

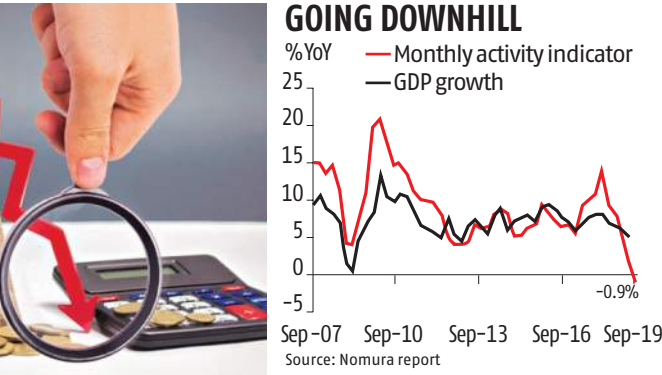
# August economic activity 'worse than 2008 crisis'

Nomura says GDP growth in Q2 may dip below 5%; full-year forecast of 6% gets riskier

ABHISHEK WAGHMARE  
New Delhi, 3 October

Economic activity in August was weaker than that observed in 2008-09 when the global financial crisis hit developed economies as well as India hard, markets research agency Nomura has noted in a report. Its monthly activity indicator (MAI), which is a three-month moving average of 19 high-frequency indicators, which include factory activity, services output, and trade and taxes, contracted 0.9 per cent over the previous year (August 2019 over 2018), the worst since when the data is available (2007). The MAI had grown 1.2 per cent in the June quarter. This meant that economic turmoil did not bottom out in the

April-June quarter, the report said. That quarter saw gross domestic product (GDP) growing at 5 per cent, the slowest in more than six years. This could assume importance on the backdrop of an expected rate cut by the monetary policy committee (MPC) of the Reserve Bank of India (RBI) on Friday. Nomura expects the RBI's MPC to cut the repo rate by 40 basis points, to take it to 5 per cent. "Railway traffic, cars and two-wheeler sales, medium and heavy commercial vehicles sales, and non-oil, non-gold imports are the indicators, which are the biggest drag on the economic momentum in August," Sonal Varma, India and Asia ex-Japan chief economist at Nomura told *Business Standard*. Nomura was the first global agency to slash the growth forecast



for the Indian economy to 6 per cent earlier this year. The RBI reduced the estimate of GDP growth in FY20 to 6.9 per cent in the August MPC meeting. The report also said that with this development, the downside risks to the annual FY20 forecast of 6 per cent have become stronger. Core sector companies produced lower than a year ago in August; imports also contracted during the same month, government data had shown. The MAI had always grown since 2007, Nomura data showed. This is the first time it has contracted since the pre-crisis years. Tighter financial conditions because of a crisis in the non-banking financial companies (NBFC) sector played a much bigger role than anticipated, the report said.

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## Loan mela...

Although letters of loan sanctions were handed out to customers on the launch day of the *mela* spread across some 90 districts, most of these were already under process for some weeks at the branch level. Some others had secured in-principle approval from banks recently. Ahead of the *mela*, public sector banks called up customers who had applied for loans, telling them to collect their sanction letters at these camps.

*Business Standard* reporters visited several *melas* across cities to find that customers, who got approval letters from banks on Thursday at these well-synchronised events, had applied for loans earlier at their respective branches.

The format followed by banks cutting across districts was similar to each other. Consider this. A loan camp organised by Canara Bank in Delhi had a ceremony, where customers were called on the dais and their respective banks handed over the sanction letters to them while announcing the amount and the purpose of the loan.

One of them was Shailendra Kumar Mishra who got ₹1.5 lakh in loan under the Pradhan Mantri Mudra Yojana, from Bank of Baroda after applying for the loan one month ago. "I got a call from a BoB executive this morning to collect the approval letter at this camp," Mishra said.

### Colour & music pep things up

If not under a tent, some fairs were organised in community halls or local clubs. The traditional dance of 'Dollu Kunitha' (one form of folk dance in Karnataka) welcomed the banking customers in Bengaluru as they entered Jnana Jyothi Auditorium in the Central College campus of

the city. Besides colour and hope for cash, there was music too. On the request of a Central Bank of India branch manager, a customer sang *Gulabi Ankhen* — a famous Bollywood song composed by R D Burman.

In a bid to make the event a success, branch heads of PSBs were told to bring in five customers to such camps and hand over loans to them. The camps failed to draw new customers in large numbers. "The footfall of walk-in customers was low. There are two reasons to it: some of these camps are taking place in community halls and second, banks had less time to publicise the loan *mela*," a zonal manager of a PSB said, requesting anonymity. He said that banks were given a final list of venues to hold these camps only on Monday. Bank officials said that while there wasn't any aggressive mass advertising initiative, banks ensured that their customers receive mailers and SMS about the outreach drive. Limited fund for advertising and promotions was cited as a constraint.

### Application process same

Meanwhile, the loan application process at the *mela*, has not been different from that at a bank branch. If an applicant comes with the necessary documents, an in-principle approval can be given within 59 minutes through the MSME 59 minutes web portal, pointed out State Bank of India Delhi's chief general manager Vijay Ranjan. "But before the final approval is given or the amount is finally disbursed, the bank, like all other participants, will follow its normal procedure and only then the final disbursement will be sanctioned," he said.

"People think that they can approach us and walk away with a loan. But we deal with public

money and have to safeguard depositors' money as well. So we have to be cautious that the bank doesn't fail and depositors' money can be returned with applicable interest," Walia of Corporation Bank said.

According to SBI's Ranjan, the organising banks are incurring expenses of the camps. SBI, for instance, spent around ₹3-4 lakh on each camp in Delhi. He added that banks want to send out a message to the public that they are geared up to meet their financial needs, especially during the festive season. The messaging is also about the well being of banks.

At the SBI-organised camp in Nehru Place, the biggest tech market of the capital city, NBFCs such as Saija Finance, Paisalo Digital and Aadhaar Housing Finance joined the party. At other venues, private banks including HDFC Bank and YES Bank chipped in with their resources.

For visitors, it was an opportunity to check out the best schemes and plans with the lenders. One such person was Subhash Ghosh, who was seeking a loan of around ₹1 crore for expansion of his two-year-old food processing start-up. During the day, he visited all the stalls speaking to lenders. He plans to go back to his finance team for picking up the best bet.

But, 32-year-old Pramod Kumar had to leave the loan camp disappointed. He tried to explain his case for taking a business loan to various lenders, but in vain. "I have an apparel manufacturing business — operating both on online and offline platforms and I am trying to seek loans under various programmes of the government whether it is Startup India or Mudra. But banks have set stringent conditions to sanction loan to a firm like mine," he said.

# Projects halved over last year

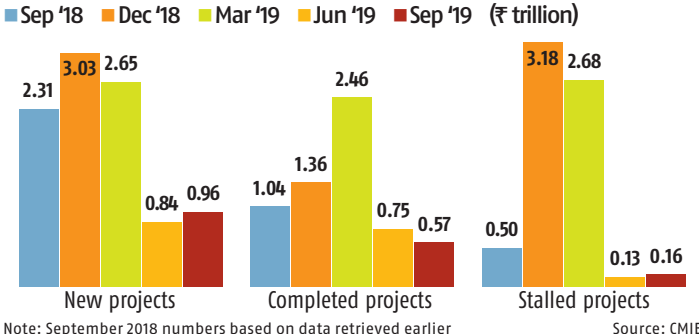
SACHIN P MAMPATIA  
Mumbai, 3 October

The number of new projects on the anvil has fallen over 50 per cent in the September quarter when compared to the same quarter last year. There were new projects worth ₹2.31 trillion in September 2018, but this number fell to ₹0.96 trillion in September this year, showed the data from project-tracker Centre for Monitoring Indian Economy (CMIE). The value of completed projects also fell. It was down 45.2 per cent to ₹0.57 trillion in September 2019.

Companies launch new projects when their existing capacity for production is likely to be breached. Around a quarter of the existing capacity is still lying unutilised, according to the Reserve Bank of India's Order Books, Inventories and Capacity Utilisation Survey (Obicus) report released in August. This survey has been released with a lag — the latest data is for the March 2019 quarter.

"At the aggregate level, CU (capacity utilisation) rose by 0.2 percentage points to 76.1 per cent in Q4:2018-19, co-moving with de-trended manufacturing output in the index of industrial production (IIP). Seasonally adjusted CU, however, declined by 1.1 percentage points to 74.5 per cent in Q4:2018-19," said the report. Order books showed an increase

## INVESTMENTS ON HOLD



Note: September 2018 numbers based on data retrieved earlier

Source: CMIE

over the same period last year, but sales showed a decline. The drop in new projects comes at a time when the country's economic activity has slowed to its slowest since 2013, with the gross domestic product (GDP) growth rate slowing to 5 per cent in the June quarter. Motilal Oswal Financial Services using its proprietary indicators suggested that investment activity declined in August 2019 for the third month in a row, the worst in a decade.

"What's worse, the decline in investments was broad-based, with almost all major indicators contracting in August 2019. Cargo traffic posted its worst decline in 94 months, power production posted its first decline in six-and-a-half years, construction activity declined for the second time in

three months, and capital goods' imports declined at the fastest pace in 40 months," said its October 1 Ecoscope report, authored by Nikhil Gupta and Yaswi Agarwal.

An earlier report from brokerage firm Jefferies India had noted that the government may have limited room to boost investments through spending money. Challenges to growth remain, which would be difficult to address, according to the August 30 Equity Strategy report by equity analysts Somshankar Sinha, Piyush Nahar, and Pratik Chaudhuri. "Indeed, lack of fiscal space may prove to be a challenge for any meaningful stimulus. Net tax collections rose just 6 per cent (in the June quarter).... and could weigh on expenditure plans too, (especially) capex," said the report.

## VALLEY GETTING BACK ON TRACK



The Kashmir Valley showed some signs of normalcy on Thursday, with massive traffic jams witnessed in Srinagar and some shops opening in the city. However, the government's efforts to reopen schools, which have now been closed for two months following abrogation of Article 370, failed again as students stayed away

PHOTO: PTI

## WORLD

### IN BRIEF

#### Trump calls on China, Ukraine to probe Biden

President Donald Trump on Thursday said China, as well as Ukraine, should investigate his current main 2020 election rival Joe Biden. Trump, who faces an impeachment inquiry over allegations that he pressured Ukraine to interfere in the election by attacking his opponent, told reporters he would "certainly" think about asking China to do the same. "It's certainly something we can start thinking about," the president said of asking China to get involved.

#### Russian man sues Apple for 'turning him gay'

A Russian man has filed a lawsuit against Apple for moral harm claiming that an iPhone app had turned him gay, according to a copy of the complaint seen by AFP. The man filed suit in a Moscow court seeking for one million rubles (\$15,000) after an incident this summer in which a cryptocurrency called "GayCoin" was delivered via a smartphone app, rather than the Bitcoin he had ordered.

#### Four killed in Paris police stabbing, attacker shot dead

A knife-wielding man working at police headquarters in central Paris went on a rampage on Thursday, stabbing and killing four employees before himself being shot dead, officials said. A fifth person who was critically injured was being treated in hospital after what was the deadliest attack on police in France in years. Paris prosecutor Remy Heitz said that the attacker, a 45-year-old employee from the IT department in the police intelligence section, killed three men and a woman.

#### EU girds for trade riposte after US ups ante on tariffs

European nations scrambled on Thursday to prepare a response to new US tariffs on billions of dollars' worth of EU goods after Washington got the go-ahead from the World Trade Organization to strike back over state subsidies for planemaker Airbus. But officials indicated they still hoped to find common ground to avoid escalating trade tensions that risk battering economies across the globe. "We've been arguing for a trade deal for months. Our hand is extended," French Finance Minister Bruno Le Maire said. **AFP/PTI**

# Pak Army chief takes on greater role in rejuvenating economy

BLOOMBERG  
Karachi, 3 October

Pakistan's already powerful military is taking an even greater role in running the country as the economy stumbles.

Army chief Qamar Javed Bajwa has privately met top business leaders to find ways to bolster the economy, according to people familiar with the matter. The three meetings *Bloomberg* is aware of took place this year at heavily guarded military offices in Karachi, the financial capital, and Rawalpindi, a northern town that houses the army's headquarters.

At the meetings, arranged through mutual contacts, Bajwa asked business leaders how to fix the economy and what would lead them to make investments, said the people, who asked not to be identified. Some of the meetings resulted in prompt decisions including sending instructions

## GETTING INTO ACT

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■ **Bajwa asked business leaders** how to fix the economy and what would lead them to make investments

■ **'National security is intimately linked to economy** while prosperity is function of balance in security needs and economic growth,' Bajwa said in a statement



to top government officials, the people said, without giving any specific examples. They said the general was concerned about restoring confidence among the business community.

An army spokesman declined to comment when asked about the meetings, however on Thursday the military issued a statement after

Bajwa hosted a gathering of government economic officials and business leaders on Wednesday.

"National security is intimately linked to economy while prosperity is function of balance in security needs and economic growth," Bajwa said in the statement.

The military, which has staged numerous coups since Pakistan's

founding in 1947, has seen a direct impact from the economic slowdown: Defense spending was frozen in the 2020 fiscal year budget for the first time in more than a decade. That comes as soldiers are on high alert against terrorists based in Afghanistan and conventional forces in arch-rival India, which has put the disputed area of Kashmir under lockdown. Many business leaders and economic analysts in Pakistan actually welcome a greater role for the generals. They view Prime Minister Imran Khan's party — less than halfway through its first term in office — as inexperienced compared with the military, which is the country's most respected and powerful institution.

But others are concerned about what an ever-increasing role for the military means for Pakistan's democracy and the future of civilian institutions that haven't been given the space to develop.

# Businesses non-committal on Brexit proposal from PM

ASHIS RAY  
London, 3 October

The commercial sector in Britain was muted in its response to Prime Minister Boris Johnson's proposal regarding the United Kingdom's departure from the European Union, which advocates a free movement of goods between the Republic of Ireland — an EU member state — and Northern Ireland, part of the UK.

Mike Cherry, chairman of the United Kingdom's Federation of Small Businesses, was quoted as saying: "It is vital that the prime minister finds not just words but a viable way forward to secure a deal and a period of transition." Edwin Morgan, director of policy at the Institute of Directors, stated: "Business leaders keenly hope there is space for a deal, but we are fast running out of road."

"We don't want to comment at this stage; we would rather wait until a deal is done," said Kevin McCole, COO of the UK India Business Council, which has numerous Indian firms as members.

Only a fortnight remains before the EU summit meeting of heads of government on October 17 and 18. The meeting will crucially consider the matter. EU and UK negotiators will resume their talks on Friday in a frantic effort to bridge the gap between Johnson's blueprint and the expectations of the 27 nations on the other side.

Johnson's immediate predecessor Theresa May's had agreed to a "backstop" with the EU to resolve the issue of Northern Ireland having a land border, as well as a 1998 peace treaty known as the Good Friday Agreement with the Republic; or literally customs checks on the Irish Sea that sep-



EU and UK negotiators will resume talks on Friday in a frantic effort to bridge the gap

PHOTO: REUTERS

arates the island of Ireland from mainland Britain. This was rejected by the House of Commons.

Johnson has now replaced May's idea with one that creates a customs frontier between Northern Ireland and the Republic of Ireland but allows free movement of goods from south to north (not the other way around), and a regulatory framework between Northern Ireland and the rest of the UK. This enjoys the support of the Democratic Unionist Party, the main Northern Irish loyalist political formation, provided the Northern Irish Assembly is granted the right to renew the deal or otherwise every four years. This is a potential deal-breaker as far as the EU is concerned.

Brussels was guarded in its response while not dismissing Johnson's letter. European Commission President Jean-Claude Juncker, though, noted some "problematic points". Privately, the EU viewed the proposal as disrupting the Irish island economy, unsettling relations between the two territories, destabilising to Ireland, and difficult to put into prac-

tice in less than two years. The leader of the main opposition Labour party in the Commons, Jeremy Corbyn, criticised the plan as "unrealistic and damaging". But the PM's gambit appears to have a slightly better chance of it being approved by MPs than May's.

Ireland being a critical player, its half-Indian-origin Prime Minister Leo Eric Varadkar caustically reacted: "I am reassured by what Prime Minister Johnson said today: That he is not proposing that there should be any new physical infrastructure on the island of Ireland linked to customs or customs checks. But that is actually in contradiction to the papers presented by the UK government yesterday."

Moreover, any British deal with the European Commission or the EU council of leaders would need to be approved by the European Parliament. Guy Verhofstadt, the former Belgian PM and now a member of the European Parliament, who coordinates the House's Brexit steering group, asserted it was "nearly impossible" to visualise an agreement on the basis of Johnson's proposal.