Opinion

WEDNESDAY, AUGUST 7, 2019

UNITED INDIA

Congress leader, Rahul Gandhi

National integration isn't furthered by unilaterally tearing apart J&K, imprisoning elected representatives and violating our Constitution. The nation is made by its people, not plots of land

Borrowing costs will fall for just top-quality firms

Even if there is more transmission, with the fear of NPAs rising, banks will raise risk premium for weak borrowers

GIVEN HOW INFLATION is expected to stay benign and growth is sputtering, there is a strong probability Reserve Bank of India (RBI) will trim the repo rate by 25 basis points later this week, taking it to 5.5%. That would be the lowest levels since April 2010. The RBI has already cut the repo thrice in 2019, by 25 basis points each time. Despite the chunky 75 bps cut, however, there has been little transmission into lower loan rates. Weighted average lending rates have been broadly flat over the past nine months, though some banks have lowered rates by 5-15 bps between March-May. Most private sector banks left lending rates intact—indicating pricing power—while public sector banks have lowered rates. In general, deposit rates remain sticky; some lenders have lowered rates between 10 and 25 basis points. To be sure, monetary policy works with a lag, but at this point, it is hard to see much transmission. For one, unless they are able to lower term deposit rates meaningfully, banks would be wary of lowering loan rates and exposing themselves to a margin contraction. Also, at a time when the economic environment isn't exactly robust, there is a dearth of quality borrowers. Banks are, therefore, understandably becoming choosy about who they lend to. Consequently, while the MCLR may fall, the end rate to the customer may not as the risk premiums are being raised.

Economists believe that if the central bank reassures lenders that liquidity will remain in a surplus—as it is now—for a sustained period, banks would be more open to lowering lending rates. Given how the NPA cycle doesn't seem to be coming to an end—the June quarter has seen high slippages, and there could be more in the offing—it is doubtful that banks will want to drop rates for weaker companies, if at all they lend to them. It is unfortunate, but given the spate of downgrades for some time at least, only top-quality borrowers are likely to benefit from lower rates; the broader swathe of businesses with ratings below a certain level, will need to fork out a higher risk premium.

One cannot blame the banks because the environment is a very difficult one. The government should refrain from asking banks to lend to customers who are not creditworthy because it could end up in bigger credit costs and weaken lenders' balance sheets. Recently, it came to light that a large lender had tightened lending norms for automobile dealers; the bank was absolutely justified in doing so since auto sales are weak and dealers could well default. The government should not ask for these rules to be eased because that could backfire badly. Ultimately, banks must be free to use their discretion. The short point is that, in a fragile economic environment, expecting lenders to lower loan rates is somewhat unreasonable. SBI Chairman Rajnish Kumar said on Monday that there was ample liquidity in the banking system, but it was the demand that was subdued. So, if banks want to compete, they would be willing to lower rates. In sum, while a repo cut will lower the cost of wholesale borrowings, it is the economic environment and the creditworthiness of borrowers that will determine how much and how quickly lending rates come down.

Eminently odd policy

Existing varsities don't qualify, yet-to-be-set-up ones do

IF KREA UNIVERSITY, Azim Premji University, Ashoka University, apart from the Indian Institute for Human Settlements and the Indian Institute of Public Health—all promising private universities—not making it to the University Grants Commission (UGC) list of Institutes of Eminence recommended to the government seems odd, its justification for rejecting these seems outright batty. The UGC says that since none of these institutes—and a handful of public universities—feature in global and Indian quality rankings, they weren't included. However, institutes that are yet to even commence academic activity—the Reliance Foundation-backed Jio Inistitute and Airtel-backed Satya Bharti Foundation's proposed institute—have been recommended as Institutes of Eminence. It goes without saying that UGC's fig-leaf of quality-rankings somehow don't apply in the case of these two. When the expert panel headed by former chief election commissioner, N Gopalaswami, had recommended 11 institutions for the tag in July 2018 and 19 more in December, it considered institutes that were already ranking well and those that had the potential to be top-notch, globally competitive institutes. Yet, UGC chose to see things very differently. It went with the rankings yardstick—to be considered, the university/institute had to feature in the Quacquarelli Symonds (QS) 2020 world university rankings, with QS 2019 India ranking and the HRD ministry's National Institute Ranking Framework ranking serving as a tiebreaker. That itself isn't free of controversies given Banaras Hindu University (BHU), Aligarh Muslim University and Savitribai Phule Pune University all feature in the 801-1,000 band of the QS world rankings, but BHU alone entered the list, because it was placed higher in the India rankings.

Unnamed government officials, as per various media reports, have sought to justify the inclusion of the Jio and Bharti institutes by saying that there is a need to attract investment to build world-class institutions and, therefore, greenfield institutes needed to be pushed onto the list. The Gopalaswami panel, it is true, had recommended the inclusion of Jio Institute in July 2018—and it featured in the list of three private institutions chosen—but Gopalaswami has claimed that greenfield institutes should have been treated as a separate category; the government was free to decide either way. The scheme, however, hadn't been intended as one that would attract investment in the higher education space. Rather, it was aimed at developing 20 world-class institutions, 10 public and 10 private, by giving them considerable autonomy on academic and administrative matters. Given how, despite the noticeable improvement in India's R&D prowess in the recent year, the gap with a China or even a South Korea in terms of R&D in academia is yawning, the need was to support existing institutions that have, compared to universities/institutes that exist on paper, come some distance. It is bewildering that the higher education regulator, instead, added to its long record of failures by not recognising this crying need. And, even if the investment angle were to be a weighty consideration, a functioning private institute of considerable repute would surely have been attractive to investors if it had got the Eminence tag, more so if big names from academia and the corporate world were associated with it?

SurrogacyBAN

Commercial surrogacy needed to be regulated better, not banned. But govt thinks otherwise

THE LOK SABHA has just passed the Surrogacy (Regulation) Bill, 2019. Given how surrogacy sweatshops have mushroomed—the government estimates at least 3,000 surrogacy centres that exploit thousands of women drawn to surrogacy at significant health costs—there was a crying need to regulate commercial surrogacy. The government has, instead, focussed on banning it. The Bill allows only altruistic surrogacy, that too by a close relative of a childless couple. The latter should be married and should have been childless for five years before. Thus, widows, unmarried persons, divorcees, live-in and homosexual couples, even married couples with children are barred from opting for surrogacy.

There is no doubt that commercial surrogacy became an uncontrollable monster after it was legalised in India in 2001. Poor, vulnerable women rented out their wombs for a fraction of what the client was paying infertility vultures, who acted as commission agents. Most women were ignorant of the risks—a 2015 study led by a Danish doctor found Indian surrogates to be completely unaware of the risks of implantation of multiple embryos, foetus reduction or caesarian sections to time delivery as per the client's convenience. Banning commercial surrogacy is hardly the answer. A better solution would have been to allow commercial surrogacy while making surrogates aware of the risks and ensuring their health and commercial interests are protected. The government should consider gradually relaxing the ban—once sweatshops are history, the proposed National Surrogacy Board could allow regulated commercial surrogacy.

CHINA'S LONG VIEW

GIVEN THEIR SELF-RELIANCE POLICY, CHINESE AUTHORITIES ARE FAR LESS CONCERNED ABOUT A SUDDEN GROWTH ACCIDENT THAN THE US NARRATIVE WOULD LEAD ONE TO BELIEVE

China's visionary economic policy

STEPHEN S ROACH

Faculty member, Yale University

Views are personal

A COUPLE OF months ago, while touring Jiangxi Province, Chinese President Xi Jinping made reference to an old revolutionary milestone. "Now there is a new Long March, and we should make a new start," he said in response to the mounting economic conflict with the United States.

In China, symbolism is often more important than literal interpretation of leaders' elliptical statements. Spoken in the same province where the Long March had commenced in 1934, ultimately leading to Mao's defeat of the Nationalists 15 years later, Xi's reminder underscored China's greatest strength: the long view.

That strength was on display during my latest visit to China in early July. In a series of wide-ranging meetings and discussions, three conclusions stood out. Each challenges America's bipartisan demonization of China.

First, slowing growth is not the source of fear for China's leaders that many Western policymakers seem to think it is. Yes, in historical perspective, the latest GDP report was weak: quarterly growth was the slowest since the current statistical reporting system was adopted in 1992, and even worse than that recorded a decade ago, in the depths of the global financial crisis. But the 6.2% rate for the second quarter of 2019 was a relatively mild deceleration of 0.5 percentage points from the relatively subdued 6.7% average pace of the previous eight quarters. By contrast, the slowing to 6.6% in the first quarter of 2009 was a far more abrupt deceleration of 5.5 percentage points from the average gain of 12.1% over the preceding eight quarters. A modest growth slowing is not a growth collapse by any stretch of the imagination.

That should not be surprising. China has more policy levers than growth headwinds. With ample room for further monetary easing, infrastructure spending, and other forms of fiscal stimulus, Chinese authorities are far less concerned about a sudden growth accident than the US narrative would lead one to believe.

Moreover, Washington's fixation on who is winning the trade war overlooks a critically important structural shift in the Chinese economy. In 2018, net exports were just 0.8% of China's GDP, which represents a dramatic compression from a decade earlier, when net exports accounted for a full 7.5% of real GDP. While hardly an oasis in a weakening global economy, China is far less exposed to a trade shock today than it was back then. Even if it loses a trade war—a debatable proposition—damage to China's overall economic growth would be minimal.

At the same time, the May 24 Baoshang Bank failure—a first for China in about 20 years—has triggered a worrisome outbreak of counterparty risk contagion. With bad debts ballooning in excess of 30%, this privately-owned Inner Mongolian mid-size institution was apparently victimised by corrupt management. A well-coordinated takeover by China's financial regulators and the central bank appears to have contained the direct damage while sending an important moral hazard signal to undisciplined lenders. But, the interbank borrowing market is still shaky, with spillovers to smaller banks, including those in rural areas. Ironically, China may be better able to manage trade risks than instability in its financial system.

The second conclusion that stood out from my recent discussions is that China is patient and methodical in dealing with external wildcards—especially US politics. Chinese officials are not about to bet on the 2020 US presidential election in formulating their strategic response to the trade conflict. Obviously, there is great interest in the outcome; but in keeping with Xi's Long March imagery, China's leadership is preparing for an enduring Cold War-like confrontation, irrespective of who wins the election.

> Chinese officials are not about to bet on the 2020 US presidential election in formulating their strategic response to the trade conflict

Significantly, many senior Chinese officials don't share the US view that America's post-2020 China policy trajectory will stay its current course—Donald Trump or not. In the event that Trump loses, the Chinese suspect that US foreign policy will shift back to a more multilateral, alliance-focused approach. Their biggest hope is for a restoration of integrity to the policy-making process itself.

Like many in the US, the Chinese find it difficult to deal with unpredictable, almost whimsical, shifts in tariffs and sanctions. Even if a new president were to remain tough on China, a coherent and well-articulated US strategy would be far more effective in framing the debate and offering hope for constructive resolution of grievances.

Third, Huawei is a big deal for China. The tech giant is perceived to be a national champion and emblematic of China's push toward indigenous innovation, which is central to its longer-term growth and development aspirations. By taking advantage of its "choke point" position in the Huawei supply chain, the Trump administration's China containment campaign is seen as seeking to stifle those aspirations.

There is no question that Huawei is feeling the heat as the US squeezes the supply-chain by putting pressure on America's leading suppliers of semiconductor chips, other components, and software—companies such as AMD, IBM, Marvell, Intel, Google, and Microsoft. According to Huawei's management, the company's earnings this year and next will be about $30 billion below projections.

While senior US officials have sent mixed signals about relaxing restrictions on Huawei, the weaponisation of US trade policy has sent a clear message to China: the need to address the supply-chain vulnerability of its leading-edge technology companies is now a top policy priority.

The conventional wisdom in the West is that China will need ten years to build a domestic chip and software industry that could fill the void created by US restrictions. The Chinese I spoke with in early July felt that the gap could be closed much sooner, possibly within two years. If anything, Trump's threats against Huawei have served as a wake-up call to Xi's "self-reliance" campaign. The US chokehold could be surprisingly short-lived.

Time and again, the long view in China has stood in sharp contrast to America's short-term approach. Needless to say, this has become all the more evident during the past two and a half years of Trump's Twitter-driven policy gambits. One senior Chinese policymaker actually admitted to checking Trump's Twitter feed each morning. No surprise there. Sun Tzu put it best in his ancient treatise, The Art of War: "If you know the enemy and know yourself, you need not fear the results of a hundred battles."

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Saving water the solar way

With increasing use of renewable energy, India can meet its economic development needs while still curbing water consumption in the power sector and driving down costs

ASHVINI KUMAR & PAUL FAETH

Kumar is senior director, Renewable Energy Technology Applications, TERI & Faeth is Principal at the Cadmus Group

Views are personal

ABOUT 70% OF India's electricity is produced using coal, requiring significant amounts of water to expel waste heat during the generation process. This is besides the water required for ash handling and other in-house needs. Energy security thereby gets inextricably linked with water availability.

Based on field data from a number of thermal power plants in India, it has been estimated that, depending on the kind of power plant, its specific water requirement could range from 1.67 to 5.27 cubic metres per MWh. Considering an installed thermal power capacity of 226 GW with an average all-India plant load factor (PLF) of 61%, the water lost annually to cooling thermal power plants, based on a water requirement of two cubic metres per MWh of power generated, comes to over 2.4 billion cubic metres. Going by the central government's per capita norms of water use, this quantity would be adequate to serve the annual water needs of around 164 million people in rural areas or 48.7 million people in cities with sewer lines.

With India's current economic growth and dependence on coal for the next 20 years, water consumption in the power sector would increase manifold even with enhanced water use efficiency. Given water's centrality in other key sectors—such as agriculture, domestic, and industry—and the drying effects of climate change, saving water wherever possible is critical for India.

If the government's plans to reduce India's dependence on coal are realised, a substantial amount of water could be saved, since, unlike coal, electricity produced by solar photovoltaics (PVs) does not generate waste heat, requiring only 0.1 cubic metre of water per MWh generated for occasional washing. India has committed to produce 40% of its power supply from non-fossil fuel sources, with a focus on solar power. If this happens, and that growth continues for another 10 years, the annual water consumption for power generation would be 30% less by 2040.

In addition to saving water, renewable energy also reduces air pollution, which has reached alarming levels in many parts of the country. While coal-fired power generation results in the emission of harmful soot, sulphur dioxide, nitrous oxide, and mercury, power generated from renewables produces no such emissions.

Given this background, the government's target to achieve 100 GW of solar power capacity by 2022 merits special appreciation. Utility-scale solar power projects have achieved tremendous success, with tariffs breaching coal tariffs from new plants and an ecosystem for large capacity project development being created. However, capacity addition through installation of rooftop solar plants in domestic, institutional and commercial segments has been slower. To accelerate their adoption, demand aggregation initiatives—focusing on reaching out to consumers, creating visibility for policies, and vendor base for rooftop solar PV plants—are being implemented in cooperation with state nodal agencies, electricity distribution companies, developers, and a large number of student volunteers. For example, the Ministry of New and Renewable Energy (MNRE) has recently launched a big campaign for solar market aggregation for rooftops in Gujarat, Jammu and Kashmir, Himachal Pradesh, Uttarakhand, Daman and Diu, and Dadra and Nagar Haveli.

> Unlike coal, electricity produced by solar photovoltaics (PVs) does not generate waste heat, requiring only 0.1 cubic metre of water per MWh

So, what's in it for consumers and businesses? For consumers, rooftop solar can substantially reduce electricity bills since the electricity generated by rooftop solar panels directly meets the consumer's load requirement, leading to less power drawn from the grid.

In 2016, almost no household in Surat had rooftop solar plants. Two years later, there were 6,000 due to subsidies offered by MNRE, extensive outreach by the Surat Municipal Corporation with the help of youth volunteers, and affordable solar PV loans offered by the Sarvodaya Sahakari Bank. With the subsidies, the payback time for rooftop PV is six years, which means a consumer installing a rooftop solar plant gets free electricity after that period.

The system can be cost-effective for businesses too, depending upon the local tariff. Solar power has the benefit of providing long-term price stability at a time when electricity prices are going up by 3-4% annually. In contrast, the cost of solar has come down by 80% in the last five years. Solar also enhances brand reputation for consumer-facing businesses looking to promote their corporate sustainability practices.

The evidence from Surat and other places points to an imminent explosion in the solar market in India that will bring a revolution in the power sector. In times of looming water crisis, it is indeed good news for India that the growing share of renewables in the power mix allows India to meet its development needs while reducing its water usage.

LETTERS TO THE EDITOR

Kashmir question: The way forward

After having bravely scrapped Article 370 to integrate the Kashmir region with the rest of India, government must take immediate steps for its economic development. Putting in place sound infrastructure to attract industry; excellent education system, and affordable healthcare will take away guns and anti-national thoughts from the hands and minds of children and youth there, replacing them with pens and career aspirations. A specific announcement to this effect made by the government alone will put to rest the questions and apprehensions in the whole nation's mind and justify yesterday's decision.

— Dr Shubhada Sabade, Pune

Opposition's debacle

Sonia Gandhi lost the last opportunity to make Congress re-enter national streamline by opposing the historic Bill scrapping Article 370 and undo the wrong done by Pandit Jawaharlal Nehru. Apart from most allies of BJP, even BSP and AAP lended unconditional support to the Bill, thus, paving the way for its smooth passage in the Rajya Sabha. Indian political parties opposing the Bill should take a lesson from Israel, where even bitterly competing opposition parties are always united on issues relating to external affairs and defence.Several prominent Congress leaders have openly come out in support of the Bill, with some of them even having resigned from the party on the national issue. The owners of Congress Private Limited, still have time to sense the mood of the people and support the Bill by terming views of leaders like Gulam Nabi Azad as their personal views. Otherwise, a party division may be unavoidable.

— Subhash C Agrawal, Delhi

●Write to us at feletters@expressindia.com

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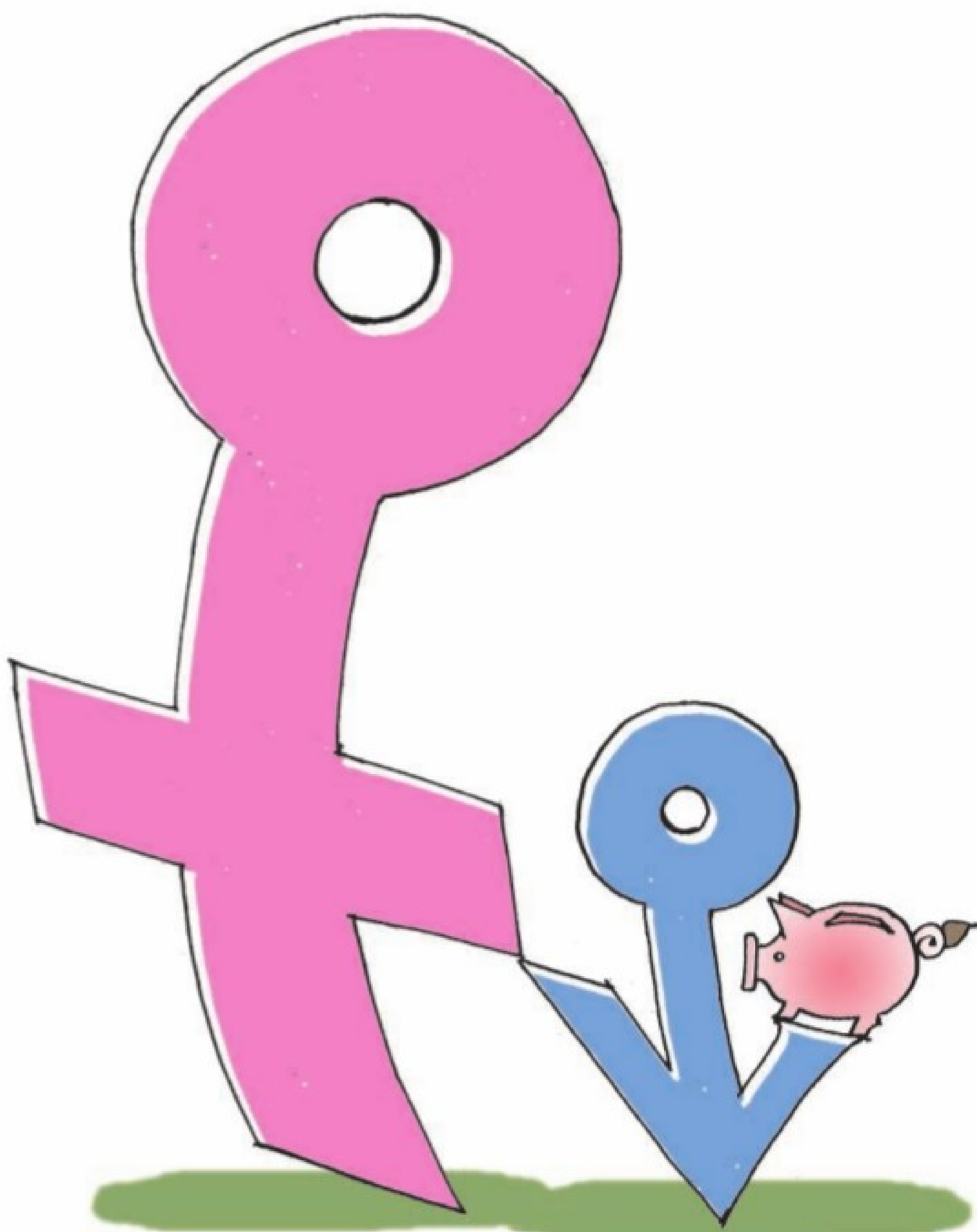

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AMANDEEP KAUR & LEKHA CHAKRABORTY

Kaur is economist & Chakraborty is professor, NIPFP, *Views are personal*

GENDER & CHILD BUDGETING

Odisha shows the way

By making public in its Budget how much and where it spends on child & women welfare, the state has set a benchmark for other states on accountable and transparent management of public finances

Child Budgeting in total Odisha budget

Gender Budgeting in total Odisha Budget

	2017-18 (Actuals)			2018-19 (RE)			2019-20 (BE)		
	100%	30%	Total	100%	30%	Total	100%	30%	Total
Gender Budget as % of total Odisha Budget	1.86	26.67	28.52	2.18	29.08	31.25	1.84	33.20	35.04
Gender Budget as % of GSDP	0.42	5.98	6.40	0.54	7.20	7.74	0.45	8.14	8.60

Source: Odisha Budget Documents, 2019-20

ODISHA HAS BEEN among the pioneers of using Public Financial Management (PFM) practices for advancing gender equality and socio-economic development of children. In its Budget for FY20, the state government has introduced two detailed fiscal statements—gender budgeting and child budgeting. These policy tools help create fiscal space for providing a framework to integrate "social content" of the macro policies. These attempts are truly "public policy innovations".

At present, many countries have started to publish gender and child budgets. But, a major chunk of these initiatives across countries are just confined to the national level. As far back as FY2000, the Department of Women and Child Development, Government of India, had recognised the significance of a "gender lens" in the budgetary processes and had commissioned a study of the same to the National Institute of Public Finance and Policy (NIPFP). Later, in collaboration with NIPFP, and with the acceptance of recommendations of the ministry of finance's Committee on "Classification of Budgetary Transactions" under the chairmanship of the then chief economic advisor Ashok Lahiri, India began gender budgeting in FY06. India has, thus, around 15 years of gender budgeting at national level, with gender budget statements published within the Expenditure Budget (Volume 1). Later, in 2008, the Union government released the first child budget statement. In India, these fiscal innovations are essential at the national and subnational levels, especially since the country is home to every fifth young child in the world. However, the commitments at the state levels to conduct both gender and child budgeting have been quite uneven and have broadly lacked political sustainability. Against this backdrop, Odisha's efforts to publish the two PFM-related statements in FY20 Budget are indeed commendable.

> **The total child-related expenditure constitutes around 16% of the total budget of the state, and stands at 4% of total GSDP of the state for FY20**

Odisha witnessed a real GSDP growth rate of 8.35% in FY19, exceeding the all-India growth rate of 7.2% in FY19. The state has also been constantly making efforts to reduce socio-economic disparities related to gender, protect children from poverty by protecting their rights, providing education and better health facilities. Around 27% of the state's children are under 15 years of age. Although, some of the child-related indicators, especially IMR (Infant Mortality Rate)—the probability of a baby dying before his/her first birthday—has reduced from 65 to 40 deaths per 1,000 live births as per the National Family Health Survey (NFHS-4) data, the story does not end here. The need for a defined child budgeting came from the alarming figures of NFHS-4 at the "disaggregated levels". As per the survey, IMR is much higher for children in rural areas *vis-a-vis* urban areas. It is also highly correlated with the level of education of mothers. Mothers with 10 or more years of schooling have experienced a lower IMR (18 per 1,000 live births) as compared to mothers with typically no schooling (58 per 1,000 live births). Under-five mortality is also high for rural areas (52 deaths per 1,000 live births) as compared to 24 deaths per 1,000 live births in urban areas.

Although there has been improvement in the nutritional status of the children since NFHS-3, anthropometric indicators have not shown any substantial change. As compared to NFHS-3, the percentage of children who are stunted (45% to 34%) and underweight (41% to 34%) have shown significant improvement. But, there has not been much change in wasting. Child malnutrition is still a persistent problem in the state of Odisha.

This diagnosis makes it compelling for Odisha to introduce child budgeting. Such policy imperatives have also gotten attention after the National Action Plan on Children (2017) based on four objectives—survival, health and nutrition, education and development, protection and participation.

Odisha's child budgeting—prepared by the Odisha finance department in collaboration with UNICEF—is indicative of the spending that directly or largely affects the children in the age-group of 0-18 years, and is defined on four grounds: Development, Health, Protection and Education. The methodology used by the Odisha government has been consistent with the gender budgeting of the Government of India following NIPFP methodology. Odisha has identified ten departments for child budgeting. The child budget estimates show the school & mass education, and the women & child development departments get the maximum share of the total Odisha budget for FY20. Broadly, the total child-related expenditure constitutes around 16% of the total budget of the state, and stands at 4% of total GSDP of the state for FY20.

With regard to gender budgeting, Odisha has identified 13 departments that spend directly (100%) on gender-specific interventions while the state has listed 29 departments that see at least 30% share of their total budget go for gender-specific allocations. The estimates showed that conclusively, gender-specific interventions form 8.6% of GSDP while if we consider only 100% specifically targeted programmes for women, they are just 0.45% of GSDP for FY20.

However, both documents—the gender budget and child budget—are silent on fiscal marksmanship. Fiscal marksmanship denotes the fiscal forecast errors. It shows the deviation between what is budgeted and what is the actual spend/revenue across sectors. Higher budgetary allocation per se does not guarantee higher spending. However, Odisha's efforts to use Gender Budget and Child Budget as tools of budget transparency and accountability are laudable.

MONETARY POLICY

Rate cut of 25bps likely

ADITI NAYAR

Principal economist, ICRA
Views are personal

Fourth consecutive repo rate cut expected in August MPC review

WITH THE CPI inflation remaining well below the Monetary Policy Committee's (MPC) medium-term target of 4%, and a variety of indicators pointing towards performance faltering across sectors, a fourth consecutive repo rate cut of 25bps appears on the anvil in the August 2019 policy review.

In June 2019, the MPC had placed its CPI inflation forecast at 3.0-3.1% for H1FY20 and 3.4-3.7% for H2FY20, with the risks broadly balanced. Subsequently, delayed *kharif* sowing, rising vegetable prices, low reservoir levels and an uptick in domestic fuel prices have emerged as risks. Such factors, as well as an unfavourable base effect, may push the headline CPI inflation above 4% in some months of H2FY20, even as the average will remain sub-4% for this fiscal.

In ICRA's view, while there appears to be room for further rate cuts, we do not expect considerable additional monetary easing, going forward. The focus may shift to faster and fuller transmission to both deposit and lending rates, particularly since systemic liquidity is in ample surplus. Additionally, several constraints to a pickup in economic growth, such as moderate capacity-utilisation levels and cost of land acquisition, may not be dissipated by lower interest rates.

Moreover, the MPC had revised its GDP growth outlook downwards to 7% for FY20 in the June 2019 review from its earlier estimate of 7.2%. The recent data prints across indicators are raising concerns regarding slowdown in economic growth. Auto production and non-oil merchandise exports contracted in Q1FY20. Also, the core sector growth came in at a marginal 0.2% for June 2019, suggesting that industrial growth is likely to print at an anaemic sub-1% level in that month, extending the sequential slowdown recorded in May 2019. Further, earnings growth has been subdued in several sectors other than banking in Q1FY20, which would weigh upon the GDP growth for that quarter. The outlook for domestic consumption, exports and private investments is muted, even though government spending may pick up in the post-Budget months.

> **ICRA expects the 10-year G-Sec yield to trade in a range of 6.2-6.6% in Q2FY20**

The first half of the monsoon season has been unfavourable, which would constrain farm income growth from *kharif* crops, even if the remainder of the season witnesses normal rains. The year-on-year decline in reservoir levels so far does not portend well for the *rabi* season, which would keep rural sentiment subdued. And, exports growth is unlikely to be substantial in the current global environment.

Private investment may remain muted in the near term. The low visibility of a sustained uptick in capacity utilisation, as well as the availability of brownfield assets through the NCLT, suggest that capacity expansion is not warranted in many sectors. Further, some businesses are facing issues related to refinancing of existing debt. The continuing high leverage levels of various corporates, and the low likelihood that many banks would want to pursue project finance lending, would prevent a quick revival in investment activity, even if transmission of monetary easing improves and lending rates decline.

Notably, government of India's (GoI) revenue expenditure recorded a modest growth and capital spending contracted in Q1FY20. However, government expenditure is expected to record a pickup in the last three quarters of this fiscal. While GoI's revenues are typically disproportionately higher in the later quarters of each fiscal, and some of the tax proposals made in the Budget would support tax collections in the remainder of the year, at present, we can't rule out that expenditure cuts may be required to prevent fiscal slippage, if revenue targets are not achieved. On balance, based on available data, we expect GDP growth to print 6.7% in FY20, lower than the MPC's forecast of 7%.

The market will continue to monitor the evolving fiscal trends of the GoI and parse the MPC's statement and minutes to glean the outlook for additional monetary easing. However, the size and timing of the sovereign bond issuance would impart a disproportionate effect on the yields of G-Secs in the remainder of 2019. ICRA expects the 10-year G-Sec yield to trade in a range of 6.2-6.6% in Q2FY20.

RURAL ELECTRIFICATION

Taking forward the Saubhagya vision

Beyond just complete rural electrification, the scheme should also focus on ensuring high-quality power supply

SUROBHI MUKHERJEE

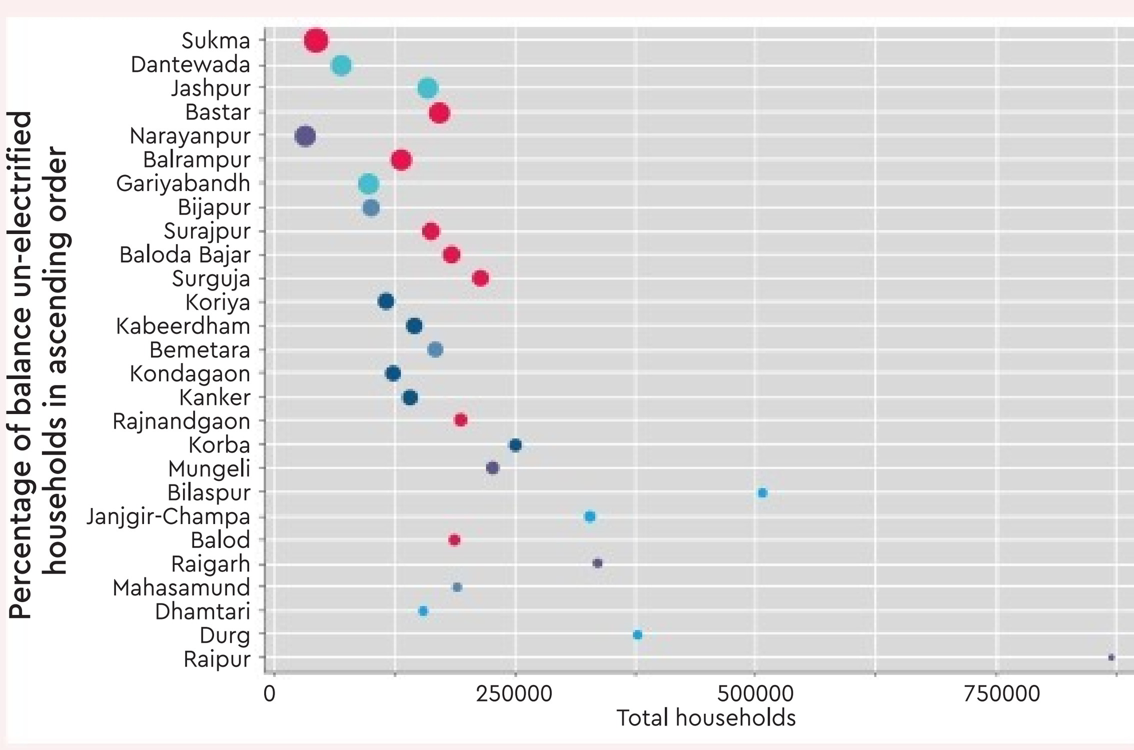
Assistant Director, Ministry of Finance. *Views are personal*

GOVERNMENT LAUNCHED THE 'Saubhagya' scheme in 2017 with an aspiration to provide electricity to all households in rural areas and poor families in urban areas. It intends to expedite rural electrification, both through technology and dissemination of information, with a scope of 'providing last mile connectivity and electricity connections to all un-electrified households in rural areas'. The power sector and the Saubhagya scheme can go one step ahead by assuring quality power supply apart from assuring 'electricity to all'. The recent on-field experience in Chhattisgarh could provide insights as to where policymakers can step in to fill the supply-side gap and increase rural electrification. In a power-surplus state like Chhattisgarh, with installed capacity of 13526.7 MW, the Har Ghar Bijli scheme faces its own challenges. There is a need to reduce inefficiencies in the current framework and bring in multiple stakeholders, including the police and the masses.

It is to be noted that *"An electrified village is defined as one that has the following: (i) provision of basic infrastructure such as distribution transformers and lines in the inhabited locality, (ii) provision of electricity in public places like schools, panchayat office, health centers, dispensaries, and community centers, and (iii) at least 10% of the total number of households in the village are electrified"*. Considering the 10% threshold, all districts in the state are electrified (as on October 10, 2017). The scheme aims to target un-electrified households in the village. Household progress for electrification indeed shows a positive relationship with Balance Un-electrified Households (BUHs).

There are two perspectives to look at supply-side challenges faced by policymakers. One is a scientific perspective, where the iron content in the soil generates fault current, creating high impedance, which disrupts the transmission of electricity and makes the electrical system function improperly. The accompanied graphic shows district-wise percentage of Balance Un-electrified Households before Saubhagya scheme was launched in the state (arranged in ascending order). Dantewada, Rajnandgaon, Kanker, Bastar, Narayanpur and Durg are some of the districts with rich mineral deposits, especially iron. The rural electric distribution systems are impacted and access to electricity is affected.

Even if there exist provisions for basic infrastructure like distribution transformers or a certain percentage of total number of households are electrified in a village, it does not translate into accessibility. Hence, issue of impedance fault is relevant when it comes to questions of continuous and quality supply of electricity. Monitoring the low current that generates high impedance fault, therefore, becomes necessary.



It is to be emphasised that the scheme has tried to plug gaps from consumer-side and provisions exist to approach the household, encouraging the BPL and poor households to avail electricity connection. In this regard, percentage of additional households being electrified due to Saubhagya Rath campaigns, camps, control centres, etc, have been higher in Balod, Balrampur, Kanker, Jashpur, Baloda Bazaar and Bilaspur.

The second perspective is highly debatable. Some districts in Chhattisgarh, being inflicted with extremism, lack basic infrastructure, including electricity transmission towers and distribution transformers. Bastar, Dantewada, Narayanpur, Gariyabandh, Bijapur and Sukma are the affected Districts with maximum percentage of BUHs. Therein lies the need for the role of police and confidence-building with the masses, where the former's engagement in the interiors of such inaccessible districts has led to increased accessibility and utility provision to some extent. The Saurabh Rath Campaigns, etc, alone cannot explain percentage of electrified household addition as correlation with BUHs is small.

Problems like less revenue realisation due to pilferage in distribution, transmission and distribution loss, technical losses caused due to I2R & transformer losses, and the aforementioned High Impedance Fault calls for upgrading material properties, better distribution infrastructure, and wide spatial distribution of meters and so on.

Government allocated ₹16,000 crore for Saubhagya in Budget 2018 and Union Budget 2019, emphasising outreach of Saubhagya, with increasing importance of renewable energy. Yet, India still being a country which is heavily reliant on thermal power generation, provisions ought to be made to reduce inefficiency in the current framework and ensuring basic infrastructure in villages required for electricity (like in Aspirational Districts), which would leap Sahaj Bijli Har Ghar Yojana one step ahead by assuring quality supply of power as well as access to electricity for all. The experience in Chhattisgarh is a case in point, wherein lack of power availability is not a contentious issue, but revenue loss, faults and accidents caused due to transmission and distribution are relevant. The enhanced benefits could be passed on to the consumers in form of lower- cost accessibility.