of the India-Korea Comprehensive Economic Partnership Agreement (CEPA). This was the second overseas visit of the Minister after he assumed his current Ministerial charge.

On 23rd September, the meeting of the Joint Committee at the Ministerial Level to review the India – Korea Comprehensive Economic Partnership Agreement (CEPA) was held in Seoul. The Minister for Trade of the Republic of Korea, Mr. Hyun Chong Kim and the Minister for Commerce and Industry Shri Suresh Prabhu, reviewed the progress of the CEPA upgrading negotiations and also had extensive discussions on trade and economic corporation issues between the at two countries.

- Both the Ministers struck an instant personal rapport and affirmed that both countries should endeavour to finalize the CEPA upgrading negotiations at the earliest, within 2018 to the extent possible.
- The Ministers agreed on the importance of co-operation in the field of standardization and conformity assessment and developing mutual recognition agreements of arrangements of conformity assessment between the two countries.
- The Ministers shared the view that the two countries can take the lead in the era of the Fourth Industrial Revolution if the new, lower–cost technological competitiveness of India is combined with Korea’s mass production capabilities. To that end, the Ministers agreed to establish a join future strategy group with a mission to identify areas of high–end technological co-operation between the two countries, as a way to realize the vision of co-leadership in the era of the Fourth Industries Revolution. The Ministers agreed to continue discussions at the working level, about the detailed mandate of the strategy group, with the aim of launching the group preferably within 2017.
- The Ministers commended the two countries’ dedication to the expansion of power generation from renewable resources and agreed to co-operate to mutually support the national goal of renewable and reliable energy expansion.
- The Ministers agreed that, to attract foreign investment, it is critical to create

pioneering success stories to nudge second movers and increase by a more diverse range of entrepreneurs. In this regard, both sides agreed to consider favourably the requests made in the Joint Committee meeting, with regard to investment cooperation of the two countries. In addition, both sides agreed to the continued support of KOREA PLUS in India, to Korean investors.

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# The great unwind

What is quantitative easing?

The U.S. Federal Reserve last week announced that starting in October, it would begin to gradually roll back its nine-year programme of quantitative easing (QE). Under the programme, the central bank has been buying bonds and other debt instruments like mortgage-backed securities from the open market since 2008. As the Fed creates fresh dollars to buy these securities, it helps to pump in more dollars into the U.S. economy. QE has been carried out in the hope that increased money supply would help stimulate the economy. The Fed's balance sheet currently stands at $4.5 trillion. Other central banks like the European Central Bank too have adopted similar bond-purchase programmes to boost their respective economies.

Why is it being rolled back now?

The U.S. central bank resorted to QE in the immediate aftermath of the 2007-08 financial crisis in order to boost a falling economy. It had no other choice but to inject money through QE as short-term interest rates, traditionally influenced by the Fed to control money supply, were already close to zero. Now the Fed has grown more confident about recovery in the U.S. economy, which, in the quarter ending June, grew at its fastest pace since 2015. Inflation has shown some signs of strength. As modern central banks are in the business of keeping inflation and growth at manageable levels, it is no surprise that the Fed has now decided to pull the plug on QE.

How will it affect the world economy?

Lower demand from the Federal Reserve should cause interest rates on U.S. bonds to rise from their current, historically low levels. This is likely to make these bonds more attractive to investors, as they can now be purchased at lower prices in order to earn higher yields. In fact, the yield on U.S. Treasurys has already jumped up in expectation of lower demand. Investors are likely to sell their other investments offering lower returns to invest in U.S. bonds, which could cause some turbulence in financial markets. The Indian stock market, for instance, has witnessed a steady outflow of foreign capital as foreign institutional investors have sold out their holdings to invest elsewhere. The rupee too has shown weakness as investors pull money out of India. This is likely to continue until the risk-adjusted returns on various investments equalise. But more importantly, the distortions that QE has caused in financial markets and the wider economy are likely to be exposed as the Fed winds up its balance sheet. This will likely keep policymakers on their feet in the coming months.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

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# Instant payment: Digital payments up, debit card use declines: Report

MUMBAI: Investment banking firm Jefferies on Monday said there is growth in digital payment mode by bank customers post-demonetisation whereas there has been a decline in usage of debit cards.

In a report, Jefferies also said the RuPay adoption for e-commerce has increased while the growth of credit cards has been secular.

The National Electronic Funds Transfer ( NEFT) volumes have grown upwards of 30 per cent with a further around 10 per cent improvement in per-transaction size, resulting in around 40 per cent growth by value, it said.

Similarly, the Immediate Payment Service (IMPS) is showing stellar growth on a smaller base.

"While growth has come off low base, it still continues to grow at 100 per cent-plus. Instant payment, with ease of choosing the receiver and its 24x7 availability makes it a very useful and attractive payment system," Jefferies said.

According to the report, the usage of debit card has been weak and the total debit card transactions have seen a modest decline -- both in terms of value and volume.

"Card swipes are growing at sub-10 per cent with no change in ticket size resulting in sub-10 per cent growth in transaction value after a sudden spike during demonetisation."

"It would, therefore, seem logical that a remonetised banking system has started seeing more cash-based transactions and the debit card is losing out," Jefferies said.

On the other hand, the Unified Payment Interface (UPI) has seen a reasonable pick up with the government promoter BHIM mobile app (payment app) continuing to show a healthy growth in volumes.

RuPay adoption for e-commerce is fairly encouraging, according to Jefferies. RuPay is the domestic card payment system (similar to Visa and Mastercard).

"Total monthly spends have nearly tripled since demonetisation for transactions over POS (point of sale) while e-commerce spends have more than doubled. Considering RuPay cards were mostly provided during the financial inclusion drive, such trends are very encouraging."

Meanwhile, credit cards have seen a secular growth. Card spends have increased to 40 per cent-plus with a similar improvement in total transactions.

"Card outstanding contributes a fair degree of uplift to the overall unsecured loans within the retail portfolio. However, the revolver rates across banks continues to be flat and hence don't signify any immediate risk to default situation in this segment," Jefferies said.

The central government had on November 8, 2016, announced the demonetisation of the Rs 500 and Rs 1,000 currency notes.

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# A ‘Sudarshan Chakra’ solution for PSU banks

Everyone agrees that fixing the banks is critical for reversing the current slowdown, and returning to healthy growth in the medium term. But a credible solution has yet to be outlined. Reserve Bank of India (RBI) deputy governor Viral Acharya hit the nail on the head when he said Indradhanush, the banking reforms programme announced two years ago, is not enough and we should look for a Sudarshan Chakra instead. The imagery is apt. Indradhanush is not the weapon of Lord Indra. It is only the Hindi word for “rainbow”, which is an ephemeral phenomenon, disappearing as suddenly as it appears. Sudarshan Chakra, on the other hand, is Lord Vishnu’s weapon, which, once released, unerringly chops off whatever heads it was meant to chop off, and then returns to the sender.

So what would a Sudarshan Chakra for fixing the banks look like? Let us consider the four “R”s which are said to be the key to solving the problems of the banks: recognition, resolution, recapitalization, and reform.

**Recognition**

There is progress here. The RBI’s asset quality review has revealed that the gross non-performing asset (NPA) ratio of both public and private sector banks is higher than was earlier thought, but in the PSU (public sector undertaking) banks, it is alarming at about 12%. And this is an underestimate, because it does not include assets that are “stressed” but not yet NPAs. The market assessment is that when these chickens come home to roost, the NPA percentage may increase by up to 6%.

**Resolution of problem loans**

The Insolvency and Bankruptcy Code (IBC) is a major reform with some Sudarshan Chakra like qualities. Once an account is referred by a creditor under the IBC to the National Company Law Tribunal, and is admitted, the powers of the management and the board are transferred to an independent insolvency professional (IP). The IP then looks for someone willing to take over the project on suitable terms, including a write-down of the debt. The extent of the debt write-down needed will vary from project to project.

If the IP succeeds in finding an investor willing to take over the project with a sufficient reduction of debt, and the creditors accept the debt reduction, then the new management takes over. If no one is willing to take over, or the banks don’t accept the debt reduction implied by the package, the company is simply liquidated. The law prescribes that the process must be completed within 180 days, extendable by another 90 days at most. If there is no resolution within this period, liquidation must take place.

The process changes the incentive structure facing bank managements by giving them a legally sanctified method of determining what is a reasonable haircut. Since the alternative is liquidation, they should be willing to accept any haircut that gives them more than they would get from liquidation. Hopefully, the process will free managements from having to worry about the Central Bureau of Investigation/the Central Vigilance Commission/the Comptroller and Auditor General, which otherwise discourage decision making.

In June, the RBI directed the banks to file insolvency applications for 12 large accounts that had defaulted on payments. The time table set by the law implies that these accounts must be resolved or the companies liquidated by April 2018 at the latest. It is not certain that new investors can be found willing to take over all these projects; so some liquidations may well take place. This is actually good from the system's point of view, since it will set precedents about realizable values in the event of a liquidation and the variation in these values across projects.

The RBI has also identified another 29 which the banks must first try to "resolve" by mid-December, and file insolvency petitions thereafter if no resolution is possible. Whether the banks will be able to resolve some of these cases will depend on whether they are willing to reduce the outstanding debt in favour of the existing management based on a negotiation process. They may be reluctant to do so for fear they may be criticized for favouring undeserving managements . In that case, we will have another 29 cases going down the IBC route by mid-December, with a final conclusion in October 2018.

The process will certainly clean up the books of the banks over the next 12 months or so, but it will also mean acceptance of large losses and a corresponding depletion of capital. It is impossible to judge what the scale of losses will be. The Synergies Dooray Automotive Ltd case, the first to emerge from the IBC process, ended up with a haircut of 94%! But that was an old case, which had been referred to the Board for Industrial and Financial Reconstruction in 2005. The cases now being referred may be better, but even so, market expectations are that haircuts of 60% or more may be necessary to attract new investors. This will clearly lead to a considerable erosion of capital.



**Recapitalization**

This brings us to the third "R" i.e., recapitalization. In 2015, the finance ministry had estimated that the PSU banks needed Rs2.4 trillion of capital, of which Rs1.1 trillion was to come from the market, Rs60,000 crore from retained profits, and the remaining Rs 70,000 crore from the budget. The budget provision was duly made, and under the existing Indradhanush programme, only Rs10,000 crore is due this year and the same amount next year. This is clearly insufficient because the NPA situation has turned out to be much worse than expected.

Fitch Ratings has estimated that Indian PSU banks will need as much as Rs4 trillion of capital by end of March 2019 to meet the capital requirements under Basel III. Other estimates put the need even higher. If Fitch's estimates are correct, the finance ministry faces a major problem. The problem is worsened by the fact that there are pressures on the budget for fiscal stimulus to counter the current slowdown.

The scope for using public funds to recapitalize the PSU banks can only be judged on the basis of a holistic view of the many other demands for government expenditure. We cannot keep talking of stimulating the economy through increased government expenditure, without a clear view of how much of the capital requirement of the PSU banks has to be met from the budget.

**Reforms**

This brings us to the last of the four "R"s. Reforms in PSU banks are expected to make the banks more efficient and the need for reform is therefore independent of whether public resources are being used to recapitalize them. However, the compulsion to undertake reforms is greater if the budget is being saddled with a huge burden.

What sort of reforms do we need? Some of what is being called reform, e.g., the idea of merging public sector banks, is not reform at all. Merging strong banks with other banks will do nothing to improve the average balance sheet, and will saddle the merged entity with innumerable personnel problems related to establishing equivalence across different bank cadres. What we need are reforms that improve governance, upgrade the skill set, and improve the quality of risk assessment within the PSU banks.

The most important reform will be to reduce the government's equity to 33% in selected PSU banks. This would allow the stronger PSU banks to raise additional capital from the market, including from possible strategic investors, who could be offered seats on the board. The inclusion of strategic investors, with representation on the board, may make it easier to raise capital without burdening the budget.

The proposal to reduce government equity to 33% is not new. It was first made 20 years ago in 1998 by the Narasimham II Committee set up by United Front government. Yashwant Sinha as the finance minister of the Vajpayee government had even intended to do it in 1999, but the government baulked at that time. There may be political opposition from many parties even today, but as in the case of the goods and services tax, you never know when the system is ready for a consensus.

With a 33% equity share, the government would still have a controlling position in the board, but the banks would become board-managed companies and the board, including representatives of the strategic investors, would take all the critical decisions, especially regarding the appointment of top management. These banks will no longer be subject to micro management by the department of financial services. Anyone who thinks that active involvement by the finance ministry helps the quality of credit decisions has to be reminded that the NPAs have been built up despite the finance ministry, and even the RBI, being represented on the boards of the banks.

Finally, if the budget is under stress, all public sector banks need not be recapitalized to ensure targeted growth in lending. Weak banks that have eroded their capital very substantially should be subjected to the RBI's "prompt corrective action" discipline, which limits new commercial lending until their capital position improves. This will allow healthier banks, both private and public, and also more nimble non-bank financial companies, to expand and occupy the lending space created.

Even with these reforms, the scale of the capital injection needed may lead to the fiscal deficit limit being exceeded. However, if this is at least accompanied by serious reforms, such as reducing government equity below 33%, we have a better chance of being viewed positively by international analysts and opinion makers.

To summarize, the scale of the problem is much larger than was thought and the downturn in the economy has also made the need for corrective measures more urgent. We do need a Sudarshan Chakra on reforms. Merely dressing up Indradhanush will not do.

*Comments are welcome at views@livemint.com*

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# Climate change is going to hit the Indian economy hard

The farm sector in India is in distress and several state governments have responded with loan waivers, which could affect their fiscal math and the ability to push capital expenditure at a time when the Indian economy has slowed significantly. This comes after India faced deficient rainfall for two consecutive years in 2014 and 2015. According to estimates, production of kharif crops in the current year is expected to decline by 2.8% because of an uneven monsoon. The possibility of such weather events is likely to increase in the future. And that means a serious challenge for a country like India where about 50% of the population directly or indirectly depends on agriculture for a livelihood.

An analytical chapter from the World Economic Outlook of the International Monetary Fund (IMF), released on Wednesday, highlights some of the damaging macroeconomic impact of weather shocks, particularly for low-income countries. The IMF notes that for the median emerging market economy, growth goes down by 0.9 percentage point in the same year because of a 1-degree Celsius increase from a temperature of 22 degrees Celsius. The impact on the median low-income developing country is even higher. What is worse is that the output doesn't recover quickly after a weather shock. Even after seven years, the per capita output is lower by 1% and 1.5%, respectively, for the median emerging market and the median low-income country.

Weather does not affect the agriculture sector alone, it affects productivity in general. Research shows that productivity starts declining strongly after peaking at an average annual temperature of about 13 degrees Celsius. Therefore, countries located in areas with higher temperature will face a disproportionate impact of global warming. Loss of output and lower productivity also affects capital formation, which has a bearing on medium- to long-term growth prospects.

The necessary steps to minimize the impact of climate change will have to be taken at both the individual country level and the global level. In order to reduce the impact of changing weather patterns, emerging market and low-income economies will have to build significant macroeconomic resilience.

The IMF, for example, notes: "The results suggest that having the right policies and institutions in place may help attenuate the effects of temperature shocks, to some extent. The instantaneous effect of a temperature shock is slightly smaller in countries with lower public debt, higher inflows of foreign aid, and greater exchange rate flexibility." India is relatively better off in this context, but it needs to preserve and further strengthen macroeconomic stability to be able to deal with such shocks.

Over the years, India has done well to reduce its dependence on the monsoon, which is evident from the fact that two successive years of drought did not result in runaway inflation. However, more needs to be done to enhance productivity in the agriculture sector. Financial losses can be reduced by higher penetration of insurance products.

Further, India can work on programmes that will help improve the quality of land and reduce the risk of climate change. In Ethiopia, for example, food and cash is provided to the poor who participate in local environmental programmes. This has resulted in reduction in soil loss and has increased the availability of water. India can perhaps use employment under the Mahatma Gandhi National Rural Employment Guarantee Act in a better way to enhance soil and water conservation. India also needs to strengthen its overall capability by investing in and adopting technology as the impact of climate change is not limited to agriculture. For instance, better use of technology can reduce energy consumption for air conditioning. A district cooling system is being constructed in Gujarat International Finance Tec-City. It will be interesting to see if this can be adopted in other cities as well.

At the global level, a consensus was attained under the Paris Agreement to contain the rise in global temperature to below 2 degrees Celsius from the pre industrial levels. Advanced countries have also committed to provide financial assistance to developing countries to help cope with the impact of climate change. However, things are not moving as desired. The Donald Trump administration in the US is not keen on continuing with the Paris Agreement. This will damage the project substantially and a renegotiation will only increase uncertainty. It is also being reported that advanced economies may not meet their commitment of reducing emissions. The lack of will among industrialized economies to contain emissions is disappointing, and it could lead to consequences that go beyond the realm of macroeconomics. India would do well to prepare for the challenge.

*How can India reduce the impact of global warming? Tell us at views@livemint.com*

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# Reforms money can’t buy

In a refreshingly progressive move, the Government of India (GoI) has approved a Rs 25,000-crore internal security scheme to strengthen the law and order apparatus, modernise state police forces and enhance their capacity to combat terrorism. The umbrella scheme, Modernisation of Police Forces (MPF), will be implemented between 2017 and 2020. It has been hailed as "one of the biggest moves towards police modernisation in India." The scheme has special provisions for women's security, mobility of police forces, logistical support, hiring of helicopters, upgradation of police wireless, satellite communications, crime and criminal tracking network and systems (CCTNS) and e-prisons. The idea is to assist the states to upgrade their police infrastructure, especially in respect of transport, communications and forensic support, to enable them to effectively tackle the emerging challenges.

Out of the total outlay, the Centre will provide Rs 18,636 crore or about 75 per cent while the states' share will be Rs 6,424 crore. Under the scheme, J&K, north-eastern states and states affected by Left-Wing Extremism will get a boost of Rs 10,132 crore.

It may be recalled that following the 14th Finance Commission recommendations, which increased the state's share of central taxes from 32 per cent to 42 per cent, the Centre de-linked eight centrally sponsored schemes (CSS) from its support in 2015. These schemes included modernisation of police. The explanation given was that with a higher devolution of resources to the states, they should be able to shoulder the additional burden. We were also told that while central funding of modernisation of police was being stopped, non-plan funding for the same would continue.

The arrangement may have been theoretically sound but it did not work in practice. The majority of state governmentswere disinclined to make any investments in police. As a consequence, modernisation schemes received a setback. Several state police chiefs expressed concern that the battle against Maoists and terrorists of different hues was going to be affected with modernisation grants drying up. Fortunately, the home ministry woke up to the danger in good time and decided to revert to the old arrangement whereby funds for modernisation were released every year. The Cabinet Committee on Security is to be complimented for this decision.

The prime minister had, while addressing the directors general of police in Guwahati on November 30, 2014, enunciated the concept of SMART Police. Smartness has two dimensions - external and internal. The external dimension refers to the uniform a policeman wears, the way he carries himself, his weapons, the communication equipment on his person, his mobility, response time, et al. The umbrella scheme would definitely take care of these aspects. It would, no doubt, enhance his capabilities to respond to and deal with the kind of challenges he is confronted with in his day to day work. But the internal dimension of smartness is far more important. As the PM expanded the acronym, the police should be strict and sensitive, modern and mobile, alert and accountable, reliable and responsible, tech-savvy and trained. Unfortunately, there has been hardly any progress in this direction and the umbrella scheme touches upon only some of these essential qualities.

Mobility would certainly increase, and so would alertness. But you just cannot have a sensitive police under the existing dispensation when the police are answerable to the political executive. What we have today is Ruler's Police. What we need is People's Police. The police have been accused, with fair justification, of being insensitive to the poor and tribals. Accountability has to be to the Constitution, the laws of the land and the people of the country. Reliability would increase only when the police are objective, fair and impartial. Gadgetry won't help here. It is the state of mind which matters. And to achieve that state of mind, police must be freed from the stranglehold of politicians. Technology would definitely be of great help - it would, in fact, act as a force multiplier. But bereft of sensitivity and accountability to the people, its gains would be limited.

All said and done, the central government has taken a quantum leap. The umbrella scheme is a positive step and generous financial grants will definitely help. But these must be followed up by structural reforms in the police. The roadmap for the same was laid down by the Supreme Court in 2006. Institutions like the state security commission, police establishment board and complaints authority must be set up in every state in keeping with the directions of the Court. Some states have set up these bodies, but packed them with political stooges, limited their charter and curtailed their powers. Whatever limited compliance is claimed, has actually been farcical. It is time that the GoI seriously thinks about bringing police and public order in the Concurrent List of Schedule VII of the Constitution. Constitutional experts like Fali S. Nariman have strongly spoken in favour of such an amendment.

We take great pride in India being one the fastest growing economies in the world. However, tragically, we are ignoring a simple truth - sustained economic progress needs the solid foundation of good law and order, and we cannot have good law and order in the country unless the police are reorganised, restructured and rejuvenated. Cosmetic improvements will not do. Reforms of a fundamental nature are called for. The colonial police must go. We must have a police committed to giving security to the people, protecting the honour of women, upholding the human rights of all sections, being fair to the minorities and sensitive to the poor and tribals, and above all upholding the rule of law.

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**Direct Tax Revenue Collections up to 18th September, 2017 in the current Financial Year 2017-18 rose to Rs. 3.7 lakh crore with a growth of 15.7%.**

The Union Minister for Finance and Corporate Affairs Shri Arun Jaitley said that Income Tax Department of the Ministry of Finance has taken various initiatives in the last 2-3 years in order to bring about efficiency, transparency and fairness in tax administration. Highlighting the initiatives, the Finance Minister said that a Single Page ITR-1 (SAHAJ) Form was introduced for tax payers having income up to Rs. 50 lakhs. Rate of tax for individuals having income of Rs. 2.5 lakhs to Rs.5 lakhs was reduced from 10% to 5%, which is one among the lowest in the world, the Finance Minister added. The Finance Minister Shri Jaitley further said that the concept of 'no scrutiny' was introduced for the First Time Non-Business Tax Payers having income up to Rs. 5 lakhs so that more and more people are encouraged to join the tax net and file their IT returns and pay the due amount of taxes. The Finance Minister Shri Arun Jaitley was addressing the Second Meeting of the Consultative Committee attached to the Ministry of Finance on the subject of "Initiatives of IT Department"" in the national capital here today.

Highlighting the other initiatives of the income Tax Department, the Finance Minister Shri Arun Jaitley said that corporate tax was reduced to 25% for companies with turn-over up to Rs. 50 crore thereby covering almost 96% of the companies. The new manufacturing companies incorporated on or after 1st March 2016 were given an option to be taxed at 25% without any deduction. The MAT credit was allowed to be carry forward up to 15 years instead of 10 years as part of procedural reforms, the Finance Minister added.

Highlighting the initiatives of the Department in the field of E-Governance, the Finance Minister said that 97% of the income tax returns were filed electronically this year, out of which 92% returns were processed within 60 days and 90% refunds were also issued within 60 days. The Finance Minister further said that the Income Tax Department also introduced Grievance Redressal System- E-Nivaran which integrated all the online and paper grievances and tracks them till their resolution. Every grievance is acknowledged and resolution is intimated through email and SMS. The Finance Minister said that 84% of 4.65 lakh E-Nivaran grievances have been resolved so far.

The Finance Minister, Shri Jaitley said through E-Sahyog, all cases of information mismatch are handled in non-intrusive manner to avoid full investigation. The Finance Minister further added that about 1.9 core salaried tax payers are being informed every quarter by the Income Tax Department of the amount of TDS deposited by their employers. The Finance Minister Shri Jaitley said that all these E-governance initiatives of the Department have helped in having minimum direct interface between the tax assessing authorities and the assesses which in turn helped in minimizing harassment, curbing the menace of corruption and time saving among others.

The Union Finance Minister Shri Arun Jaitley also highlighted the initiatives of the Income Tax Department as far as Ease of Doing Business and promoting Financial Markets are concerned. In this regard, he specifically mentioned about introduction of Presumptive Taxation Scheme for Professionals having income up to Rs. 50 lakhs. Similarly, threshold for Presumptive Taxation Scheme for business income raised from Rs. 1 crore to Rs. 2 crore and companies located in International Financial Services Centre (IFSC) have been exempted from Dividend Distribution Tax and to pay MAT @ 9% only.

The Finance Minister informed that India has entered into Foreign Collaboration with 148 countries as far as Exchange of Information for tax matters is concerned and with 39 countries for criminal matters. He said that changes in the Double Taxation Avoidance Agreements (DTAAs) with Mauritius and Singapore have been incorporated to allow for source based taxation of capital gains on shares and interest income of banks.

As far as the drive against black money is concerned, the Income-tax Department has taken various initiatives since the present Government came to power. In this regard, the Finance Minister mentioned about the enactment of the Black Money Act, 2015, Comprehensive Amendments to the Benami Act 1988 and Operation Clean Money among others. The Finance Minister said that after the intense follow-up of demonetization data from 9th November 2016 to 10th January, 2017, about 1100 searches were made resulting into seizure of Rs. 610 crore including cash of Rs. 513 crore. He said that undisclosed income of Rs. 5400 crore was detected and about 400 cases have been referred to ED and CBI for án appropriate action.

In order to promote less cash economy and digital transactions, the Finance Minister said that the Income Tax Department took various initiatives including penalty for cash receipt of Rs. 2 lakh or more, limit of cash donation to charitable trusts reduced from Rs. 10,000/- to Rs. 2000/- and no cash donations of Rs. 2000/- or more to political parties.

Highlighting the impact of demonetization and the proactive initiatives of the Income Tax Department, the Finance Minister said that the revenue collections in case of direct taxes rose to Rs. 8,49, 818 crore during the Financial Year 2016-17 at a growth rate of 14.5 per cent. The Finance Minister further said that net collections up to 18th September, 2017 in the Current Financial Year 2017-18 rose to Rs. 3.7 lakh crore with a growth of 15.7%. He said that the number of tax payers increased significantly from 4.72 crore in financial year 2012-13 to 6.26 crore during the Financial Year 2016-17.

Earlier, the Chairman CBDT, Shri Sushil Chandra made a presentation about the initiatives of the Income Tax Department before the Committee.

Participating in the discussions, the various members of the Consultative Committee gave various suggestions in order to improve both the revenue collections and the overall performance of the Department.  The members congratulated the Finance Minister for making historical tax reforms both in case of direct and indirect taxes. Some of the members suggested that some more incentives be given to the new tax papers so that more and more people are encouraged to file tax returns and pay due taxes which in turn would help in widening the tax base. They appreciated the initiatives of the Department to reduce the tax rate from 10% to 5% in case of individual tax payers having income of Rs. 2.5 lakh to Rs. 5 lakh per annum. Some members also suggested for reducing the tax slabs in order to give incentive to the people to pay their due taxes. They appreciated the initiatives of the Income Tax Department for issuing Appreciation Letters to the honest tax payers. Some of the members suggested reducing the banking or transaction charges in order to promote digital transactions. They said that only by reducing or waiving off these charges moré and more people will be encouraged to go for digital transactions. The members also suggested that more time be given to the people living in those areas where there is either frequent power failures or having no internet facilities to file their returns. Some of the members also suggested that more searches may be conducted against the black money holders as still many people are transacting in black money.

Along with the Union Finance Minister, Shri Arun Jaitley, the meeting was also attended among others by Shri S.P. Shukla, Minister of State for Finance, Finance Secretary, Shri Ashok Lavasa, Revenue Secretary, Dr. Hasmukh Adhia, Secretary, DIPAM, Shri Neeraj Kumar Gupta, Secretary, Department of Economic Affairs(DEA), Shri S.C. Garg, Chief Economic Adviser (CEA) Dr. Arvind Subramanian, Chairman, CBDT, Shri Sushil Chandra and other senior officers of the Ministry of Finance.

The Members of the Consultative Committee who participated in the Meeting today include Shri Anirudhan Sampath, Shri Jayanta Jai Panda, Shri J. Jayasingh Thyagraj Natterjee, Shri Kalikesh Narayan Singh Deo, Shri Pratapsinh Chauhan, Shri Ram Charitra Nishad, Shri, S.P.Y. Reddy, Shri Sharad Kumar Maruti Bansode, Shri Subhash Chandra Baheria, Dr. Udit Raj and Shri Yerram Venkata Subareddy (all Members of Lok Sabha); Shri Anil Desai, Shri N. Gokulakrishnan, Shri Rajeev Chandrasekhar, Shri Sanjay Seth and Kumari Selja (all Members of Rajya Sabha) .

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