

Opinion

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Rational Expectations

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Tax department needs big overhaul

From ongoing GST-mess to raising direct tax demands that can't be collected, various CAG reports paint worrying picture

EVEN AS THE controversy over whether the taxman hounded Café Coffee Day founder VG Siddhartha to death—his suicide note spoke of the taxman's pressure—continues to simmer, a series of reports from the CAG point to the need for a big overhaul of the tax department; and though the CAG doesn't use the term tax-terror, there is enough in its report to suggest this remains an issue. First, since prime minister Narendra Modi came to power, there has been a 50% rise in disputed taxes, mostly due to high-pitched assessments by the taxman. Tax disputes, for direct taxes, rose from ₹410,523 crore in FY14 to ₹623,539 crore in FY18; and this is after the government is supposed to have come up with a series of measures to reduce such litigation.

According to the CAG, while there were 3 lakh pending cases at the CIT (Appeals) in FY18, ₹5.2 lakh crore was locked up in them; it was ₹4.4 lakh crore in 0.8 lakh cases at higher levels. While the CAG's data on arrears is quite different from those in the budget, what is important is that the taxman has told the CAG that 98.2% of these are "difficult to recover", making you wonder why the disputes are being raised then. While the budget says the amounts under dispute were ₹7.8 lakh crore in FY18, the CAG report cites a somewhat similar number—₹7.4 lakh crore—as "arrears of earlier year's demand" and then adds another ₹3.8 lakh crore as "arrears of current year's demand", taking the total arrears to ₹11.1 lakh crore in FY18 and, of this, ₹10.9 lakh crore is said to be "difficult to recover".

While the latest CAG report on direct taxes doesn't have data on how many cases the taxman loses after making large tax demands, an earlier indirect-tax report said the success ratio of the tax department's appeal against adjudication orders fell from 33% in FY14 to 27% in FY16; it fell from 34% to 18% in the high courts and from 19% to 11% in the Supreme Court.

The CAG details where the taxman got it wrong in several cases; in agricultural income exemptions, for instance, the CAG found that in 22.5% of the cases, exemptions were allowed without adequate documentation and verification of supporting documents. But more than this, the report shows just how badly the system is broke. The fact that direct tax refunds equaled to around 15% of total collections in FY18 suggests the taxman is forcing corporates to pay higher taxes to meet targets, and refunding it later. An earlier CAG report had documented an "illusory demand" of ₹10,109 crore on SBI on March 30; this was duly paid and then refunded on April 2. Similar demands were made even the year before this, on SBI as well as other banks; such tricks, the CAG recorded, resulted in "inflated collection of revenue of ₹14,185.74 crore" in FY16 or around 10% of the Mumbai region's corporate tax collections for the year.

And while the taxman does several search and seizures, it detected just ₹25,547 crore from 13,487 such operations in FY18; considering ₹10 lakh crore of direct taxes were collected that year, banning such seizures/searches should be considered. It would vastly improve the taxman's image while not affecting collections as much. And while it is a good thing that 83% of direct taxes collected in FY18 were based on TDS and self-declarations by assesses—another 9% was collected by way of surcharges and cesses—the fact that assessment of returns added just 8% to collections also suggests the taxman's ability to catch tax theft is poor.

The picture gets worse in GST where, in FY19, the centre's share of collections fell short of the target by a whopping 22%; ₹5.8 lakh crore were collected vs the ₹7.4 lakh crore target. And, in FY18, total indirect tax collections grew just 5.8% vs 21% in FY17 or the pre-GST year. Given very little of the original GST plan has been implemented so far, the CAG says GST "has remained a system still in the making even after nearly two years of roll out with the entire return mechanism undergoing major changes". Apart from huge problems in implementation from the vendor's side, the CAG points out that while the GST Council was told the tax could be rolled out from July 1, 2017, the final rules and forms were notified on 19 June, leaving little time for software development and testing of the system.

In July 2018, the CAG points out, or one year after the introduction of GSTR-3B—GSTRs 2 and 3 were put on hold—the GST Council announced that a new simplified return mechanism would be implemented from 1 January, 2019. "The new return mechanism is yet to be finally rolled out (June 2019), which is two years after introduction of GSTR-3B as a temporary measure." As a result of various ad hoc changes, like delinking of the filing of GSTR-1—detailed invoices of items sold by firms—and the payment of GST dues, just 65% of the required returns were filed in December 18. Apart from this being a poor record, given that GSTR-1 data is used to auto-populate GSTR-3B, this means taxes paid based on this will also be incorrect; and input tax credits will be delayed since a third of GSTR-1s have not been filed. In other words, major defects in GST still need to be ironed out, apart from the problems arising from there being too many rates. All told, the CAG reports on both direct and indirect taxes point to the need for a major overhaul of how the tax department functions.

Shahbano 2 SHAYARABANO

Abolishing Triple Talaq a big victory for Muslim women, critical to ensure the practice doesn't flourish illegally

IF THE RAJIV Gandhi government reversing the Shahbano judgment was a big setback for Muslim women, the Supreme Court ruling against triple talaq—one of the petitioners was a Muslim woman Shayarabano—was a big boost. And while the Opposition ganged up against the legislation in the Rajya Sabha, the government has to be congratulated for splitting their ranks and finally getting it through. While several leaders of Opposition parties opposed the Bill in an attempt to buy favour with the Muslim clergy, what they didn't seem to have kept in mind is that 21 Islamic nations, including neighbouring Pakistan and Bangladesh have outlawed triple talaq. Sadly, neither the courts nor the government sought to address the issue of other forms of divorce—*talaq-e-ahsan* and *talaq-e-hasan* that rob Muslim women of the same rights women from other religions get.

While the law on triple talaq was still a victory, there is a big difference in legislating something and actually affecting change on the ground. There is little doubt the clergy and orthodox members of society—the All India Muslim Personal Law Board had said the judgment was an interference in Muslim Personal Law—will try and ensure that at least the poorer Muslim women continue to accept the practice; it is only when there is a complaint about a Muslim man giving his wife a triple talaq that some action can be taken against him by the police, but poorer women will, traditionally, have less access to the police or other such avenues to complain about triple talaq. In which case, for the new law to be truly meaningful, NGOs and other social welfare groups will have to educate Muslim women about their rights under it and be prepared to provide legal and whatever financial support is required to help them get justice when their husbands try to use the triple talaq route.

SOONER INDIA ENGAGES IN FOREIGN CURRENCY BORROWING, THE QUICKER IT CAN PROFIT FROM THIS MARKET IMPERFECTION, SHOWS CROSS-COUNTRY EVIDENCE FOR THE LAST TWENTY YEARS

NO PROOF REQUIRED

Borrow abroad and profit

SURJIT S BHALLA

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Views are personal



BUDGET SPEECH 2019 contained a new policy statement—GOI was planning to issue 10-year bonds denominated in foreign currency. This proposal has generated a controversy unlike most others. Every budget has good, bad, and ugly components. And critics are free to choose and comment on what they like, or hate. There are very few, if any, analysts who believe that the Budget 2019 income-tax proposals have any merit to them. Likewise, there are very few experts who believe that issuance of foreign currency bonds is a good idea. Indeed, the list of eminent experts who think it is an ugly idea is near endless.

Former RBI governor and distinguished economist Raghuram Rajan states as following (*Times of India*, July 2019): "Foreign bankers often meet finance ministry officials, trying to persuade India to issue a foreign bond. In my experience, they usually started by saying that such borrowing would be cheaper because dollar or yen interest rates are lower than rupee interest rates. This argument is bogus—usually the lower dollar interest rate is offset in the longer run by higher principal repayments as the rupee depreciates against the dollar." He has been joined by my ex-PMEAC colleague and good friend Rathin Roy who went a step further and stated: "Show me one country after world war which has done a foreign currency sovereign bond and not paid dearly for it." Further, "I would pay very careful attention to what several governors of the Reserve Bank are saying, that these are sovereign liabilities in perpetuity. I think there are serious issues regarding loss of sovereignty, which need to be addressed. I do not think that the argument that it is cheaper is a good one, I think it doesn't even hold if you add hedging costs and I don't buy the simple argument that if something is cheaper, it is good." (*Business Standard*, July 23, 2019). In addition, the Swadeshi Jagran Manch (SJM) is on record as stating that issuance of foreign denominated bonds is anti-patriotic, that it would lead to a loss of sovereignty, and would lead to currency depreciation. To my knowledge, this is the first time esteemed economists and SJM are on the same side of an economic argument—can both be right, or are both wrong?

The above is just a brief taste of the comments and condemnation the foreign bond issue has received. The only eminent person (known for his balanced views) to publicly favour a sovereign for-

eign bond (SFB) is former RBI governor Bimal Jalan who stated "At the moment, we are in a fortunate position. Our debt-to-GDP ratio is not very high, exchange rate is stable, and foreign exchange reserves are high. So foreign borrowing, if its long term, which it would be, is not a problem." Former RBI governor YV Reddy had a more nuanced comment, stating that if foreign bond issuance was accompanied by a move towards greater capital account convertibility, then it may be worth pursuing.

The key issue in this debate, as nearly always, is empirical, and has to do with currency depreciation. Show me the money (evidence) and win the argument. Simple accounting math about foreign borrowings is as follows. All examples are with respect to dollar borrowings, but the same set of arguments apply to borrowing in the other three currencies—yen, euro, and the British pound. A country pays a country premium for borrowing in dollars; currently the US 10-year bond is trading at 2% and Indonesia just borrowed in June 2019 at around 3.6%; at the time it borrowed, it paid close to a 1.5% premium. A complex set of factors determine the country premium, but magnitude of reserves and foreign currency debt are important attributes. About 40% of Indonesia's debt is denominated in foreign currency; in India it is less than 5%. India should be able to borrow at a somewhat lower premium than 150 bp, possibly 130 bp.

India can borrow abroad in dollars at 3.3% or borrow foreign money in rupees (a *masala* bond) at a 3% higher premium, or 6.3% (the current government

10-year bond is trading at 6.35%). The difference between 3.3% and 6.3% is the depreciation premium that emerging countries pay.

This is what the market "demands" and it is unlikely that this premium has shifted too much for emerging markets over the last 20 years. Over a 10 year period, the 3% annual depreciation assumption means an economy pays 35% more with a *masala* bond than with an FCB. If the cumulative depreciation at the end of 10 years is more than 35%, the borrowing country loses; if less, than the borrowing country gains. The entire argument against foreign bonds (except the patriotic one) is whether this depreciation has been (and is expected to be) more than 35% over a 10 year period.

Data on 10 year currency depreciations are reported for several countries for the period 2009 to 2019. This assumes that each country started borrowing in 1999, one year after the East Asian crisis. Respected scholars (and respected policy makers) hark back to the Asian crisis for clues about what will happen to India's exchange rates over the next decade. Do these esteemed scholars recognise (let alone appreciate) that the rupee/dollar exchange rate was ₹42 in 1998 (Asian crisis) and ₹40 ten years later in 2007? This, despite Indian inflation rates averaging 3% higher, per year, than the USA during this period.

In the sample of countries chosen, I have included three countries from Latin America (Chile, Brazil, and Mexico) to satisfy the critics assumption that if India were to borrow \$10 billion, or even \$30 billion, or even \$50 billion, we would face

Average 10 year depreciation between 2009 and 2019

Country	Dollar	Yen	Euro	Pound	Average
India	26	37	33	13	27
Indonesia	23	34	30	10	24
Thailand	-17	-5	-10	-30	-16
Brazil	12	24	19	-1	14
Chile	0.3	12	7	-13	2
Mexico	36	47	43	23	37
South Africa	35	46	41	21	36
Emerging economies	31	42	37	18	32
Advanced economies	-6	5	0	-20	-5

Note: Only non-oil and economies with population > 10 million included
Source: IMF WEO data

USA's China tariffs will hurt consumers

American households haven't yet felt the impact of the US-China tensions. Following Trump's promise to add a 10% levy on the remaining goods trade between the two countries, that is about to change

DAVID FICKLING

Bloomberg

AMERICANS READING GLOOMY headlines about the trade war with China could be forgiven for wondering what all the fuss is about. *Bloomberg's* consumer comfort index, a weekly phone survey conducted since 1985, is running at its highest levels since 2000. Similar gauges of the household sector, such as the University of Michigan's consumer sentiment index and the Conference Board's various consumer confidence surveys, are posting the best results since the eve of the early 2000s recession.

That's a stark contrast to what's happening in industry. The ISM Manufacturing Index eased to its lowest level since President Donald Trump's election, and the Markit Manufacturing PMI is flirting with outright contraction with its weakest reading since September 2009 in July. Measures of industrial production are barely growing and the Conference Board's leading index in June fell at the fastest pace since early 2016.

One explanation for what's happening is that households haven't yet felt the impact of US-China tensions. Trade Representative Robert Lighthizer has been careful to spare them by exempting most retail products from the 25% tariffs he's imposed on \$250 billion of goods so far. With Trump's promise Thursday to add a 10% levy on the remaining goods trade between the two countries from September 1, that is about to change.

There's a range of popular consumer

products for which America is still deeply dependent on Chinese imports. As my colleague Shira Ovide notes, Apple Inc could be one of the biggest victims: Telephones (mostly mobile handsets like the iPhone) and computers are the two biggest categories of US imports from China.

Other goods where China accounts for more than half of the US imports include toys and games; computer accessories; shoes; televisions; drapery and linen; and leather goods and luggage. That large share of the total is important, because one of the best ways of minimising the risk of higher prices for consumers is for imports to diversify to other countries such as Mexico and Vietnam. When China makes up more than 50% of the import market, rejiggering supply chains becomes extraordinarily challenging.

Federal Reserve Chairman Jerome Powell could take some of the edge off the pain by further cutting interest rates, after lowering them this week for the first time in a decade. Three-month overnight interest swaps are trading at 2.05%, indicating that traders expect a further quarter-point cut before Thanksgiving.

Still, it would be a mistake to think the impact of such a move would be straightforward. Powell's initial shift away from raising rates helped spark a fall in the Chinese yuan against the dollar of about 3.9% between mid-April and mid-May

as currency traders bet on a relative strengthening of the US economy. The renminbi is now just a fraction above its weakest levels in a decade. But that's still not enough to offset a 10% tariff, and most of the effects of exchange-rate movements aren't passed through to consumer goods anyway.

After the trade-related shocks of the past year, the ebullient state of the American consumer is potent testimony to the resilience of the US economy. But even that has limits. A one-tenth hike in the price of regularly purchased items like clothing, toys and consumer electronics risks exhausting households' patience, especially as the decade-long fall in unemployment rates starts to bottom out.

There's likely to be feedback effects, too. To the extent that industrial conditions are still mildly positive at the moment, that probably owes a great deal to the fact that consumers are in an extremely good mood. By threatening to bring the trade turmoil to US households, Trump risks upsetting that delicate balance.

Equity markets are still in a bullish state, but beneath the surface the American economy has been disappointing expectations for the past six months. Further imposts on the consumer aren't going to help it turn that corner.

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ON BUSINESS FAILURES

Finance Minister of India, Nirmala Sitharaman



Business failures in this country should not be tabooed, or looked down. On the contrary, we should give an honourable exit or resolution to the problem in letter and spirit of the IBC

a Latin American crisis. Serious economists have invoked this "threat" in their arguments, so it is prudent to account for it. Note that the period chosen is a fairly long period (20 years) and involves close to 90 countries.

What do the results show? Unambiguously, that it pays for a country to borrow abroad!

Let us take the case of India first. Against the US dollar, the average 10 year depreciation since 2009 for India (or average annual depreciation since 1999) is 26%. Which means that India would have made a profit of close to 10% for each 10-year bond that it floated. Recall what Rajan said about this possibility. He called it bogus. The two worst-performers are Mexico and South Africa, and even these two economies break even! Even an average emerging economy makes a profit of 5 bp on every FCB bond it has floated over the last 20 years. This puts into question Rathin Roy's conclusion that every country has paid dearly for FCBs; empirically, the result is the opposite—since the East Asian crisis, most countries have profited handsomely. I don't know the veracity of his conclusion post WWII; maybe the few who borrowed abroad (particularly in Latin America) paid dearly between 1945 and 1998. But, for each Latin American disaster, there is an Asian success story. So which continent does Roy (and others) believe India is comparable to?

Indian inflation has moved structurally downward over the last three years and, thankfully, the post Patel-Acharya MPC realises this fact. However, in the six months prior to Das's first rate cut in early February 2019, inflation had averaged 3.7% and the real repo rate had averaged 2.8% (defined the RBI/MPC way of current repo rate minus two month earlier inflation). In the six months since (February 2019 to July 2019), two-month lagged inflation has averaged 1.10 bp lower at 2.6% i.e., despite 75 bp of repo rate cuts, the average real repo rate has moved higher to an average of 3.4%, an increase of 60 bp.

All the empirical evidence (past and expected future) suggests that the MoF idea of floating FCB's is a terribly good idea, an idea whose time has definitely come. It will also help to significantly lower the real repo rate to respectable levels. No country, has grown at "trend" rates with a real repo rate around 3.4%, not even 2.4% and not even 2%. So please, MoF, borrow abroad; and please, RBI/MPC, smell the real rate before deciding on monetary policy.

LETTERS TO THE EDITOR

Sengar's expulsion

After a tight slap from the Supreme Court (SC) BJP President—cum Home Minister Amit Shah told the party UP unit to go ahead the expulsion Uttar Pradesh BJP a four-time lawmaker Kuldeep Singh Sengar, who is accused of raping a woman in Unnao. Who knows Amit Shah's nine years back memory may spark, (when he was an accused in the Sohrauddin Sheikh encounter case, and the SC directs Mr. Shah: Stay out of Gujarat), prompt him to take action. Because the way a SC bench headed by Chief Justice Ranjan Gogoi (comprising Justices Deepak Gupta and Aniruddha Bose) made it clear that it will transfer all five cases related to the rape case involving Kuldeep Singh out of Unnao to Delhi, and orders CBI to complete probe in a week. It also ordered that the trials in all five cases should be completed in 45 days thereafter on day to day basis. The only pillar of democracy and the *aam admi's* last hope SC's stiffness; surely get justice to the victim and her family. One has to agree that Amit Shah even the PM Narendra Modi remain lenient from rape to murderous accident in the name of legal action—a ploy that BJP played well in many other cases. But damage already done, due to delayed action. Kudos To SC for its prompt action after the '*Jan lewa hamla*' (murderous attack) and give exemplary punishment to show that the lawmakers are not above the law
— Bidyut K Chatterjee, Faridabad

Write to us at feletters@expressindia.com

North Korea walks diplomatic tightrope

North Korea is seemingly being wooed by two great powers, but in reality is caught in the middle. Between a social-media savvy President Trump manoeuvring his presidential re-election campaign 2020, and the expiry of the North Korea-China Treaty of Friendship, Cooperation and Mutual Assistance (1961) in 2021, a lot can happen

ANURAG VISWANATH

The author is a Singapore-based Sinologist, and adjunct fellow at the Institute of Chinese Studies, Delhi. Views are personal



NOT THE very eventful days of 2019, then the summer of 2019 was a spate of dramatic developments. Elections in India (South Asia) and Hong Kong's turmoil aside (East Asia), Northeast Asia witnessed several critical developments, including North Korea's recent second weapons test in a week, testing short-range missiles from its eastern shores, around Wonsan, into the Sea of Japan. This also included the much-talked about flying visit to North Korea by US President Donald Trump and Chinese President Xi Jinping. North Korea is seemingly being wooed by two great powers, but in reality is caught in the middle, between the two. As the last frontier of the Cold War, the US and China portend different scenarios for North Korea's 25 million people—a toss between economic assurance and security from China, or economic benefit and security umbrella from the US. Either way, North Korea sits precariously—stuck between an unfortunate past and an uncertain future.

One of the key developments in Northeast Asia was the brief but symbolic and significant visit by the US President to North Korea in June. President Trump made history as the first sitting US President to cross the demarcation line into North Korea—an obvious outcome and success of back-room diplomacy, but unconventionally articulated through President Trump's tweet: "...if Chairman Kim of North Korea sees this, I would meet him at the Border/DMZ just to shake his hand and say Hello(!)!"

This materialised as the third meet between the leaders since Singapore (June 2018) and Hanoi (February 2019). The visit "...a great day for the world," as President Trump said, marked a break with the old US approach of 'maximum pressure'. It is apparent that President Trump has made (nuclear) diplomacy with North Korea his pet "signature foreign policy project."

But no less significant was President Xi Jinping's visit to North Korea days earlier, where he was greeted by cherubic children singing a song laden that meant: 'I love you, China'. President Xi became the first Chinese President in 14 years (Hu Jintao visited in 2005) to visit North Korea. This was the fifth meet between the leaders since March 2018.

On one hand, Chairman Kim Jong-un spoke of China-North Korea bilateral relations going strength to strength against the backdrop of 'serious' and 'complicated' international affairs—a backhanded reference to the ongoing US-China trade war. Chairman Kim called friendship with China 'invincible' and 'unchanging'. On the other hand, Kim lauded the 'excellent relationship' with the US, articulating the need to "eliminate the unfortunate past and open a new future." Even the reticent North Korea Agency (KCNA), the Korean Central News Agency (KCNA), called President Trump's visit "an amazing event."

To the observers, perhaps in the US, North Korea continues to confound. In reality, television bytes of diplomatic overtures aside, North Korea continues to languish under 'maximum pressure'—



ILLUSTRATION: ROHNIT PHORE

the weight of international sanctions, economic contraction, falling harvest and food shortages. Yet there has been little let-up in North Korea's military ambitions because of its own hybrid political Darwinism, where it must nurture military ambitions (nuclear deterrence) to survive between the great powers and in Northeast Asia—what observers call "siege mentality."

The Bank of Korea (Seoul) indicates that the North Korean economy shrank 4.1% in 2018, the worst since 1997. This was the second consecutive year of

decline, following a 3.5% decline in 2017. International trade fell to an all-time low in 30 years, falling 48.4% in value in 2018. The Food and Agriculture Organisation (FAO) has estimated food crop production at 4.9 million metric tonnes (2018-19), the worst in 10 years, with a deficit of 1.36 million metric tonnes. An estimated 10 million people are expected to face food shortages. The International Federation of Red Cross (IFRC) has already warned of the rising incidence of malnutrition.

While North Korea did not reap

immediate economic dividends from President Trump's visit, President Xi's visit has led to China's renewed support for the stalled Hwanggumnyong Special Economic Zone (SEZ) and investment for road/bridge connection into North Korea for speedy completion of the North Korea River Bridge that connects China (Dandong) and North Korea (Sinuiju) over the Yalu river. Going forward, China's gradual transition from socialism to "socialism with Chinese characteristics" beginning with SEZs may be a viable role model for North Korea.

But even China, North Korea's sole economic lifeline, finds it hard to predict the latter's flip-flops. President Xi's visit, it was believed, not only honed the importance of a political settlement, but also sought to secure denuclearisation commitments. That China wants to play the critical arbiter in the peninsula goes unsaid. But President Trump's direct 'one-on-one' channel with Chairman Kim marginalises China in the endgame.

Just weeks after the landmark visits concluded, North Korea tested the short-range missiles and reports emerged that it has built a new submarine. The US has downplayed this, responding that they did not posit a threat to the US or its allies, and that they fell into the sea.

What is obscured is that the continued militarisation of the peninsula is North Korea's nightmare, as it is for other stakeholders. Seen from a North Korean perspective, the immediate provocation is the slated joint military exercise between the US and South Korea, which North Korea has called as much as a "rehearsal of war." North Korea views this development as retracting and renegeing on the commitment given by President Trump in Singapore to stop military exercises with South Korea—which is also in the process of acquiring F-35s from the US, to bring the tally up of F-35s to 40 by 2021.

Despite these historic visits, on ground real progress is lackadaisical. US-North Korea are scheduled to have working-level talks. For the US, there is little doubt that President Trump has elevated diplomacy in North Korea—the thaw in North Korea very likely one of his biggest political triumphs. Tellingly, President Trump has said that he is "not looking for speed (but) looking to get it right." For President Xi, too, the trip is pregnant with promise.

Where does North Korea go, standing between two competing visions of economic rise? Between a social-media savvy President Trump manoeuvring his presidential re-election campaign 2020, and the expiry of the North Korea-China Treaty of Friendship, Cooperation and Mutual Assistance (1961) in 2021, a lot can happen.

For North Korea, stakes are high as President Trump has opened a window of opportunity, a political risk that no other US President has done or will ever take. North Korea will have to find a way to 'keep face' with minimum deterrence (so as not to become Libya) and have US successfully claim (almost) denuclearisation, so that sanctions are lifted and even better, Japan opens its cash tabs.

DATA DRIVE

Bank credit, consumption blues continue

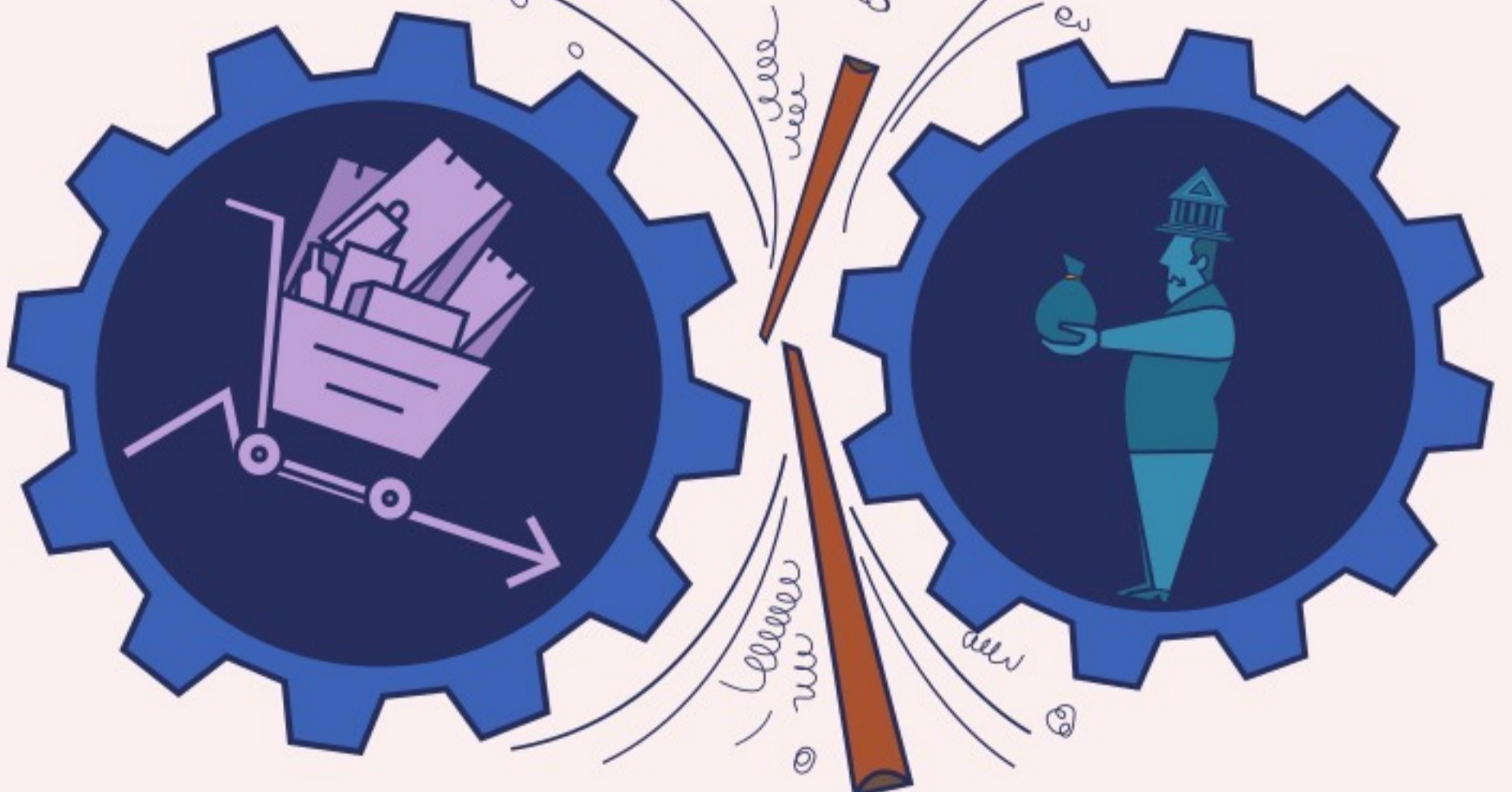
WHILE BANK CREDIT was rising at the beginning of the year, it has begun to slow down since March because of demand and supply issues. Credit from non-banking financial companies (NBFCs) has also slowed down since September last year, especially after the default of IL&FS.

A report by HSBC says the 'money multiplier', i.e. the ratio between broad money and reserve money that the central bank creates, after rising sharply for a few months at the start of the year, has slowed down since April. In FY18, the main concern was the slowing deposit growth that was hurting the banking sector. However, that is no longer a problem as deposit growth has risen.

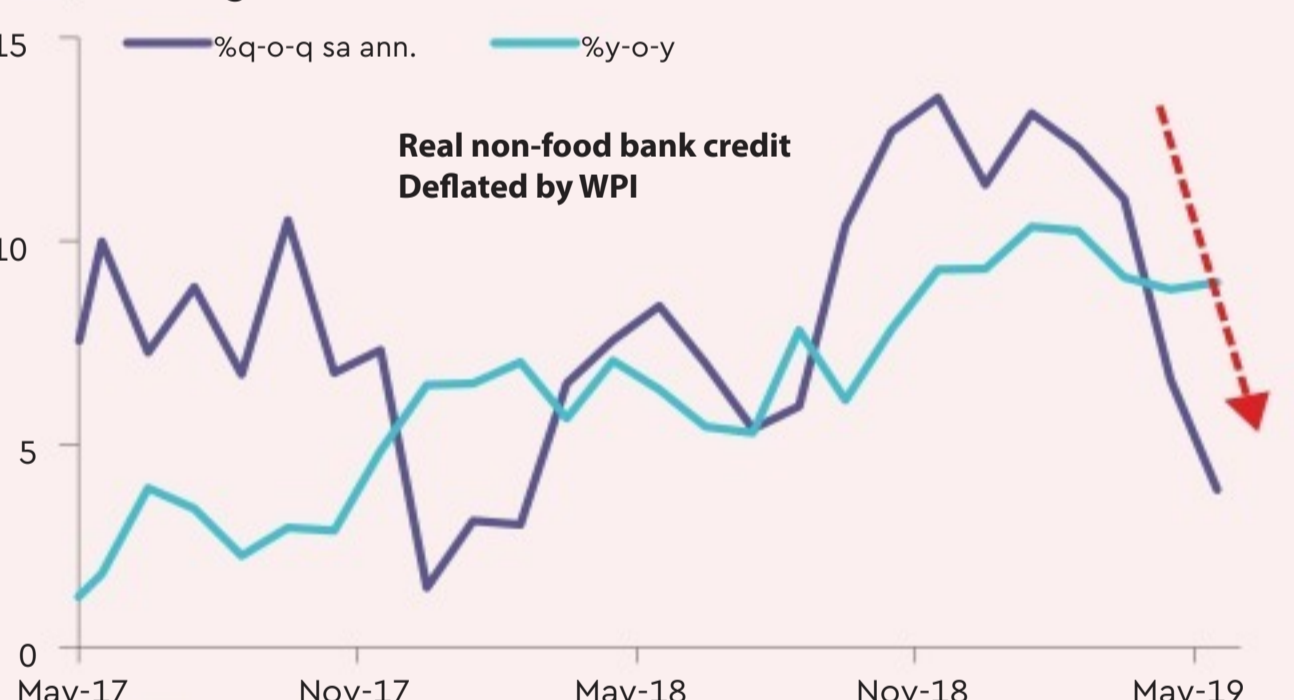
The report points out that the fallout in the NBFC sector at end of 2018 led to a fall in consumer credit, and further weakness in urban employment seems to be a double whammy for urban consumption. Labour market conditions have been soft for the past three years in urban areas.

In rural areas, both agriculture and non-agriculture wages have been

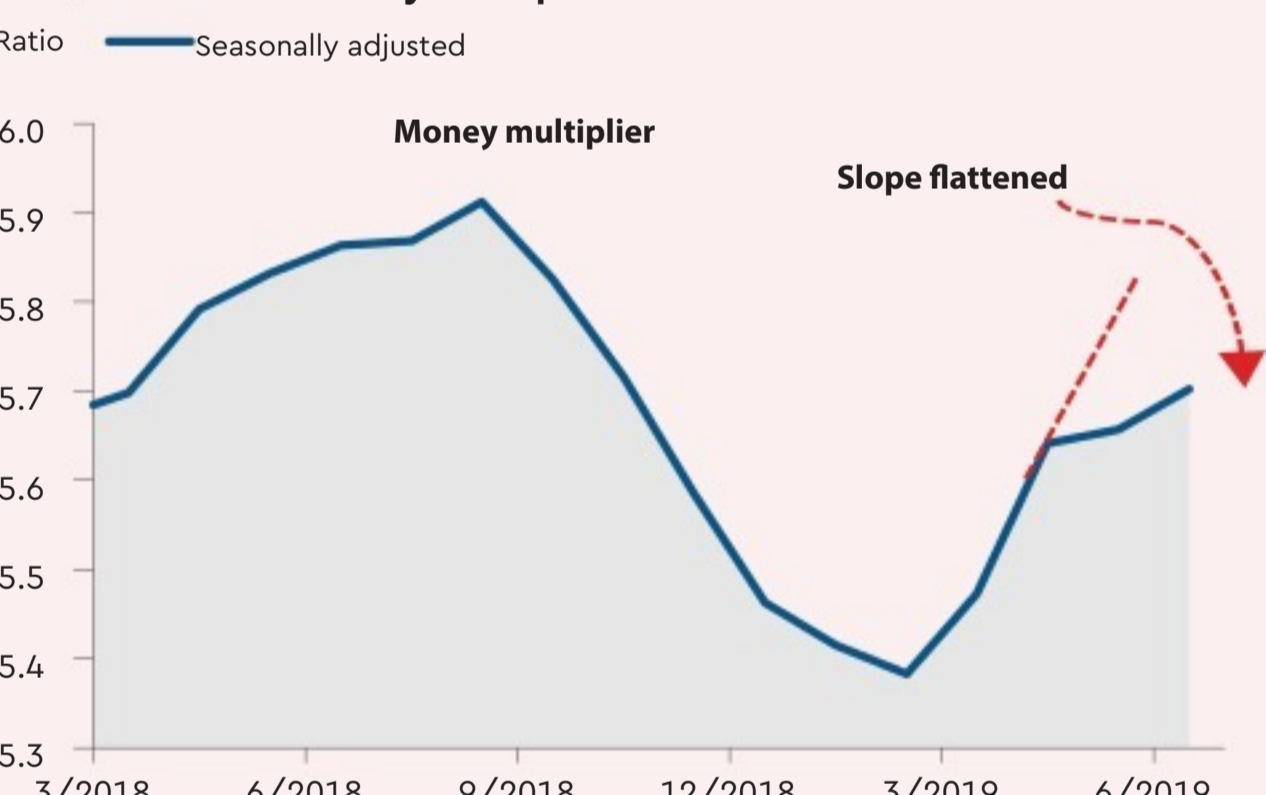
falling, and unemployment is on the rise. Poor monsoon rains will further put pressure on rural growth. However, inflation is well under the 4% target and is likely to remain so over foreseeable future.



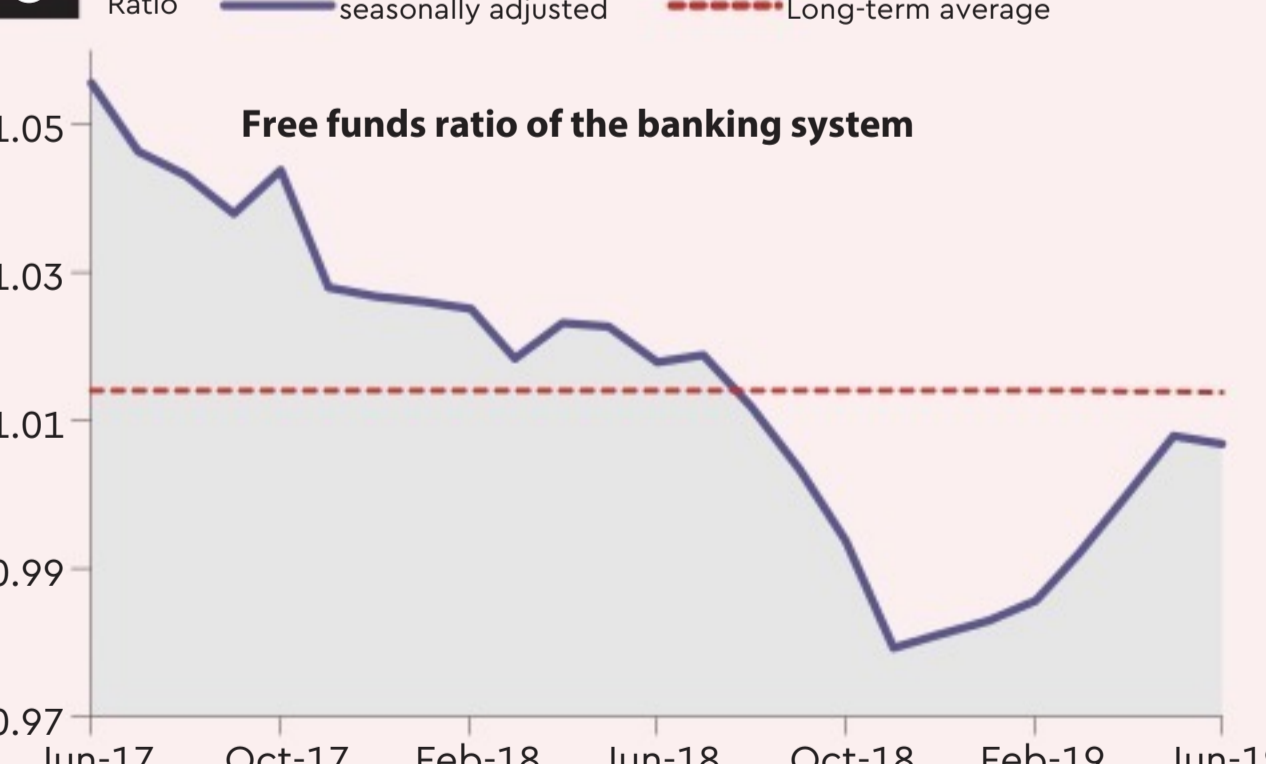
2 Bank credit has begun to slow again over the last several weeks...



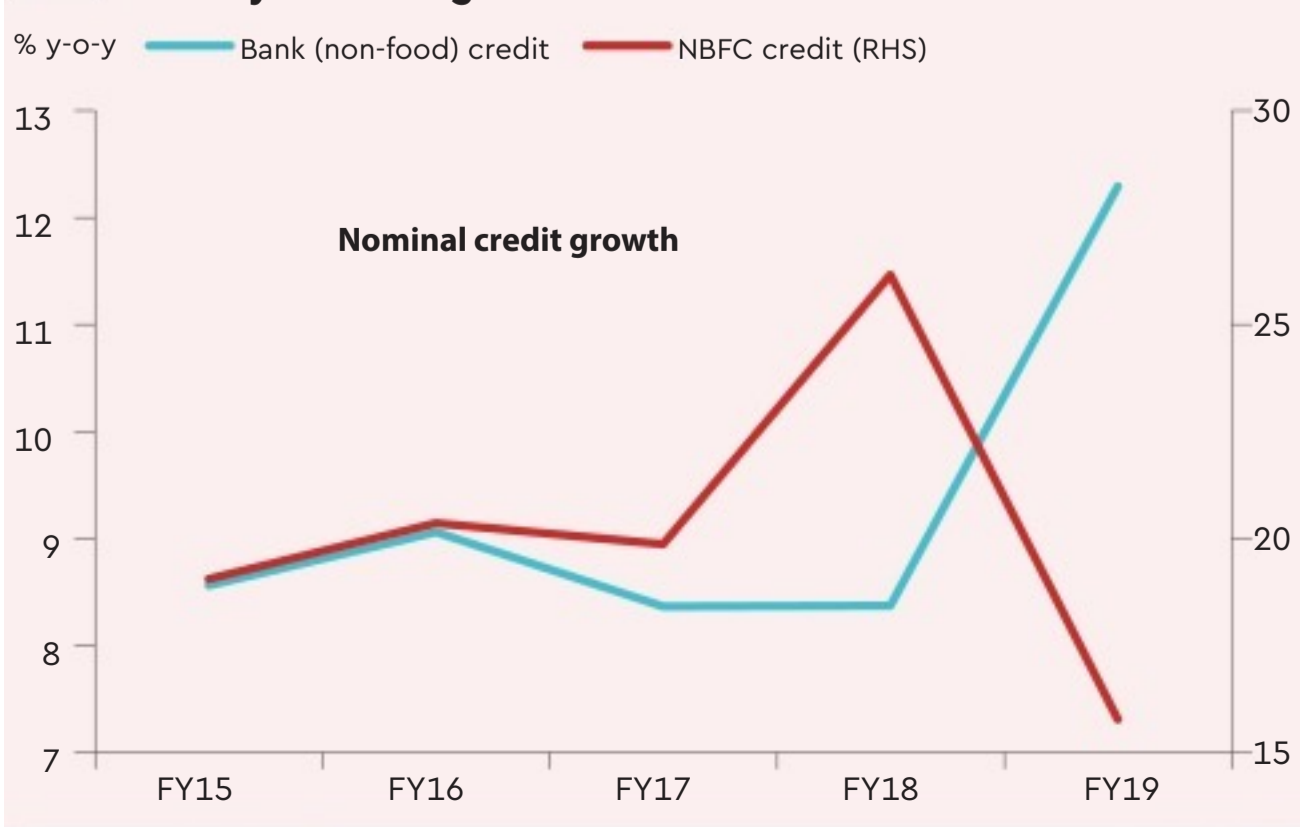
4 After rising for a few months, the rise in the money multiplier has softened



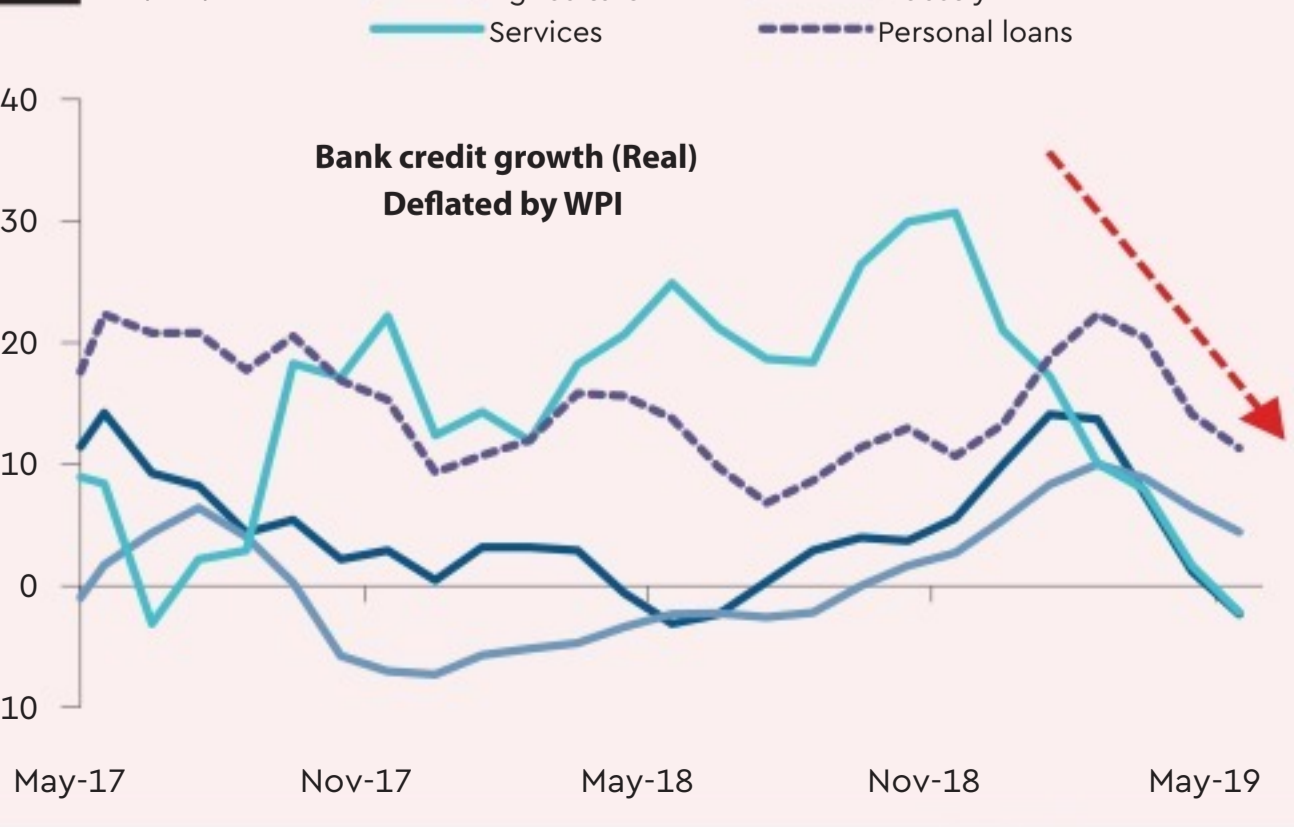
5 Free funds available at banks have ticked up...



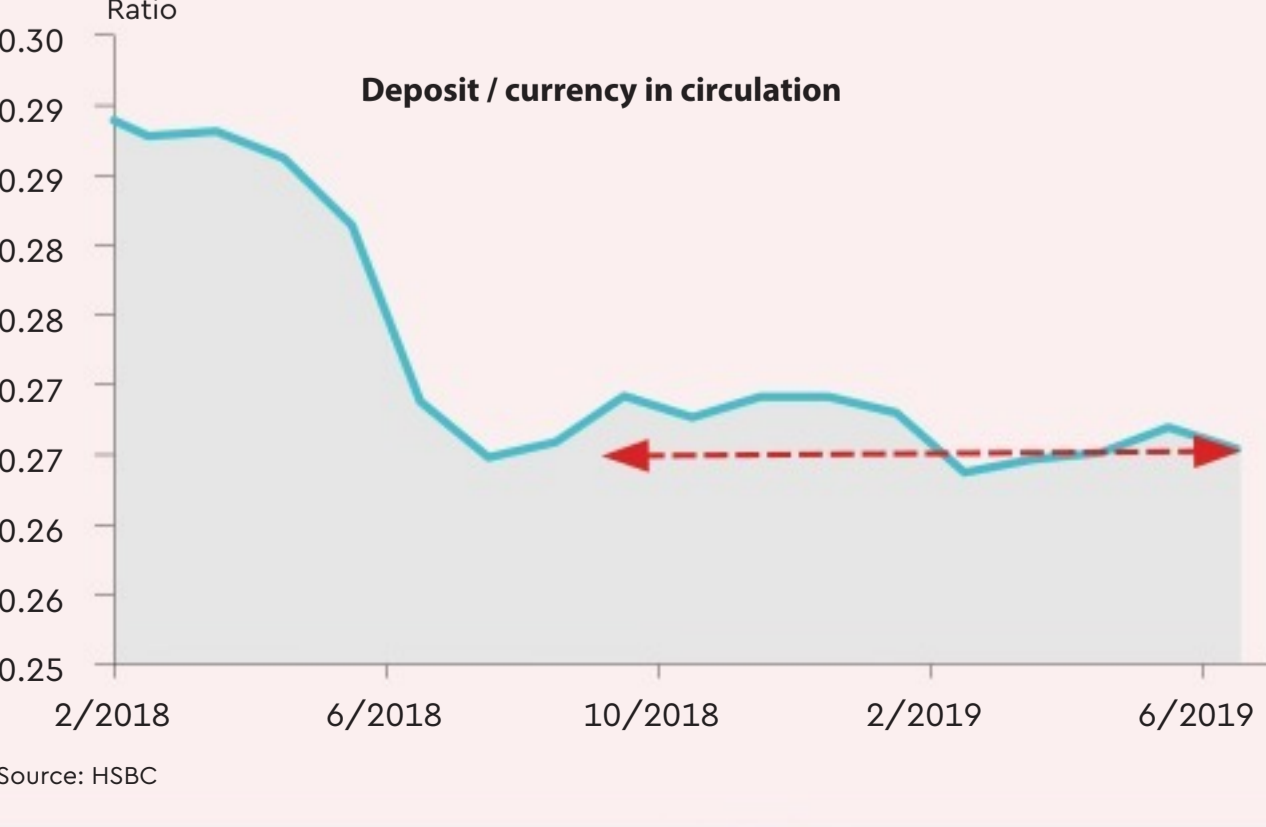
1 NBFC credit has slowed, but bank credit picked up in the year ending March 2019



3 ...and the slowdown is across sectors



6 ...and the deposit-to-currency ratio within M3 has stopped falling



Source: HSBC

