Opinion

SATURDAY, SEPTEMBER 7, 2019

MOONRAKER
Prime Minister of India, Narendra Modi

I have been regularly and enthusiastically tracking all updates relating to Chandrayaan - 2 since it was launched on 22nd July 2019. This Mission manifests the best of Indian talent and spirit of tenacity

Good governance at the grassroots

Many district administrations are working on transformation through innovation

MORE OFTEN THAN not, the Indian bureaucracy is perceived as unresponsive to the needs of the ordinary citizen, more so at the grass-roots. But, as the winners of The Indian Express Excellence in Governance (EIG) Awards 2019 have shown, district administrations can bring in transformative change if they were to get innovative on governance delivery and address gaps in the existing mechanism. This, in the long run, can mean the difference between penury and prosperity of the communities they serve. All 16 district magistrates who spearheaded the interventions that won them the EIG honour—chosen from 249 entries from 84 districts in 24 states—surmounted legacy problems; some used technology, some human capital, but all had an out-of-the-box solution.

Kartikeya Misra took on joblessness and lack of connectivity in East Godavari in Andhra Pradesh when he was posted there as the district magistrate. Both problems had fed extremism in the Maoist-affected district for long. Recognising the lack of skilling in these parts and the fact that there were many jobs paying ₹10,000-20,000 for which employers were unable to find talent, the district administration under Misra arranged for job-specific, short-term training. Under this, 25,000 people have been trained—some with industry participation—and 18,000 placed in a range of jobs, from priesthood to network analysis and from TV repair to fruit/vegetable carving. There has been a domino effect on empowerment; young women from very poor families in Chinturu, a remote tribal area, trained under the Kaushal Godavari initiative, now work at the assembly line at Foxconn's unit in Nellore. Had it not been for the training they received and the resulting income for their families, they say, they would have never been allowed out of home and would have been married off early. Misra's second initiative digitally connected largely inaccessible tribal hamlets, roping in Google X's Free Space Optical Communications technology powered by the state's public sector fibre grid network. With mobile and internet connectivity, villagers who had to walk 8-10 kilometres to contact the nearest government official now consult government doctors or register a grievance with a government official over video-calls. Tirunelveli (Tamil Nadu) district collector Sandeep Nanduri got the district to use its MGNREGS money for sustainability, in a manner that challenges the conventional, rather deadened thinking on the use of the funds. The Tirunelveli administration, under Nanduri, has created 106 community soak pits where wastewater collected from households is processed through filtration systems and used to recharge the groundwater in the rain-deprived district. CR Kharsan, the district collector of Valsad, Gujarat, implemented e-Megh, a sonar-based early flood warning system, for Auranga river that experiences annual flooding. e-Megh, an IoT system, integrates the sonar river gauge with hooters at four most vulnerable locations—any alarming rise in water levels activates the hooters within 10 seconds and gives the administration, with real-time SMS, two hours to act before the flood hits. In 2016, over 26 people lost their lives from the Auranga flooding swathes of Valsad town; in 2017, 14 people died. But, in 2018, because of the early warning system, there were no deaths, and the district administration was able to evacuate a 1,000 people this year, too.

While these are a few examples of the immense good that can be delivered to citizens when district administrations get creative, there are likely many such innovative approaches afoot. The government, both the Centre and the states, needs to recognise these and offer maximum support. Wherever possible, these game-changing "pilots and experiments" need to be scaled up/replicated. Change at the grass-roots will need change-makers like those whom the EIG awards celebrate.

Tripping up teacher training

Govt funding shrinking even as NEP calls for increase

THE COUNTRY FACES a shortage, most acute in rural areas, of over 10 lakh teachers. Many *jugaad* solutions have been adopted to address the gap, but the problem lingers. One would assume, in such a situation, that the government would focus on getting the teachers pipeline flowing, with teacher education being key. But, a look at past Budget numbers stirs concern. To be sure, education is a state subject and that means the states should be doing more; but, the Centre, too, has a role to play, one that it shouldn't try to pawn off to the states. Growth in overall allocation to education has slipped while overall allocation to teacher education has crashed—an IndiaSpend analysis shows budget funding for teacher training has fallen 87% between 2014-15 and 2019-20, from ₹1,158 crore to ₹150 crore.

The draft National Education Policy (NEP) points out that the country's teacher education space is beset with "mediocrity" due to commercialisation, and "a general lack of commitment to the need for rigour and quality" for teacher preparation. As per AISHE data for 2015-16, of the 17,000-plus single-programme colleges in India, nearly 90% were teacher training institutes, over 10,000 of which, as per the 2012 Justice JS Verma committee report, are essentially selling degrees for a price. The NEP calls for shutting these down, and pushing teacher training courses in all multi-disciplinary universities, and all Model Multidisciplinary Colleges. It also calls for gradually shifting to a four-year integrated B.Ed where the prospective teacher is trained in education and a core subject (history, mathematics, sociology, etc). By 2030, it suggests, existing genuine teacher education institutes must become multidisciplinary educational institution, most of which are public universities, and till the time existing graduates aim for a teaching career, all institutions offering the four-year teacher education may offer a two-year B.Ed. as is done now. Further, it emphasises that teacher education needs to become multi-modal, offered through part-time, evening or blended courses, and even online, with the freedom for teachers/prospective teachers to choose the mode that best suits them. It talks of a continuous professional development approach that lets teachers acquire cutting-edge skills. The draft NEP also speaks about strengthening academic support institutions—the State Councils of Educational Research and Training, District Institutes of Education & Training, Block Institutes of Teacher Education, etc.

To revamp the existing teacher education ecosystem in this manner, massive government funds are crucial—indeed, the draft NEP acknowledges this, saying, "substantial public investment will be required", and that an estimate must be made "every year for the next 10 years and provided on priority". It does talk of philanthropic efforts too, but, largely, the funding must come from the government. The Centre needs to seriously relook its spending on teacher training. Else, the country educational development will remain stunted.

InsuringIVF

Private insurers' decision to cover IVF treatment is a good idea, public insurance cos must take a cue

WITH PRIVATE INSURANCE providers now looking to include in vitro fertility (IVF) treatments within their health insurance plans, millions in the country looking at IVF as an option for parenthood are likely to receive the news well. In the pilot stage, companies will offer IVF cover, linked to maternity cover, as part of high-sum-insured premium policies to pre-existing clients; it will be part of health plans that support outpatient care, emergency services, and maternity and neonatal care. To avoid frauds, the plan will include a sub-limit, and specify the number of embryo-transfer attempts, with the possibility of covering additional cycles, in the event that the first is unsuccessful.

At present, 27.5 million couples in India suffer from infertility—in percentage terms, this is about 10-15% of couples who are actively seeking a child. By 2020, this number is expected to rise a further 10%. Yet, owing to the high costs of IVF—a single IVF cycle in India can cost anywhere between ₹1.25 lakh and ₹2.5 lakh—not many are able to afford it. Often, this can lead to a couples seeking alternate fertility treatments from quacks, the efficacy of which is questionable, at best, and which can have tremendous health costs for women. The traditional reluctance to cover IVF under health insurance plans comes, apart from the high cost to the provider, from the fact that IVF is a planned event. However, the World Health Organisation defines infertility as a disease of the reproductive system, and is, therefore, a significant aspect of maternal health, which is covered under health plans. Globally, too, IVF is increasingly being covered under health insurance plans. The public insurance companies must take a cue from their private counterparts to make IVF insurance competitive.

BANK UNION

FROM AN ECONOMIC POINT OF VIEW, THE MOVE SERVES NO IMMEDIATE PURPOSE, AND COULD HAVE BEEN IMPLEMENTED IN PHASES TO AVOID DISRUPTIONS

Will bank mergers make a difference?

MADAN SABNAVIS

Chief Economist, CARE Ratings
Views are personal

THE DECISION TO merge disparate PSBs into a set of 12 banks is quite a big step, and adds a new chapter and outlook to the concept of public sector banking. We had the Indradhanush Scheme in the earlier episode of banking reforms, in 2015, and after the successful merger of SBI with its associates, and that of Bank of Baroda with Dena Bank and Vijaya Bank, the government is more certain about the future path. From an economist's point of view, what does this mean?

Merger of PSBs is often seen as a compromise as it does not change the way in which banking is conducted, and is analogous to merging various state departments. Ideologically, it is clear that ownership remains with the government; there would be no let-go on this aspect of banking. The staff count does not go down, which is a positive compared with mergers of private banks, where several jobs, especially at the senior level, are dispensed with. There are savings, in case branches are closed, and staff transferred, which is painful, but preserves tenure of staff. Besides, when it comes to PSBs, officers are used to transfers. But, the latest presentation is silent on how various senior positions have been reallocated in the last two episodes of mergers as there cannot be multiple risk, credit, treasury, operations, IT, etc, heads. Clearly, several staff may have lost their seniority. But, this can be rationalised as being necessary for the larger good. What is the larger good?

It is interesting that PSBs are still talked of as instruments used for meeting larger political goals. For instance, for MUDRA loans to SMEs targets have been set for PSB, but not for private banks. The one time settlement (OTS) scheme for SMEs spoke of holds for PSBs only; it is not obligatory for private banks. Also, when there is an assurance that some PSBs have agreed to link their lending rates to the repo rate, it is implicit that there are orders from above. Therefore, even today, PSBs are not as free as their private counterparts when it comes to taking credit decisions at the macro level. Even the Jan Dhan exercise was driven by PSBs, as are loan waivers.

As the owner of these banks, the government has a right to decide these policies, but, it also means that the high command approach still holds, and will continue to do so for the merged banks. Hence, while the concept of the so-called 'phone banking', which can be catastrophic, has been abolished; banks still have to adhere to these guiding orders, and will not be independent like their private counterparts.

A lot of changes will be seen in the governance structures, such as appointments to the Board, remuneration to Board members, review by the Board of all designations above general manager, etc. But, given that Board members would still be driven by the overriding instructions from above, it may not mean much, if the basic pillars of business guidance are fixed.

Also, it has been reiterated that the chief risk officer position would be mandatory, and there would be outside recruitment at market pay. Does this mean that PSBs with a total officer staff of over 400,000 do not have the talent to fix 12 posts in these banks? There is already quite a bit of ill-feeling on lateral recruitment of some tenure-driven posts in PSBs; this announcement can be more demoralising. Ideally, bringing in a performance-linked bonus for high performers would have the sent right signals in the market, and raised morale. This is definitely required to enthuse the staff of the merged banks, especially since there will be substantial disruption on account of the mergers.

Curiously, the new mosaic talks of willingness to pay non-official directors a higher sitting fee, but not the existing staff, who have built these banks over the years. This is something which should be addressed in course of time, and would also appeal to the Unions.

Now, coming to the idea of a merger, it must be realised that the overall balance sheet size cannot change with these mergers as there is still a fixed set of assets and liabilities. Statistically, ratios look better for the merged entity as it adds profits of strong banks to losses of weak banks. But, there is no new profit being generated anywhere. In fact, statistically, the ratios of NPA and capital adequacy of merged banks tend to be higher or lower than individual components of the entity.

It must be realised that the overall balance sheet size cannot change with these mergers as there is still a fixed set of assets and liabilities

Based on the dictum of one of the large business consultants in 1999-2000, we are following a model where the banking system has global, national, and more niche specific banks. The approach can be questioned in this modern age, where the focus is more on inclusive banking, with more sophistication in financial markets. Are we really saying that large banks created will be able to be in the USA what, say, Citi Bank is in India? There are regulatory barriers everywhere, and the approach, so far, has been to close down unprofitable foreign branches. In that case, what exactly are we talking of?

It has been argued that large banks with bigger capital can take larger exposures. But, is that what we want? RBI's large exposure norms clearly want banks to lower their exposures to large borrowers in order to reduce concentration, and are being prodded to borrow from the bond market. In that case, this cannot be a goal for PSBs. Merging for the sake of merging banks, without changing the operational structures, may not necessarily lead to an optimal solution. True, any rationalisation in costs, like closing of branches or ATMs, can help the profit-and-loss account. But, the same could have been worked out between PSBs without such mergers, too, with, say, PNB not retaining a branch where OBC has one.

The fear, probably, with such large PSBs is that crises tend to get magnified. This has been witnessed in some banks at different points of time, but, being a relatively rare occurrence, is less of an issue. Alternatively, there should ideally be no pushing of programmes by the government on lending, or even schemes like Jan Dhan, so that banks take independent decisions, based on commercial logic. At the extreme limit, the push for SME lending, or affordable housing can germinate the seeds of a crisis (which may look unlikely today).

The timing of these mergers is also curious; almost all PSBs are struggling to come to terms with the existing NPA crisis. While NPA ratios have declined, at close to 10%, they are still very high. A large number of cases are pending with the IBC, which, in turn, quite expectedly, appears to have lost steam, with the realisation rates now coming down, after the initial success. Now, all would be working hard on these mergers, which take time to put together.

The contrarian may just argue, quite rightly, too, that there was really no immediate need of such big bang mergers—they could have been planned over a period of time to eschew disruption.

Fine-tuning solar policy instruments

India's rising solar ambitions necessitate creation of an indigenous, globally-competitive manufacturing industry for solar panels

AJAY SHANKAR

Distinguished Fellow, TERI
Views are personal

FOLLOWING ITS SUCCESS, the targets of India's solar energy programme have been rising. To fulfil these, it is essential that policy instruments evolve suitably. Getting solar power capacity to cross 25,000 MW in less than ten years through private investment, and to get tariffs to come down, from over ₹10 to less than ₹3 per unit, has been the result of the initial program design of inviting repeated tariff-based bids for supply of solar power through the grid to the distribution companies. By awarding contracts to multiple private developers over the years, a competitive industry structure has been created.

India has taken full advantage of the global decline in the price of solar panels, as the Chinese reduced their costs of manufacturing dramatically. However, as the rupee depreciates, or the Chinese raise prices, the tariff, discovered through bidding, would also rise. Accepting higher tariffs is not easy, in the Indian context, in public procurement. But, not accepting them in a transparent competitive bidding process, would only slow down, or even stall, the solar energy programme.

The time has also come to target manufacturing of solar panels, with full value addition in India. Getting investment into solar panel manufacturing needs confidence regarding sales and profits. It would take about two years to set up a plant and begin manufacturing, after land with infrastructure is in possession. One viable approach could be to invite bids for the supply of 1,500 MW of solar panels, made fully in India, every year, for four to five years, starting from 2021. Land, with environmental clearance, at a reasonable price, along with commitment of direct, cheap power supply in a dedicated manufacturing Special Economic Zone (SEZ) should be on offer, as part of the invitation of bids. Cheap electricity is essential, as energy constitutes the major cost of production of solar panels. The SEZ should have the special dispensation of having sales to the Indian market being considered as fulfilling its export obligation. The bidders, other than the lowest, could be given the offer of matching the price of L1, and get orders for the supply of 1,000 MW per year. It may still be the case that the market-discovered price is higher than that of Chinese panels; bids should still be accepted, and the bidding process continued in the following years, to bring prices further down. These solar panels may be used by government and its agencies, such as the Railways, defence and police establishments, and educational institutions. The issue of imposition of safeguard duties can be examined after there is manufacturing in India, with a competitive industry structure. Safeguard duties, at present, would be of little help. Such a comprehensive holistic approach would create a globally competitive manufacturing industry, without needing subsidies from the budget. Otherwise, the present import-dependence would be perpetuated.

India has around six lakh villages. Getting up to 1MW capacity installed through a feed-in tariff in a village should not be difficult

Rooftop solar and decentralised solar power generation in rural areas in the KW range is yet to gather momentum. Having no transmission costs, this is far more economical. The ideal way for achieving a breakthrough would be to go in for an attractive feed-in tariff regime, with the approval of the State Regulatory Commissions. Trying to invite thousands of bids at the less-than-1MW range would end up being a non-starter. The distribution company should indicate the points at which it would be willing to buy solar power on a first-come, first-served basis, as well as the maximum it can take at the receiving point, along with the power purchase agreement. The receiving points could be the consumer connection point, with a reversible meter, the distribution transformer, or the sub-station. This should cover urban as well as rural areas. A farmer could buy solar panels, investing on his own. Alternatively, an aggregator could put up the solar panels on the land or rooftops provided by the farmer, and take the major share of the feed-in tariff till such time as he has recovered his cost. With solar power, supply of electricity for irrigation in the day, rather than in the night, as is the case now, could be assured.

A feed-in tariff of, say, ₹4.5 would be cost-advantageous to the distribution company as its actual cost of supply at the consumer end is well over ₹6 per unit. This would also be a major improvement from the net metering arrangement, where large consumer gets an effective feed-in tariff of around ₹8 per unit, and a windfall gain, whereas the small consumer would get a lower rate of only around ₹5. Providing reliable 24x7 power supply would become easier.

India has around six lakh villages. Getting up to 1MW capacity installed through a feed-in tariff in a village should not be difficult. Thus, creation of 6 lakh MW capacity of solar power through private investment in the next five to seven years appears feasible. India could take global leadership in solar energy, as well as in moving towards carbon-free electricity.

LETTERS TO THE EDITOR

On Hong Kong's protest outcomes

Kudos to the Hong Kongese that the Hong Kong's Chief Executive had to finally bow down to the wishes of the protesters and agree to withdraw the draconian extradition bill brought in by her indicates that there is no more space for dictatorship and if people join together they can make all such dictatorship-minded leaders come to senses and follow the path of democratic values. Kudos to the people of Hong Kong who stood united for a reasonable cause and have won the battle against the tyrannical dictatorship of the Chinese government

— Tharcius S Fernando, Chennai

Steve Smith blasts

Former Aussie captain, Steve Smith brought up his third Ashes double-century (211) Thus, in this Ashes series he has 589 runs (averages 147.25 and parallels with Don Bradman) despite sitting out three innings with a concussion. Though as world's best test batsman, Smith has been forever mesmerising, especially during his increasingly eccentric post-delivery antics, beside his dedication. Like other greats, in this innings, Smith also survived a drop by Jofra Archer on 65 and Jack Leach claiming his wicket on 118, but was a no-ball. The day was not for England and its cricketers seemed to have forgotten that 'catches win matches'. If Archer would've taken that difficult return catch in the second over Aussie would have put a low score. England had their chances, but couldn't quite take them. But one has not to be forgotten Even after this if Australia fails to retain the Ashes, then Smith will be as mystified to be on the losing side, just as Shane Warne was, with his 40 wickets in 2005.

— Bidyut K Chatterjee, Faridabad

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China does a volte-face in Hong Kong

China's step down is a mystery. Is it because China cannot attempt a Tiananmen 2019 fearing global backlash? Has China been cornered because of the Reuters leaks? Is truce in Hong Kong tied to the impeding trade talks with the US? Does the withdrawal come as an acknowledgement of failure in Hong Kong? Or is it a genuine peace-dove to help defuse the situation?

ILLUSTRATION: ROHNIT PHORE

ANURAG VISWANATH

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

AT LAST, THE extradition Bill whereby Hongkongers could be extradited to China for trial has been withdrawn. Chief Executive Carrie Lam announced the formal withdrawal of the Bill on September 4. The extradition Bill had triggered massive protests. While the withdrawal was the main demand, other demands came up in the course of the protests because of the manner in which the protests were handled by China. While the withdrawal is a good sign, it has neither come easy nor straightforward, with Hong Kong into 13 weeks of protests, and thousands of protesters teargassed, water-cannoned, beaten up and arrested. Nor has it come untainted, with strong evidence suggesting links between Beijing-Hong Kong police-Hong Kong triads (secret societies). The triads, it is said, infiltrated the protests and beat up the protesters for cash. Further, in a damaging report and a leak obtained by Reuters (news agency), it has emerged that China, not Hong Kong, calls the shots under the 'one country, two systems' principle. In effect, China's about-turn has come too late, at the cost of China's considerable 'loss of face' and credibility severely dented. China expects the protests to stop—but will they?

The withdrawal was announced after Reuters reported that China had declined the proposals made by Ms Lam earlier in July-August to withdraw the Bill and launch an inquiry into police action. Reuters said that Ms Lam's proposals had been submitted to a high-level body in Beijing, the Central Coordination Group for Hong Kong and Macau Affairs led by Politburo Standing Committee member Han Zheng.

To add fuel to the fire, Reuters obtained and released an audio recording of a closed-door meeting that Ms Lam addressed. In the 24-minute recording, Ms Lam appeared to suggest that she would quit if she had a choice and that her powers were, in fact, restricted. "The room," said Ms Lam, "the political room for the Chief Executive who, unfortunately, has to serve two masters by constitution, that is the central people's government and the people of Hong Kong, that political room for manoeuvring is very, very limited." Ms Lam indicated that Beijing is aware that the issue will 'ripple on' and that special arrangements were being made for October 1 (National Day, China) with "they (Beijing) and ourselves (Hong Kong) have (having) no expectations that we could clear up this thing before October 1."

So far, China had refused to step down. In fact, the dominant narrative has been 'black hands' (literally, foreign powers, or the US) as behind the protests. China's 'black hands' claim is based on a meeting that took place in August 2019 between a US official and Hong Kong activists, including Joshua Wong. The US official, Julie Eadeh, is a political counsellor in the US Consulate. The pro-Beijing newspaper, *Ta Kung Pao*, released the diplomat's private information, including names of her children. The State Department stepped in to say that such meetings were routine, saying that US diplomats "meet regularly with a wide cross-section of people across Hong Kong and Macau."

Ironically, it is China that has been accused of not playing it fair. In July, critics alleged China's 'hand' in an attack on the protesters at Yuen Long in Northern Hong Kong. A mob dressed in white attacked the protesters dressed in black. Seasoned Hong Kong observers such as Yi-Zheng Lian (chief editor of the *Hong Kong Economic Journal*) suggested that the attacks were orchestrated by Beijing and carried out by Hong Kong's triads: 14K, Wo Shing Wo and Shui Fong.

It is entirely plausible that China misread the situation and failed to gauge that the protests were underpinned by genuine concerns regarding Hong Kong's future in 2047. That year, the arrangement of 'one country, two systems' under whose rubric Hong Kong reverted to China in 1997 expires. Hong Kong will lose its status as a Special Administrative Region.

For China, Hong Kong was a grand experiment to prove to the world (and Taiwan) that China's authoritarianism was, in fact, benign. Hong Kong was to serve as the model easing Taiwan-China reunification. Today, Hong Kong's protests have upended the rulebook. They are mass-based, not elitist, non-violent, not violent; and leaderless, rather than led by one leader. Hong Kong appears a Generation X version of a revolution where social media platforms such as Telegram (messaging app) and LIHKG (Hong Kong's Reddit) have been at play. Ultimately, it is the common man, the proletariat, out at the forefront in Hong Kong—nothing short of a revolution, the kind that communists celebrate and democrats condone.

While China has highlighted the withdrawal of the Bill, with *China Daily* saying "protesters now have no excuse to continue violence," China has acquiesced to only one of the five demands made by the protesters—who have, time and again, reiterated the holy grail of five demands: 'no compromise, no negotiation', as they say. The demands that Beijing has not met include independent enquiry into brutal police action, amnesty for those arrested, rescind on categorising the protesters as 'rioters' and universal suffrage. Ms Lam insists that enquiry into police action be handled by the Independent Police Complaints Council (IPCC), which the protesters disagree with. The protesters have responded to Beijing's withdrawal with 'five key demands, not one less'.

In response to the withdrawal of the Bill, the Speaker of the US House of Representatives Nancy Pelosi has thrown her support behind Hongkongers, saying: "The pro-Beijing leadership in Hong Kong must ensure a political system accountable to the people, including granting universal suffrage and investigating police violence."

But by any stretch of imagination, there are several unanswered questions. Who was responsible for the leaks—Ms Lam's report to Beijing, followed by the audio tape? Were the leaks an inside job? Hongkongers feel that Ms Lam has let Hong Kong down, and has little at stake with her family's British citizenship (husband and two sons). Hongkongers gossip that her older son works for Xiaomi, a Chinese company. A few months ago, Ms Lam was expected to grace the 150th anniversary of St Francis' Canossian (Ms Lam is an alumni). But how the mighty have fallen. Today, several alumni would rather not have her presence.

China's step down is a mystery given that a few weeks ago they were not above calling the protests 'near terrorism' and the protesters as 'terrorists'. Is it because China cannot attempt a Tiananmen 2019 fearing a global backlash? Has China been cornered to step down because of the Reuters leaks? Is truce in Hong Kong tied to the impeding trade talks with the US? Does the withdrawal come as an acknowledgement of failure in Hong Kong? Or is it a genuine peace-dove to help defuse the situation?

Hong Kong protesters continue to be suspicious of their government with little faith in the promises and of China's withdrawal of the extradition Bill which has conceded one out of five demands. For China, this is a big step down. But in the protesters math, it may be a case of asking for too much, for too little given.

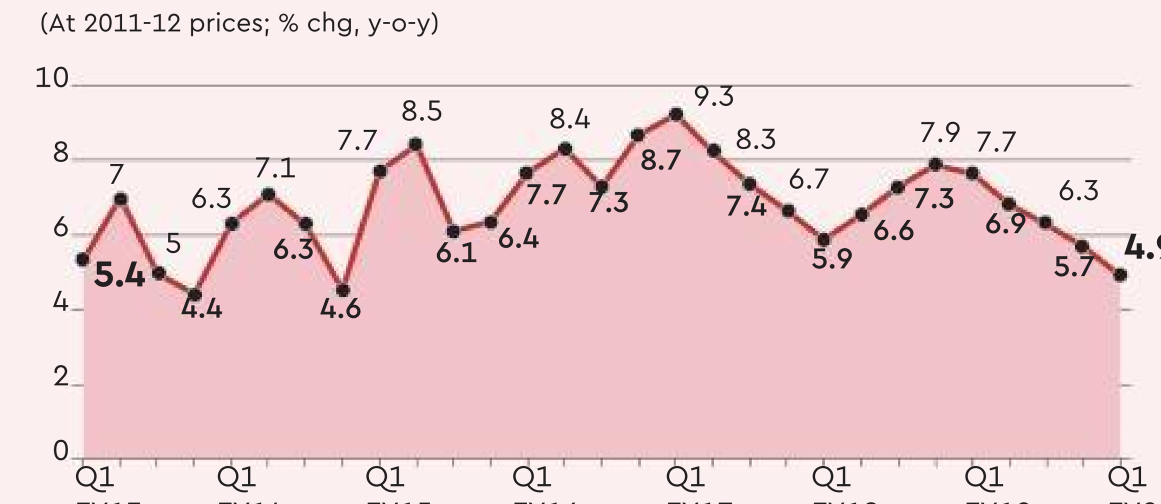
DATA DRIVE

Q1FY20 GDP growth at a 25-quarter low

(At 2011-12 prices; % chg, y-o-y)

GVA growth falls below 5% for the first time since Q4FY14

(At 2011-12 prices; % chg, y-o-y)



Growth slows, recovery may take long

AS REAL GDP in the three months to June grew at 5%, the slowest in 25 quarters, the economic slowdown has deepened, and a broad-based and sustained recovery may take several more quarters. While GDP growth decelerated for five successive quarters, private consumption and manufacturing decelerations are particularly noticeable. Investment growth, too, continues to be low, and even services failed to maintain buoyancy.

Private consumption, the bulwark of the country's growth story in recent years, grew 3.1% in Q1FY20, a four-year low. In fact, this is not the first time that quarterly GDP and private consumption growth fell below 5%. In FY13, GDP growth was below 5% for two quarters—Q1 and Q4—and private consumption collapsed to (-)0.9% in Q1FY13.

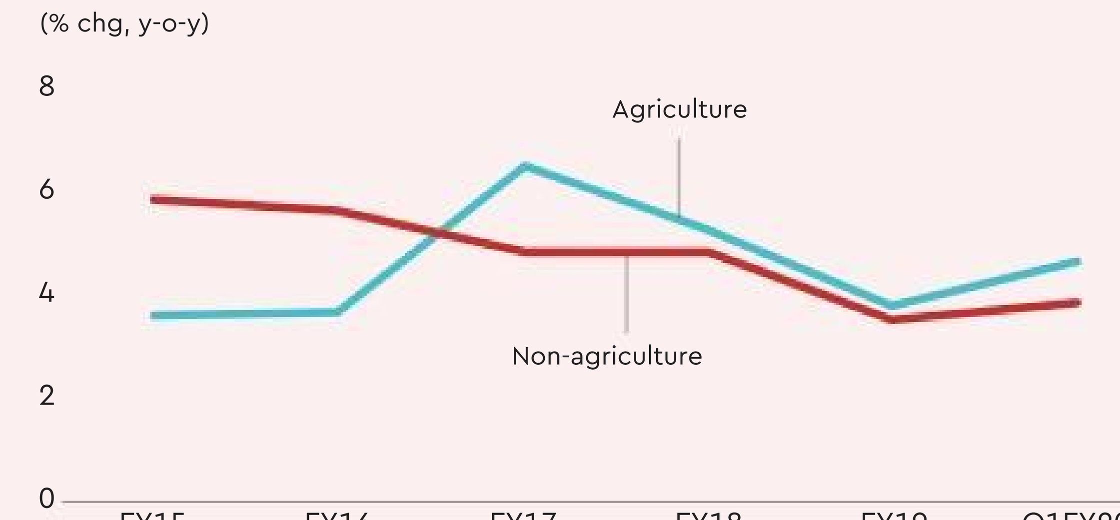
Nominal GDP, too, slowed down to 8%, the slowest since Q3FY03, after considering the previous two series of national accounts. As nominal GDP growth is a proxy for growth in incomes, the slowdown will impact the tax revenue growth rate.

Much of the cyclical slowdown has affected sectors that are large employment generators, indicating that incomes and employment growth in these have suffered. Moreover, households have been dipping into their savings in the past, while leveraging themselves.

ILLUSTRATION: SHYAM KUMAR PRASAD

Rural income growth remains sluggish

(% chg, y-o-y)

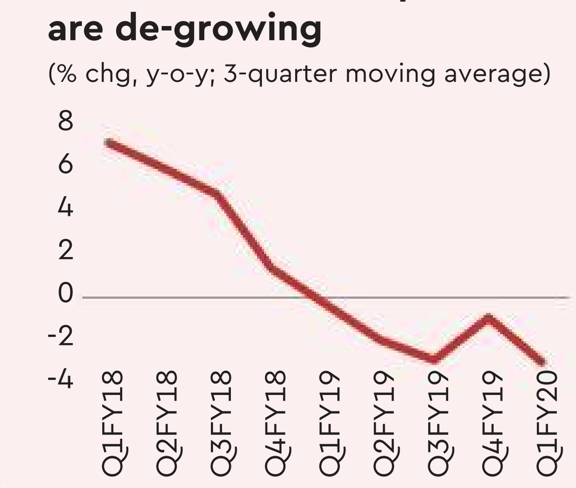


Urban income growth tepid for formal sector

(% chg, y-o-y)

Labour-intensive exports are de-growing

(% chg, y-o-y; 3-quarter moving average)



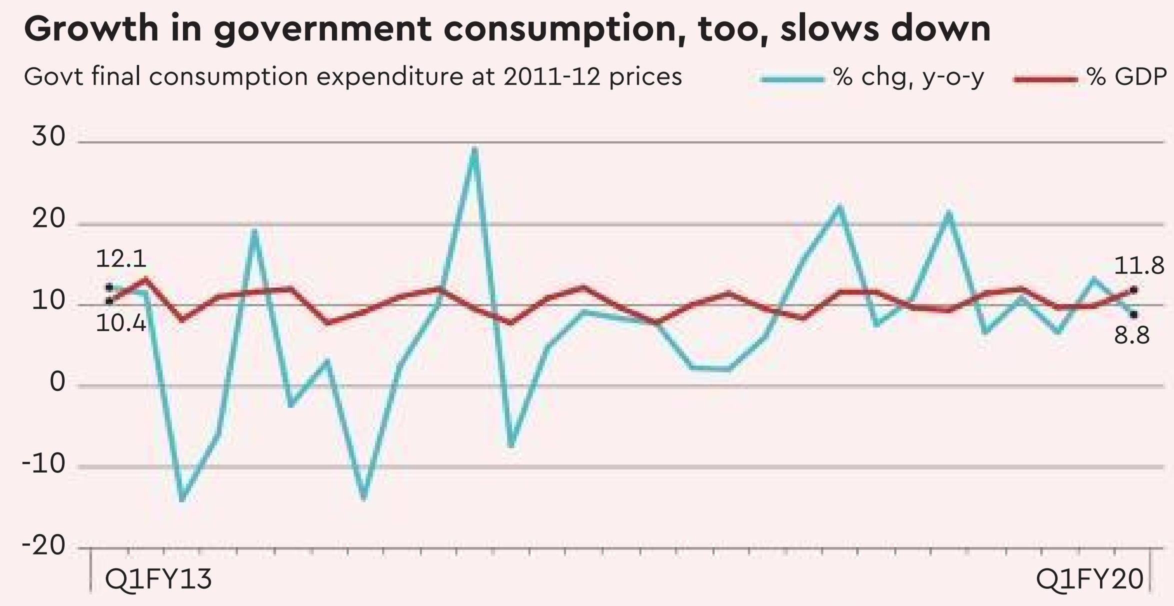
Note: Gems and jewellery, textiles, leather and agri-related products are taken as labour intensive sectors

Private consumption growth slowest since Q3FY15

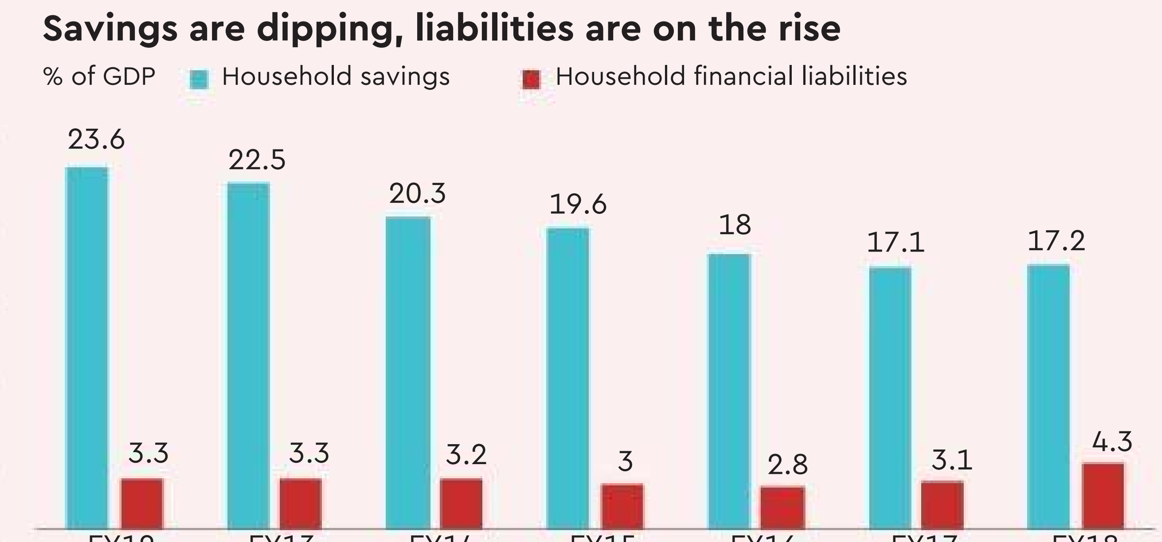
Pvt final consumption expenditure at 2011-12 prices

Growth in government consumption, too, slows down

Govt final consumption expenditure at 2011-12 prices



Savings are dipping, liabilities are on the rise



Source: CSO, Ministry of labour, Ministry of commerce, CRISIL