A wake-up call for all commanders

Airlines, pilots and the authorities need to pull up their socks to ensure flying remains the safest travel option in India

OUT OF THE BLUE

ANJULI BHARGAVA

The year 2019 has been a chaotic year for Indian aviation so far — what with IndiGo's spate of cancellations, Jet's closure, safety incidents galore (seven across airlines in a span of a few days) and more recently the IndiGo spat.

Even as the IndiGo saga grabs headlines, I think the more worrying issue is passenger safety, an area that is non-negotiable.

On June 30, July 1 and July 2, three SpiceJet aircraft overshot or veered off the runway. Of the three, the flight landing from Jaipur in Mumbai that overshot the runway was the scariest and was classified as an accident by the authorities.

From what I could gather, here's what happened. The rain had been relentless and a fair amount of water had accumulated on the runway. A previous SpiceJet flight that came in reported to the ATC that his braking action had been poor and that he should stop further landings. Whether this message was conveyed by the ATC to the next incoming flight is not clear but the Jaipur-Mumbai flight pilot made at least one mistake — he did not stabilise the aircraft as he is required to and chose to land (as I said, it's not clear whether he had received a warning). The aircraft landed beyond the "*lakshman rekha*" so to speak, his braking action was poor as well and the aircraft went out of control and overshot the runway. The nose landing gear of the aircraft collapsed, the tyres sunk in and the passengers had to be evacuated after getting the fright of their lives. All in all, the incident was serious enough to be classified as an "accident" by the authorities.

Action post the incident was swift. The two pilots were suspended pending inquiry. A DGCA audit held four people in the airline responsible. The head of flight safety for SpiceJet resigned and the head of training and flight operations were relieved of their posts. Certain new guidelines for stabilisation of aircraft were introduced within the carrier that require the pilots to adhere to even more stringent norms than prescribed by the authorities.

In my view, this is not enough. In a country like India where commercial considerations seem to always override all other considerations, the DGCA should consider making the CEO or the face of the airline the accountable manager (accountable managers are the ones held responsible by the authorities for safety). In an airline like SpiceJet, this would be Ajay Singh and in IndiGo, it would be Rahul Bhatia. When major policy changes that affect commercials are discussed with government, it is these people who either represent or lobby at some level. Let the promoter or the CEO be held responsible if anything goes wrong on the safety front and you'll have much more alacrity in the system.

Second, a more horrific thing I learnt post this incident is that the first officers (across airlines) who get their command usually on completion of 3,000 hours of flying have very little practice of real time landings in poor weather conditions. So here's this first officer who suddenly finds himself in the hot seat (read: commander) one day with a relatively inexperienced colleague in the next seat and he's told to land out of the blue in the most adverse of weather conditions. Post this scary incident, a few co-pilots who'd just got command chose to call in sick rather than risking Mumbai's wrath in those few days. Thank god they chose to err on the side of caution and were not cocky and over-confident as many of their brethren tend to be.

A third scary piece of information was conveyed to me by another senior commander in a chat post these incidents. He said that often, even when aircraft are not stabilised or landing conditions are not quite perfect and require the pilot to go around, stabilise the approach and come in again for landing, they don't. These pilots choose not to err on the side of caution as they have a bad case of "get-home-itis". They're fed up of the flight, want to get it over and done with it and go home. Flying in general is safe and they feel they can manage. Mostly, they do. Not reassuring for us passengers but this whole Indian *chalta hai* attitude takes over.

So, all in all, I'd like to end by asking all commanders to wake up — be it the DGCA, the main pilot driving the airline or the commander in the pilot's seat. We're fortunate such incidents occur only occasionally. But let's learn from them and stop them from turning into accidents.

CHINESE WHISPERS

Unhappy over *ghar wapsi*

Not everyone is happy with Madhya Pradesh Chief Minister Kamal Nath (*pictured*) securing the homecoming of two Bharatiya Janata Party (BJP) MLAs, Narayan Tripathi and Sharad Kol. The rivalry between the former leader of the state opposition, Ajay Singh, and Tripathi is an old one. During the Lok Sabha elections in 2014, Singh had contested from the Satna seat and lost by a very thin margin. He then blamed Tripathi for his defeat. Tripathi was then a Congress MLA from Maihar, which falls in the Satna Lok Sabha constituency. He switched to the BJP just two days before the Assembly elections last year, which is a reason why the Congress unit of Maihar seems firmly against Tripathi's *ghar wapsi*. But they have had to reconcile with the comeback because, as Spokesperson Pankaj Chaturvedi said, the unit members would accept whatever Nath did to strengthen the party.

Relishing a plight

It's been several days since actor Rahul Bose's tweet about shelling out ₹442 for two bananas at Chandigarh's JW Marriott appeared on our timelines but the after-effect lingers. Brands continue to milk the hotel's plight, which includes a fine of ₹25,000 by tax authorities besides a massive PR damage — with pitches taking a dig on the overpriced fruit. On Monday, Marico's Coco Soul chips reminded its Instagram followers that a pack of their coconut chips, which comes in four flavours, costs only ₹356, nearly ₹100 less than what the actor paid for two bananas. This follows a long list of other brands that are having a field day promoting themselves at the JW Mariott's expense — be it rival The Park, which advertised "complimentary bananas" at its spa, or Oyo Rooms' mocking "Don't slip". While some such as Amazon, Policy Bazaar, and Pizza Hut had witty suggestions on how buying their products, service or subscription was cheaper, the likes of Reliance Smart and Nature's Basket were quick to remind that they sold bananas at a much cheaper price — ₹14 for two.

A sweet end

Odisha on Monday bagged the geographical indication (GI) tag for its "*Rasagola*", thus bringing it a late cheer in its battle since 2015 with West Bengal on the sweet's origin. West Bengal had won the first round. Both states staked their claim on the syrupy dessert. In 2017, West Bengal secured the GI tag for its "*Banglar Rasogolla*". Now with Odisha also securing a certificate for a similar but somewhat differently named delicacy, it seems both will be relishing the sweet end.

A voluntary retreat from crop insurance

The NDA's signature farm revival policy may not survive if its compulsory status is altered

SANJEEB MUKHERJEE

Simran Sandhu in Kurukshetra, Haryana, alternates between growing paddy and wheat in the kharif and rabi seasons. Like thousands of others, he borrowed from a local bank to buy seeds, fertiliser and other inputs and was enrolled compulsorily in the Pradhan Mantri Fasal Bima Yojana (PMFBY), the signature insurance scheme the Narendra Modi government launched in 2016 as part of its farm-revival policy package.

The premiums were auto-deducted from Sandhu's bank account starting July 10. Then unseasonal rains damaged over a third of his paddy crop. But Sandhu could not recoup his losses because a state government's circular on PMFBY for kharif 2019 stated that inundation of paddy crops is not one of the calamities for which insurance can be claimed.

TAKE TWO

Sandhu called the local district agriculture officer and the insurance company and received the same curt reply: he could claim damages only if the government changed its guidelines.

"If I am not eligible, why was the premium deducted from my account? Given a chance, I would opt out of PMFBY; it isn't helping me," Sandhu said.

It is because of such anomalies that Sandhu and other farmers in his village greeted with relief the government's July 16 announcement in Parliament that it may make PMFBY voluntary. To this end, the government has solicited views from state governments (West Bengal has opted out and introduced its own farm insurance product).

This is a remarkable reversal for a scheme touted as the world's largest and cheapest crop insurance programme. The scheme was compulsory for farmers taking institutional loans – known as loanee farmers — and voluntary for others. Between kharif 2016 and rabi 2018-19, 115.2 million farmers enrolled for the scheme, 73 per cent of them loanees.

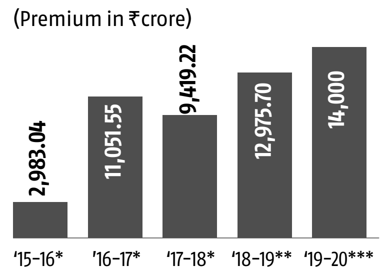
Twenty-seven states and Union Territories had opted for PMFBY that sought to address problems in such older schemes as the 17-year-old National Agricultural Insurance Scheme (NAIS). For a start, it was much cheaper. Against 8 to 12 per cent under NAIS, the farmer under PMFBY pays 2 per cent of the sum insured for kharif crops, 1.5 per cent for rabi crops and 5 per cent for horticulture and commercial crops. If the actuarial premium is lower than this rate, the lower of the two would apply. The difference between the actuarial premium rate and the premium paid by the farmer was the subsidy, shared equally between the Centre and states.

The proposal to make PMFBY voluntary was part of the Bharatiya Janata Party's 2019 election manifesto. Why is the government proposing to jettison a scheme that was central to its proposal to double farm incomes by 2020?

PLOUGH SHARE

Centre's share of PMFBY

(Premium in ₹ crore)



*Actuals **Revised Estimate ***Budget Estimate
Source: Budget papers

The Centre's cash crunch could be one reason: it has paid out more than ₹36,500 crore between 2015-16 and 2018-19 as its share of the subsidy (see chart). But poor claim recovery complaints from western Uttar Pradesh also played a role. In fact, the scheme has been mired in controversy from the start. Between then and kharif 2018 enrolment dropped 26 per cent, though this was attributed to weeding out multiple claimants after Aadhaar was made mandatory for registration.

Then in a July 2017 report, the Centre for Science and Environment (CSE) reported that insurance companies raked in profits of around ₹10,000 crore (as on April 2017) on account of the low number of claims relative to premiums charged.

The Centre had countered CSE's report, saying savings in a good year could be utilised for payouts in bad seasons. "It would be statistically more robust to undertake a comprehensive evaluation of both the framework and quality of implementation of the scheme over data sets garnered from at least two-three kharif and rabi seasons each. The central government will be doing this," the statement said.

But implementation appears to be the principal sticking point, and the blame lies with the states. Crop-cutting experiments or CCEs are critical for insurance companies to get an accurate estimate of yields of principal crops. PMFBY requires states to conduct at least four crop-wise CCEs in every gram panchayat and the yield data submitted to insurance companies within 30 days of harvest. Acute manpower and resource shortages often lead to inadequate CCEs. States have also been slow to clear their share of the premium subsidy.

To correct this, the Centre in September 2018 imposed a 12 per cent penalty on insurance companies if the settlement took more than two months, and for state governments if they delayed settlement beyond three months of the due date.

"These changes show that the government is well aware of the problems, and is taking all the steps to make PMFBY more friendly to them," said a senior official of a state-run crop insurance company. He added that the government was also working on creating a corpus to handle the premiums to remove the perception that insurance companies were making huge profits off the scheme.

Making the scheme voluntary, however, could well spell the end of PMFBY. "If the scheme is made voluntary for even loanee farmers, it would not only impact farmer enrolments but also push up actuarial premiums, since there would be fewer targeted farmers," said former agriculture secretary Shiraz Hussain, one of the architects of PMFBY.

Insurance companies think the scheme could still be made to work. "If premiums were made nil for farmers or a cap put on premiums PMFBY could still survive, because there is hardly any insurance product anywhere in the world that hedges farmers' risk at such low cost," said a senior official of a state-run crop insurance company.

As the Centre awaits the states' response, the sternest test for PMFBY lies in the days ahead when claims will soar on account of a weak monsoon.

ON THE JOB

Worry about informal employment

A fall in demand for automobiles of all kinds is leading to job losses and fears of more losses in the near future are mounting

MAHESH VYAS

The automobile industry is tiered in manufacturing and in distribution. There are automobile manufacturers, ancillary units, which themselves are quite tiered and then there are the distributors and showrooms. A fall in automobile demand can, as it already has, hit the entire chain.

All kinds of workers can be hit, but the most vulnerable are the contractual labour. The automobile industry engages contractual labour in a big way.

Millions of jobs are at stake in this industry.

According to the Annual Survey of Industries (ASI), the manufacture of motor vehicles, trailers and semi-trailers involved 987,191 employees and manufacture of motorcycles employed another 209,219 in 2016-17. This adds up to about 1.2 million.

Using the trend in the past decade, we can assume this number has gone up to about 1.4 million. This is significant employment in absolute numbers. The automobile sector employs 8 per cent of the total employment in all industries.

But, the ASI covers only the organised manufacturing sector. These are factories employing over 14.9 million. It does not include the unorganised manufacturing sector which serves the automobile sector in a big way. Further, this does not include dealers and distributors who hold the stock for automobile manufacturers and are often particularly stressed during a downturn.

Newspaper reports attributed to Federation of Automobile Dealers Association suggest that 200 car showrooms have been shutdown in the last one year leading to job loss of 25,000 people.

The The Automotive Component Manufacturers Association of India (ACMA) has reportedly stated that a million jobs were lost during the last one year. Most were contractual labour.

ACMA suggests there are 5 million workers in the auto component industry. This is five times the employment seen in the ASI. More importantly, ACMA claims that around 70 per cent or about 3.5 million are hired on contract. These contractual labourers are vulnerable during a downturn like being witnessed now.

According to the ASI, 40 per cent of the total employees of the organised automobile manufacturing sector were hired through labour contractors. If we assume that these contractually hired employees are all workers and not supervisors or managers, then 50 per cent of all workers of the organised automobile industry are contractual labour.

During the past three years, the government has encouraged contractual employment. It is likely that the share of contractual labour has therefore increased since the ASI data of 2016-17.

These contractual labourers can be fired without much ado. Their number could easily be of the order of half a million in the organised automobiles sector. They were 475,554 in 2016-17, according to the ASI.

Jobs of these half a million contractual workers are not any more secure than those who are employed contractually in the unorganised sector. Using ACMA's estimate of 5 million workers which includes organised and unorganised sectors then, we can estimate that around 3 million contractual workers are employed in the unorganised sector. This is a very large number of workers who are vulnerable to the current slowdown in the automobile industry.

According to the ASI, contractual workers in the organised manufacturing sector was 4.2 million in 2016-17. This accounted for 36 per cent of all workers in the year.

The share of contractual labour in total workers in the organised manufacturing sector has increased from 20 per cent in 2000-01 to 30 per cent in 2006-07 to 36 per cent in 2016-17. It is likely to have risen further in the past couple of years.

Contractual labour is vulnerable independent of whether it is engaged by the organised sector or the unorganised sector. Further, as research working paper shows, they also hurt regular employees.

Radhicka Kapoor and PP Krishnapriya in a research paper in April 2017 (*Informality in the Formal Sector*) use unit level ASI data to show that besides the oft-quoted reason being employment protection legislation, firms use contract workers strategically against unionised regular workers to keep their bargaining power and wage demand in check.

Arvind Panagariya in *The Times of India* (July 24) stated that the proposed draft wage code "promises to add to rather than subtract from the current informality in jobs".

While the new laws being considered are working towards consolidation of laws and improving ease of doing business it also seems to be excessively interventionist to protect the interest of workers. There are some good suggestions like on enforcing letters of appointment. Yet, it seems to strengthen the increasing trend towards the informality of employment. This is worrisome.

It may be good to pause and see the mayhem in the automobile industry and to listen to the academics. Informal jobs are not good jobs.

The author is the MD & CEO of CMIE

LETTERS

No right to information

It is clear that with the power to fix the tenure, status and salary of information commissioners both at the Centre and in the states vested in the Union government, the latter can control the former and influence its decisions. By limiting the freedom and autonomy of information commissioners, the amendments undermine the Right to Information (RTI) Act and deprive people of a powerful tool for empowerment. Activists lament that the RTI Act is now as good as dead with the independence of information commissioners lost. While constitutional authorities and statutory functionaries do not have to think about whether their decisions are to the liking of the powers that be, the information commissioners do not have such a "luxury". They will now think twice before sharing information inconvenient to powerful interests.

The contentious amendments dilute the common citizens' right to information and erode transparency and accountability, two basic requirements of a democratic set-up. Denial of information to citizens is the characteristic of a totalitarian state and not a participatory democracy. Sadly, there was not enough public pressure on the government to refrain from killing the spirit of the original law..

G David Milton Maruthancode

Need a balanced mix

This refers to "The Budget, the Survey and the trilemma" (July 29). While the demand for goods and services is crucial to promote investment, the resources to cater to the latter come mainly from the domestic household savings. An attractive return on savings induces the propensity to save but negatively impacts the allocation for consumption. Consequently, consumption expenditure will get confined to essentials. The inflow of foreign funds through foreign portfolio investment, foreign direct investment and against increased exports is rather beneficial than the raising of external savings through the issue of sovereign bonds in foreign currency. It is fraught with the danger of volatility in the exchange rate.

Domestic investment is depended on the cost of capital and the prevailing elevated lending rates are impediments. Therefore, lenders have to cut down the interest rates in consonance with the monetary policy rate. Factors like consumption, savings and rate of

interest on deposits and loans all have significant implications on the growth of investments and therefore, the economy needs a balanced combination of all these to attain the envisaged growth goals. It is also imperative to bring down the rising unemployment and to cut down the gap in the inequality in income distribution for smooth economic growth and social development.

VSK Pillai Kottayam

No silver bullet

This refers to "Reforming agriculture" (July 29). There is a strong need to reform agriculture for the development and well-being of over 60 per cent of the population. But taking agriculture out of the State List will leave little incentive for the state government to invest and innovate in agriculture. Also, agriculture being dependent on geographical factors is very different from the education sector. Following a one-policy-fits-all approach cannot succeed given the geographical diversity of India. For example, in some areas, small farmlands can be more effective than the large ones.

Also, rather than simply being pushed by the idea of doubling farm income, the focus should be on doing the things in a sustainable way and for this, every state government is required to act independently by assessing what is the need in its respective geography. All this should not compromise the greater good of the country. So, rather than linking central grants to the steps taken by the state governments in line with a single reform structure, emphasis should be laid on giving time and grants to the state governments on the basis of an individual state's plan.

Vishwajeet Chaudhary Ahmedabad

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HAMBONE

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Global policy conundrum

More monetary accommodation can lead to higher risks

The global economy is losing momentum. The International Monetary Fund (IMF) in its latest update scaled back its global growth forecast for the current year by 10 basis points to 3.2 per cent. The global economy expanded by 3.6 per cent in 2018. Consequently, large central banks are expected to turn more accommodative. The US Federal Reserve is expected to cut interest rates later this week for the first time since the financial crisis. The European Central Bank has also expressed its willingness to undertake more stimulus measures.

These developments can complicate policy choices for an emerging-market country like India. For one, slower global growth could affect exports, which are anyway not growing at a desired pace. Second, the global search for yields can lead to higher capital flows, which can put upward pressure on the rupee, affecting both imports and exports. Further, higher inflow of debt capital can increase the risk to financial stability.

Reserve Bank of India Governor Shaktikanta Das has done well to highlight some of these issues in his remarks last week. Though the subject has been at the fore, at least since the global financial crisis, the risks have somewhat increased due to the feeble recovery in many parts of the developed world and the renewed danger of a slowdown. Differently put, large global central banks may have to start supporting growth with policy accommodation without having been able to unwind the previous stimulus. This could significantly increase leverage and risk in the global financial system. As Mr Das rightly noted: "It is important in the backdrop of slowing global growth that policies of monetary and fiscal authorities are well-calibrated so that they support growth without further build-up of leverage and asset price bubbles."

However, experience shows that large central banks are more focused on their own economies, and not particularly worried about spillovers to emerging markets. There has been a significant build-up of leverage in emerging markets over the last decade. So, the real question is: What should emerging markets, which tend to witness a surge in inflows and sudden stops, do in such a situation? Among other things, this increases volatility in the currency market, which directly affects the broader economy.

In the absence of a robust global coordination mechanism, the best option is to intervene in the currency market and accumulate reserves, as some of the emerging-market economies have been doing. But it is important to note that intervention has costs and higher reserves can attract more inflows, making currency management difficult for an emerging-market central bank. Furthermore, it can also affect its monetary policy objectives. Therefore, reserve accumulation should be handled with care. In this context, countries with large reserves can reassess and prioritise the kind of foreign capital they need.

However, the larger issue global policymakers need to address is: If the world economy is losing momentum despite a relatively accommodative policy environment, would more monetary stimulus help lift economic growth? Yields on bonds worth about $13 trillion are in negative territory. Therefore, it is possible that further monetary accommodation will have diminishing returns in terms of stimulating growth and can end up increasing risks for the global financial system.

Electric ambitions

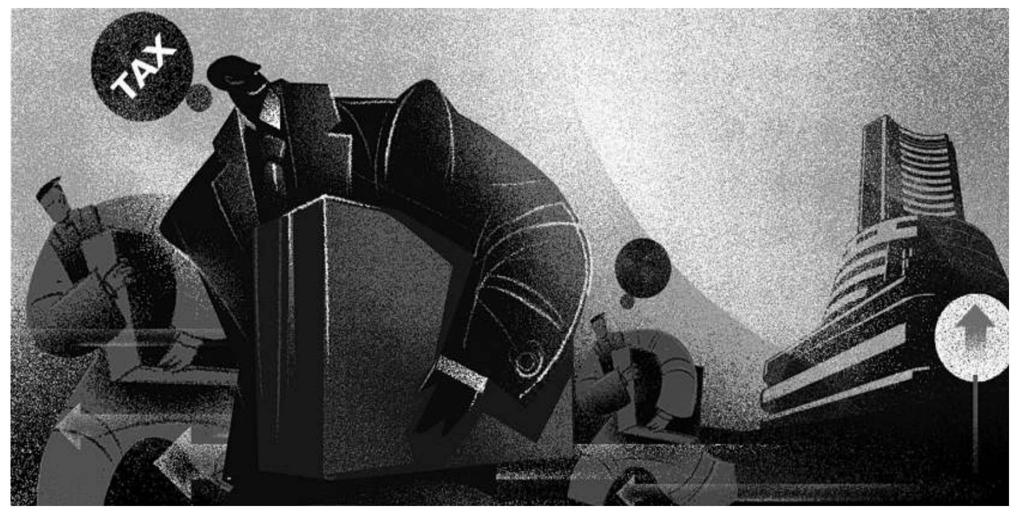
EV adoption requires supporting eco-system

Last week, the government added heft to its policy to promote electric vehicles (EVs) by slashing the goods and services tax (GST) on them from 12 to 5 per cent and on chargers from 18 to 5 per cent with effect from August 1. It has also exempted from the GST the hiring of electric buses by local authorities with a carrying capacity of more than 12 people. These come soon after a tax break in the Budget providing an additional income tax deduction of ₹1.5 lakh on interest paid on loans to buy EVs. Both seek to augment the government's March announcement of the second edition of its FAME (Faster Adoption of Manufacturing of Hybrid and Electric vehicles) scheme, committing ₹10,000 crore till 2022 to boost EVs, principally in public transport, of which ₹1,000 crore was earmarked for infrastructure. EV manufacturers have welcomed these latest concessions, which seek to incentivise private adoption of EVs as well, though the lower GST only narrows the price differential between EVs and petrol and diesel cars, which attract a 28 per cent GST plus cess.

In sharply reducing the GST on chargers, the government has responded to the criticism that its FAME policy did not plan for a robust supporting eco-system in the form of charging stations. But the doubts on this head linger for several reasons. The first is the visibly uneven experience in transitioning public transport to compressed natural gas (CNG) and in encouraging private car owners to opt for it. Few regular users of public transport in the national capital will forget the chaos caused by the paucity of CNG stations in the initial days after the transition was forced by a Supreme Court order. The fact is that 17 years after the last diesel bus went off the road, Delhi — and, indeed, most major cities — still lack a sufficient number of filling stations. The long lines outside CNG pumps even today attest to this. The numbers also tell the story. There are about 3 million CNG vehicles of various descriptions plying in India. Servicing them are just 1,424 stations across the country, that too most of them in Delhi and Mumbai. Last year, Dharmendra Pradhan, minister of petroleum and natural gas, sought to remedy this by announcing that another 10,000 stations would be set up over the decade on the back of the expansion of city gas networks. But the status of this plan is unclear in Narendra Modi's second term and in the light of the explicit agenda of FAME 2. Manufacturers have also pointed to charging costs, which are linked to electricity rates. Companies setting up charging networks point out that EV owners will soon have to start paying an 18 per cent GST on electricity at these points, which significantly raises the cost of running an EV.

This regular cycle of enabling concessions points to the fundamental weakness in the government's EV policy, in mandating a technology to achieve an air pollution target, but how far it will succeed when EVs remain heavily dependent on imports is an open question. Constant revision and different rates also go against the basic idea of simplifying the GST structure.

ILLUSTRATION: AJAY MOHANTY



Why are FPIs selling?

We need to see a concerted attempt to make India an easier place to do business

We have recently seen significant selling of Indian equities by foreign portfolio investors. In July, the selling has touched almost $2.5 billion, and is now seems to be accelerating. Consequently, India has had a very tough year on a relative basis. While the markets globally are hitting new highs, we are struggling to stay in positive territory. Indian mid-caps and small-caps continue to get decimated — downdouble digits for the year. In a ranking of the top 50 equity markets, in terms of performance year-to-date, we are ranked 43rd.

What is surprising is that we are doing poorly despite what one would think is a very favourable backdrop.

The government that investors wanted has come back with a much stronger-than-forecast mandate. Oil prices are stable, and seem to be in a range: The top end of the range does not seem to be a level which will disrupt our economy. The rupee is very stable, it has, in fact, appreciated post the Lok Sabha election. Globally, liquidity is very easy and rates are declining everywhere. We are on the verge of starting another round of central bank easing, led by the US Federal Reserve and the European Central Bank. Amazingly, nearly 25 per cent of all investment-grade paper globally (both corporate and government combined) is now trading at negative yields. We are seeing bond yields for Greece (till recently a basket case) decline to below equivalent US treasuries. An odd environment!

AKASH PRAKASH

With yields so low and falling, growth should be at a premium. India has always been seen as the one economy offering long-term, secular and sustainable growth. Demographics, low starting point, the catch-up effect, etc. No one really doubts that India will be the fastest-growing major economy over the coming decades and definitely grow faster than China. With growth scarce, India should be bid up.

Yet, despite the very favourable backdrop, the Indian markets are struggling. Why?

There are many reasons, but according to me, these are the most important ones.

There is total frustration with the lack of corporate earnings growth. This has been the single-biggest disappointment in Indian equities over the last eight years. Few people realise that back in 2008, the share of corporate profits/GDP in India and the US was basically the same at about 7 per cent. Today, these ratios are near 10 per cent in the US and just over 2 per cent in India. There has been a total collapse in corporate profitability in India. We have compounded earnings at less than 5 per cent over the last eight years. There are various reasons for this earnings recession. The corporate bank NPA clean up, higher taxes, technological disruption, economic shocks, no private investment, an overvalued rupee, etc. Be as it may, the fact remains that no one has been able to forecast the turn in corporate profitability. No one can explain when and why earnings will accelerate, beyond the obvious point that corporate profits cannot keep dropping as a share of GDP. We are already at all-time lows. This has to bottom out! Given the current weakness in the economy, this will be another year of an earnings disappointment. The phase of multiple expansion for our markets is over. Thus, despite bond yields dropping by almost 100 basis points, the markets are still falling. It is unlikely that the markets can resume a sustained uptrend in the absence of strong earnings growth. Most investors, tired of waiting for the earnings inflexion, will now only increase India allocations once earnings are delivered. On current earnings, the markets are simply too expensive.

Second, the economy is genuinely weak. I have not seen corporate sentiment this bad for years. Investors hear a barrage of negative news when they interact with companies. Animal spirits seem absent. Everyone just talks of deleveraging and hoarding liquidity, and there is no interest in setting up new capacity. Demand seems to have hit a wall. Non-banking financial companies (NBFCs) are in survival mode. Many businesses have no access to credit. Business confidence gets even more shaken when states, like Andhra Pradesh, attempt to renegotiate signed contracts. The government to its credit has tried to lower rates in the economy, and thus boost consumption and investment. This will help, but in addition to easing monetary policy, investors would have liked to see more attempts to push the next generation reforms in land, labour and judiciary, and make India an easier place to do business. The government, obviously, has an economic game plan, to get us out of this funk. There has to be a better articulation of the government's economic philosophy, priorities and game-plan for the next five years.

Third, there is also a perception that India may have moved more to the Left in the economic policy than most investors expected. No one can deny that we need to spend as much as possible in improving the basic quality of life of the average Indian. This government won a landslide victory as it was able to put in place basic infrastructure in rural India, providing roads, housing, electricity, and cooking gas with very effective execution. Much more needs to be done. It will need money. The present approach seems to be to focus on the existing narrow tax base to get the required resources. This is killing animal spirits. So is fear. There has undoubtedly been huge abuse of the system by Indian industrialists. Just look at the NPA crisis. Many should be punished. However, every large Indian industrialist is not a crook. Ultimately, it will be the private sector that will create jobs.

We need to find a way to broaden the tax base and be far more aggressive in monetising government assets to get the money needed. Given the need for resources in rural India, we cannot afford to give bailouts of lakhs of crores to PSUs, be it the banks, Air India or BSNL/MTNL.

In addition, the required returns to make an investment in India are also rising. Risk premiums will rise when you have judgments like the recent NCLAT judgment on Essar Steel, or the Andhra fiasco. Taxes also raise the pre-tax returns needed to justify allocating capital to the country. If risk premiums rise, the markets have to be cheap enough to deliver the higher expected pre-tax returns. Public equity markets are currently not cheap enough.

Sentiment in India is very poor at the moment, among both domestic investors and industrialists. This negativity is now affecting the global investor base. It is unlikely global investors will pre-empt the domestics. We need to see the domestic sentiment turn. For that, we need to see a concerted attempt to make India an easier place to do business. Be it taxes, regulations, reforms, etc.

The writer is with Amansa Capital

Rupee liquidity and dollar borrowings

Indian economic growth slowed down to 5.8 per cent in the last quarter of 2018-19. The decline in the sale of vehicles and consumer durables, and other negative indications point to a continuing slowing down of growth in the first quarter of 2019-20. In this environment, the RBI (Reserve Bank of India) may well feel the need to do its bit to jump-start the economy by pushing up lending.

To achieve this, the RBI sought and received $5.02 billion from market intermediaries in exchange for ₹34,561 crore on March 28, 2019. The RBI accepted another $5 billion for ₹34,874 crore on 23 April 2019. The RBI's objective was to raise the availability of rupees to address the drop in lending after IL&FS had defaulted on some of its debt.

JAIMINI BHAGWATI

The two dollar-rupee exchanges have been called currency swaps. These are not standard currency swaps but spot and forward foreign exchange (FX) transactions at pre-agreed exchange rates. Irrespective of the name given to the transactions, the RBI has stashed away around $10 billion and correspondingly nearly ₹70,000 crore has been injected into the Indian financial markets.

The RBI has agreed to return the first and second tranches of the dollars it received at ₹76.62 and ₹78.13 to a dollar, respectively, after three years. This is equivalent to annual depreciation of the rupee between 3 per cent and 4 per cent. Consequently, the RBI is exposed to rupee depreciation beyond 4 per cent and the dollar providers stand to lose if the rupee depreciates less than 3 per cent per annum.

In the last three years, the nominal rupee has depreciated 0.86 per cent per annum from ₹67.24 per dollar on July 27, 2016, to ₹68.99 on July 23, 2019. If India's flawed exchange rate policies continue, those who have deposited dollars are more likely to lose as the rupee may not depreciate to ₹76 to a dollar by 2022. These two RBI-dollar forwards carry an assured exchange rate for the return of the hard currency and are thus different from foreign portfolio investments. Foreign portfolio investors (FPIs) take the currency risk as they exit from their investments at prevailing exchange rates.

In the financial year 2018-19, FPI investors withdrew a net of $6 billion. By contrast, FPIs have brought in net investments of $5 billion in 2019-20 till July 25. About half the registered FPIs, those that are set up as trusts, may be hit by the central government's higher tax rate on the "super-rich" in the latest Budget. At the margin, FPIs may become net sellers. The rupee proceeds of their sales could end up with the RBI, if foreign institutional investors (FIIs) move the equivalent foreign exchange out of the country. Therefore, the Budget provision of higher taxes on some FPIs is inconsistent with the RBI accepting dollars to raise rupee liquidity.

According to an RBI bulletin dated July 14, 2019, the real effective exchange rate (REER) of the rupee, with 2004-05 as the base year for a basket of the six currencies, is overvalued by 24.6 per cent and against 36 currencies, the overvaluation is 18.5 per cent. In some quarters, this overvaluation is blithely explained away as a result of higher Indian productivity. Cross-country comparisons of productivity numbers are riddled with technical difficulties. The more probable explanation is that in recent years, net inflows of foreign exchange (FX) on the capital account have more than met shortfalls on the current account leading to accretion of FX reserves, and thus pushing up the rupee to ridiculously high levels.

If net FX outflows turn out to be relatively high in the next few years, the rupee could depreciate beyond ₹80 to a dollar by 2022. The causal reasons could, for example, include unmet expectations of FPI and FDI investors about the performance of the Indian economy, sharp rise in prices of imported oil and decrease in FX remittances. The RBI has to ask itself whether guaranteeing future rupee-dollar exchange rates on FX forward contracts is a reasonable way to use its risk-bearing capacity.

The RBI has expressed concern that banks have not stepped up lending although there is adequate rupee liquidity. Lenders need to feel assured about the solvency of potential borrowers. Lending decisions should be left to bank management unless we want a repeat of what happened between 2007 and 2012, when the government connived to raise public sector bank (PSB) lending, resulting in the current difficulties of the banking sector.

As of July 2019, several banks, including PSBs, are holding more government securities than required under the statutory liquidity ratio (SLR) requirement of 19 per cent of total deposits. If banks need rupee liquidity to meet their lending requirements, they could sell some of their excess holdings of government securities.

Of course, it is the RBI's call when to add to rupee liquidity. Usually, central banks buy government securities through open market operations (OMOs) to increase liquidity. If there was reluctance on the part of those who hold government securities to sell, the RBI could have found a way to buy securities issued by public sector undertakings and even highly rated private banks and corporates.

One of the alternatives for companies based in India to access borrowings from foreign creditors is through the external commercial borrowings (ECBs) window. If the RBI wants to raise credit off-take in rupees rather than in FX, it could have temporarily lengthened the minimum permissible maturity for ECB borrowings from three to five years. Making ECBs less easily available would have the benefit of peripherally reducing foreign currency inflows, which push up the value of the rupee.

To sum up, the RBI contracted dollar forwards to raise the availability of rupees and thus boost lending. It follows that the RBI is confident that inflation is well under control since it added ₹70,000 crore to rupee liquidity. Consequently, the RBI should be in a position to reduce benchmark interest rates by, say, 50 basis points at its next rate-setting meeting. That would be consistent with the stated reason for contracting dollar forwards.

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This is the first of a two-part series

From boss to coach

BOOK REVIEW

SANJAY KUMAR SINGH

A friend recently related a horror story from his workplace. At the start of the year, his team leader proposed setting up an objective performance evaluation system. This, he said, would make the year-end appraisal relatively transparent. Everyone agreed. The team decided how many points a member would earn for each task. My friend, an industrious chap, then set about notching up points with great zeal. By the time the appraisal came around, he had accumulated double the number of points as the next person and felt confident going in for the appraisal meeting. That was when his team leader dropped a bombshell. The points system they had decided upon, he claimed, was flawed and would have to be altered. My friend, who got barely an average rating under the new system, consoles himself by saying that he is poorer by a few thousand rupees but richer by an anecdote.

I am sure the reader would have many such horror stories of his own. The point is that there is much room for improvement in the way leaders manage their teams.

The book under review has been written by the chairman and the chief scientist at Gallup, a name synonymous with polls and surveys. On its web site, Gallup describes itself as an organisation that uses analytics to offer companies advice on how they can unlock the full potential of their employees.

One rather odd feature of the book is that many of the chapters are very short — of barely a couple of pages. If this puts you off — this reviewer's first reaction was definitely negative — overcome it and get down to reading the book as it has several powerful insights to offer.

The authors begin by saying that one of the most serious problems before the global economy is declining productivity at the workplace. One reason is that barely 15 per cent of employees all over the world, according to Gallup's estimates, are engaged at work, which means they derive a sense of mission and purpose from it. The authors then assert that one factor which accounts for 70 per cent of the variance in how engaged team members are is the quality of the team leader. Selecting and nurturing high-quality team leaders is a sure way for chief executives to augment the productivity of their organisations.

The influx of millennials and Generation Z into the workforce poses a new challenge. These are often youngsters from well-to-do families. A good paycheque alone does not satisfy them. They constantly ask themselves whether their job is also contributing to their personal growth.

One suggestion in the book managers would do well to adopt is nurturing a strengths-based culture. It means they should focus on their team members' strengths rather than their weaknesses. The underlying reason: While weaknesses can at best be reduced or limited, strengths can be developed infinitely. Team leaders can get more out of their members by offering them responsibilities that align (largely) with their strengths.

Managers also need to behave less like the boss and more like a coach. This means establishing clear expectations and accountability, and offering regular feedback — even on a weekly basis and not just during the year-end appraisal. Managers also need to have regular conversations with team members on how the latter can develop themselves. They could even recommend them for suitable training programmes.

People often become managers because they are good at their job and hence get promoted, or because the previous manager leaves and the position falls vacant. Only rarely do people get managerial positions because they have demonstrated a talent for leading. Those who step into such positions should not assume they will automatically be good at it. Instead, they need to approach the assignment with humility and constantly be on the lookout for resources that can help them improve. A book such as this one, based on the study of the best literature on the subject and on global surveys, can act as a guide.

A cynic may say that the advice in books such as these, while it may be suited to the West where there is a perpetual manpower crunch, is far removed from the realities of the Indian workplace, where workers, at least at lower rungs, are easy to substitute. A friend commented that his team leader, far from behaving as a coach, behaves like a feudal lord presiding over a minor fiefdom. He overpromises before his superiors, passes on all the load to his team members, and then hogs all the credit if a goal does get accomplished. It may be possible to condone such behaviour at present. But as competition intensifies, organisations will need to work harder at retaining their star employees. Managers who fail to create an atmosphere of camaraderie and a growth-oriented culture find themselves shown the door.

IT'S THE MANAGER
Jim Clifton & Jim Harter
Gallup Press
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