Opinion

SATURDAY, DECEMBER 28, 2019

CYCLE OF TYRANNY

Congress leader Priyanka Gandhi

They will form the government, then they will destroy the universities and the Constitution. Then you will protest and then they will call you a "fool". But Youngistan will stand firm on the ground

Sebi levies a traffic fine on those that rated IL&FS

Small penalties resulted in their shares rising; equally perplexing is lack of action on IL&FS's board/directors

WHEN THE GRANT Thornton audit report on IL&FS's rating agencies had given so many lurid details of how the rating agency was being told what to do by the client, and hefty bribes were paid to senior managers of these raters, you would have thought markets regulator Sebi would have thrown the book at them. Instead, it slapped the equivalent of a traffic fine—₹25 lakh each on India Ratings, Care, and Icra—for their lack of 'due diligence', and for basing their reports on primarily the inputs given by the IL&FS management. But, surely, as Grant Thornton revealed, the offer by an India Ratings to keep the rating private was illegal; a senior Fitch/India Ratings manager got a ₹44 lakh discount on a flat, and ₹25 lakh was donated to a trust run by the Icra's chairman. Email records showed that Care was downgrading an IL&FS group firm to BB+ with a stable outlook, but after a discussion with the IL&FS management, this got bumped up to BBB- with a stable outlook; in another case, Fitch's AAA with a negative outlook for IL&FS became an AAA with a stable outlook. It is hardly surprising, then, that after the Sebi penalty, the shares of the rating agencies rose. And, this is despite the Grant Thornton report saying that the agencies were concerned about the group's exposure even way back in 2011; in one case, an IL&FS staffer even edited the rating rationale given by Icra.

While credit rating agencies were the eyes and ears of those who invested in IL&FS or lent money to it, none of them drew attention to the fact that, between 2014 and 2018, its consolidated debt ballooned to ₹91,091 crore from ₹48,671 crore. And, while IL&FS earned a profit of ₹584 crore in 2018, this was on a standalone basis; at a group level, it made a loss of ₹1,869 crore in that year. In the case of group firm ITNL, the liabilities are ₹16,318 crore on a standalone basis and ₹42,371 crore for the consolidated entity.

While this changes everything, and that is why the IL&FS meltdown has nearly crippled the entire NBFC sector, what is surprising is the lack of action against the group's independent and shareholder directors. Its risk management committee, headed by LIC's managing director—LIC owns over 25% of IL&FS—met just once in the four years when the IL&FS group leverage rose to a frightening 13 from a reasonable 2.6 on a standalone basis. Other high-profile IL&FS directors on the risk committee were Maruti Suzuki chairman RC Bhargava, and former shipping secretary MP Pinto. Another LIC staffer, ex-chairman SB Mathur, headed IL&FS's remuneration committee and had no hesitation in clearing a ₹20 crore annual salary for IL&FS chief Ravi Parthasarathy despite the company being run to the ground and having fishy accounts. Given this, it is truly shocking that no serious action of any type—debarring directors from being on the board of any company for a certain number of years, for instance—has been taken by the government or any regulator. Indeed, despite RBI designating IL&FS as a systemically important NBFC, it failed to detect what was going on. While two audit firms are facing a ban for their role in the IL&FS scam, a lot more action needs to be taken against IL&FS's promoters and directors.

Financial stress worsens

RBI estimates PSU bank NPAs could be 13.2% in a year

EVEN BEFORE THE Reserve Bank of India (RBI) highlighted the rising stress on banks' books in H1FY20, it had been evident that the non-performing assets (NPA) cycle may not quite have come to an end. The reality is that several sectors—power, real estate, NBFCs, telecom, and MSMEs—are not recovering as fast as they should be. Therefore, lenders remain vulnerable to defaults by borrowers. That apart, given how the economy continues to decelerate, with growth having crashed to a six-year low of 4.5% year-on-year (y-o-y) in Q2FY20, borrowers in other segments, too, could delay repayments. Not surprising, then, that macro-stress tests for credit risk show that under the baseline scenario, the gross NPA ratio for banks may increase from 9.3 in September 2019, to 9.9 by September 2020. These are per the central bank's findings in the latest Financial Stability Report (FSR). The fact is gross NPAs are increasing on an absolute basis. For state-owned lenders, these are projected to rise to 13.2% by September 2020, from 12.7% in September 2019, while for private sector banks, the increase forecast is a more modest 30 basis points to 4.2%.

RBI attributed the possible increases in bad loans to a change in the macroeconomic scenario, marginal increase in slippages, and the denominator effect of declining credit growth. The question is, how much of a deceleration in growth has RBI pencilled in because the forecasts have been made for a baseline scenario that assumes the current economic situation will continue? However, growth could well decelerate in the coming quarters, pressuring other parameters. Moreover, what is more pertinent is how well the sectors that banks are more exposed to are faring.

High-frequency data show that sectors such as real estate continue to suffer from poor demand, leaving inventories high, while capacity in the power sector remains high at around 25,000 MW. Of the 40,000 MW of stressed thermal capacity—to which banks have an exposure of ₹2 lakh crore—resolutions have been found for just 12,000 MW. Lenders' exposures to NBFCs remain under a cloud because the experience with IBC has revealed that the level of recovery can be very low. In fact, the FSR draws from an industry report on emerging trends in consumer credit to say that the environment for NBFCs remains challenging. Pointing out this is relevant because there has been a sharp rise in delinquencies in the commercial credit segment. What is also worrying is that with rising loan losses and the need for more provisioning, capital adequacy for a group of 53 banks is projected to drop to 14.1% by September 2020, from 14.9% right now; if the macro environment deteriorates, five scheduled banks could see their capital adequacy ratio fall to below 9%.

WinningFORMULA

India can't achieve its Olympic goals if most women athletes are suffering from undernutrition and health risks

WHEN PRIME MINISTER Modi announced, back in 2016, that a task-force would be set up to improve India's medal tally at the Olympics—NITI Aayog also released a plan to get 50 medals by 2024—many had imagined a UK-like push for enhancing India's performance. In the 2012 Olympics, the UK had become an example of mixing technology and sports, as the country finished third in Olympic medal table with 65 medals, of which 29 were gold and 17 silver. But, a new study highlights India still has a long way to go before it can even get its athletes performance-ready. Published in the *Indian Express*, a report by Inspire Institute of Sport (IIS) on women athletes in India shows that an alarming number of them miss their periods, and are deficient in key minerals. Indian female athletes showed higher deficiencies and health risks when compared to their counterparts worldwide, putting them at significant risk of suffering career-threatening injuries as well as long-term health consequences, including osteoporosis.

Data highlight that 20% of the 51 athletes monitored by the study missed their period, while 90% were deficient in iron. More importantly, the study said that 39% of athletes develop what is called Relative Energy Deficiency in Sports (RED-S) syndrome, which occurs due to low-calorie intake, and results in missed periods and weakening of bones. While the study is a first of its kind and does show that India is taking sports seriously, the government needs to act to address the issues it raises. With the 2020 Olympics around the corner, there is not much the government can do. But, it can commission more research, keeping the 2024 50-medal goal in mind.

YEAR IN REVIEW

RECENT FISCAL HISTORY PROVES EVERYTHING CAN BE MANAGED. EXPENDITURES CAN BE DEFERRED AND DISINVESTMENT ACCOMPLISHED THROUGH INTER-COMPANY HOLDINGS

The economist's year in a lighter vein

MADAN SABNAVIS

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Views are personal

ECONOMIC DISCUSSIONS AND debates are now a habit. With so much media time and space to be filled, it is just great to talk about such subjects. The official view-point mouthed by economists in the establishment play the familiar aria while those in the corporate world tend to discreetly appreciate the same, even if they disagree. Those in the academic field could differ sharply, but, in any case, there is no skin in the game for the profession! This was an exciting year from an economist's point of view, and following are its top-ten highlights.

First, were the global phenomena—Brexit and the trade wars—which entered all discussions. Every policy document spoke of the fear or uncertainty of these two factors, which had replaced oil as the chief concern. This is notwithstanding the general consensus that these won't have much impact on a domestic-oriented economy, except that there will be less discussion once they are resolved. Until then, they serve as a very good excuse for doing or not doing anything. The non-resolution of these issues means that we will hear more of them despite Boris Johnson's promise that January 2020 will see something more firm.

Second, a feeling of *déjà vu* pervaded through 2019 when it came to NSS data. Recall that last year, GDP and the back series dominated media time, with the CSO, NITI Aayog, and PMEAC debating this with economists, analysts and ex-government officials. This year had its moment when the data brought out on consumption—this was not released, but rejected—showed unfavourable trends. This episode of data management gave one the sense that if the results are not to one's liking, one debunks the approach and commissions another study on grounds of the methodology being incorrect.

Third, as a nation, we improved our position in World Banks' Doing Business rankings. While naysayers still complain that we addressed only the elements which go into the formula, a better rank is a better rank. There is no gainsaying this achievement. But, were this ease of doing business to be juxtaposed with the cancellation of contracts in Andhra Pradesh that followed the change of guard, investors would be left dangling in ambivalence. State risk is even more devastating than regulatory risk (ask the telecom companies!).

Fourth, as the year started with the accepted GDP growth numbers, the tagline that went along was that India is the fastest growing economy in the world. When questions were raised on a slowdown, we were reminded that we are the fastest growing country in the world—a fact which could be seen on the IMF and World Bank sites. Therefore, the fall of the growth rate from 7% to 6% to 5% was not really a concern. But, the alacrity with which policies were introduced raised suspicion—the multiple measures wouldn't be required if the economy was really doing very well!

Fifth, economists had a blast with words and the common thought was that we did not have to worry even if growth came down to 5% or lower because things were not 'structural', but 'cyclical'. Simple words have complex undertones, and a layman may not understand these when there is unemployed, there are less jobs, and the price of onions is ₹150/kg. What this means is any one's guess as consumption, investment, overall growth, and exports have all slowed down, with no light at the end of the proverbial tunnel. But, the feeble explanation of things not being structural has dominated thousands of hours of conferences, economic discussions, and articles. It is no wonder that the credibility of economists has—having no skin in the game, they can say anything anytime!

Sixth, if the structural versus cyclical debate dominated discussion time, it was overtaken by the $5-tn-dollar aspiration. Now, frankly speaking, the number will be achieved at some point of time with sheer gravity. Besides, a $5-tn-economy with few jobs, little income, and poor living conditions means nothing. Yet, almost everyone has a view on the $5 tn number, including the IMF, which one would have expected not to get swayed. Truly, the quality of discourse came down to discussing whether it would take five or six or seven years to reach this number. Does it really matter, considering that no one has a solution for reviving the economy today?

> Does it matter whether it takes five or six or seven years to reach a $5-tn economy if no one has any solution for reviving the economy?

Seventh, another subject that should not have merited any discussion was fiscal management. Will the 3.3% target be achieved or not? How much will the slippage be? Will it affect market borrowings? Will disinvestment target be achieved? Recent fiscal history proves that anything can happen, and everything can be managed. Expenditures can be deferred, discretionary expenditure cut, and disinvestment accomplished through inter-company holdings. Once we fix what level of fiscal deficit is tolerable, the rest can fall in place with relative ease. This is akin to the magician who can pull out just about anything from their hat by waving a wand.

Inflation came down, and then went up. But, all analysts know one thing for sure—whichever way the number goes, interest rates should be lowered, and the argument can be forcefully articulated. When inflation was below 4%, but core inflation was at 6% and food inflation at less than 1% or negative, we looked at headline inflation and argued for rate cuts. We did not say that food inflation, which is impervious to monetary policy, was responsible for this. When inflation is above 5% due to food inflation, the argument is that we should not look at the headline number, which is influenced by food prices, but only core inflation. English is a wonderful language, and the art of polemics is amazing.

Nine, bankers were a nervous lot. They appreciated everything done on recapitalisation (but are not lending). They said the NPA problems were over as a matter of being politically right (but RBI keeps finding understatement of such numbers). They assured the government that they would reduce interest rates (which they haven't done to the extent expected). They applauded when they were told to lend more to SMEs and not recognise the NPAs, like had happened during demonetisation (the future offers trepidation). The 'Yes People' have said their lines, just as the playwright had dictated.

Last, the spoken word does not end at the door of Shashi Tharoor and his pompous Stephanian English, which often sends the reader running for the dictionary. This is now passé. This was upstaged by a member of the MPC when the monetary policy minutes revealed the word 'floccinaucinihilipilification'. Policy minutes will surely get harder to read and understand if such terms are going to be used. But, there can be variety in expression given that the script is the same every time with new numbers.

The global economy's luck may run out

Many countries are facing structural uncertainties that could have far-reaching, systemic implications for markets and the global economy

MOHAMED A EL-ERIAN

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THIS BEING DECEMBER, my natural inclination is to review the past year's economic and financial developments to help policymakers and investors anticipate what might be coming in 2020. This year is ending on a relatively positive note, especially when compared to the same time last year. There is hope of a global growth pickup, trade tensions have lessened, and central banks have reaffirmed that that they will maintain ultra-low interest rates and continue to provide ample liquidity. Financial volatility is subdued, and there are reasonable expectations of solid investor returns across many asset classes.

As tempting as it is to focus on current financial and macroeconomic conditions, doing so risks obfuscating a key element in the outlook for the future. There is a curious contrast between the relative clarity of expectations for the near term, and the murkiness and uncertainty that comes when one extends the horizon further—say, to the next five years.

Many countries are facing structural uncertainties that could have far-reaching, systemic implications for markets and the global economy. For example, over the next five years, the European Union (EU) will seek to establish a new working relationship with the United Kingdom (UK), while also dealing with the harmful social and political effects of slow, insufficiently inclusive growth. The EU will have to navigate the perils of a prolonged period of negative interest rates, while also shoring up its economic and financial core. As long as the eurozone's architecture is incomplete, consistent risks of instability will remain.

Moreover, in the years ahead, the United States, having notably outperformed many other economies, will decide whether to continue disengaging from the rest of the world—a process that is at odds with its historic position at the centre of the global economy.

Or consider China's development process. With the global economy acting more as a drag on growth than a boon to it, China may confront the risk that it has overplayed its hand. Heavy reliance on short-term stimulus measures is increasingly inconsistent with pursuing the longer-term reforms that it needs, and its geopolitical ambitions and regional economic and financial commitments (including the Belt and Road Initiative) are becoming costlier. Most important, in the next five years, China and the US, the world's two largest national economies, will have to navigate an increasingly narrow path as they try to secure their own interests while avoiding an outright confrontation.

Such fluidity clouds the economic, financial, institutional, political, and/or social outlook for other countries. Today's macroeconomic and geopolitical uncertainties will amplify those fuelled by technological disruptions, climate change, and demographics. And they will raise questions about the functioning and resilience of the global economy and markets.

This degree of uncertainty is particularly notable in the multi-decade context of globalisation. In recent years, the stability that comes with broad-based adherence to the rules-based international order has been considerably weakened, as has the power of central banks to repress financial volatility and buy time for the real economy.

Left unmanaged, these medium-term structural trends would set the stage for greater political and social fragmentation, and raise the spectre of secular de-globalisation. If there is one thing that neither the global economy nor markets are wired for, it is a prolonged and deepening rupture in cross-border economic and financial relations. Were such a new paradigm to materialise, today's trade, investment, and currency tensions would intensify and spill over to the realm of national security and geopolitics.

Bad outcomes are not inevitable (at least not yet). They could still be averted through the sustained implementation of policies to promote stronger, more inclusive growth; restore genuine financial stability; and usher in a fairer, more credible (while still free) system of international trade, investment, and policy coordination.

But, much will depend on the functioning of politics in the near term. Going into 2020, politicians have a favourable runway from which to launch the policies needed to extend the positive short-term outlook into the medium and long-term. Worries about global recession have receded, financial conditions are ultra-accommodating, and US-China trade tensions have de-escalated. But, these auspicious circumstances will not last forever.

Unfortunately, a policy push that could improve and clarify the medium-term outlook is unlikely. The US is entering a tense and divisive election year. Germany, Italy, and Spain are in the midst of difficult political transitions. The EU is dealing with Brexit and other regional divisions. And China's government is trying to consolidate power in the face of slowing growth and continuing protests in Hong Kong. The main worry—one that too few market participants have spotted—is that over the next five years, global economic and market conditions may need to deteriorate nearer to crisis levels before national, regional, and multilateral political systems muster an adequate response.

Fortunately, we are now in a period when action could be taken to prevent the worst-case scenario from becoming a binding reality. Let us hope that I am wrong about today's political paralysis. As long as there is still time, there is a chance that policymakers will follow the advice offered by then-IMF managing director Christine Lagarde in October 2017: "Fix the roof while the sun is shining".

LETTERS TO THE EDITOR

Crossroads in your imagination

It is important to understand that the prime minister and the home minister are in complete harmony as the NRC has not yet been tabled in the House. It is, however, expected to be introduced in the near future. It is the resistance by misguided individuals that lacks direction, and is apparently fuelled by vested political interests. The present one is the most stable and capable leadership the sovereign can boast of. The government must continue to prioritise the larger interest and penalise the nexus responsible for causing damage to national property and human life. The proposals being opposed haven't undermined the rights of even a single solvent resident yet; therefore, mistrusting the intent of the incumbent government or deliberately creating an environment of uncertainty lacks rationale. While personal assets of offenders are being confiscated, it is important that the so-called critics misleading the public duly penalised, too. It is prudent to limit the influx of illegals in order to preserve solidarity in the longer-run. Developed economies have established tougher immigration norms to boost quality job growth and standard of living—it would be insane to reward infiltration. Adherence to secular, democratic principles demands stringent vetting to segregate illegal immigrants from permitted refugees. India aims to safeguard the long-term interests of minority refugees seeking safety in India. The apex court must intervene if states continue their non-cooperative attitude towards matters of national importance. Serving the larger interest takes precedence over the selfish interests of regional parties and a futile Opposition.

— Girish Lalwani, Delhi

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THE WORLD IN 2020

Bosses will pay a price for mixing politics and corporate values

The downsides of CEO activism will become rather clearer in 2020

THERE USED TO be an iron rule for any American boss tempted to talk about politics: don't. Recently, this rule has been discarded as chief executives have been drawn into taking stands on inequality, the culture wars and climate. So far, they have had an easy ride: it is more fun to outline your vision for humanity than for increasing EBITDA margins. But in 2020, this new breed of activist CEOs will face three problems that politicians know well: the charge of hypocrisy, the risk of a recession and destabilising ideological shifts.

Corporate America's drift away from political neutrality and inactivity began after the financial crisis in 2008-09. Banks gave displays of contrition. A new generation of woke consumers and workers grew up during the crisis. Some were preoccupied by cultural injustices; others attacked capitalism, too. Climate change became an urgent problem and economic nationalism meant firms had to demonstrate their patriotism.

Bosses have responded to these signals. Jamie Dimon, of JPMorgan Chase, pens 50-page letters, ostensibly to its shareholders: the latest touches on education, and military procurement and demands "CEOs: your country needs you!" Silicon Valley chiefs humour a minority of radicalised employees. Bosses like to claim their firms are leading the fight against carbon emissions. In 2017, bosses joined flag-waving summits in the White House. Over 180 CEOs have signed a declaration by the Business Roundtable that their objective is not just to serve shareholders, but customers and workers, too.

> **Prudent firms will adopt a simpler vision: it is the job of government to set the rules, and the job of companies to maximise value within these rules**

Business folk are motivated by idealism, vanity and calculated self-interest. But it also helps that, so far, CEO activism has been cost-free. Like some politicians, some bosses gladly take credit for things they do not control. Most of the CEOs who pledge to fight climate change do not run firms that are responsible for it. Take the biggest 200 Western firms that disclose emission figures. Of these, the top 20 are responsible for 70% of all emissions: the other 180 don't matter much. And like some politicians, some CEOs make promises they don't keep. Despite the Roundtable's concern for workers, executive pay is rising and there is no sign of a rethink on how the spoils are split between labour and shareholders. Profits for the S&P 500 index are forecast to rise by 8% in 2020.

By then the three downsides of CEO activism will have become more apparent. First, the accusations of hypocrisy: it is not hard to find. Nike, which has pushed virtuous branding, has been embroiled in a doping scandal. BlackRock, a fund manager that pushes other firms to invest more, spent over 100% of its own cashflow on buybacks in the past 12 months. Visa signed the Roundtable letter championing customers, but is part of a payments oligopoly. If the inconsistency between bosses' words and actions becomes too glaring, reputations can suffer, as Mark Zuckerberg of Facebook knows.

Second, if there is a recession, CEO activists will struggle to reconcile the interests of employees and their fiduciary duty to shareholders. In the past two downturns, American firms cut their wage bill by 6%; if they had not, profits would have been 24% lower. This flexibility is a hallmark of American capitalism. The conflict between business logic and political posturing is already evident at firms facing technological disruption. Consider Mary Barra of General Motors, a prominent Roundtable signatory. In September 2019, she faced a strike by 46,000 workers who complained of unfair pay and factory closures as she tries to shift GM to electric vehicles.

And third, as any member of Congress will tell you, the ideological ground can shift quickly. CEOs hope that by adopting social and political causes they will defuse more radical sentiments. Dream on. The presidential campaign in 2020 will feature lots of criticism of big business, some of it legitimate. Democrats' proposals include workers on boards, beating up healthcare firms and tackling monopolies, most obviously in big tech.

No such thing as a free declaration: By the end of 2020, the leaders of America Inc will realise that political posturing is no free lunch. Many will worry that it is a gimmick that elicits a backlash. Prudent firms will adopt a simpler vision: it is the job of government to set the rules, and the job of companies to maximise value within these rules. That means delighting customers (including socially conscious ones), investing in profitable innovation (including in green technologies), and attracting workers (sometimes by paying them more). It doesn't mean standing on a soapbox. That is what politicians are paid (much less) to do.

THE ECONOMIST

SUSTAINABLE FARMING

How to ensure sustained growth?

RAJESH AGGARWAL

The author is MD, Insecticides (India) Ltd. Views are personal

AFTER A FEW troubled years, the agrochemicals market is picking pace. According to estimates, the pesticide market is projected to grow at a CAGR of 8.3% during 2018-23, and reach a size of ₹292.9 billion by 2023. As the industry grows, it also must ensure farming practices are sustainable, and impart education to farmers on agrochemicals.

Growth outlook: The available arable land per capita has been steadily reducing due to increasing urbanisation, and is expected to reduce further. However, the rising population will keep food demand high. In order to increase agricultural yield per hectare of available land, pesticides will play an important role. According to the ministry of agriculture, in the 2018-19 agricultural calendar year, farmers cultivating in 45,043 thousand hectare—65% of the total cultivated land—use either chemical or bio-pesticides, or both. The penetration of pesticides in India is significantly lower than other major countries, which means there is room for growth. The government's initiatives of extending credit facilities to farmers in rural areas are likely to provide a strong boost to farming, as increasing availability and low interest rates of farm loans will encourage farmers to invest in agro-inputs like seeds, machinery, pesticides to improve crop yield—that the number of sale points for pesticides across India reached a high of 2,37,083 in 2017-18 is a testimony to the fact. Government and private initiatives to increase farmers' awareness of pesticides is expected to empower them with the knowledge of using the right kind and amount. Combining this with tech interventions such as precision-farming will further improve the outcome.

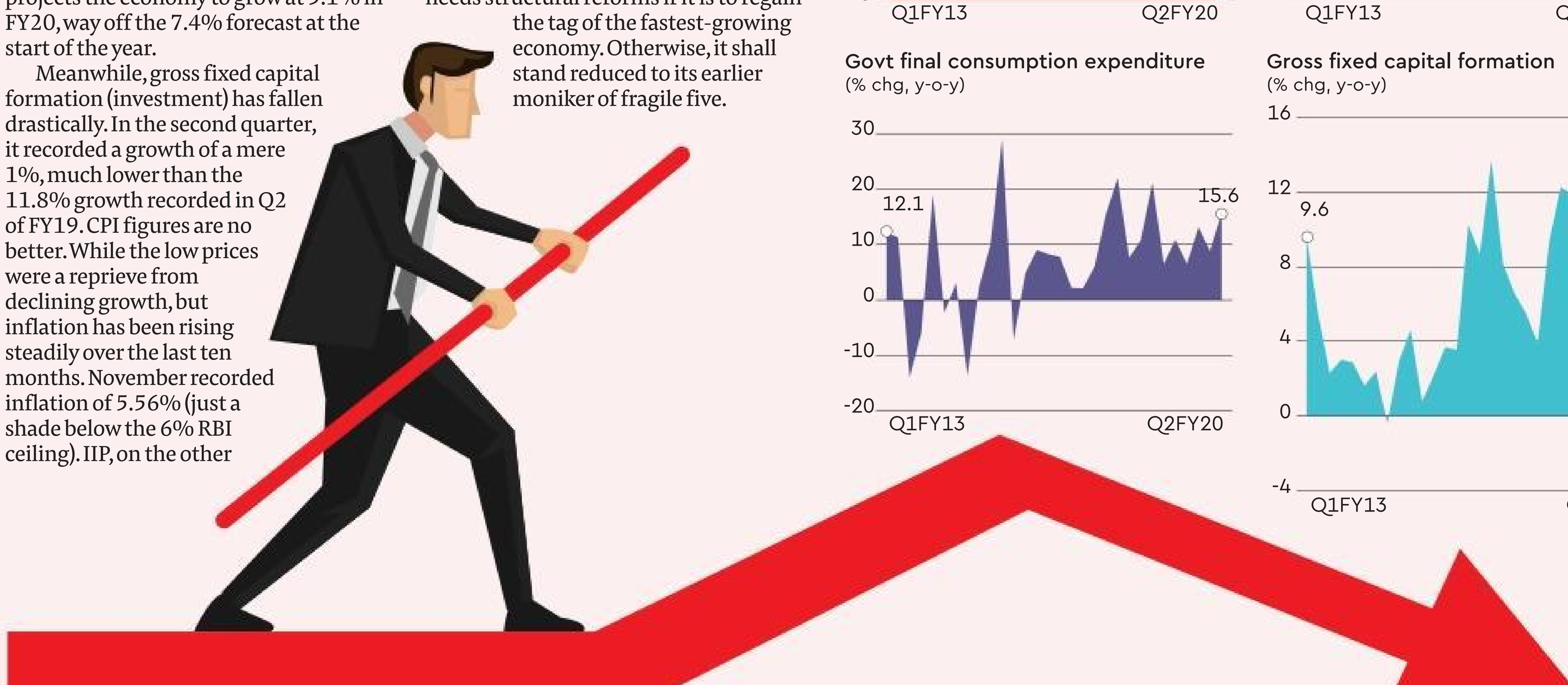
The rising levels of pest attacks from unknown quarters have made safety of crops a concern. According to the ministry's estimates, the number of sale points for the distribution of pesticides is likely to be 2,00,129 in 2018-19, while the area of cultivable land using chemical or bio-pesticides or both has dropped from the 62,247 thousand hectares in 2017-18. Only educating farmers isn't enough—companies have to boost their investment in R&D of new molecules and compounds. While most Indian companies invest 1-2% of their revenue for R&D efforts, certain MNCs invest 8-10%. Therefore, domestic agrochemical market will continue to face an uneven competition unless they ramp up investment in R&D. It is also an effective way to forge new collaborations with global agrochemical companies. This creates an opportunity for contract manufacturing and research for Indian players as India has one of the largest pools of technically-skilled labour. Agrochemical companies may also consider collaborating with tech companies to advance precision-farming and other approaches. As part of the farming community, the agrochemicals industry has a responsibility towards both farmers and the people.

DATA DRIVE

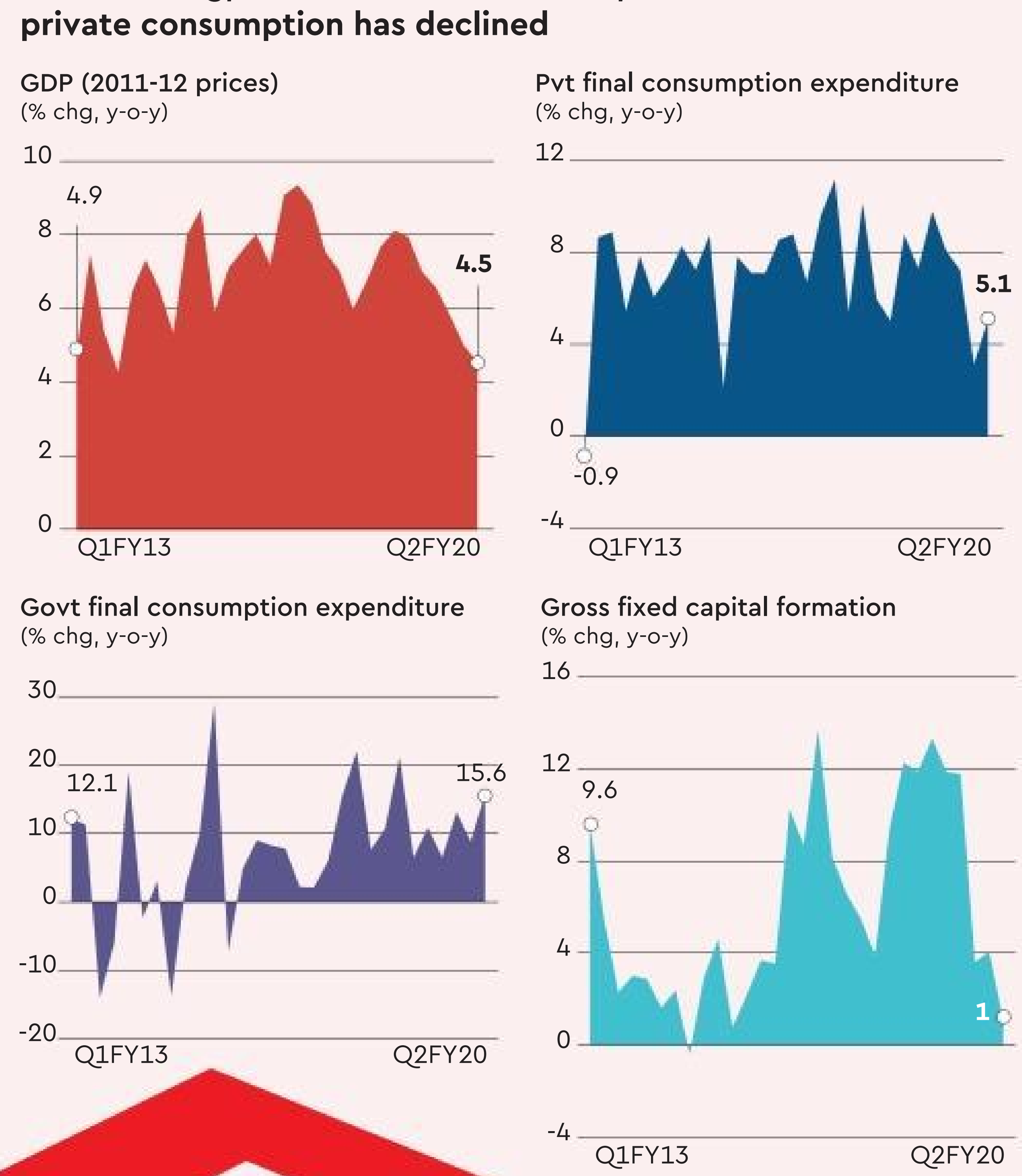
Far from celebration

ALTHOUGH THE NEW year is supposed to start on a cheery note, for India problems abound. As the economy steps into a new year, the government will have a lot, besides the political front, to deal with. The economy is nowhere near recovery, and GDP data highlights growing concerns. The second-quarter GDP slumped to 4.5%, declining for the sixth straight quarter. Although base effect may help overcome this, estimates suggest that Indian economy will barely go above 5%—RBI projects the economy to grow at 5.1% in FY20, way off the 7.4% forecast at the start of the year.

Meanwhile, gross fixed capital formation (investment) has fallen drastically. In the second quarter, it recorded a growth of a mere 1%, much lower than the 11.8% growth recorded in Q2 of FY19. CPI figures are no better. While the low prices were a reprieve from declining growth, but inflation has been rising steadily over the last ten months. November recorded inflation of 5.56% (just a shade below the 6% RBI ceiling). IIP, on the other hand, has been in the negative for the last three months, even auto sales show no sign of recovery. Two-wheeler sales, a proxy for rural consumption, have been in the negative for a full year now. Gross tax revenues are no better, tax collections till October have only increased 1.22% over last year. GST collections have also slumped. With credit growth numbers also showing a decline, nothing seems to be working for the Indian economy. The high-frequency data show that the third quarter is going to be no better. India needs structural reforms if it is to regain the tag of the fastest-growing economy. Otherwise, it shall stand reduced to its earlier moniker of fragile five.



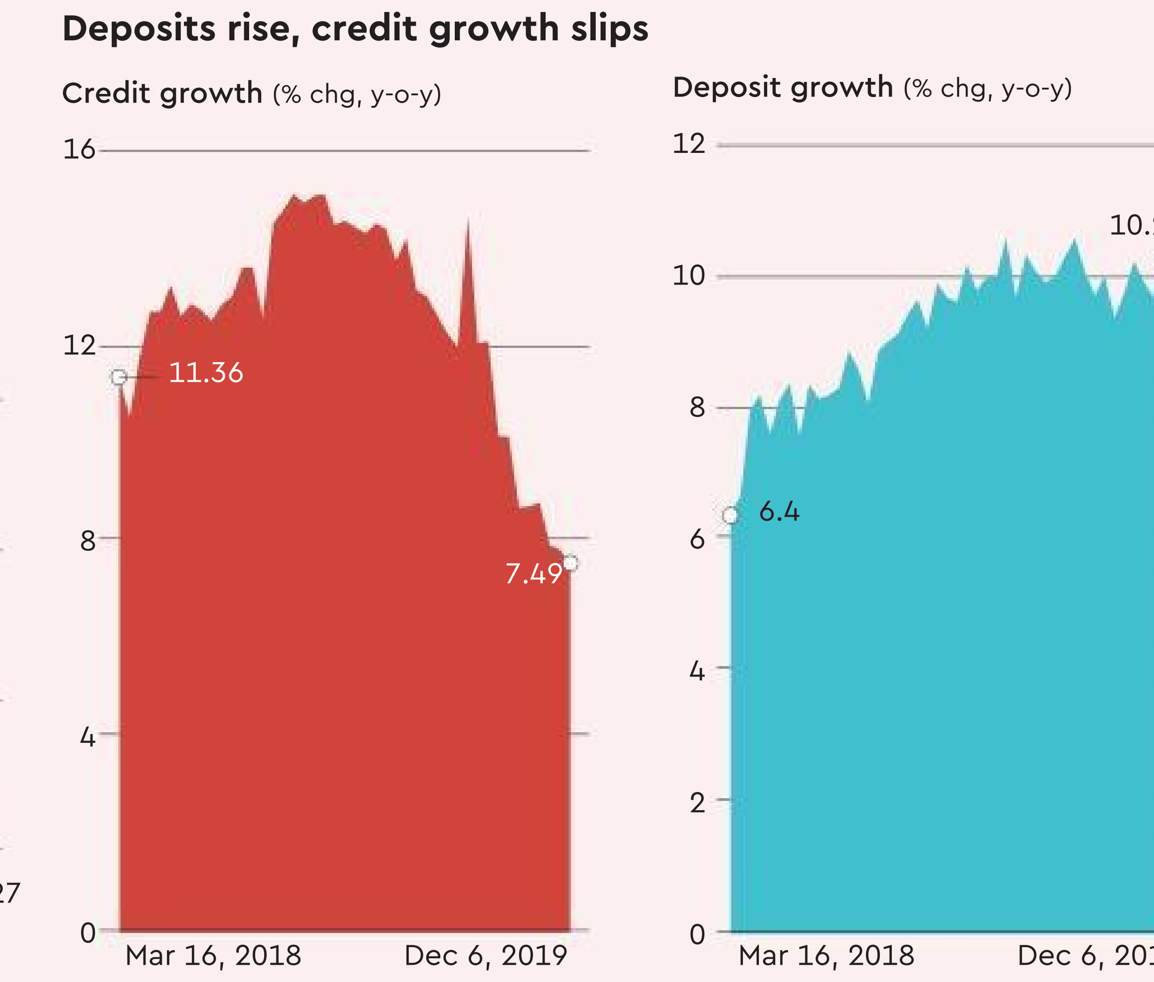
GDP is falling, so are investments. And, private consumption has declined



Tax collections provide no reprieve

(FY till October, % change, y-o-y)

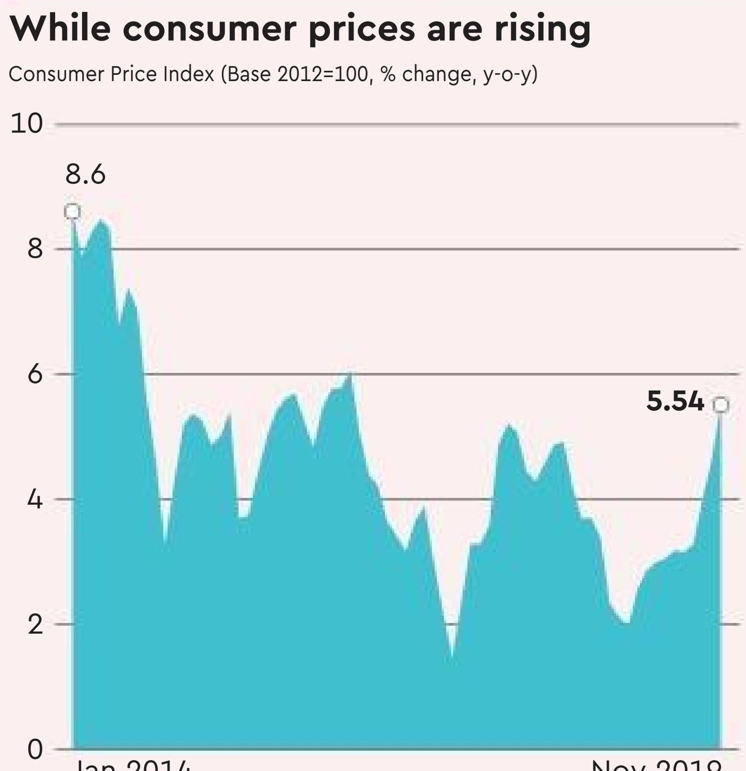
Deposits rise, credit growth slips



Source: RBI

While consumer prices are rising

Consumer Price Index (Base 2012=100, % change, y-o-y)



IIP has slumped

(% change, y-o-y, Base 2011-12)

So, have auto sales