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60 per cent in five years

Our Bureau New Delhi | June 24, 2019

Nirmala Sitharaman, Finance Minister - -

☐7,600 crore has been recovered, says FM in Lok Sabha

The number of wilful defaulters has risen 60 per cent in the five years up to FY19, but over ☐7,600 crore has been recovered from these defaulters, the government said on Monday.

In a written answer to a question in the Lok Sabha, Finance Minister Nirmala Sitharaman said the total number of wilful defaulters stood at 8,582 at the end of FY19, against 5,349 at the end of FY15.

Responding to a set of questions, Sitharaman and Minister of State for Finance, Anurag Singh Thakur, defined a wilful defaulter as one who has the resources to repay the loan, but does not do so intentionally, and deploys the money for purposes other than intended.

Sitharaman informed the Lower House that public sector banks (PSBs), till March 31, 2019, had filed suits for recovery in 8,121 cases.

Measures taken

In cases involving secured assets, action has been initiated in 6,251 cases under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Further, in line with RBI instructions, FIRs have been registered in 2,915 cases.

Wilful defaulters are not sanctioned additional facilities by banks or financial institutions, and their entities are debarred from floating new ventures for five years. SEBI has debarred wilful defaulters and companies with wilful defaulters, from accessing capital markets to raise funds, the ministers said.

Sitharaman added that as a result of the government's '4Rs' strategy of Recognition, Resolution, Recapitalisation and Reforms, gross NPAs of PSBs, per RBI data on global operations, rose to ☐8.95-lakh crore at the end of March 2018, from ☐2.79-lakh crore at the end of March 2015. This declined to ☐8.06-lakh crore at the end of March 2019.

PSBs managed to recover about ☐3.59-lakh crore over four fiscal years (FY16 to FY19), of which ☐1.23-lakh crore was recovered last fiscal.

Black money

The Income-Tax Department has issued notices, under the Black Money Act, in over 380 cases involving undisclosed foreign assets and income valued at over ☐12,260 crore. Further, prosecution has been launched in 68 cases. The tax men also searched 983 groups and made seizures worth ☐1,584 crore in FY19. In FY18, 582 groups were searched and nearly ☐1,000 crore worth of seizures were made.

Responding to another query, the Minister said the number of taxpayers under direct taxes rose to 8.44 crore for assessment year (AY) 2018-19 against 7.42 crore for AY2017-18.

Total net direct tax collection rose to ₹11.37-lakh crore in FY19, against ₹10.02-lakh crore the previous fiscal

Centre plans to invest Rs.25 lakh crore to boost agricultural productivity: Ram Nath Kovind

SPECIAL CORRESPONDENT
NEW DELHI, JUNE 20, 2019
THE HINDU

Addressing the joint sitting of both Houses of Parliament, the President said that a committee of Chief Ministers was being set up to look into structural reforms in the field of agriculture

The Centre plans to invest Rs.25 lakh crore in the farm sector in the coming years to boost agricultural productivity, President Ram Nath Kovind said on Thursday.

Addressing the joint sitting of both Houses of Parliament, the President said that a committee of Chief Ministers was being set up to look into structural reforms in the field of agriculture. With regards to drought-hit areas, Mr. Kovind said the government was aware of the crisis and was assisting farmers and tackling drinking water shortages with the support of State governments and village ***sarpanchs***.

Listing the BJP-led government's decisions in its first 21 days, the President began by highlighting the expansion of the Pradhan Mantri Kisan Samman Nidhi, an income support scheme, to all landowning farm families. Earlier, the scheme was only open to small and marginal farm families owning less than two hectares of land. The expansion of the scheme in keeping with a BJP poll promise would increase its annual budget to Rs.90,000 crore (from the previous Rs.72,000 crore estimate), said Mr. Kovind, adding that Rs.12,000 crore had already been disbursed in the past three months.

Other initiatives include the contributory pension scheme for farmers above the age of 60, a Rs.13,000-crore scheme to fund treatment of common diseases in cattle, the Grameen Bhandaran Yojana to provide village-level storage facilities for farm produce and the plan to create 10,000 new farmer producer organisations. A new department for fisheries development is expected to usher in a new blue revolution, the President said.

With regard to higher education, the President said the government was "striving to increase the number of seats in the country's Higher Education System by one-and-a-half times by 2024." This would create two crore additional seats, he said.

Parley | Is India overestimating its economic growth?

JUNE 21, 2019

The new GDP series has some methodological and sampling problems

*Former Chief Economic Adviser Arvind Subramanian recently claimed in a paper that India's GDP growth from 2011-12 to 2016-17 was likely to have been overestimated. The Prime Minister's Economic Advisory Council has rejected this claim, stating that his paper would "not stand the scrutiny of academic or policy research standards". In a conversation moderated by **T.C.A. Sharad Raghavan**, Pronab Sen and R. Nagaraj discuss the methodology in calculation of GDP growth. Edited excerpts:*

Professor Nagaraj, was economic growth overestimated from 2011-12 to 2016-17? If so, by how much? In other words, which is more accurate: 7% growth, as estimated by the government, or 4.5%, as estimated by Dr. Subramanian?

R. Nagaraj: Ever since the 2015 GDP rebasing, there have been many concerns about the veracity of the GDP estimates. With the debate progressing, more and more issues have come to light. Many of us who have intervened in this debate have looked at the specific issues with the revised methodology and revised databases. And we have been trying to say how these could have affected the output estimates.

However, most critics have refrained from giving an alternative estimate given the complexities involved in the changes in the methodology and databases used. Therefore, most of us have only pointed out the problems with the methodology and the database, but have refrained from giving an alternative estimate of the GDP. We all agree that there is an overestimate, but by how much is something that we have refrained from estimating.

Dr. Subramanian has given a very drastic estimate. He has said that GDP growth was 4.5% per year for six years from 2011-12. This is less than the official estimate by 2.5 percentage points, and has caused a lot of uproar in the media. Whether GDP growth was really lower by 2.5 percentage points, or lower by less than that or more than that, is something we are unable to be very specific about. This is because the methodology used by Dr. Subramanian can be questioned on many grounds. He has not addressed the methodological issues, but he has used the covariates of GDP and a regression methodology to arrive at this alternative estimate.

Therefore, this number, though it is drastic and catches public imagination, can be questioned on many grounds. That’s the reason why there has been a lot of scepticism. If you ask me whether I agree with him, I won’t comment because I really don’t know. Unless I go into the details of the methodology, I would not be able to assess the merit of his claims. But what I would definitely say is that the growth rate seems overestimated. But by how much, I would not be able to give you an alternative number.

Dr. Sen, would you agree that growth is overestimated? And if it is, do you think it is by an amount that should be taken note of?

Pronab Sen: I don't even know whether growth is overestimated. This is a technical debate. It is a debate where people like Professor Nagaraj, who are critics, have written papers and the CSO [Central Statistics Office] has formally replied to them. It is a technical debate and it is healthy.

The real issue is that most of them really say nothing about how the growth rate will be affected. The question that is being asked is whether the level of GDP was overestimated or not. So, when Professor Nagaraj says that there was an overestimation, my sense of the criticism that he and others have levelled seems to suggest that they are really talking about the levels and not the growth rate. I don't think one can make a categorical statement about the growth rate.

Dr. Subramanian's paper is a different matter altogether. What he has done is that he has taken 17 indicators and found that they were very closely correlated with the GDP in the first period, that is, prior to 2011-12, and that most correlations broke down in the second period. This does not come as a surprise because a lot of the indicators that he has taken were used earlier in calculating GDP. They are no longer used now.

When we use the corporate value figures now, that relationship seems to have broken down. Then he assumes that that relationship, had it continued into the second period, would have given a 4.5% growth, and then says that therefore there is a 2.5 percentage points overestimation. That is conceptually wrong. I don't think it stands scrutiny theoretically.

He then does a cross-country regression and shows that India was pretty much on the average of 70 countries in the earlier period. But in the second period, India is off. There are two problems with that argument. One, in the cross-country regression that he does, he doesn't give us the confidence interval because we know you are not going to all be on a straight line. You are going to be off it by a certain amount and so there are confidence intervals. He has not actually told us whether in the second period we are beyond, outside the confidence zone. Until that information is given, we cannot say that it is an outlier.

Two, what he should have mentioned is that almost all the countries in the 70 he has used are using volume indicators to calculate their GDP. And in doing that, they would be closely correlated with what we were doing earlier because we were also using volume indicators and would not be correlated in the second period.

So, I think there are issues. Whether growth was being overestimated or not... my sense is that growth was not being overestimated earlier. That is, up to 2016-17. Subsequent to that, I think it is being overestimated. But by how much, I have no call.

Dr. Sen, you had mentioned that growth after 2016-17 might be overestimated. Why would this be the case after 2016-17, and is it a significant amount?

PS: The reason for this is very simple. It is that we do not have direct data on the non-corporate sector. A critical assumption that is made in GDP calculations is that sector-wise growth rates are similar for the corporate and non-corporate sectors. So, you calculate corporate growth rates for each sector and you assume that for that sector, the same growth rate applies for the non-corporate side as well.

Post-demonetisation, the non-corporate sector was known to have been affected much more adversely than the corporate sector. If you continue to use the same assumption that the two are behaving similarly, you are probably seriously overestimating the growth of the non-corporate sector. But this was not the case prior to demonetisation.

There are known issues with the way we are trying to estimate the size of the non-corporate sector. Do you feel that there are ways by which we can do things better?

RN: One thing which has been ignored in the recent past in the debate is that with the introduction of the new GDP series, two things happened. One is that the size of the corporate sector got enlarged and, correspondingly, the size of the household or informal sector got reduced.

A good part of this change was on account of shifting partnerships and proprietary firms from the unorganised sector to the corporate sector.

Another thing that happened in the changed methodology is that earlier they would get estimates of the value added per worker using the NSSO [National Sample Survey Office] surveys and multiply it by the number of workers as estimated by some other NSSO surveys and get the value added in the unorganised sector. This old method was supposed to have been leading to underestimation, as many earlier committees had suggested, including C. Rangarajan's National Statistical Commission.

But in the new GDP series, the size of this has further reduced because they have used what they call the effective labour input method, where they have estimated a production function instead of using the average productivity. This has reduced the value added per worker in the unorganised sector. This again seems to have contributed to the reduction in the unorganised sector's share. Whether production function should be used or not is debatable.

Second, even if one uses the production function, it has to be used with care, because the production function is technically more complicated. And why one uses a particular production function and not something else is a very technical matter. And it appears to us that this was decided without adequate investigation into alternative methodologies.

Therefore, the size of the household sector got reduced in this process. Both these issues together have contributed to the distortions in the new GDP series. So, this part is something that has not been very much in the current debate because the MCA issue seems much bigger and has dominated the current discussion.

The unorganised sector also has problems but we know less about it, so we have not been talking too much about it.

Dr. Subramanian asked for a committee to be set up to take a relook at the methodology of the new series. Professor Nagaraj, would you agree that such a committee needs to be created?

RN: Yes, this is a welcome suggestion. In fact, this is what I have been arguing since 2016. The late professor T.N. Srinivasan and I had a paper where we have argued that there must be an international expert committee to look into the entire thing. We also said that there should a statistical audit of the revision process. Because we don't know where the problems have cropped up.

Dr. Sen, do you feel that a complete overhaul is needed or do you feel that if certain issues are fixed, that would make the system robust?

PS: Let me first get to the question of whether the statistical system is aware of the infirmities. By and large, I think they are. As far as having an expert committee is concerned, we have a system called the Advisory Committee on National Accounts Statistics, which is in fact a very high-level expert body. Professor Nagaraj is a member of this body. It is the empowered body for all decisions regarding national accounts in India. If you actually leave out the members of these, you are not going to find too many Indian experts left to form this expert group that Dr. Subramanian is talking about. Then what you are effectively saying is that you have to get an international body of experts to come in. And this is not a statistical issue, this is more an issue of the politics of international relations. So, one needs to be a little careful on this account.

NHRC questions frailty of health infrastructure

SPECIAL CORRESPONDENT
NEW DELHI, JUNE 20, 2019
THE HINDU

Deplores public health infrastructure in the country

The National Human Rights Commission (NHRC) on Thursday issued notices to the Union Health and Family Welfare Ministry (MoHFW), and all States and Union Territories, over what it termed was the "deplorable public health infrastructure in the country", an NHRC statement said.

The NHRC took ***suo motu*** cognisance of several media reports on recent deaths across the country due to "deficiencies and inadequacies in the healthcare system".

This comes in the wake of over 100 children dying in Bihar's Muzaffarpur due to Acute Encephalitis Syndrome (AES) recently.

"The Commission has observed that large number of deaths of innocent people including women, children and elderly persons, are taking place due to lack of proper medical care, infrastructure, manpower and due to administrative failure, across the country," the statement read.

Deaths of children

The NHRC cited 143 recent deaths of children in Muzaffarpur as well as the loss of lives of children in Gorakhpur, Uttar Pradesh, due to the failure of oxygen supply in 2017.

"The Commission has reminded the Central/State Governments of their constitutional duty under Article 21 of the Constitution under which Right to Life is guaranteed. Quoting the Supreme Court of India, the Commission has observed that right to live with human dignity is part of Right to Life.

"Referring to the widespread malnutrition prevalent in several States, the Commission observed that it is the primary duty of the State under Article 47 of the Constitution to raise the level of nutrition and standard of living of its people, which the Commission observed, the State has failed," the statement said.

NCLT puts Jet resolution plan on fast track

Lalatendu Mishra & Kanika Lamba
MUMBAI, JUNE 20, 2019
THE HINDU

IRP asked to find solution in 3 months

Taking up the matter as one of national priority, the Mumbai bench of the National Company law Tribunal (NCLT) has set in motion the process to expeditiously find a solution for revival of Jet Airways.

Share price surges

Even as the hearing was on, the company's share price, surged over 150% intra-day to finally close at Rs.64 with a gain of 93.35%.

"It appears to be a speculative play and should be probed so that no manipulation takes place," said Deven Choksey, MD & CEO, KR Choksey Shares and Securities. The NCLT on Thursday admitted the insolvency proceedings against Jet Airways following a petition filed by the State Bank of India (SBI)-led lenders to recover their dues amounting to approximately Rs.8,000 crore.

The bench of NCLT members V.P. Singh and Ravikumar Duraisamy appointed Ashish Chhawchharia, partner at Grand Thorton, as the interim resolution professional (IRP).

"The order has been passed admitting the Section 7 IBC application of SBI, and the court has ordered a moratorium on all other proceedings," said Rahul Kamerkar, a lawyer for the engineers of Jet Airways who have also moved the NCLT.

"The IRP has been asked to take over all assets of Jet Airways immediately and directed to file his resolution plan within 3 months considering the number of workers and the fact that the case is of national importance," Mr. Kamerkar said.

Mr. Chhawchharia has been directed to submit his preliminary report by July 5, 2019, wherein he will have to provide details of all the assets of the company, etc.

The IRP will soon issue a public notice inviting claims from affected parties and creditors. While JAMEWA, the engineers' union, and about 72 senior managers will individually submit their claims through their legal counsel Mr. Kamerkar, the pilots union — National Aviators Guild (NAG) — will do it through their counsel Jane Cox.

The petition of other two Dutch logistics firms, namely Shaman Wheels Pvt. Ltd. and Gaggar Enterprises, has been dismissed and they have been asked to file their claims in the proceedings.

Jet Airways, which has reportedly been declared bankrupt by a local court in the Netherlands following the applications by two service providers — H. Essers Finance Company and Wallenborn Transports — with claims of unpaid bills worth Rs.280 crore from the airline, got relief from the NCLT.

The NCLT dismissed their plea on the grounds that Jet Airways is a company registered in India. NCLT member V.K. Singh said, "The Netherlands does not have any jurisdiction on Jet Airways as it is a Mumbai-based company and there is no provision for cross border relations."

Representing the pilots union, Ms. Cox said some entity must acquire Jet Airways so that the pilots could get their jobs back. "If a moratorium will come into effect then nobody will deal with the asset. We want somebody to buy the company because we want employment as the pilots haven't been paid since January," she said.

BSR quits as IL&FS arm's auditor after show-cause notice

Special Correspondent
MUMBAI, JUNE 20, 2019
THE HINDU

IFIN had sought an explanation from the audit company

BSR & Associates LLP — the sub-licensee of KPMG in India — has quit as the auditor of Infrastructure Leasing and Financial Services' non-banking financial services (NBFC) arm — IL&FS Financial Services (IFIN) — after it was served a show-cause notice on why it should not be removed.

BSR resigned as auditors of IFIN on June 19. Both BSR and IL&FS have confirmed the development. BSR said while it had responded to the show-cause notice from IFIN, it was yet to hear from IFIN.

“We confirm that BSR & Associates LLP has resigned as auditor of IL&FS Financial Services on June 19, 2019. We had received a notice dated May 13 from the board of directors of IFIN seeking an explanation on our removal as auditor. We had filed our written response to this notice on May 24 and provided explanations during a meeting held with IFIN on May 29. While IFIN has not communicated its decision to us as yet, we do not intend to impose ourselves as auditor of the company,” the audit firm said in a statement.

“Our resignation will allow the company to appoint another auditor so that the work on the audit for FY2019 may progress. We believe we have discharged our duties in good faith and acted in a bona fide manner and we will continue defending ourselves,” BSR said.

After the government dismantled the earlier board of IL&FS after debt default by the company, and appointed a new board under banker Uday Kotak in October 2018, IFIN saw its gross non-performing assets shoot up to 90% at the end of October-December quarter of FY19, from 5% in the January-March quarter of FY18. BSR said it had filed its replies to Corporate Affairs Ministry.

Third time rate cut to address growth concerns, says MPC

SPECIAL CORRESPONDENT
MUMBAI, JUNE 20, 2019

THE HINDU

Acharya voted for rate cut this time despite ‘dilemma’

The Reserve Bank of India (RBI)’s decision to reduce the interest rate for the third consecutive time was aimed at addressing growth concerns, with inflation staying well within the mandated target.

According to the minutes of the RBI’s monetary policy committee meeting, which was held earlier in June, all the six members were in favour of the rate cut. RBI has also changed the stance of the monetary policy to accommodative from neutral.

“Growth impulses have clearly weakened, while the headline inflation trajectory is projected to remain below 4% throughout 2019-20 even after considering the expected transmission of the past two policy rate cuts,” RBI Governor Shaktikanta Das observed.

“Keeping in view the evolving growth-inflation dynamics, there is a need for decisive monetary policy action,” he said, adding he voted to shift the stance of monetary policy to send a clear signal.

The country’s GDP growth slowed to 5.8% in January-March 2018-19 , dragging down the full year growth to a five-year low of 6.8%.

Viral Acharya, the Deputy Governor in-charge of monetary policy, who voted against rate cut in the previous two occasions, voted for a rate cut, despite a ‘dilemma’.

“In spite of my dilemma, I vote — albeit with some hesitation — to frontload the policy rate cut.

This would provide an insurance to help prevent the output gap from widening further or the finance-neutral output gap (FNOG) from turning negative,” Mr. Acharya said.

He argued that a fiscal slippage of 50 basis points or an oil price increase of 10% left no space to cut the policy rate below 6%.

RBI had decided to cut the repo rate in the policy by 25 basis points to 5.75%. The repo rate fell below 6% for the first time since 2010.

Despite loan waiver, farmer suicides have continued unabated: Maharashtra govt

Radheshyam Jadhav Pune | June 20, 2019

THE HINDU BusinessLine

In the last 32 years, the number of farmer-suicides has multiplied in Maharashtra

Says more than 12,000 have ended their life between 2015 and 2018

The BJP-led Maharashtra government admitted in the State Legislative Council that 12,021 farmers have committed suicide during its four-year regime (2015-18). This, despite the State launching various farmer welfare schemes, including a loan waiver. In the drought-hit Aurangabad region, 4,124 farmers have ended their lives in the last four years.

About 30 members of the State Legislative Council raised the question of farmer-suicides on the floor of the House recently. The opposition members asked the government why farmers in the State continue to commit suicide. The members drew the government's attention to the farmers' demand for higher prices for their produce and assistance to tackle severe drought.

State Minister Subhash Deshmukh, in a written reply, admitted that 12,021 farmers have ended their lives in the last four years, out of which 6,888 cases were eligible for the State assistance of Rs.1 lakh. He added that in 4,410 cases, the State has not provided help as these cases were not eligible for the assistance.

The State government had announced a Rs.34,000-crore loan waiver scheme in June 2017. However, even this step has not helped farmers. ***BusinessLine*** had earlier reported that 4,500 farmers had committed suicide after the loan waiver scheme.

The government's admission shows that the situation has not changed for the farmers during the BJP-Shiv Sena regime. In fact, in the last 32 years, the number of farmer-suicides has multiplied in Maharashtra.

According to information provided by the State government to the National Human Rights Commission (NHRC), 6,268 farmer-suicide cases were registered in Maharashtra from January 2011 to December 2014, during the Congress–Nationalist Congress Party regime.

Key reasons

The State government, in its letter to the NHRC in 2015, stated: "The prominent reasons noted for farmer- suicides are debt, crop failure, inability to repay debt resulting in pressure from debtors, inability to procure enough money for daughter's marriage or other religious activities, chronic severe illness, vices like alcohol addiction, gambling etc."

Does credit induce agricultural growth?

Sthanu R Nair | June 20, 2019

THE HINDU BusinessLine

Empirical studies show its impact is limited. Farm GDP is driven more by output prices, irrigated area & public spending

Recently, there has been an intense discussion on the strategies needed for addressing farmer distress in India. Among others, assured and greater access to institutional credit has been proposed as a way forward.

In line with this view, the Congress party in its manifesto for the 2019 Lok Sabha elections promised to supply adequate institutional credit to the farm sector and waive the outstanding farm loans if voted to power. The manifesto of Bharatiya Janata Party (BJP), on the other hand, promised to "provide short-term new agriculture loans up to Rs.1 lakh at a 0 per cent interest rate for 1-5 years on the condition of prompt repayment of the principal amount."

Thus, the two major political parties believe that the removal of credit constraints is necessary to improve farmer welfare and support agricultural growth. Agricultural credit policies of successive governments have resulted in burgeoning institutional lending to agriculture over the years. The direct institutional credit for agricultural and allied activities increased fromRs.1,053 billion in 2004-05 to Rs.7,301 billion in 2013-14 toRs.10,911 billion in 2017-18.

However, very little attention has been given to a key policy question: whether institutional credit to the agriculture sector of such size contributes commensurately to agricultural growth.

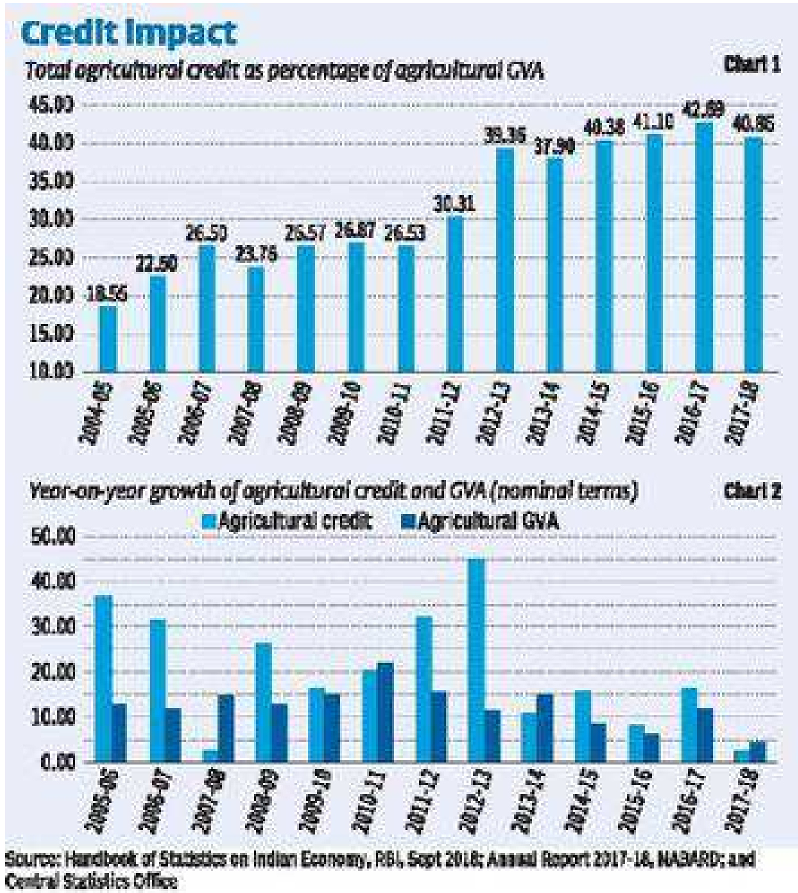
Credit intensity

A crude way to assess the productivity of institutional credit to the agriculture sector is to measure credit intensity of agriculture, which is defined as the ratio of agricultural credit to agricultural gross domestic product (GDP). Chart 1 shows that the total direct institutional credit for agriculture and allied activities increased almost consistently from 18.55 per cent of agricultural gross value added (GVA) at current prices (new 2011-12 series) in 2004-05 to 26.57 per cent in 2008-09 to 37.90 per cent in 2013-14 to 40.86 per cent in 2017-18.

On an average, agricultural credit to GVA ratio increased from 23.58 per cent in UPA-I regime to 32.20 per cent in UPA-II to 41.26 per cent in the first four years of NDA-II regime.

The striking increase witnessed in the ratio of agricultural credit to agricultural GVA from UPA-I to UPA-II to NDA-II reveals that the 'credit intensity' of agriculture has increased tremendously over the years. This implies that, over the years, India has required more credit to achieve the same unit of agricultural GVA.

In other words, agricultural credit has become less efficient in delivering agricultural growth. An analysis of yearly movements in growth of agricultural credit and agricultural GVA in nominal terms from 2005-06 to 2017-18 supports this result (Chart 2). Only in five out of twelve years, a positive relationship between agricultural credit growth and agricultural GVA growth was established.



Empirical evidence

In this context, it is important to note that serious academic studies examining the relationship between the flow of institutional credit to the agriculture sector and agricultural growth in the Indian context found that the correlation between the two is weak at best. For instance, a Reserve Bank of India study covering the period from 1988-89 to 2010-11 found that there is no statistically significant causal relationship between agricultural growth and credit cycles in India.

Another seminal study using State-level data for the period 1995-2012 reveals that though agricultural credit plays a role in influencing the purchase of agricultural inputs by farmers, its impact on agricultural GDP is weak. Instead, the performance of agricultural GDP is determined by sectoral composition, output prices, the area under irrigation and public expenditure.

The above results suggest that the ability of credit to induce agricultural GDP growth is limited. Hence, adequate attention should be given to building other capabilities required to promote agricultural growth. They include productivity increases, expansion of infrastructure, higher public expenditure on agriculture and allied services, effective extension services, sound institutions, and export competitiveness.

The impact of credit on agricultural growth would be more effective in the presence of these non-credit growth ingredients. The weak contribution of credit to agricultural growth also emphasises the need for proper targeting of agricultural credit to achieve the desired impact on agricultural growth.

Monitoring is key

Available evidence points out that agricultural credit might not entirely benefit the actual Indian farmer due to several reasons. A substantial part of subsidised agricultural loans has been diverted for non-agricultural purposes such as investing the borrowed money in fixed deposits; deploying tractors bought on farm loan for construction activity; and using the bank credit to repay the loans from moneylenders and to meet consumption expenditure.

Also, categorisation of gold loans as farm credit by banks adds to the problem. It is estimated that around 30 per cent of the farm credit is extended against gold jewellery and about 50 per cent of such loans are used for consumption purposes.

What is needed, therefore, is strict monitoring of agricultural credit utilisation at the ground level. The RBI and commercial banks are aware of the ground reality. A few years ago, the RBI investigated the diversion of farm loans for non-agricultural uses. Yet, concrete actions to ensure proper use of agricultural credit are not forthcoming.

A notification issued by the RBI in this regard to public sector banks had advised the latter to ensure that all farm loans meet certain criteria. They mainly include limiting the disbursement of farm loans only to an agriculturist, ensuring that the loan is used for the stated purpose, and verifying that disbursal and recovery of farm loans follow seasonality pattern. To a larger extent, these tasks could be carried out using technology such as analytic software, which is made possible today as all major banks in India follow the Core Banking Solution system.

Retail, FMCG to add 2.76 lakh new jobs in April-September this fiscal: Report

PTI Mumbai | June 20, 2019

THE HINDU BusinessLine

Retail and fast moving consumer goods and durables (FMCG&D) sector together is likely to add 2.76 lakh new jobs in the first six months of the current financial year following the entry of foreign retail giants, the report said.

According to Teamlease Services biannual ‘Employment Outlook’ report for the April-September 2019-20, the retail sector will witness a 2 per cent increase in net employment outlook, resulting in the addition of 1.66 lakh new jobs while (FMCG/D) will see a 1 per cent growth adding 1.10 lakh new jobs.

With 27,560 new jobs Delhi will top the list in retail followed by Bengaluru with at 22,770 new jobs, it said. The report revealed that the exponential growth witnessed by the sector coupled with entry of foreign retail giants, capacity expansion and acquisitions are some of the key drivers of the job growth. The report was done across 19 sectors and 14 geographies, surveying 775 enterprises in India and 85 businesses across the globe to evaluate employment outlook trends.

While Delhi and Bengaluru were the top job creators in retail, Mumbai with 14,770 new jobs and Delhi with 10,800 new jobs will be the leaders for (FMCG/D), it said. Setting up of food parks, capacity expansion, acquisitions by the existing players, regulatory changes like easing the foreign direct investments (FDI) in ‘cash and carry’, single and multi-brand retail through automatic routes are the key aspects that will push job creation by the sector, it added.

"Apart from government interventions like easing of FDI norms, expansions by the domestic players, the increase in domestic consumption will also positively impact and bolster the job creation by these sectors," Teamlease Services Head of Digital and IT Mayur Saraswat said. In fact, he said, the job creation by retail and (FMCG/D) will witness a 15.11 per cent and 10.31 per cent growth respectively.

"Further, not only experienced talent seems to benefit from the optimism in these sectors, it will see a positive impact on fresher hiring as well. Retail sector alone will be creating 33,310 new fresh graduates jobs across cities," he added.

The report also found that both FMCG and retail experienced a significant increase in attrition in April- September 2018-19, compared to October-March 2018-19. Attrition in retail is seen at a 19.82 per cent and (FMCG/D) at 16.03 per cent respectively, it added.

With margins declining, banks eye the affluent class to manage wealth

Bloomberg | June 20, 2019

THE HINDU BusinessLine

People with assets of $250,000 to $1 million are set to become a new battleground for the world's financial firms, as declining margins push them to seek out pockets of wealth further down the scale.

About 76 million people with $18 trillion sit in that range today and another 4 million are joining the group each year, according to a report by the Boston Consulting Group. Competition to serve them is heating up as banks, fintechs, asset managers, and online brokers jostle for position.

Wealth managers, including UBS Group, Morgan Stanley, and Bank of America Corp, have focussed their expansion on clients with fast-growing fortunes of tens of millions to billions of dollars. A big part of that, managing offshore wealth, has become more risky and less rewarding as authorities crack down on money laundering, tax evasion, and hidden wealth following a long series of high profile scandals.

"One of the largest areas for potential expansion is also one of the most overlooked: the affluent segment," according to the report. "This base of potential clients for wealth management services shows extraordinary promise"

The group of affluent people is set to grow at 6.2 per cent over the next five years. While that's still slower than the increase of billionaires, its higher than the increase in global wealth.

New technology is allowing lenders to service the segment in a more focussed and efficient way, according to Daniel Kessler, a managing partner at Boston Consulting in Switzerland. "It is a topic that every larger wealth manager should think through," he said.

Biggest contributors

Asia and the US will be the biggest contributors to the growth of affluent wealth over the next five years, Boston Consulting said. However, despite myriad offerings, most firms have not yet found the "sweet spot" for serving such individuals. Traditional private banks often over-serve their affluent customers at the beginning, assigning them a relationship manager. When client activity fails to live up to its potential, banks may be tempted to pull back on the level of engagement.

Credit, deposit growth loses momentum

PTI Mumbai | June 20, 2019

THE HINDU BusinessLine

Both bank credit and deposits slowed to 9.92 per cent and 12.31 per cent at Rs 96.52 lakh crore and Rs 125.40 lakh crore, respectively, for the fortnight ending June 7, according to RBI data.

In the year-ago fortnight, bank credit was at Rs 85.94 lakh crore, while deposits were at Rs 114.08 lakh crore. In the previous fortnight ending

May 24, advances grew 12.70 per cent to Rs 96.22 lakh crore and deposits increased 10.09 per cent to Rs 124.98 lakh crore.

Non-food credit increased 11.9 per cent in April from 10.7 per cent in April 2018. Loans to agriculture and allied activities rose 7.9 per cent in April compared to 5.9 per cent growth in the same month of 2018.

Advances to the services sector expanded 16.8 per cent compared to an increase of 20.7 per cent in April 2018. Personal loans growth slowed to 15.7 per cent from 19.1 per cent during the reporting month.

Credit to the industry rose 6.9 per cent in April as against a meagre 1 per cent growth in the year-ago period.

Economic activity clearly losing traction: RBI Governor at MPC

FE Bureau | June 21, 2019

THE FINANCIAL EXPRESS

There are clear evidences of economic activity losing traction, as the GDP growth in Q4FY19 slowed down to 5.8%, Reserve Bank of India (RBI) governor Shaktikanta Das said while voting for a 25 basis points (bps) rate cut along with five other members in the June monetary policy meet.

The six-member monetary policy committee (MPC), which unanimously voted for a rate cut for the third time in 2019 and a shift in stance in the meeting, expressed concerns over the weakening economic growth which warranted the rate cut and expects inflation to remain below 4%, according to the minutes of the meeting.

“Growth impulses have clearly weakened, while the headline inflation trajectory is projected to remain below 4% throughout 2019-20 even after considering the expected transmission of the past two policy rate cuts,” he said.

The overall transmission of the rate cuts amounted to a fall of 21 basis points (bps) in the weighted average lending rates of fresh rupee loans. However, the weighted average lending rate on outstanding loans has increased by 4 basis points. "Going forward, the transmission is expected to improve, given the lags with which banks adjust their deposit and lending rates in response to changes in the policy rate," added Das.

RBI deputy governor Viral Acharya expressed concern over the inflation outlook and fiscal slippage. "The upcoming union budget is, therefore, key to understanding the inflation outlook, especially the response to ongoing distress in the agrarian economy, caused in part by low food prices and reflected in low rural inflation of less than 2% compared to urban inflation that remains above 4%," said Acharya.

GDP by state: Will the North and the South ever meet?

June 21, 2019
By TV Mohandas Pai & Nisha Holla
THE FINANCIAL EXPRESS

The centralised planning strategy applied all these years did not work. One strategy across India cannot address the inherent differences between states

Per-capita GSDP in southern states will have consistently multiplied, contributing massively to India?s growth and GDP

India's economy has grown at a breathtaking pace, from a nominal GDP of Rs 87 lakh crore in FY12 to an estimated Rs 190 lakh crore in FY19. Compound annual growth rate (CAGR) of 11.74% in nominal terms and 7.05% in real terms is remarkable, making India the fastest growing major economy in the world. In 2014-19, the NDA-I government grew the economy by Rs 78 lakh crore at a CAGR of 10.88%. While the Q4FY19 recorded lower growth and the forecast for the next two quarters is also lower, India is expected to retain its status going forward.

While overall growth is impressive, a detailed look shows growth has been uneven across states. GDP data published by RBI of representative states (see graphic) indicates significant variance between the northern and southern states. Southern and Western states from Tamil Nadu till

Gujarat are thriving with robust CAGR and impressive per-capita GSDP. In FY18, the population-weighted average of per-capita GSDP for the south was Rs 1.93 lakh, 2.5 times that of the north at Rs 0.77 lakh. Even with improved CAGR of over 10% in Madhya Pradesh, Bihar and West Bengal, states in the north are recording low per-capita GSDP. It is clear that growth across India is variant and continues to diverge.

Per-capita GDP by state (₹)

Zone	2011-12	2017-18	CAGR %	2027-28^
NORTH - CENTRAL				
UP	35,917	62,291	9.61	1,55,944
Rajasthan	62,907	1,11,539	10.02	2,89,717
MP*	43,082	93,491	13.78	3,40,054
EAST				
Jharkhand	45,318	69,534	7.40	1,41,928
Odisha	54,708	92,726	9.19	2,23,420
Bihar	23,525	42,242	10.25	1,12,059
W Bengal	56,693	1,04,750	10.77	2,91,428
North pop- weighted avg				
	42,573	77,003	10.38	2,06,759

Zone	2011-12	2017-18	CAGR %	2027-28^
SOUTH				
TN	1,03,600	1,86,125	10.26	4,94,171
Andhra	76,997	1,57,495	12.67	5,19,106
Telangana	1,00,732	1,98,577	11.98	6,15,459
Karnataka	98,568	1,99,875	12.50	6,49,331
WEST				
M'rashtra	1,13,154	2,05,499	10.46	5,55,531
Gujarat*	1,01,075	2,00,244	12.07	6,25,774
South pop- weighted avg				
	1,01,577	1,93,902	11.38	5,69,593

^Projected; Data from RBI, CAGR computation and projections by authors. (* indicates data not published for 2017-18 in report, calculated from previous data)

Population-weighted averages

Combined Zones	Pop growth rate 2011-12 to 2017-18	GER 2017-18	Life expectancy 2012-16	5 year total- HE graduates 2013-2018
North	1.42%	21.1	67.2	1,92,02,177
South	1.06%	34.3	70.6	1,67,16,374

Population and life expectancy data from RBI, GER data from AISHE (weighted average calculation by authors)

For study purposes, we projected the per-capita GSDP of states for ten years using GDP and population CAGR calculated from 2011-2018 data (see graphic). Of course, these projections could change on several factors. Projections indicate that if development and population growth rates of states are equivalent to the last six years, the variance between states could diverge even more. Per-capita GSDP in southern states will have consistently multiplied, contributing massively to India's growth and GDP. It could be well over Rs 5.6 lakh—2.75 times that of the north's average at Rs 2.06 lakh. This is up from a factor of 2.5 in FY18, clearly indicating a divergence in growth if special measures to boost these state economies are not taken soon.

Northern states have larger populations and higher population growth rates of 1.42% on average, compared to 1.06% in the south (see graphic). This correlation implies that a large swath of India's population has insufficient income, low contribution to GDP and high population growth rate, while a smaller group has very high income, proportionally high contribution to GDP and low population growth rates. This population-weighted inequality is unsustainable.

Further, a major difference between the southern and northern states are the youth populations. Fertility data from NFHS-4 shows the population in the southern states is ageing, whereas the youth bulge in the north and east is still substantial. As discussed in our previous FE article (bit.ly/2JM6u4f) the fertility rates in southern states are all under 1.8. Notable contributors to lower fertility are shown to be better education infrastructure and employment prospects in the south, especially for women. Southern states have significantly larger enrolment ratios in higher education, as discussed in our FE article (bit.ly/2WSFKWq). The variance in Gross Enrollment Ratio (GER) (see graphic) in higher education between southern and northern states on average is a significant 13.2 points in 2017-18. Among the more prosperous south-west states, Gujarat trails with a GER of 20.1 while Tamil Nadu leads with GER of 48.6 in 2017-18.

GER is lower in the north; but in absolute numbers, there is still a significant number of higher education graduates due to the large populations. AISHE data shows that from the representative states discussed in the north, there have been a five-year total of 1.92 crore graduates from 2013-18—92 lakh are women (see graphic). Unfortunately, these are in regions where jobs for educated people are the least—most of the specialised jobs requiring graduates are in the south. Without quality employment prospects, educated youth in the north either opt out of the workforce or take up lower level jobs. The PLFS 2017-18 survey shows this is one of the reasons for low workforce participation among women—unemployment among urban women with secondary education or above is at 19.8%. States must prioritise providing educated youth quality employment prospects in their home states.

Above data and trends indicate that growth has been uneven across India. The centralised planning strategy which the Planning Commission has applied all these years before NITI-AAYOG has not worked. One development strategy deployed across India cannot address the inherent differences between states. In Modi 2.0, a well-defined state-wise strategy supported by data is required to bring special attention to development in states that are below the national average, especially in the North and East India.

One of the critical investments to accelerate the development of lagging states is to focus on implementing education infrastructure, for both school and higher education, and then provide the educated youth quality employment prospects in their own states. In particular, instituting labour-intensive industries with intensive skills training in the populous states will provide employment on a large-scale. Madhya Pradesh has already started building labour-intensive industries with positive results. Apart from this, the need of the hour is to build infrastructure, improve governance and deliver services faster in these states.

Strategy must also focus on the strengths of each state and implement policy accordingly. For example, West Bengal can leverage its coastline and industrial legacy to develop into an industrial and trade superpower. Bihar, with abundant fertile land and labour, can focus on becoming a major producer of food and labour-intensive industries. With careful planning and implementation, each state in India can be specially developed. In the next five years, it is essential for Modi 2.0 to create specialised programs with centralised funding to take care of the needs of the underdeveloped states in the North and East, so they quickly rise up to the current all-India average in terms of human capital.

Variation also exists within each state. In Uttar Pradesh, the planned city of Noida is one of India’s most prosperous cities, whereas several eastern districts like Chandrauli and Fatehpur have been identified as backward by

NITI-AAYOG. Even within more affluent states like Karnataka, there is considerable variance between districts—the Economic Survey of Karnataka 2018-19, shows that Bengaluru district alone accounts for nearly two-thirds of Karnataka's GDP. As the Centre under PM Modi's able leadership brings focus to each state's development, a closer look at districts can direct policy and allocation decisions.

Accelerating development in lagging states and districts, can develop every state as a superpower in its own right. All of India's population can then participate in India's rise as a global superpower. The goal is to take each and every Indian along on our fast-paced journey towards becoming a $10 trillion economy.

IL&FS thrived due to its bureaucratic cover, go after them

June 21, 2019

THE FINANCIAL EXPRESS

IL&FS thrived due to its bureaucratic cover, time to go after them

Under an Uday Kotak-led board, IL&FS is close to concluding its first sale, that of 874 MW of wind power assets held through a joint venture (JV)

With the Enforcement Directorate arresting former IL&FS CEO Arun Saha and K Ramchand who was the managing director of IL&FS Transportation Network (ITNL), and the government moving to blacklist auditors Deloitte and KPMG affiliate BSR & Co, it would appear action in the IL&FS scam is gathering pace. And, under an Uday Kotak-led board, IL&FS is close to concluding its first sale, that of 874 MW of wind power assets held through a joint venture (JV). While GAIL had emerged as the largest buyer of the assets, Japan's Orix Corporation, which owned 49% of the wind assets JV, invoked its right-of-first-refusal and will match GAIL's bid; in the bargain, the debts linked to the wind assets will be taken over by Orix. Over the next few months, as more assets get sold, it will be possible to get a better estimate of the size of the hole in IL&FS's balance sheet and the haircut that various lenders of its Rs 100,000-crore debt will have to take; PSU banks lent Rs 35,000 crore and PSU financial institutions another Rs 9,000 crore.

What is odd, however, is the near complete lack of action by the authorities on either IL&FS directors or the various government officials who worked with it and, in a sense, ensured it flourished. As IL&FS's group debt rose 87% over four years between 2014 and 2018, and its leverage rose to a frightening 13, for instance, its risk management committee that was headed by LIC's managing director, Hemant Bhargava, met just once—in July 2015—in that period; LIC owns over 25% of IL&FS. IL&FS's independent directors who were on the risk committee included Maruti Suzuki chairman RC Bhargava and former shipping secretary MP Pinto; given the high-profile nature of the IL&FS scam and its capacity to wreak havoc on India's financial system, at the very least, the government should have banned these directors from serving as independent directors on the board of companies for a certain period, and clawed back the sitting fees they earned from IL&FS. IL&FS also operated several projects in 50:50 JVs with state governments and a senior bureaucrat from the state was usually the chairman of the JV, and this is probably what helped IL&FS to structure contracts in a way that benefited it more—in the case of Noida Toll Bridge, for instance, the way the deal was structured ensured the project that was to cost Rs 408 crore in the early 2000s saw its costs escalate to Rs 5,000 crore a couple of years ago. Apart from this, a large number of bureaucrats have also been on its payroll at one time or another. Surely the role of these worthies also needs to be scrutinised and, wherever necessary, action be taken.