

Opinion

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Earth sinks with climate lethargy

New IPCC report shows warming will play havoc with oceans and ice, and by extension, on humans

A NEW REPORT from the Intergovernmental Panel on Climate Change (IPCC), on the effect of global heating on the oceans and the cryosphere, is the latest in the growing line of warnings that underscore the need for urgent climate action. Given oceans are key carbon-sinks, if governments worldwide—other than a handful, including India—choose to walk their current emission paths, the foreseeable future looks quite bleak. Over a billion lives in the high mountains, low-lying coastal zones, island-nations, and the Arctic hang in balance. Global heating at 1°C above pre-industrial levels—by 2100, it is predicted to reach 2.9°C with the “ambitious” plans of the Paris deal signatories, 3.3°C with the current emission reduction action, and 4.5°C without any action—has already had a drastic impact on ocean ecosystems. If countries don’t double down on reducing greenhouse gas emissions by radically reimagining consumption, farming and land-use, energy generation, etc, the effect on oceans and the cryosphere will worsen the climate crisis. So far, these have been part of the buffer against much worse impact.

The IPCC report, which references over 7,000 scientific publications, states that small glaciers could lose more than 80% of the current ice mass by 2100 under high emission scenarios—the kind that can be imagined for a world where the largest historical polluter, the US, and a large developing economy, Brazil, are both headed by stubborn climate-deniers. With the retreat of mountain glaciers, water availability, and quality downstream is also likely to be severely affected, with large negatives for food security, once agriculture gets impacted. While the 20th century saw sea levels rise globally by around 15 cm, it is currently rising by 3.6 mm per year—more than twice as fast. A significant rise in the sea level seems unavoidable given how the report predicts it to reach 30-60 cm by 2100, even when emissions are cut drastically to keep warming to <2°C. In a high emission scenario, the rise may be as high as 110 cm. Any additional warming over current levels, the report estimates, will cause events that occurred once per century in the past to occur every year by 2050.

By 2100, the report says, oceans will be absorbing 2-4 times more heat than they did between 1970 and now, if global heating is limited to 2°C, and 5-7 times more at higher emission levels. Given the retarding effect it will have on the mixing of water layers, and, consequently, on oxygen and nutrient availability, marine life will be severely impacted. Emissions led to marine heatwaves doubling in frequency since 1982—their frequency will be 20 times higher at 2°C warming, and 50 times higher at higher emission levels. The report also warns of unprecedented rise in ocean acidification—the oceans absorbed 20-30% of anthropogenic CO2 emissions since the 1980s. The report also states that if global heating is stabilised at 1.5°C above pre-industrial levels, the Arctic Ocean will be ice-free only in September—the month with least ice—once every 100 years. At 2°C, there could be a year of ice-free Arctic Ocean every three years. The thawing of the permafrost is also a concern—even in a 2°C warming scenario, around 25% of the permafrost at 3-4 metre depth could thaw by 2100; nearly 70% could be lost at higher emission scenarios. Given that the Arctic and boreal permafrosts have large amounts of organic carbon trapped in them—almost twice that in the atmosphere—any thawing is bad news, even if large-scale initiatives are taken to create carbon-sinks to offset the release. In the run up to the 25th Conference of Parties of the UN Framework Convention on Climate Change, countries need to take serious climate action. Else, the world sinks as it fries.

In the dark on solar

Steep import tariffs won't push domestic solar manufacture

INDIA'S EFFORTS ON solar capacity addition may position it as a leader in solar adoption, but its record on solar manufacturing shows it is barely scratching the surface on reducing solar imports. While the country added 60GW of solar generation capacity—the goal is 175GW renewable by 2022—it has added just 3GW of solar cell manufacturing, and 9GW of module manufacturing. Given how cheap Chinese imports are, in 2018, the government introduced a safeguard duty to prevent dumping. Now, as per a *Business Standard* report, the Ministry of New and Renewable Energy has proposed imposing a basic customs duty (BCD) of 10% on solar imports in 2021—when the safeguard duty expires. The proposal also calls for increasing the BCD to 20% in 2022, and to 30% in 2023.

Though it is true that cheaper Chinese imports, along with WTO restrictions, have hurt Indian solar manufacturers' interest, import duties will achieve little. Rather, import duties have only hurt Indian interests. The government had imposed a safeguard duty on solar imports from China, Malaysia, and other developed countries in July 2018 for two years. Although directorate general of foreign trade had suggested a 70% duty on imports, the government settled on a 25% duty for the first year, with a reduction to 20% for the six months after, and another cut, to 15%, for the final six months. While this was supposed to shift the focus to domestic manufacturing, a year on, all it has achieved is delaying generation targets. Imports from China still account for 78% of India's solar trade, and other countries, like Vietnam, Thailand, and Singapore, have become preferred destinations. Vietnam, and Thailand have witnessed an over 500% increase in exports of solar components to India in FY19 as compared to last year; the share of Singaporean solar imports has jumped from 0.73% to 5.85%. Without any significant increase in domestic capacity, the Indian solar market has slumped. Some may blame the low duty, and short time-frame for this, but higher tariffs may not aid manufacturers and only put India out of the value chain. This is evident from the fact that for the period of the safeguard duty exports have slumped 14%.

With far larger investments in infrastructure and technology upgradation happening in China, Indian solar manufacturers catching up with their Chinese counterparts seems extremely difficult. While duties may help India achieve a 9GW capacity, with each Chinese company producing 5-15GW, it still won't be able to compete in the long run. More important, given the paltry investment in R&D, it won't be able to innovate. The government needs to realise that the sector needs local support in terms of infrastructure, and the MNRE is right in asking for duty exemption for products that go in solar manufacturing till 2023. If India is to achieve its 175GW target, it cannot come on the back of higher import duties, which will ultimately end up translating into higher costs.

Double WHAMMY

India's fight against TB must also face off another enemy, HIV

ACCORDING TO THE *India TB Report 2019*, 21.5 lakh tuberculosis (TB) cases in India were registered with the Revised National Tuberculosis Control Programme (RNTCP) in 2018—a 16% increase from 2017. The rise is quite worrying—India already has the world's largest TB burden—but, the data is a double whammy. The private sector, too, registered a 40% increase in cases reported from last year. One reason for this rise is the increase in number of HIV-infected individuals who developed TB. Persons living with HIV/AIDS (PLHA) are 2.1 times more likely to develop TB than others. Around 25% of deaths of PLHA have been attributed to TB. Given the co-infection, morbidity, and mortality of PLHA-TB, there is a need to tailor healthcare programmes for PLHA, and ensure better delivery.

India has the third highest HIV burden in the world (0.22% adult prevalence), and ranks second for HIV-associated TB (9% of cases worldwide). TB is the leading cause of deaths for PLHA; in India, nearly 50,000 of the 21.5 lakh PLHA—43,253 in 2017—had TB-HIV co-infection. The Union health ministry, taking heed of this co-infection, has launched the ‘TB Harega, Desh Jeetega’ campaign, the National TB Prevalence Survey, and an oral drug regimen for TB patients. Also, under the Nishkay Poshan Yojana, it provides direct benefit transfers to TB patients for nutritional support. However, many TB patients—around eight lakh—going unregistered is a big hurdle; the problem worsens when a patient is also HIV-infected. The government must, therefore, step up efforts to get all TB cases registered with the RNTCP.



SHIP TO SHORE

Union Defence Minister, Rajnath Singh

I am most impressed to see the professionalism, commitment and spirited approach shown by the brave sailors of the Indian Navy. I am reassured that the security of our nation is in safe hands

CORPORATION TAX CUT

SINCE CESSSES AND SURCHARGES HAVE NOT BEEN TOUCHED AND MUCH OF THE LOSS IS DUE TO LOWER COLLECTION FROM BASIC RATES, STATES WILL HAVE TO BEAR 42% OF THE REVENUE COST

Who bears the budget of revival?

THE REDUCTION IN the corporate tax rates announced in September was hailed by the industry, and brought much-needed cheer to the stock markets. The increase in Sensex by more than 3,000 points in two trading sessions cast aside the bear hug that had gripped the markets since the disappointing first quarter GDP estimate was released. Although the bond markets reacted with lower yield due to the fear of higher fiscal deficits, the overwhelming sentiment was buoyant. The government had been in denial mode all along about the economic slowdown, and the markets did not take the finance minister's earlier Friday announcements of bank mergers seriously. However, the corporate tax rate reduction was taken as the government's acknowledgement that the economy urgently needed stimulus to bring back animal spirits.

The best approach to tax reform is to broaden the base, and reduce the rate. Ideally, it would have been better to make a systematic reform by doing away with various tax concessions, and reduce the tax rate. Unfortunately, grandfathering the tax concessions will take time, and there will be pressures to continue them in one form or another. The approach adopted now is to make reduction conditional on not availing tax preferences. Perhaps, this is politically easier.

In implementing the rate reduction, the FM has fulfilled the promise, made five years ago by her predecessor, of bringing down the tax rate to 25%. Capital being highly mobile, *ceteris paribus*, the differences in tax rates can be an important determinant of investment flows. In most of the competing countries, the corporate tax rates were lower, and that is an important motivation for reducing it. In fact, having declared five years ago that the tax rates will be brought down to 25%, and having

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implemented this for companies with turnover up to ₹400 crore, there were expectations of reduction in the budget presented in July. Perhaps, the lowest growth of GDP recorded in the first quarter over the last six years forced the decision to reduce the rate barely two and half months after presenting the annual budget, and with four months to go for the next one. To what extent this will reverse the trend, and cause a 'V' shaped revival, remains to be seen.

No serious tax economist advocates loading the tax policy with multiple objectives and proliferating tax concessions. The costs of tax concessions in terms of revenue foregone and distortions are high, and their efficacy in achieving the professed objectives is doubtful. They mainly serve the political purpose of appeasing special interest groups. In fact, the revenue forgone statement in the budget records 28 items, under which the tax concessions from corporate tax are availed, and these include items like accelerated depreciation, export profits of units located in SEZs, transmission and distribution of power, development of infrastructure, mineral oil exploration, donations to charitable trusts and institutions, units established in north-eastern and Himalayan states, and processing and preservation of food items. Of these, deductions/concessions for export profits located in SEZs, accelerated depreciation infrastructure, and transmission and distribution of power account for 82.6% of the total. The share of accel-

erated depreciation alone is 48.6%.

With the reduction in the tax rate to 22% if tax concessions are not availed, lowering of the rate for new companies to 15%, and reducing the minimum alternative tax (MAT) from 18% to 15%, the new effective rate is estimated at 25.17%. The new companies may not come to the production scheme for the next five years. In fact, it does not make sense to reduce the MAT when the objective is to stop companies from availing concessions.

The market reaction, perhaps, is due to the mistaken belief that the gains from the tax cut are massive, from 35% to 25.17%. Prior to the tax cut, while the nominal tax rate, including the cess and surcharge, was 35%, the effective rate was much lower—just about 29.49% in 2017-18, the last year for which data are available. If the effective rate before the reduction is assumed to be the same as in 2017-18, and with the corporate tax collection estimated at ₹766,000 crore, the revenue cost works out to ₹1.12 lakh crore. The government has pegged the revenue cost of the new measure at ₹1.45 lakh crore, which appears to be a bit exaggerated because the new companies will not be able to avail the lower rate until 2024, and many companies may not be eligible for lower tax rate if

they avail tax concessions.

Even by taking the official estimate of the loss at ₹1.45 lakh crore due to cut in tax rates, the loss to the Centre will be much less. Much of the loss is due to lower collection from the basic rates, and the cesses and surcharges have not been touched. Therefore, the states will have to bear 42% of the revenue cost, which is about ₹60,000 crore. Besides, with lower tax rate, many public sector companies, particularly oil marketing companies, are likely to have much higher profits and will pay higher dividends, and going by the 2018-19 estimates of profits, the Centre should be able to receive at least ₹15,000 crore. The overwhelming impact of the tax cut will be on the states.

Even though the presumed loss of revenue for the Centre is exaggerated, this is going to put additional pressure on the fiscal deficit situation. First, the revenue forecast, which assumes over 25% growth over the actuals reported by the Controller General of Accounts, is clearly an overestimate, and even after taking account of the higher RBI transfer, it would be difficult to achieve the target. Second, with the FM directing the spending departments to clear the pending bills and loosen their purses to revive demand, the expenditure is likely to increase. The FM has stated that, at present, she is not thinking about the fiscal deficit target, which is, in a way, preparing the ground for relaxing the target later. There are already cries for abandoning the targets to revive growth from various quarters, and it will not be surprising if the FM takes the bite. In the process, will we throw the baby and retain only the bath water?

The revenue forecast, which assumes over 25% growth over the actuals reported by the Controller General of Accounts, is clearly an overestimate

Monetary easing: Room to cut 25bps

The efficacy of incremental rate cuts in rapidly instigating a turnaround in economic growth remains uncertain, given continuing structural constraints

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Views are personal



IN AN UNEXPECTED move, the Monetary Policy Committee (MPC) had reduced the repo rate by 35 basis points (bps) to 5.4% in the August 2019 policy review, while retaining the accommodative stance. The slowdown in economic growth was clearly the MPC's primary concern, with the CPI inflation forecast to remain under its medium-term target of 4% up to Q1FY21. With the GDP growth in Q1FY20 printing sharply below expectations, we now expect a fifth consecutive rate cut in the MPC review in October 2019.

The year-on-year (y-o-y) CPI inflation inched up to 3.21% in August 2019 from 3.15% in July 2019, only marginally higher than the MPC's forecast of 3.1% for Q2FY20. Flooding in various states has resulted in a spike in vegetable prices, and a y-o-y decline in the estimated kharif output of rice, pulses, and sugarcane pose modest risks to the inflation trajectory. Moreover, crude oil prices have remained volatile, subject to geopolitical, and trade tensions. A relatively subdued global growth outlook is likely to restrain commodity prices in the near term, which would contain the inflation in manufactured products. However, the demand for various services is likely to remain sticky even during a period of muted domestic economic growth. In our view, the CPI inflation would continue to inch up in the next few prints, led by food items, but average a modest 3.5% in FY20.

The MPC had mildly revised its GDP growth outlook for FY20 downwards to 6.9%, with risks somewhat tilted to the downside, from 7% in the June 2019 review. Subsequently, the GDP data for Q1FY20 was released, which revealed an unexpectedly sharp slowdown in growth to a 25-quarter low 5% from 8% in Q1 FY19.

While the IIP growth improved in July 2019, the early indicators for August

2019 have revealed a widespread deterioration in the industrial sector. The instances of flooding in Q2FY20 are also likely to subdue agricultural growth in this quarter. However, central government spending may pick up post the July 2019 Union Budget, supporting economic growth in Q2FY20.

The government has responded to the weakness in the growth momentum with various measures, including the lowering of the corporate tax rate. This is expected to provide a substantial and broad-based boost to business sentiment in the immediate term, and is a long-term structural positive, although it would increase fiscal stress in the short-term.

Domestic corporates may choose to use the tax savings to retire high cost debt, increase dividends, lower prices or make fresh investments. Given the moderate capacity utilisation in various sectors, we don't expect a broad-based pick-up in capacity expansion by the private sector until there is greater visibility of a sustained uptick in domestic consumption demand. In our view, land and labour reforms, and regulatory clarity and consistency are areas where additional measures are required to complement the impact of the tax cut. Such measures would make India a more attractive investment destination and help attract fresh FDI over the medium-term.

The Government of India (GoI) has pegged the gross revenue loss related to the tax cut at ₹1.45 trillion, approximately 42% of which would be borne by the state governments through lower tax devolution to them. Therefore, the net impact of this tax cut is likely to be around ₹0.8-0.9 trillion, which, by itself, would translate to a fiscal slippage of around 0.4% of GDP in FY20. Expenditure cuts may still have to be undertaken to prevent the GoI's fiscal deficit from ris-

ing too sharply in FY20.

Based on the shortfalls in central tax collections in FY19 and the estimated gap in FY20, the aggregate central tax devolution to the states may be a sharp ₹1.5-2.0 trillion lower than what was budgeted by the GoI. Sizeable expenditure reduction or deferral would be required to avoid substantial fiscal slippage at the state government level, given that the borrowing limit set by the GoI acts as a soft constraint to the size of the states' fiscal deficits. In our view, likely cuts to productive and/or capital expenditure at the state level pose a key risk to the economic growth outlook.

Based on our assessment that private sector investment activity would pick up over the medium-term whereas government expenditure restraint would be required in the remainder of this fiscal, particularly at the state level, we are revising our FY20 GDP growth forecast upward from 6.2%. Moreover, a sizeable reduction in the MPC's baseline growth forecast for FY20 may be in the offing.

Given that at least a portion of the tax cuts would have to be absorbed through lower state government expenditure, the impact on inflation may be modest. Additionally, some firms may choose to pass through a portion of their tax savings through lower prices of goods and services.

Based on our forecasts of the inflation and growth trajectory, the space for additional monetary easing appears to be 25 bps, which we anticipate would be undertaken in the October 2019 MPC review.

Nevertheless, the efficacy of incremental rate cuts in rapidly instigating a turnaround in economic growth remains uncertain, given continuing structural constraints, such as the cost of land acquisition, moderate capacity utilisation levels, relatively high debt levels of some corporate groups, and reluctance of banks to lend for project finance.

LETTERS TO THE EDITOR

Restore normalcy in Kashmir

While India had successfully made the world's most influential powers, barring a few, treat its decision to revoke Article 370 as its internal matter and gained support for its commitment in combating cross-border terrorism, it had its task cut out to restore normalcy in Jammu and Kashmir. Nearly two months have passed since restrictions on mobility of people were implemented, and communications were shut down, but no signs are visible yet to demonstrate the government's willingness to lift these. Our pragmatic diplomacy at international forums has given us enough political breathing space for us on the issue of Kashmir. We must take time-bound concrete steps to restore normalcy in Kashmir lest the existing support of international community for us on this issue wanes sooner than later. — M Jeyaram, Sholavandan

Justice for Bilkis Bano

Glad to read that the SC thrashed the Gujarat government to pay a compensation of ₹50 lakh to Gujarat riots survivor Bilkis Bano within two weeks, and provide her a job and accommodation immediately. The CJI rightly said that the order was in view of specific facts and circumstances in the particular case. Bano's legal battle of over 15 years began after the state police dismissed her complaint of gang-rape during the 2002 riots citing lack of evidence. Bano, then 21, was five months pregnant when she was assaulted by a mob of Hindu rioters in Randhikpur village near Ahmadabad. Bano lost 14 members of her family, including her three-year-old daughter. The Gujarat government must implement the SC order immediately, failing which would be contempt of court, and punishable under the law. — Bhagwan Thadani, Pune

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DRAFT LMF

Getting a grip on the new liquidity framework

The framework now has given a realistic twist to managing liquidity. If RBI feels at any time that liquidity is getting tighter, it can go in for longer tenure repos of maybe even up to one year, which is more durable than the regular 14-day term repos but less permanent than an OMO

either get reflected significantly in the base rate or MCLR (Marginal Cost of Funds-based Lending Rate) formula. But the liquidity framework works better through the market to ensure that the transmission takes place and the call market is the starting point. Let us see how this works out.

The call money market is an inter-bank market where banks lend and borrow funds on an overnight basis depending on their liquidity conditions and requirements. This rate is based purely on demand and supply conditions, and is not driven directly by RBI. Ideally, the call rate will move in a regulatory constructed corridor and be just above the repo rate as banks go to this market when the repo window is closed to them because the 1% liquidity support is exhausted. Therefore, the change in repo will affect the call rate almost immediately. The reverse repo rate acts as the other end of the corridor when there is surplus liquidity. Hence, the reverse repo and repo rates become the limits for the call money market.

RBI can influence the liquidity in the market directly to guide the call rate. Ideally, RBI would be happy to let the market decide the rates, and not deal with banks on a daily basis. However, if it is left to the market, the possibility of the call rate soaring to higher levels (it was above 20% in the 1990s) or crashing close to nil cannot be ruled out. This is more so when the market knows there is no benchmark against which the prevalent rate can be assessed. Therefore, there is a need for supports in the market like the repo rate so that there is reduction in volatility in the market.

There is now the issue of how much money can be transacted in the liquidity adjustment facility (LAF) market. The 1% norm today comprises 25 basis points in overnight repo and the balance in the term repo market. The Committee feels there should be no such limit that will give more flexibility to RBI to keep liquidity stable. It is suggested that, ideally, the system should be in a deficit of 25-50bps, which will be non-distortionary. As a corollary, the market can take over beyond this level. However, assuming that such thresholds are breached on either side, RBI can bring in durable liquidity through OMOs (open market operations), which is what is done to ensure that volatility is eliminated. By not having a limit on how much can be transacted through LAF, there is more

flexibility given to RBI in maintaining rates in the market.

The proposed framework now has given a realistic twist to managing liquidity. If RBI feels at any time that liquidity is getting tighter, it can go in for longer tenure repos of maybe even up to 1 year, which is more durable than the regular 14 days term repos but less permanent than an OMO. The advantage here is that by using longer-term repos to manage liquidity, the yields on securities do not get affected. Today, when there are OMOs being conducted, there are shifts in the demand and supply of securities of various tenures, which affect their prices and hence yields. This can be eschewed by using only the repos as liquidity management tools where the overnight repo without a limit is used to manage temporary mismatches while the term repos of longer duration come into the frame when it comes to durable liquidity. OMOs would then be interpreted as a way to induce permanent liquidity as the securities are not pledged to get money but bought by RBI.

The same story gets replicated for the reverse repo when there is surplus liquidity. Forex deals/swaps are supplements to OMOs in this scenario.

Intuitively, the operations in the call market have a better linkage with other interest rates and hence would tend to guide the transmission process of interest rates. Once the liquidity framework is in place and known to all, banks will be able to adjust their interest rates as all the other tenures get repriced

Besides being a market-oriented solution for rate transmission, the market requires to know this framework so as not to be caught unawares. The step-up process from overnight repos to term repos to OMOs is predictable, which will make it easier to manage funds for all the players. There will hence be better pricing of products in the market as the call rates feed into other prices of instruments that will reduce the element of noise, which will be beneficial. This approach is, therefore, definitely pragmatic.

Once the liquidity framework is in place and known to all, banks will be able to adjust their interest rates as all the other tenures get repriced

● BIT BY BIT

From small to larger screens

NANDAGOPAL RAJAN

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As smartphone makers enter TV space, it could be the start of something big

WHAT I AM GOING to say might sound a bit radical, but I do think smart televisions are nothing but smartphones with extra large displays. Maybe some smartphone companies too think the same. This could explain why a lot of these are now queuing up to launch a smart television. The latest in this space is OnePlus, a bit late if you consider Xiaomi launched a smart TV over a year ago, and Motorola has just announced its intentions to.

There is a distinction between a smart TV brand using its branding on a television—Micromax did a few years ago—to a smartphone company launching its take of a smart TV. Xiaomi and now OnePlus are doing essentially this, because they are thinking of everything from OS to content. This is an interesting development because a big smartphone brand also has everything you need to launch a smart TV, from connections with display and processor makers to a functional OS. But what really gives these companies a bit of an edge over traditional TV brands is their understanding of the new-age user and her content consumption patterns.

During a recent meeting, Pete Lau, the clear-headed founder of OnePlus, told me he thinks in 10-20 years "a lot of traditional TV manufacturers will probably disappear." He knows it is a bold statement, but he has his reasons for this aggressive take. "We have a vision for the future and a good picture of what is going to happen in the next 10 years in terms of the home internet. It is with this vision in mind that we have decided to make a television." He has also rethought how a smartphone user—the OnePlus smartphone user to be precise—consumes the television and there are some synergies for users who have both the devices from his brand.

The growing popularity of streaming services in India is a huge opportunity for smart TV makers, including the traditional ones. As internet speeds improve with access to fibre, streaming services are able to offer streaming in very high quality, with 4K, Dolby Vision, Dolby Atmos. This is happening when streaming services are becoming more affordable for Indian users; for instance, Apple TV+ will launch in India at just ₹99 a month. This means a lot of users who are on relatively newer TVs might hasten the upgrade cycles so that they can enjoy the best quality experience. This is important for the TV industry, which has been flat at best for a few years.

Pankaj Kedia, MD for emerging markets at Dolby, says users want to get the "cinematic experience" right inside their living room and hence need all the best television features. The larger screen, he believes, changes the experience from "an ordinary experience to pretty extraordinary."

As 4K TVs become more affordable across boards, you will also see a lot of play in the premium segment. Sunil Nayyar, MD of Sony India, recently told me he is clear the Japanese brand will play on premium in India. Explaining why Sony products will be at least 20% above benchmark competition price point, he said: "But we are doing well... we tell the customer we deliver quality for it. So we deliver better picture, better sound, better durability, better after-sales service."

Even content creators and streaming platforms acknowledge that premium users want the best experience inside their living room—this is the equivalent to the Blu-ray users in the time everyone was playing DVD. To cater to them, Netflix and Amazon Prime both offer titles with 4K, Dolby Vision, HDR10 and Dolby Atmos. This is the best of audio and video experience possible in the living room now. Some services like Sun NXT even have playlists that are available with Dolby Audio, and even YouTube touts its 4K content.

The spike in consumption on smart devices means platforms and content creators now have so much insight into what people are watching, for how long and where they are dropping off. Kedia agrees a lot of this insight is taken into consideration when a new show is approved. It's a no-brainer why HBO has started working on a *Game of Thrones* prequel.

This could well be the start of a revolution of sorts in the television space, one where hardware and content try to chase each other, across screen sizes and user demographics. It should be a win-win for consumers.

This could be the start of a revolution of sorts in TV space, where hardware and content try to chase each other across screen sizes

MONETARY POLICY COMMITTEE

A jugalbandi of monetary and fiscal policies

RBI might go for a 20-25bps cut in the October policy and then wait to see how oil prices and fiscal deficit move

SHANTI EKAMBARAM

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SINCE FEBRUARY 2019, the Reserve Bank of India's (RBI) monetary policy has been doing most of the heavy lifting, cutting the repo rate by 110 basis points (bps), in an environment where inflation has remained well within RBI's medium-term target of 4%. However, when the RBI Governor-led Monetary Policy Committee (MPC) meets to release its fourth bi-monthly policy statement for FY20 on October 4, two issues that will be discussed at length are:

► **Crude oil prices:** The recent volatility due to geopolitical tensions and its likely impact on India's fiscal deficit and corporate tax reduction and thus the fiscal bazooka unleashed by finance minister Nirmala Sitharaman. Given the growth slowdown, it was absolutely the need of the hour, but this fiscal booster shot will likely put a strain on the fiscal deficit, which, in turn, could have a say in the monetary policy. Economists at Kotak have revised the fiscal deficit estimate for FY20 to 3.7% after accounting for fiscal measures. And we expect CPI inflation to trend towards 3.9% by March 2020.

► **The key question:** Can this fiscal bazooka trigger investment, consumption demand and, thus, growth? It was widely expected that fiscal measures would focus on driving demand and consumption. The

much-awaited September 20 tax reform by way of a sharp reduction in corporate tax rates is actually aimed at boosting investment. The ₹1.45 lakh crore fiscal boost to corporate India will hopefully trigger investment, facilitate price cuts to boost demand, and will also attract foreign and domestic investment into the manufacturing sector, giving a shot in the arm

to the Make in India initiative given the very attractive tax rates. This, at a time when foreign manufacturing bases in China are looking for alternatives in the Asia Pacific region.

With inflation within the targeted range, it was the right time to administer this fiscal boost as it gives the government the much-needed cushion to be able to

stretch the fiscal deficit in the quest for growth. Even as both the financial markets and the corporate India cheered the fiscal stimulus, the worries about slowdown in growth, whether this stimulus can stoke investments and consumption demand and the time lag for the same are real.

I do believe that we will see a slow, trickle-down effect of the fiscal booster to

consumers through lowering of prices and increase in wages. This will gradually restore consumer confidence and lead to revival in demand over the long-term. The fiscal stimulus has also come at just the right time with the festive season round the corner, and will give a significant boost to consumer spending.

At Kotak, our FY20 GDP estimate

stands at 5.8%, while any pick-up could be seen in the latter part of FY20.

Monetary and fiscal must work together: Even as the central bank cuts the key policy rate, there is a limitation to what the monetary policy can achieve on its own. While rates have been on a downward trajectory since February 2019, consumption and investments have continued to slow down. This is why fiscal and monetary policies must work together and go hand in hand. The government and RBI are working in tandem to pack a powerful punch for the economy.

Hopefully, we will see a return of the much talked about animal spirits in the form of investments, FDI, revival in manufacturing, creation of jobs and demand. As always, there will be a lead and lag effect between the announcement of the measures and its impact, which, in this case, could be 6-9 months. We will perhaps see the full impact of these measures in FY21.

In the near term, expect the MPC to take a more calibrated stance. There is headroom for the MPC to cut rates as inflation is low. My own expectation is that the central bank will go for a 20-25 bps cut in the October policy and then wait to see how oil prices and fiscal deficit move. Like everyone else, they will also wait to see the impact of monetary and fiscal measures that have been injected into the economy.