Economy

SATURDAY, FEBRUARY 1, 2020

WEALTH CREATION

KV Subramanian, chief economic adviser

Given India's 'tryst' with socialism, scepticism about the benefits of wealth creation is not an accident.

ECONOMIC SURVEY

Early warning system for stress in NBFCs

FE BUREAU
New Delhi, January 31

ECONOMISTS IN THE finance ministry have constructed a dynamic health index (health score) for housing finance companies (HFCs) and retail non-banking finance companies (NBFCs) for early detection of impending liquidity problems and efficient allocatation of liquidity enhancements across firms to arrest financial fragility.

In the Survey, the economists computed a health score by quantifying the rollover risk for a sample of HFCs and retail NBFCs, which are representative of their respective sectors.

According to the index, the Score for the HFC sector, which exhibited a declining trend post 2014, worsened considerably by the end of FY19. The Score of the retail NBFC sector was consistently below par for the period FY14-FY19. Larger retail NBFCs had higher health scores but among medium and small retail NBFCs, the medium size ones had a lower health score for the entire period from March 2014 till March 2019.

"Policymakers intending to revive the shadow banking channel of growth can use this analysis to efficiently allocate liquidity enhancements across firms (with different scores) in the NBFC sector," they said.

The score employs information on the key drivers of refinancing risk such as asset liability management problems, excess reliance on short-term wholesale funding and balance sheet strength of the NBFCs.

Following payment defaults by subsidiaries of ILFS and by DHFL, investors in liquid debt mutual funds ran collectively to redeem their investments. In fact, the defaults triggered panic across the entire gamut of NBFC financiers, thereby causing a liquidity crisis in the NBFC sector.

General govt fiscal consolidation on track

FE BUREAU
New Delhi, January 31

States continue to adhere to FRBM limit while the Centre continues to exceed the limit

THE GENERAL GOVERNMENT (Centre and states) fiscal consolidation will continue thanks to expenditure compression by the states to contain their fiscal deficit at below 3% of GDP even as the Centre continues to breach its target, according to the Economic Survey tabled in Parliament on Friday.

"Going forward, considering the urgent priority of the government to revive growth in the economy, the fiscal deficit target may have to be relaxed for the current year," the Survey noted. The Centre was to bring down fiscal deficit to 3.3% in FY20 from 3.4% in FY19. Going by the trends in gross tax revenues receipts, analysts estimate a shortfall of around ₹3.5 lakh crore in this fiscal. In all likelihood, the Centre might further delay reaching the fiscal deficit target of 3% by a few years, instead of achieving it by FY21.

The states have continued on the path of fiscal consolidation and contained the fiscal deficit within the targets set out by the FRBM Act. For FY20, the states have budgeted for gross fiscal deficit of 2.6% as against 2.4% in FY19.

The general government fiscal deficit is expected to decline from 6.2% in FY19 RE to 5.9% in FY20. However the combined liabilities of centre and states have increased to 69.8 of GDP as on end-March 2019 (RE) from 68.5% as on end-March 2016.

Even as the Centre has accelerated its capital expenditure amid weak growth in tax revenues and asked the companies owned by it to invest more to address the demand slump in the economy, state governments have gone the opposite way and slashed their capex from the budgeted levels. The trend, a reflection of the acute fiscal stress being experienced by most states because of the overall decline in tax revenue growth, could weaken that one pillar of the economy, government expenditure, which has over the last 2-3 years given the much-needed support to the economy while others — investment, private consumption and exports — have faltered.

According to data of seventeen large states reviewed by *FE* (notable omissions are Bihar and Assam for non-availability of updated information), their capex grew a measly 1.4% in April-October this fiscal, compared with a robust 32% in the corresponding period last year. In contrast, the Centre's capex grew 13.6% during the first seven months of the current financial year, compared with 11.6% budgeted for FY20.

Economic Survey sources data from Wikipedia, other pvt entities

PRESS TRUST OF INDIA
New Delhi, January 31

THE ECONOMIC SURVEY 2019-20 has sourced certain data from Wikipedia, which is not considered as reliable source of information.

Besides Wikipedia, the Survey has also relied on data from other private sources such as Bloomberg, ICRA, CMIE, Indian Institute of Management (Bengaluru), Forbes and the BSE.

Wikipedia is a free online encyclopedia, created and edited by volunteers around the world and hosted by the Wikimedia Foundation.

Other sources from which data have been used include heritage.org, fraserinstitute.org and Ambit Capital.

Data have also been sourced from International Monetary Fund, World Bank, Reserve Bank of India, Ministry of Corporate Affairs, Insolvency and Bankruptcy Board of India, CIBIL, National Sample Survey Office, Department of Consumer Affairs, United Nations, SIDBI.

Balooning food subsidy should be curbed with hike in ration prices

FE BUREAU
New Delhi, January 31

THE BALLOONING FOOD subsidy should be controlled with an increase in the ration prices of rice, wheat and coarse cereals from current ₹1-3/kg as well as reducing the coverage from 67% of the population now, said chief economic advisor KV Subramanian. He has also suggested 'active' participation of private sector in foodgrains procurement to reduce storage, transport and handling costs, which together make up some 40% of the purchase price.

"While the interests of the vulnerable sections of the population need to be safeguarded, the economic rationale of increasing the central issue prices (CIPs) under the National Food Security Act (NFSA) also cannot be undermined. For sustainability of food security operations, the issue of burgeoning food subsidy bill needs to be addressed," the survey said.

The coverage of NFSA needs to be restricted to the bottom 20% and the issue prices for others could be linked to the procurement prices. As an alternative to this suggestion, the Survey has also proposed to give income transfers to consumers through direct benefit transfers (DBT), followed globally.

The government has emerged as the single largest procurer and hoarder of foodgrains as it procures around 40-50% of the total markets surplus of rice and wheat. In some states like Punjab and Haryana, this share of purchase is as high as 80-90%.

The government's food subsidy bill has increased from ₹1,13,171 crore in 2014-15 to ₹1,71127.5 crore in 2018-19 and the Food Corporation of India has been made to borrow from the NSSF to meet its expenses. The Centre's dues to the FCI have now touched an all-time high of ₹1.95-lakh-crore.

The Survey has termed the government as 'monopsonist' in the open-ended procurement operations undertaken for the NFSA commitments and suggested "if foodgrain markets are opened for active participation of private players with government as an equal player, competition would lead to more efficiency in the operations and development of adequate infrastructure in storage and warehousing."

From the Front Page

'Banks still risk-averse, find G-secs easier investments'

"THE DECELERATION in GDP growth can be understood within the framework of a slowing cycle of growth. The financial sector acted as a drag on the real sector", according to the survey.

Analysts say given the massive shortfall in tax and non-debt capital receipts, even a 0.6% of GDP slippage from the fiscal deficit target of 3.3% for the current financial year might indicate an expenditure compression, rather than stimulus. If expenditure equal to at least 1 percentage point of GDP that are being financed out of off-budget means too are shown on the government balance sheet, then the deficit would appear far higher than FRBM rule allows.

As for FY21, a headline deficit number of at least 3.5% (against 3% targeted) is required for stimuli efficacy. With the pace of recovery seen inadequate to boost tax revenues meaningfully, non-tax items are to be tapped to find the resources for pump-priming the economy. While a tidy sum could be collected from telecom companies as adjusted gross revenue (AGR), surplus transfer of about Rs 1 lakh crore by the Reserve Bank of India and a bolstered disinvestment programme (proposed big-ticket transactions like BPCL are slated to be consummated in FY21) could come to the government's aid, analysts feel. The survey noted that revenue buoyancy with respect to the goods and services tax (GST) would be key to the resource position of Central and state governments. It also called for 'rationalisation' of food subsidy to find the requisite headroom for fiscal manoeuvre.

Noting that investments in the public sector might increase thanks to the National Infrastructure Pipeline of Rs 102 lakh crore, the survey cautioned that if this leads to an expansion of fiscal deficit, bond yields might increase, thereby crowding out private investment. If private investments seek external funding, then the current account deficit could widen and depreciate the rupee, upsetting investment, consumption and growth.

Explaining why the virtuous cycle of growth that was to be triggered by the rise in fixed investments proposed in the last survey hasn't really materialised — the slashing of corporate tax cuts in September was in line with this concept — the survey pointed out that when such cycle rotates slowly, declining rate of fixed investment decelerates GDP growth with a lag (which is 3-4 years in India), eventually pulling down consumption too.

Despite the bolstering of banks' capital base and considerable monetary easing, bank credit growth is now at a near 2-year low. The survey ascribed the decline in credit growth since H2FY19 to a growing risk aversion amongst banks which "continue to apprehend the build-up of non-performing assets" and an easier option they find of investing in G-secs. It noted that though scheduled commercial banks mobilised the same amount of deposits in the first eight months of this fiscal year as in the year-ago period, they chose to invest thrice the amount in G-secs in the current-year period, while reducing their credit off-take by more than four-fifth. "The drop in fixed investments by households from 14.3% to 10.5% explains most of the decline in overall fixed investment between 2009-14 and 2014-19," said the survey.

The survey listed continued global trade tensions and US-Iran tensions, which could increase the price of crude oil, among downside risks to its growth estimate.

India's real GDP growth plummeted to 4.5% in Q2FY20, continuing with the deceleration trend over six quarters. Investment growth is seen to be nosediving to 1% in FY20 from about 10% in FY19 while private consumption, the chief pillar of the economy, is to grow at just 5.8% in the current year compared with close to 8% in FY19.

Household savings dip worries analysts

IN FACT, FY19 figures highlight that at Rs 19.95 lakh crore in FY19 this was the first time in nearly a decade that financial savings recorded a fall, after they hit a high of Rs 20.61 lakh crore last year. More important, while gold investments were steady at 0.2% of the GDP, net financial savings declined to 6.5% from 7.7% indicating a rise in financial liabilities. Physical savings now account for nearly two-thirds of the total share of household savings, as financial savings, which were nearly 45% in FY16 have dropped to 35.7%.

As banks and non-banking financial entities tend to channel these savings as sources of investment, falling savings are a worry for the economy, especially when GDP and investment are both slowing, and the government is desperately looking for finances to fund its ambitious infrastructure dream and get the economy back on growth track.

Survey says there is no overstating of GDP

IN A RESEARCH paper published in June 2019, the former CEA had suggested that rather than expanding at about 7% a year in the 2011-17 period, average growth was just about 4.5%.

But the latest survey says, given the lower growth rates for the UK and Germany compared to India, the mis-estimation in percentage terms in the incorrectly-specified model is much larger for UK (76%) and Germany (71%) than for India (40%). "However, when the models are estimated correctly by accounting for all unobserved differences among countries as well as the differential trends in GDP growth across countries, GDP growth for most of these 52 countries (including India) is neither over- or under-estimated. In sum, concerns of over-estimation of India's GDP are unfounded," the survey says.

It also argues that micro-level evidence, too, is critical to gauging the actual growth momentum of the economy. The granular evidence shows that a 10% increase in new firm creation increases district-level GDP growth by 1.8%. As the pace of new firm creation in the formal sector accelerated significantly more after 2014, the resultant impact on district-level growth and thereby country-level growth must be accounted for. India's improvement in indicators such as access to nutrition and electricity might explain the higher growth rate in Indian GDP post the methodological change with the 2011-12 base year.

2018-19: GDP growth rate revised downwards to 6.1%

DURING 2018-19, at constant prices, the growth rates of primary (comprising agriculture, forestry, fishing and mining & quarrying), secondary (comprising manufacturing, electricity, gas, water supply & other utility services, and construction) and tertiary (services) sectors have been estimated at 1.0%, 6.0% and 7.7%, as against 5.8%, 6.5% and 6.9%, respectively, in the previous year.

The nominal net national income (NNI) at current prices for 2018-19 stands at ₹167.89 lakh crore as against ₹151.50 lakh crore in 2017-18, showing growth of 10.8% during 2018-19 as against 11.2% in the previous year.

The per capita income, that is per capita net national income at current prices, is estimated as ₹1,15,293 and ₹1,26,521 respectively for the years 2017-18 and 2018-19.

Per capita private final consumption expenditure (PFCE) at current prices for the years 2017-18 and 2018-19 is estimated at ₹76,794 and ₹84,808 respectively.

China locked down 50 m people and has to keep them fed

SOME TRUCKS ARE allowed to leave the 17 locked-down cities to collect food.

Photos in state media show them lined up at checkpoints, their drivers wearing face masks. Police, shrouded in white protective suits, examine the drivers for the virus's telltale fever. Those without passes are turned back.

Schools, cinemas and restaurants are closed in Wuhan, an industrial centre with a population 1 1/2 times that of New York City. To keep people at home and reduce chances for infection, subway and bus services are shut down and private vehicle use is banned in downtown areas.

The government of Hubei province, where all the cities are located, has promised adequate supplies of vegetables, rice, meat and medical supplies.

It said authorities were working with retailers to bring food from as far away as Yunnan province in the southwest and Hainan island in the South China Sea. A crackdown on hoarding and price-gouging by merchants was announced after food costs spiked.

"Please do not panic, do not hoard, so as not to cause waste," said a government announcement.

China on Friday reported 9,692 confirmed cases of the virus, which can cause pneumonia and other severe respiratory symptoms. So far 213 have died.

The shipment of disinfectant last Saturday was moved by drivers from two trucking companies in the eastern province of Jiangsu, according to the manager of one of the companies, Huai'an Hazardous Goods Transport Co.

With official passes, the 18 teams of drivers cut the normal 20-hour travel time to 15 hours, according to the manager, Liu Hankang.

"Enterprises must take on this responsibility," Liu said by phone.

The government has released no details of how it is enforcing travel curbs on smaller roads and villages on the outskirts of the vast locked-down area.

Residents contacted by phone said most supermarkets still have adequate food supplies.

"They can meet our needs for the time being," said a 40-year-old father of two in Wuhan who would give only his surname, Cai.

Residents are wary of talking to reporters after authorities said eight doctors were punished in December for warning about the emergence of the virus.

Authorities can draw on an extensive surveillance network involving thousands of video cameras, smartphone tracking, monitoring of social media and other technology developed with the help of Western tech companies to protect the party's monopoly on power.

Hospitals are straining to cope with thousands of virus patients while doctors also treat other cases.

State media say police in protective gear are stationed at hospitals to separate people arriving with fevers and other possible virus symptoms from other patients.

Rui Zhong, a Wuhan native who lives in Washington, DC, said that her mother's elderly cousin died in the city in the past 10 days after a delay in the arrival of an ambulance.

A 73-year-old man with a lung problem, he died on the way to the hospital, Zhong said.

"It's hard to know for sure: could he have been saved?" said Zhong, who works at the Woodrow Wilson Center. "But my family will always wonder."

—AP