Weekend Business Standard

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THE MARKETS ON FRIDAY		Chg#
Sensex	40,723.5▼	190.3
Nifty	11,962.1▼	73.7
Nifty futures*	11,994.3▲	32.2
Dollar	₹71.4	₹71.5**
Euro	₹78.7	₹78.8**
Brent crude ($/bbl)##	56.4##	58.0**
Gold (10 gm)###	₹40,628.0▼	₹56.0

*(Feb.) Premium on Nifty Spot; **Previous close; # Over previous close; ## At 9 pm IST; ### Market rate exclusive of VAT; Source: IBJA

WEEKEND SEPARATE SECTION
NEW HUNTING GROUNDS FOR NEXT SPORTS STARS

COMPANIES P3
BMW'S COSTLIEST ART CAR COMES TO INDIA

PUBLISHED SIMULTANEOUSLY FROM AHMEDABAD, BENGALURU, BHUBANESWAR, CHANDIGARH, CHENNAI, HYDERABAD, KOCHI, KOLKATA, LUCKNOW, MUMBAI (ALSO PRINTED IN BHOPAL), NEW DELHI AND PUNE
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BUDGET SPECIAL TOMORROW

BUDGET INSIGHT OUT 2020-21

Business Standard will bring to you a special Budget edition on Sunday with a unique blend of news and views. Our panel of writers comprising business leaders and renowned economists will analyse the fine print in the Union Budget 2020-21 to capture the implications of the annual document for our readers. Pick up your copy of Sunday *Business Standard* on February 2.

ECONOMY & PUBLIC AFFAIRS P9

GDP growth for FY19 revised down to 6.1%

Economic growth would get a boost of a whopping 0.7 percentage points in the current fiscal year as the government revised downwards its GDP expansion sharply from 6.8 per cent to 6.1 per cent for 2018-19. According to advance estimates, the economy is projected to grow by 5 per cent in the current fiscal year, which would be an 11-year low.

ECONOMY & PUBLIC AFFAIRS P9

GST collection crosses ₹1 trillion in January

GST collection has crossed the ₹1-trillion mark for the third month in a row in January with improved compliance and the plugging of evasion, sources said on Friday. GST mop-up is in line with the target set by Revenue Secretary Ajay Bhushan Pandey after a high-level meeting with tax officials earlier this month.

ECONOMY & PUBLIC AFFAIRS P9

Fiscal deficit hits 132% of Budget estimate

The government's fiscal deficit touched 132.4 per cent of the full-year target at December-end, mainly due to a slower pace of revenue collection. In actual terms, the fiscal deficit or gap between expenditure and revenue was ₹9.31 trillion, the CGA data showed.

CORE SECTOR GROWTH AT 1.3% IN DECEMBER P9
NON-FOOD CREDIT GROWTH SLIDES TO 7% P9

RBI extends deadline to opt for oversight cadre

The RBI has decided to extend the cut-off date for its officers to opt for the specialised supervisory and regulatory cadre till July 31. The original deadline for it ended on Friday. A majority of officers have indicated that they want to opt out of the newly created cadre.

RESULTS RECKONER

Quarter ended Dec 31, 2019; common sample of 484 companies (results available of 556)

SALES			
Dec 31, '18	**24.6%**	₹9.31 trillion	↗
Dec 31, '19	**2.0%**	₹9.49 trillion	↗
PROFIT BEFORE TAX			
Dec 31, '18	**–26.2%**	₹68,627 cr	↘
Dec 31, '19	**84.5%**	₹1.27 trillion	↗
NET PROFIT			
Dec 31, '18	**–40.0%**	₹41,612 cr	↘
Dec 31, '19	**121.3%**	₹92,082 cr	↗

Companies with zero sales excluded; Given the change in corporate tax rates, to give a fair comparison the profit before tax has been considered; Compiled by BS Research Bureau; Source: Capitaline

ECONOMIC SURVEY 2019-20

A design for wealth creation

SURVEY PREDICTS 2020-21 GROWTH AT 6-6.5% IF REFORMS HAPPEN

FISCAL DEFICIT TARGET MAY HAVE TO BE RELAXED TO REVIVE GROWTH

INTEGRATE 'ASSEMBLE IN INDIA' INTO 'MAKE IN INDIA' TO BOOST JOBS

Chief Economic Advisor K V Subramanian

PHOTO: SANJAY SHARMA

Q&A 'IN TIMES LIKE THESE, IT IS BETTER TO LEAN ON GROWTH' P8

MIHIR S SHARMA
New Delhi, 31 January

The Economic Survey for 2019-20, presented to Parliament on Friday, laid out an agenda for wealth creation in India and sought to ground pro-wealth and pro-business economic policies in India's economic experience and philosophical traditions. In the Survey's preface, Chief Economic Advisor K V Subramanian revealed the Survey's motivation: Prime Minister Narendra Modi's speech on Independence Day 2019, which highlighted the contributions of wealth creators and that "only when wealth is created will wealth be distributed". Subramanian argues that liberalisation is a return to India's "roots" as a market economy, and thus advocates various wealth-boosting reforms in the Survey.

From the macro-economic point of view, the Survey argues that since "the government, with a strong mandate, has the capacity to deliver expeditiously on reforms", the upside risks to the economy dominate the downside risks. Given the base effect, it thus pegs growth in India's gross domestic product or GDP in 2020-21 as being in the range of 6 to 6.5 per cent. The Survey admits that meeting the $5 trillion target set by the prime minister will be challenging, given the growth slowdown.

The Survey places primary blame for the slowdown on global factors, saying "the deceleration of India's GDP growth since 2017 has tracked the decline in world output". It noted also that some recent research suggested that the length of the business cycle in India was about 13 quarters, perhaps faster during the deceleration phase. Given that history, the Survey predicted a resurgence of growth in the current half of 2019-20.

The Survey also argues, however, that "the stagnation in private corporate investment at approximately 11.5 per cent of GDP between 2011-12 and 2017-18 has a critical role to play in explaining the slowing cycle of growth and, in particular, the recent deceleration of GDP and consumption". This stagnation is linked to the decline in credit growth from banks.

With important implications for the path of government spending to be outlined in the Union Budget for 2020-21, the Survey argues that boosting sluggish demand and consumer sentiment should be a priority and so "counter-cyclical fiscal policy" — in other words, fiscal slippage — is justified.

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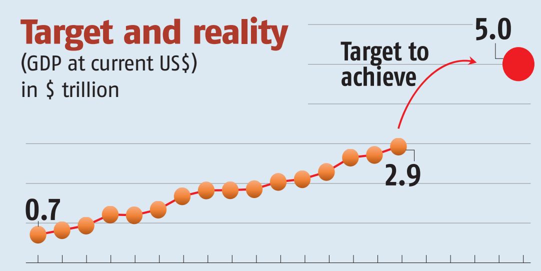
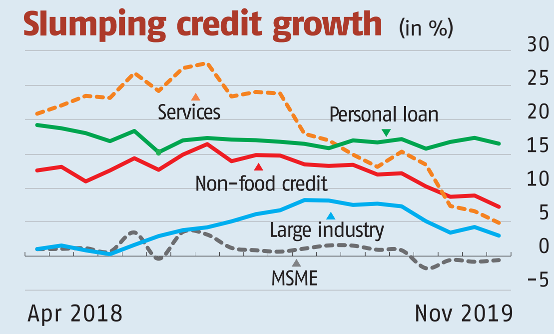
MAPPING A SLOWDOWN

Target and reality
(GDP at current US$) in $ trillion



Sources: National Statistical Office, RBI, and IMF

Slumping credit growth (in %)



Note: Growth of sectoral credit corresponds to select 41 scheduled commercial banks
Source: RBI

WEEKEND RUMINATIONS:
Advisors and doers 11

It might be a good idea for the next Economic Survey to deal with not just the many "What" and "Why" questions in economics, but also the "How". There is no other way to understand how the impossible becomes possible, writes T N NINAN

PAGES 4-8
TEMASEK-LIKE MODEL PROPOSED FOR DIVESTMENT
TAKE A CUE FROM CHINA TO CREATE 40 MILLION JOBS BY 2025
INDIA SHOULD HAVE AT LEAST SIX BANKS IN TOP 100 GLOBAL LIST
REALTY FIRMS ADVISED TO TAKE HAIRCUT TO CLEAR INVENTORY

President sets the tone for a *swadeshi* Budget

Protests in Parliament against CAA, NRC mar his address

ARCHIS MOHAN
New Delhi, 31 January

Hearkening back to the post-independence decades, when the slogan was "be Indian, buy Indian", President Ram Nath Kovind on Friday appealed to the people to "transform the philosophy of 'buy local for a better tomorrow' into a movement".

In his address to the joint sitting of the two Houses of Parliament, a customary address that details the government's programmes and policies at the start of the first session of a new year, the President "urged every Indian to give priority to local products".

The Budget session of Parliament started on Friday.

"By using locally manufactured products, you will be able to help the small entrepreneurs in your area to a great extent," Kovind said, adding that the fundamental mantra of independence was a self-reliant India.

In his independence day speech from Red Fort last year, his first in his second term, Prime Minister Narendra Modi too had exhorted people to buy locally — at the village, district and state levels — to help local cottage industries and small entrepreneurs.

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President Ram Nath Kovind at the joint session of Parliament as the Budget session begins

PM wants good debates over economic issues

Ahead of the Budget session of Parliament, Prime Minister Narendra Modi on Friday said both the Houses should concentrate on debating economic issues and focus on how the global financial scenario could best benefit India. "We all should make sure that in this session, we lay a strong foundation for this decade. This session should be focused mainly on economic issues," he said. "Our government has emphasised the empowerment of Dalits, the marginalised, the oppressed, & women. We will continue to work for them," he said. PTI

SBI BEATS ESTIMATES, Q3 PBT SURGES 65.7%

State Bank of India reported a better-than-expected performance for the December quarter on most operational parameters. The bank posted 22.4 per cent YoY growth in net interest income to ₹27,779 crore. Profit before tax surged by 65.7 per cent from a year before to ₹10,970 crore. 12

HUL VOLUME GROWTH SURPRISES, PBT UP 14%

Hindustan Unilever (HUL) on Friday reported volume growth of 5 per cent in the third quarter, ahead of analysts' estimates of 3-4 per cent. This is the fourth straight quarter of single-digit volume growth for HUL. 2

Q&A HOPING FOR MEASURES TO SPUR DEMAND: CMD 2

IBM elevates Krishna as CEO

NEHA ALAWADHI & DEBASIS MOHAPATRA
New Delhi/Bengaluru, 31 January

Arvind Krishna, the head of IBM's cloud and cognitive software unit and who was a principal architect of the company's purchase of Red Hat, has been promoted to the position of chief executive officer, replacing Virginia Rometty.

Krishna, 57, whom Rometty described as the "right CEO for the next era at IBM", will thus join the elite list of Indian-origin CEOs heading major US technology firms such as Google, Microsoft, Adobe, and MasterCard.

Krishna will take charge on April 6, while Rometty, who has been at the helm since 2012, will continue as executive chairman until the end of the year and then retire after almost 40 years with the company.

"He is a brilliant technologist who has played a significant role in developing our key technologies such as artificial intelligence, cloud, quantum computing, and blockchain. Arvind has grown IBM's cloud and cognitive software business and led the largest acquisition (Red Hat) in the company's history," Rometty said in a statement.

IBM bought Red Hat, an open source enterprise software firm, for $34 billion in 2018. The acquisition marked a big shift for IBM, which was earlier known for its proprietary software.

Turn to Page 12

Arvind Krishna, Senior vice-president, cloud & cognitive software, IBM

IN THE DRIVER'S SEAT

Indian-origin CEOs leading large US corporations:




	Sundar Pichai, Google (Oct 2, 2015)	Satya Nadella, Microsoft (Feb 4, 2014)	Shantanu Narayen, Adobe (Dec 1, 2007)	Ajay Singh Banga, MasterCard (Jul 1, 2010)
FIRM'S VALUATION WHEN THEY TOOK OVER	$431.12 bn	$297.33 bn	$43 bn	$20.27 bn
VALUATION AS OF JAN 30, 2020	$1.0 trn	$1.3 trn	$173.99 bn	$327.34 bn

Note: Dates in the brackets show when they assumed the CEO's role
Source: Nasdaq website, Ycharts

Neemuchwala resigns after 4 yrs as Wipro CEO

DEBASIS MOHAPATRA
Bengaluru, 31 January

Abidali Neemuchwala has formally resigned after about four years as chief executive officer (and managing director since last July) at information technology major Wipro.

His term had another year, but Neemuchwala has cited "family commitments" for wanting to leave. The board of directors has begun the process of looking for the next CEO, the company told the stock exchanges.

Rishad Premji took charge last year as executive chairman from his father, Azim Premji. "The board and I have a lot of respect for Abid and thank him for all his contributions over the past five years....he will continue to be the CEO and MD till a successor is appointed, to ensure a smooth transition," Rishad Premji wrote in an e-mail to employees after the quit announcement in the morning.

Neemuchwala joined Wipro as group president and chief operating officer in April 2015, from Tata Consultancy Services (TCS), where he was heading the BPM services division.

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Vedanta's Q3 PBT rises 9.4% to ₹3,806 cr

ADITI DIVEKAR
Mumbai, 31 January

Anil Agarwal-led Vedanta reported a consolidated profit before tax of ₹3,806 crore in the December quarter, up 9.4 per cent year-on-year on the back of lowered costs and a small exceptional gain of ₹168 crore.

Net sales declined 10 per cent to ₹21,126 crore in the quarter, primarily due to lower commodity prices and muted volumes in zinc, oil and gas, and copper business, partially offset by exploration cost recovery in oil and gas.

Lower cost of production, mainly in aluminium, lent firm support to the total expenses of the company in the quarter gone by which declined 15 percent in December quarter from same period last year.

Vedanta on Friday also said it is implementing the resolution plan for insolvent Ferro Alloys Corp (FACOR) approved by the Cuttack bench of the National Company Law Tribunal (NCLT).

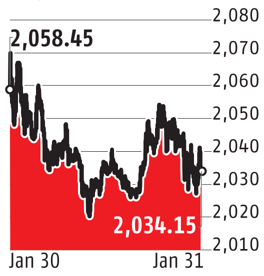
Vedanta will acquire management control and as per approved resolution plan

HUL volume growth surprises, PBT up 14%

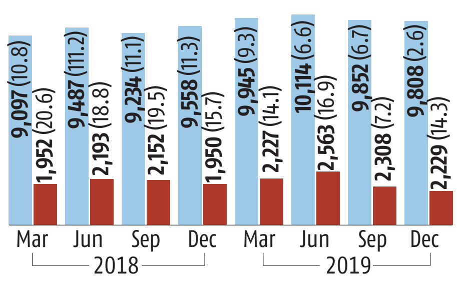
The growth was even better than that of the sctor

SHARE MOVEMENT

BSE price in ₹



BETTER THAN EXPECTED



Brackets indicate YoY change in %

Source: Capitaline

VIVEAT SUSAN PINTO
Mumbai, 31 January

Hindustan Unilever (HUL), the country's largest consumer goods company, on Friday reported a volume growth of 5 per cent in the third quarter, ahead of analysts' estimates of 3-4 per cent.

The better-than-expected growth was despite a challenging market environment, said HUL's chairman and managing director Sanjiv Mehta.

This is the fourth straight quarter of single-digit volume growth for HUL. Of the four quarters, three in a row have seen HUL deliver volume growth at 5 per cent, Abneesh Roy, executive vice-president, research (institutional equities), Edelweiss, said.

HUL's volume growth is also ahead of the overall fast moving consumer goods (FMCG) sector's volume growth of 3 per cent in the quarter, experts said.

The company did this by cutting soap prices, driving low unit packs across categories and pushing penetration of its products using its 'Winning in Many Indias' strategy, Mehta said.

While HUL's profit before tax (PBT) grew 14.3 per cent to ₹2,229 crore, its net profit grew nearly 12 per cent ₹1,616 crore year-on-year.

A consensus estimate of analysts by *Bloomberg* had pegged net profit at ₹1,596 crore for the period. Revenue rose 2.6 per cent to ₹9,808 crore, less than estimated ₹10,034 crore.

Earnings before interest tax depreciation and amortisation (Ebitda) rose 19 per cent to ₹2,445 crore—higher than analysts' estimates of ₹2,241 crore.

Ebitda margin expanded to 24.9 per cent from 21.4 per cent, higher than the consensus projection of 22.3 per cent.

"The demand outlook remains challenging in the short-term," Mehta said, adding that he saw medium-to-long-term prospects for the domestic FMCG market improving.

"I remain hopeful that policy measures will spur demand and drive consumption," he said, as attention shifts to the Union Budget to be announced on Saturday.

Market research agency Nielsen has said a recovery in the FMCG market is likely in the January-March 2020 period, and is expected to gain pace in the subsequent quarters.

'Hoping for measures to spur demand'

Hindustan Unilever (HUL) beat Street estimates on volume growth in the three months ended December (Q3) amid weak consumer sentiment. In a press briefing, chairman and managing director **SANJIV MEHTA** explained what led to the growth and the way ahead for the company. Excerpts:

Q&A

HUL was ahead of the FMCG market in terms of volume growth in Q3. What contributed to the growth?

Categories such as home care, food, refreshments and haircare continue to clip well for us. In home care, sales growth has been 10 per cent, while food and refreshments saw 8 per cent sales growth during the December quarter. Maintaining the price-value equation (of products) and driving penetration and innovation through the 'Winning in Many Indias' strategy were instrumental in driving volume growth in Q3. We remain agile and responsive to market needs, and that has allowed us to keep our volume growth ahead of market. Skincare did see some issues due to the delay in the onset of winter, which impacted sales growth in Q3. But now, it is doing fine.

Soaps remain a challenge for you. You cut prices to keep sales volumes going in Q3. Did it help?

There are structural issues with soaps as a category. The repertoire of soap brands in a household has come down. That is one. Second, there is down trading within the category, with consumers using smaller bars now versus the trend earlier when soap consumption was robust. At an overall level, the price of inputs going into soaps was benign in the July-December 2019 period, which allowed us to cut prices. Between July and December, there has been a price correction of 6 per cent within our soaps portfolio. But commodity prices, notably, of palm oil, have been inching up, which means we may have to increase the prices in the future. We intend to do it by March.

Is it a worrying sign that rural growth has been coming down even as rural growth remains weak for the FMCG market?

Yes, it is. The trend was visible during the December quarter. While the rural market was growing at 0.5 times the urban growth in the December quarter from 1.4 times earlier, urban growth, data showed, was also weak. Consumer sentiment has been down and the market environment reflects that. It remains challenging in both urban and rural areas. But I remain optimistic that the tide will turn. I am hoping that policy measures are put in place that will spur demand and drive consumption. So yes, all attention will be on the (general) budget for these signals. At a broader level, it is important that money is put in the hands of people to kick off a virtuous cycle of growth.

"ALL ATTENTION WILL BE ON THE (GENERAL) BUDGET... AT A BROADER LEVEL, IT IS IMPORTANT THAT MONEY IS PUT IN THE HANDS OF PEOPLE TO KICK OFF A VIRTUOUS CYCLE OF GROWTH"

PHOTO: KAMLESH PEDNEKAR

Which parts of India are seeing a sharp slowdown?

Punjab, Haryana, West Bengal, parts of Uttar Pradesh, the Northeast and Maharashtra. The South, in contrast, has been more resilient to the slowdown.

Your outlook for the market?

The mid-to-long-term growth story remains intact for the market. Yes, the short term is a challenge. There is pain in the market. But I see growth coming back in the mediumterm.

ITC pre-tax profit rises 4.5%

AVISHEK RAKSHIT
Kolkata, 31 January

ITC met market expectations with a nearly six per cent rise in net income for the December quarter from the same period a year before, at ₹13,308 crore.

Led by its non-cigarette consumer goods, hotels and agro businesses, the pre-tax profit rose 4.5 per cent to ₹5,049 crore.

The net profit beat Street estimates to grow by around 29 per cent to ₹4,050 crore.

During the quarter, ITC got a tax credit of ₹340 crore after opting for the concession offered by the Taxation Laws (Amendment) Ordinance.

The company said the macro economic environment continued to be adversely impacted, as reflected in Gross Domestic Product growth and persistent weakness in both consumption demand and investments.

"Delayed arrival of the kharif crop due to spatial variations in rainfall, especially close to the harvest season, commodity price inflation together with disruptions in parts of the country, exacerbated the already challenging operating environment during the quarter," it said.

Yet, it presumes the expectation of a good rabi crop, backed by government's measures such as reduced corporate tax rates and initiatives to boost infrastructure and export, augur well for revival of the economy.

Despite persistent weakness, especially in rural markets, backed by market liquidity conditions and illicit trade in cigarettes, its tobacco division had a 5 per cent increase in revenue at ₹5,311 crore, with a 6 per cent increase in profit at ₹3,756 crore.

The launch of Gold Flake Indie Mint, Gold Flake Neo and Classic Rich & Smooth in the premium end, and focused offers under brands American Club, Wave, Flake and others, helped sales.

In the non-cigarette fast moving consumer goods (FMCG) business, there was a 6 per cent growth in income ₹3,312 crore.

Operating earnings rose 48 per cent to ₹256 crore. Categories with relatively higher rural salience were hit more. ITC said it continued to mitigate the slowdown's impact through measures such as enhancing of direct reach, targeted offers, investing in fast-growing channels and lines of credit to select trade partners.

With "all-round improvement" in its hotels business across new and existing properties, segment revenue grew 22 per cent to ₹552 crore. Higher room rates and operating leverage aided margin expansion. A 101-room luxury property, Welcomhotel Amritsar, was comissioned.

The ITC Kohenur (Hyderabad), Grand Goa and Royal Bengal, all new properties, continued to get a good response. In the agro business, revenue grew nine per cent to ₹2,095 crore as it leveraged trading opportunities, especially in oilseeds, pulses and coffee, and scaled up the value-added products.

Owing to subdued demand in the FMCG and liquor industries, revenue from the paperboards, paper and packaging business remained flat at ₹1,555 crore.

Aston Martin set to sell stake to F1 billionaire in £500-million deal

SIDDHARTH PHILIP & TOMMASO EBHARDT
London, 31 January

Aston Martin Lagonda Global Holdings secured a £500-million ($656 million) lifeline to restore the balance sheet and help build a new sport-utility vehicle after agreeing to sell a minority stake to billionaire Lawrence Stroll.

The deal agreed late Thursday gives the UK luxury carmaker much-needed breathing space as it looks to get back in track following a turbulent start to life as a public company. Aston Martin needs funds to ease a debt burden and start building the DBX — its first-ever SUV — which Chief Executive Officer Andy Palmer is banking on to sell in higher volumes than the stylish sports cars made famous in the James Bond movies.

The shares posted their biggest gain ever on Friday after Aston Martin announced details of the rescue package, which sees a group led by Stroll buying as much as 20 per cent of the company. The sterling bonds also rose to their highest since July.

The Canadian investor will become executive chairman, according to a statement. *Bloomberg News* reported earlier that the deal had been agreed to overnight.

"This fund-raise brings down our leverage and substantially supports investment in new products," Palmer said in an interview. The company no longer needs to draw down on a £100 million, high-interest loan, he added.

Stroll, a Canadian investor who owns a Formula One racing team, won the backing of Aston Martin's board. He edged out rival suitor Geely, which also sought to invest in the sports-car maker. Stroll's consortium will pay £182 million for a 16.7 per cent stake, before contributing to a rights issue supported by major shareholders to raise a further £318 million .

Nevertheless, the need for a cash influx sums up the disappointing turn of events since Aston Martin went public in October 2018. At the time, the company was touting a turnaround under Palmer, a former Nissan Motor executive, helped by private-equity backing. Stroll, 60, made his fortune building and selling two fashion brands: He and his partner, Silas Chou, took Tommy Hilfiger public in 1992 and later sold it to private-equity buyers. In 2011, they listed the Michael Kors brand, eight years after acquiring majority control. Chou is also part of Stroll's Aston Martin consortium.

Stroll also led a group of investors who took over the Force India Formula One team after it was pushed into administration. Renamed Racing Point, it is based in the U.K. and gets its engines from Mercedes-Benz. Stroll's son Lance is a driver for the team. Aston Martin's naming partnership with Red Bull Racing will end after the 2020 season.

Stroll's presence will help steer the company toward its aim of becoming a luxury-goods company, Palmer said. "It's going to change the dialogue in the boardroom," he said. "The dialogue will change from automotive to luxury."

However, investment in electric vehicles will be delayed beyond 2025, bucking a trend that occupies most other carmakers.

Morgan Stanley, Deutsche Bank and JPMorgan advised Aston Martin. Stroll was advised by Barclays.

Bumpy Ride

At the time of its IPO, Aston Martin was pitched as a peer to Ferrari NV, the Italian supercar maker. The company built a new factory in Wales to make the DBX -- an optimistic signal for the British car industry, which has been reduced by Brexit and an industry shift away from diesel engines.

But the image quickly evaporated as sales slumped and dealers struggled to offload the entry-level $150,000 Vantage.

BLOOMBERG

Amazon Q4 hit by Diwali timing

PEERZADA ABRAR
Bengaluru, 31 January

Amazon, the world's largest online retailer, said its December quarter (Q4) revenue took a hit as the Diwali season moved more into the third quarter. The other factor which affected sales was Japan's consumption tax increasing from 8 per cent to 10 per cent.

"Those two items impacted the Q4 growth rate negatively by about 300 basis points," Brian T Olsavsky, senior vice-president and chief financial officer, said on Thursday.

The retailer's global sales were also affected by Japan's consumption tax increasing from 8% to 10%

"The Diwali timing, which has a very large swing factor on international revenues, moved more into the third quarter in 2019 versus 2018. So, it was a help to Q3 and a penalty to Q4."

For Q4, Amazon's net sales increased 21 per cent to $87.4 billion, compared with $72.4 billion in Q4 of 2018. For all of 2019, the rise was 20 per cent to $280.5 billion, compared with $232.9 billion in 2018.

During his India visit this month, Jeff Bezos, the founder and chief executive, pledged to invest $1 billion (a little over ₹7,000 crore) to help digitise traders and micro, small, and medium-sized businesses (MSMBs) across India, with the goal of bringing more than 10 million MSMBs online by 2025.

The firm said there were about 550,000 sellers on the Amazon India marketplace. A little more than 60,000 Indian manufacturers and brands were exporting their 'Make in India' products to customers worldwide on Amazon.

The company said it expects the new $1-billion investment to enable $10 billion in cumulative Indian export by 2025.

"There are a lot of different facets (of) those types of investments. I won't go into too much for specifics but a lot of work is being done there," said David W Fildes, director of investor relations, during the earnings call.

Amazon claims it has, since launching 'amazon.in' in 2013, created more than 700,000 direct and indirect jobs in India.

"That team over there continues to do a great job locally, of taking a lot of the tenets that we've had at Amazon around innovation building and really run with that over there," said Fildes. "They have done a great job of coming up with some interesting and new services and features that, I think, are specific to that region."

BMW's costliest art car comes to India

The BMW M1 is on display in Delhi at the India Art Fair

PHOTO: SANJAY SHARMA

IT'S NOT FOR SALE

- The BMW Art Car Project was born in 1975 when Le Mans racing driver Hervé Poulain decided to change the appearance of his BMW
- To date, BMW has commissioned 19 art cars, with the recent ones being an M6, painted by John Baldessari in 2016, and an M6 GT3 painted by Chinese artist Cao Fei in 2017
- All cars are the property of BMW and not for sale, Girst said when asked if they had ever received offers from art collectors around the world

PAVAN LALL
Mumbai, 31 January

Every year when Thomas Girst, BMW's global head of cultural engagement, looks at the list of requests for exhibits amongst the group's collection of 'art cars', it's almost always the Andy Warhol or the Jeff Koons art cars that are requested the most.

This year, Warhol's 1979 art car, the BMW M1, has been brought to India, and is on display at the India Art Fair — on till 2 February in New Delhi.

The BMW Art Car Project was born in 1975 when Le Mans racing driver Hervé Poulain decided to change the appearance of his BMW, Girst said, adding that the initiative was given a thumbs up by the then BMW Motorsport director Jochen Neerpasch, and artist Alexander Calder was assigned the task.

The project was so well received that over the years BMW roped in artists, such as Frank Stella, Roy Lichtenstein and Warhol, to convert an assortment of BMWs into art cars. "The truly great thing is that these cars were not a public relations exercise but emerged from real racing passion," Girst said.

The art cars have in time been exhibited at the Guggenheim Museum in New York as well as other venues.

The M1 is often referred to as the most expensive car given the pedigree of the creator. Warhol paintings have sold for as much as $105 million and have averaged between $30 million and $80 million over the years, according to reports by international auction houses.

When asked about the worth of the car in Delhi, Girst declined to answer, saying "it would easily be in the tens of millions of dollars". What Girst did share was that Warhol was fascinated with the process of painting machines, and when he painted the car in 1979, he did it in 28 minutes using bright colours and streaks that looked like scratches.

Ola set to debut in London on February 10

PEERZADA ABRAR
Bengaluru, 31 January

Ola on Friday said it will launch its service in London on February 10. It will be fully operational from day one, with over 20,000 drivers. The SoftBank-backed company said it aims to offer a differentiated experience with features such as 24/7 helplines for drivers and customers and an in-app emergency button.

The company said it would be providing the best quality of service through its large network of drivers across the city of London.

"The overwhelmingly positive reception to Ola since launching in the UK in 2018 illustrates the significant demand from drivers, riders and communities," said Simon Smith, head of Ola International.

Drivers joining the platform will benefit from six weeks of zero commission and market-leading commission rates thereafter.

Brookfield to pick up 40% in IndoStar

RAGHAVENDRA KAMATH
Mumbai, 31 January

Brookfield Business Partners, together with its institutional partners, will invest ₹1,450 crore in IndoStar Capital Finance to pick up 40 per cent stake in the company.

The overall investment will comprise a combination of primary investment in equity shares and compulsorily convertible preference shares of ₹1,225 crore along with a secondary purchase of shares from IndoStar Capital Mauritius.

Brookfield will also become a co-promoter in IndoStar and nominate two board members. R Sridhar will continue to lead the company in his role as vice-chairman and CEO of IndoStar.

The fresh investment by Brookfield will support the continued growth of IndoStar's retail business.

"We are delighted to partner with a reputable global investor such as Brookfield and welcome them to the IndoStar family. We see opportunities to continue delivering substantial value to IndoStar's customers, employees and investors," IndoStar Chairman Dhanpal Jhaveri said. He is also the vice-chairman of Everstone India.

Aditya Joshi, senior vice-president, Brookfield, said, "We believe in the long-term secular growth runway of the Indian retail financial services sector. IndoStar has an experienced management team and a strong position in attractive and growing retail lending segments. We look forward to partnering with Everstone and the IndoStar management team to further scale the business."

Embassy to merge assets with Indiabulls

Embassy Property Development is merging some of its residential and commercial properties with Indiabulls Real Estate to set up a new entity, the latter said on Friday.

The companies did not share details of the properties they are merging. Under the proposed merger, Indiabulls will issue equity shares of ₹2 each to the shareholders of Embassy, in accordance with the swap ratio approved by the boards of both the companies, Indiabulls said.

The merged platform will be controlled by Embassy Chairman Jitu Virwani. Sameer Gehlaut, the current promoter of Indiabulls will become a passive shareholder in the new company, sources in the know said.

"The merged platform will become the development arm for the listed REIT (Embassy Office Parks). The REIT will benefit by getting more developed assets, thereby increasing the yield of the REIT," sources said. Embassy will raise ₹1,420 crore from Blackstone and other investors.

"The equity investment will bring significant cash to the merged entity," It added.

RAGHAVENDRA KAMATH

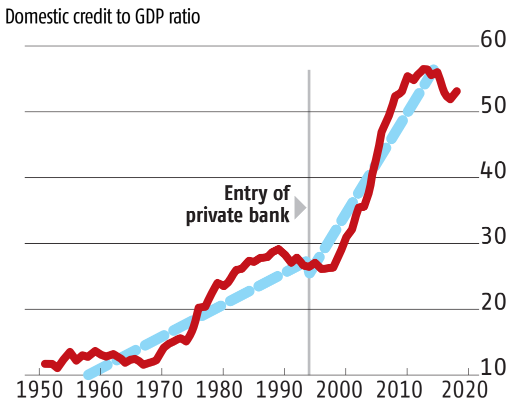
BUILDING BLOCKS FOR 'WEALTH CREATION' AND THE $5-TRILLION ECONOMY

Wealth creation being the central theme, the Economic Survey highlights the need for strengthening the invisible hand of markets, with pro-business policies, enabling fair competition, ease of doing business, minimising government intervention in markets, facilitating trade for job creation, as well as scaling up the banking sector. Here is a snapshot of some of the 'new ideas' for the economy that the Survey focuses on

WEALTH CREATION

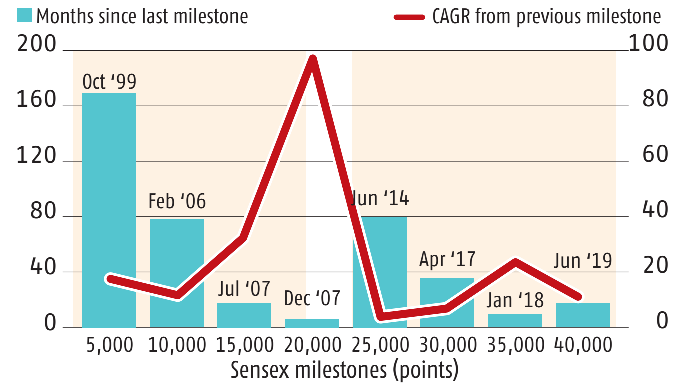
When Laxmi scores...

Domestic credit to GDP ratio



PRO-BUSINESS POLICIES

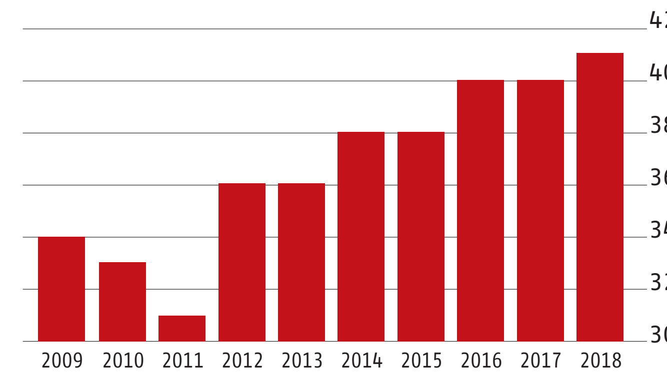
Sensex shows the way...



BUILDING TRUST HELPS

No-no to crony policies

Transparency International's Corruption Perception Index



REVIVAL IN SIGHT ▪ FISCAL TARGETS MAY HAVE TO BE RELAXED FOR THE CURRENT YEAR

Survey pegs FY21 growth at 6-6.5%

ARUP ROYCHOUDHURY
New Delhi, 31 January

The 2019-20 Economic Survey on Friday forecast real gross domestic product (GDP) growth at 6-6.5 per cent for the fiscal year 2020-21 (FY21), saying growth has been rebounding from the second half of FY20, and will continue to be on the uptick in the coming year.

The Survey said the Centre will have to relax the fiscal deficit target for FY20.

"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," said the Survey, tabled in Parliament a day before Finance Minister Nirmala Sitharaman presents the 2020-21 Union Budget.

"GDP growth should strongly rebound in 2020-21 and more so on a low statistical base of 5 per cent growth in 2019-20. On net assessment of both the downside and upside risks, India's GDP is expected to grow in the range of 6 to 6.5 per cent in 2020-21," said the Survey, drafted by Chief Economic Advisor Krishnamurthy Subramanian and team.

These figures were first reported by *Business Standard* in December.

By the Survey's own admission, this is higher than some other projections for India by multilateral institutions. The International Monetary Fund and the World Bank have projected a real GDP growth rate of 5.8 per cent for FY21.

Separately, the Reserve Bank of India has projected growth at 5.9-6.3 per cent for the first half of FY21 (April-September, 2020).

The Survey listed a number of upside and downside risks upon which its growth forecasts are conditional. Among the downside risks to its GDP forecast, it listed the ongoing the situation in West Asia and its impact on crude prices, trade tensions, bankruptcy process not speeding up and higher public investment under the National Infrastructure Pipeline indirectly crowding out private investment.

Among the upside risks are an expected rise in exports activity, favourable global sentiments, boost from the corporate tax rate cuts, and an increased thrust on Make in India.

"On a net assessment, it appears that the upside risks should prevail, particularly when the government, with a strong mandate, has the capacity to deliver expeditiously on reforms," the Survey said.

On the fiscal front, the survey said tax revenues for FY20 would be muted relative to the target envisaged in the 2019-20 Budget. The gap, owing to lower tax receipts, could be to some extent compensated by higher non-tax revenue and disinvestment proceeds, a strategy which wasn't sustainable in the long run, it said.

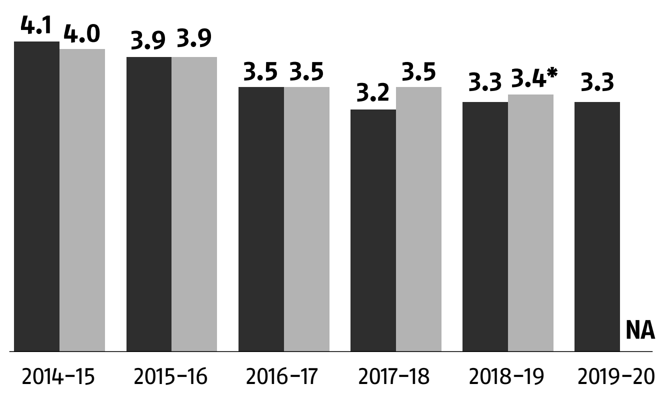
While the Survey did not state any number, it is expected that tax revenue could fall short by ₹1.5 trillion this year.

The Survey said any cut in expenditure, especially capital expenditure, would have adverse implications for growth. "The focus of the government should lie on rationalisation of subsidies.

Further, to boost the domestic demand which is crucial for revival of growth, the fiscal deficit target may have to be relaxed for the current year," it said.

BRIDGING THE GAP

(Fiscal deficit as percentage of GDP)



*Revised

Source: Government documents

NEW GAME PLAN ▪ SURVEY SUGGESTS INTEGRATION OF ASSEMBLING IN INDIA INTO MAKE IN INDIA

Take a cue from China to create 40 mn jobs by '25

SUBHAYAN CHAKRABORTY
New Delhi, 31 January

India needs to take a leaf out of China's trade playbook and intensively specialise, produce and ship out a select category of 'network products' (NPs) such as computers, electronic and electrical equipment, and telecommunications goods, to boost the currently beleaguered export sector, the Economic Survey has suggested.

Delhi would also need to integrate the aim of 'Assembling in India for the world' with the government's flagship 'Make in India' policy, it said. By focusing on NPs, the country can raise its export market share to about 3.5 per cent of the global average by 2025 and 6 per cent by 2030. In the process, creating millions of jobs, the Survey says.

Exporters lauded the suggestions. '"As the global market becomes more and more competitive, we completely agree with the assessment of the Economic Survey that India needs to focus on core competencies and value additions even as we are doing some catch up with China," said Engineering Exports Promotion Council India Chairman Ravi Sehgal.

There has been success in cutting import of consumer electronic items from China, it adds, via incentives to domestic manufacturing and imposing of tariffs on finished goods. However, the government might need to pick up the pace in approaching infotech majors like Apple and Samsung — the Survey suggests production processes for most NPs are globally fragmented and controlled by leading multinational enterprises, within own production networks.

Chief Economic Advisor Krishnamurthy Subramanian has borrowed from predecessor Arvind Subramanian's idea of pushing labour-intensive manufacturing investment, to simultaneously boost productivity, job creation and export. The latest prescription of pushing NPs will result in $248 billion of incremental value addition in the economy by 2025, the Survey suggested.

Even more attractive for policymakers could be its proposition that NPs might create about 40 million well-paid jobs by 2025, rising to 80 mn by 2030. "To revive exports, the Centre needs to focus on multiple areas. It requires a policy space that typically requires a mix of tariff protection, facilitating development finance for enterprises to maximise employment, and investments in infrastructure. For the medium term, there's a need for innovation policy," said senior trade policy expert and professor at Jawaharlal Nehru University, Biswajit Dhar. In other labour-intensive sectors, such as textiles and leather, there is an indication of more structural reform. The Survey calls for drastically raising India's share in global export through a targeted plan of pushing up market share in major markets. And, to immediately improve the country's participation in the global value chains of various products.

The Survey is also in favour of India signing bilateral trade deals. It stressed that contrary to the popular opinion among businesses that India has been harmed in the free trade agreements (FTAs) it signed, manufacturing export has benefited as a result of 8 of 14 existing FTAs. However, it concedes, this did little to raise total export — several prime foreign exchange earning commodities were restricted by other nations in most deal, it said. It says merchandise shows a 2.3 per cent increase in trade surplus every year.

PRESCRIPTION FOR EXPORT GROWTH: NETWORK PRODUCTS

	2020	2025	2030
World exports of NP* ($trn)	5.9	6.9	8.0
India's exports of NP* ($bn)	69.4	248	490.7
India's share in world NP* exports (%)	1.2	3.6	6.1
Projected value addition to Indian economy ($bn)	168	586.9	1,134.3

Note: NP denotes network products
Source: Economic Survey 2019-20

PRIVATISATION PUSH ▪ SURVEY RECOMMENDS TRANSFERRING STAKE OF LISTED GOVT FIRMS TO A CORPORATE ENTITY

Temasek-like model proposed for divestment

SOMESH JHA
New Delhi, 31 January

Chief Economic Advisor Krishnamurthy Subramanian made a case for aggressively privatising central public sector enterprises (CPSEs) and suggested that the government transfer its stake in listed firms to a separate corporate entity.

Subramanian recommended the corporate entity be managed by an independent board with a mandate to divest the government stake in listed CPSEs over a period of time. "This will lend professionalism and autonomy to the disinvestment programme which, in turn, would improve the economic performance of the CPSEs," the Economic Survey said.

The CEA said the government would do good to learn from the experience of Temasek Holdings, a firm owned by the Singapore government which holds and manages the investments of that country's state-owned companies.

"Aggressive disinvestment should be undertaken to bring in higher profitability, promote efficiency, increase competitiveness and to promote professionalism in management in the selected CPSEs for which the Cabinet has given in-principle approval," the Survey added.

The focus of the strategic disinvestment needs to be on exiting non-strategic business and directed towards optimising economic potential of these CPSEs so that the government could utilise this capital in public infrastructure, according to the Survey. Subramanian said the government should prioritise 33 public sector units which are in the pipeline for strategic sale since 2016.

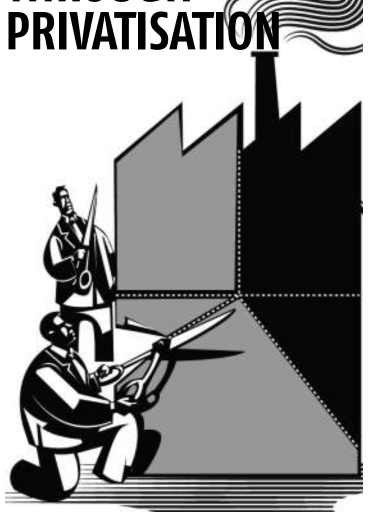
The CEA presented an analysis of 11 CPSEs whose strategic disinvestment took place between 1999-2000 and 2003-04. It showed that after privatisation, the firms witnessed improvement on all economic performance indicators.

The analysis was done over a period of 10 years before and after privatisation. It further compared their performance to that of the peers in same industry group.

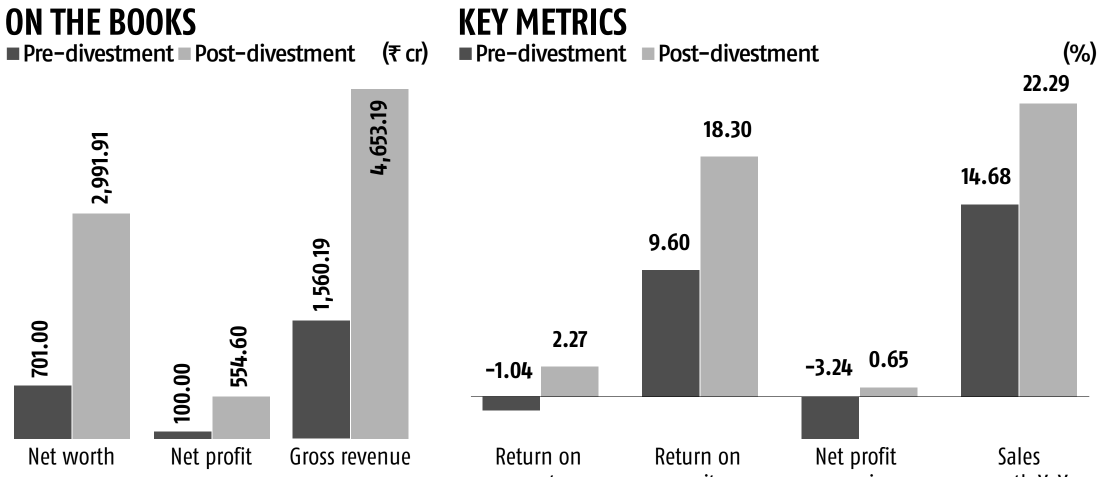
"The trends confirm that the performance of the privatised CPSE and its peers is quite similar till the year of privatisation. However, post-privatisation, the performance of the privatised entity improves significantly when compared to the change in the peers' performance over the same time period," the Survey noted.

For instance, the net worth of the 11 privatised firms increased from ₹700 crore before privatisation, to ₹2,992 crore after privatisation, "signalling significant improvement in financial health".

WEALTH CREATION THROUGH PRIVATISATION



The Economic Survey analysed the impact of strategic disinvestment of 11 central public sector entities on their performance, before and after their privatisation — which took place between 1999-2000 and 2003-04. The analysis found the entities showed improvement on all indicators. Return on assets and profit margins turned from negative to positive after privatisation



Note: Average figures for firms considered; data illustrates performance indicators of firms in which govt divested stake over 10 years
Source: Economic Survey

ECONOMIC SURVEY PRIMER

A FEW NUGGETS FROM THE SURVEY — FROM 'TRUST AS A PUBLIC GOOD' TO 'GEO-TAGGING OF ASSETS' IN ORDER TO PREVENT FRAUDS

INVISIBLE HAND OF MARKET...

- The exponential rise in India's GDP and GDP per capita after liberalisation coincides with wealth generation in the stock market
- Sectors that were liberalised grew significantly faster than those that remained closed
- Pro-business policies provide equal opportunities to new entrants, enable fair competition, and ease of doing business
- Efficiently scale up the banking sector to be proportionate to the size of the Indian economy

...SUPPORTED BY 'TRUST' AS A PUBLIC GOOD

- Citizens can enjoy its benefits at no explicit financial cost
- Non-rival consumption: The marginal cost of supplying this public good to an extra citizen is zero
- Trust grows with repeated use and therefore takes time to build
- Lack of trust represents an externality, where decision-makers are not responsible for some of the consequences of their actions

EASE OF DOING BUSINESS IMPROVES, BUT...

- Continues to trail in parameters such as ease of starting a business (rank 136), registering property (rank 154), paying taxes (rank 115) and enforcing contracts (rank 163)
- Enforcing a contract in India takes, on an average, 1,445 days compared to just 216 days in New Zealand, and 496 days in China

- Logistics are inordinately inefficient at Indian sea ports. The process flow for imports, ironically, is more efficient than that for exports
- Turnaround time of ships in India has been on a continuous decline, almost halving from 4.67 days in 2010-11 to 2.48 days in 2018-19

TO PROTECT CREDITOR'S COLLATERAL, LEVERAGE DATA

- Geo-tagging — the process of adding geographical identification such as latitude and longitude to photos, videos or other media — can help lenders keep track of the location of assets
- It can also help verify the value of pledged land or property
- Integrated data on collateral across all lenders in geography may be particularly useful in curbing double-pledging of collateral
- If mandated to share geo-tagged evidence of collateralised assets with their lenders periodically, borrowers would find it difficult for them to remove these assets by stealth

BILATERAL NETTING OF FINANCIAL CONTRACTS

- Two counterparties in a financial contract can offset claims against each other to determine a single net payment obligation
- Under instances of default, close-out netting enables the non-defaulting counterparty to terminate the financial contract prematurely

- Current RBI guidelines require banks to measure credit exposure to a counterparty, based on gross marked-to-market (MTM) exposure instead of net MTM exposure. This increases credit risk for financial market participants
- Bilateral netting arrangements could have helped 31 major banks participating in India's OTC derivatives market save about ₹2,257.9 crore in regulatory capital during FY18

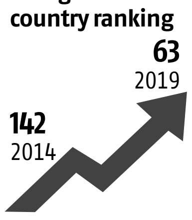
DEVELOP OFFSHORE FUND MANAGEMENT INDUSTRY

- Financial services exports have remained stagnant, averaging about $5 billion in recent years
- The share of financial services exports in overall services exports has almost halved from 4.2 per cent in FY12 to 2.3 per cent in FY19
- Generate employment for high-skilled finance professionals, including fund managers and support service providers such as custodians, fund specialists, risk managers, research analytics professionals, and tax advisors
- A conservative assumption of 1 per cent management fee (compared to 2 per cent globally) could yield about $2.2 billion in fund management fees in 2020

EASE OF DOING BUSINESS

How India moved up the ranks, and the road ahead...

World Bank's Doing Business country ranking



India continues to trail in...

- Ease of starting business
- Registering property
- Paying taxes
- Enforcement of contracts

18 Average number of days needed to set up a business in India (involving 10 cumbersome procedures)

CREATING JOBS

Will "assembling in India for the world" deliver?

Plugging into global supply chain

Export of network products expected to equal $7 trillion worldwide in 2025

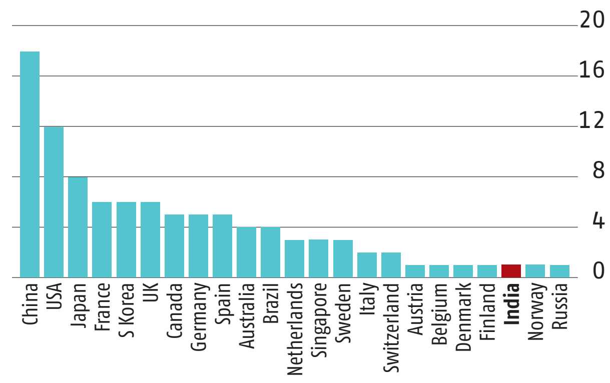
Incremental value added from exports expected at $248 bn in 2025

This will create 40 mn well-paid jobs by 2025 and 80 mn by 2030

SCALING UP THE BANKING SECTOR

The laggard on weak legs

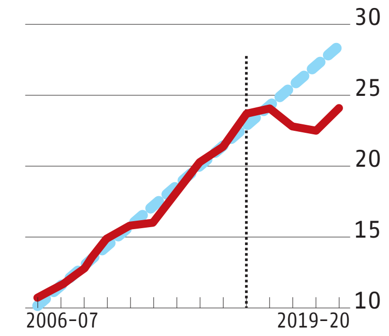
Number of banks, country-wise, in global top 100 (2019)



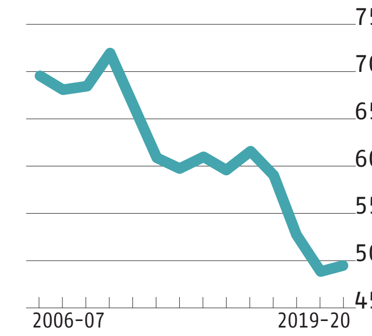
'THALINOMICS'

Lot of food for thought

VEGETARIAN THALI PRICES AT ALL-INDIA LEVEL



INCREASING AFFORDABILITY OF VEGETARIAN THALI



WEALTH CREATION ▪ EMBRACING CAPITALISM IN A NEW AVATAR

30 years later, Survey lays down the ground for Liberalisation 2.0

ABHISHEK WAGHMARE

New Delhi, 31 January

Nearly 30 years after economic liberalisation started in 1991, an official document doesn't just praise the private sector but recommends that the government embrace capitalism in a new avatar.

Taking a cue from Adam Smith (considered the father of economics who in the 18th century talked of the invisible hand of the market), the Economic Survey batted for making the "invisible hand" take charge of the economy, to enter the next phase of rapid economic growth.

But while the theory said an individual deciding what was best for her or him was ultimately best for society as a whole, the Survey said this had to be complemented with "trust" as a public good, suggesting that the government take up the role of a trustworthy institution, to ensure that greed did not take over.

"India's aspiration to become a $5 trillion economy depends critically on strengthening the invisible hand of markets together with the hand of trust that can support markets," Chief Economic Adviser Krishnamurthy Subramanian wrote in the Survey.

Underlining India's "dalliance" with socialism in the pre-1990s, the Survey shunned the scepticism that got associated with the benefits accruing from a market economy, giving evidence from data.

However, it made a marked difference in its approach: India's economic policy must move from being "pro-crony", which might favour specific private interests, especially powerful incumbents, to "pro-business", which converted the competitive spirits of markets into growth.

Analysing data on the core and transport sectors, the Survey showed areas such as steel and cement, which have been privatised, had shown a higher growth rate, of 7 per cent, than coal, which remains in the hands of the government to date, at 5 per cent.

It also compared the road sector and railways and underlined the fast growth in the former, compared to the latter, where the passenger footfall had been languishing at a level for a long time.

But in paving the way for structural liberalisation, the Survey recommended that this should happen with enabling and incentivising the formation of new firms. In doing so, it stood up for giving favourable grounds for new entrants, and enabling fair competition between them and incumbents.

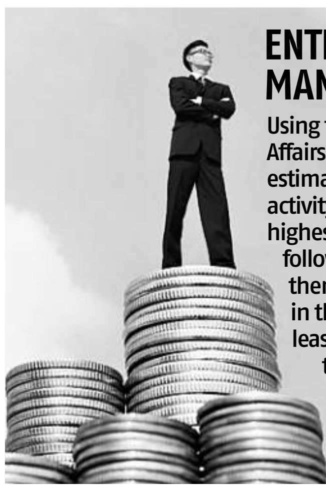
The government has taken a step in that direction, by slashing the corporation tax rate for new manufacturing companies in certain sectors to 15 per cent, the lowest in India ever.

The Survey said a 10 per cent increase in new firms in a district added 1.8 percentage points to its economy. But it specified, using data, that the government should focus on manufacturing.

"As the manufacturing sector has the potential to create the maximum jobs, states must focus on enabling ease of doing business and flexible labour regulation to foster job creation," it said.

Critically, the very same sector is bearing the brunt of the current economic slump. Value added in manufacturing has contracted in the first half of FY20, with growth in the full financial year set to be at 2 per cent, according to advance estimates.

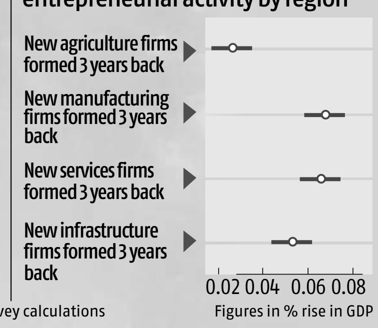
In its defence of the "invisible hand", the Survey underlined the performance of the BSE Sensex, its "exponential rise" post-liberalisation.



ENTREPRENEURIAL ACTIVITY IN MANUFACTURING YIELDS HIGHEST RETURNS

Using the Ministry of Corporate Affairs data (MCA-21), the Survey estimates that new business activity in manufacturing yields the highest returns for the economy, followed by the services sector, then by infrastructure. New firms in the farm sector contribute the least. Some experts believe that the share of manufacturing in India's economy should rise from the current level of 15 per cent

Differences in the impact of entrepreneurial activity by region



Source: MCA-21 and Survey calculations

Figures in % rise in GDP

ELECTRICITY SUPPLY ▪ FOCUS ON SUSTAINABLE DEVELOPMENT

Link infra with social reforms to spur growth

SHREYA JAI

New Delhi, 31 January

Calling for integration of socio-economic services, the Economic Survey 2019-20 has proposed the amalgamation of physical infrastructure and social reforms to ensure sustainable development.

Suggesting a new approach, 'Nexus of Sustainable Development Goals (SDGs)', it said this will reinforce several policies and their implementation.

"Since a few SDGs have overlapping objectives with one another, the policies developed and aligned to achieve the goals must consider and identify these linkages. And, in-turn, identify the potential trade-offs that might limit the physical achievement of the target under a goal," said the Survey.

SDGs were set up in 2015 by the United Nations General Assembly and are to be achieved by the year 2030. This includes clean water and sanitation, affordable and clean energy, industry innovation and infrastructure, life on land, peace, justice and social institutions, zero hunger and gender equality.

The Survey suggested interlinking electricity supply with health and education. "It is observed that with electricity, the schools' access to modern methods and techniques of teaching helps holistic development of students and increases their attraction towards learning," said the Survey.

LIGHTING UP THE FUTURE

The Survey observed that states with lower literacy rates have low electricity supply at schools and vice-versa. Many of the health improvement schemes – providing paediatric care, newborn emergency services, and successful vaccination – rely heavily on the availability of electricity at the health centres. "There is a positive relationship between electricity consumption and fall in the infant mortality rate (IMR) in the country," said the Survey.

The Survey made note of several states to denote link between electrification of schools and net enrolment. While states with high 'human development index (HDI)' have shown positive relation between electrification and school enrolment, for low HDI states, it is dismal. "It then becomes obvious that schools having quality and reliable power would generally tend to have the facilities that the government is providing under its Sarva Shiksha Abhiyan programme," said the Survey.

COMMENT

MAHESH VYAS

MD & CEO, CMIE

Jobs as an outcome of an exports strategy

The Economic Survey suggests that India can grow jobs by strategically focusing on exports. It suggests integrating "Assemble in India" with the "Make in India" scheme. The suggestion draws entirely from China's experience and further suggests that India should leverage China's losing attractiveness as a production centre. US-China trade war is leading to major adjustments in global value chains and India should exploit these to its advantage.

The Survey analyses India's export performance vis-a-vis China and finds that India has gained an advantage in relatively low- and middle-income countries at the cost of losing bigger markets in richer countries. Its fast-growing exports are not in labour-intensive industries but in capital- and skill-intensive industries. On the other hand, China's export performance is driven by a high level of participation in the global value chains, high level of specialisation in labour-intensive production activities, large scale in the chosen sectors of specialisation and a high level of export penetration in rich country markets.

The Survey suggests that India should focus on traditional labour-intensive sectors such as textiles, clothing, footwear and toys and on increased participation in global value chains. The value chains in these industries are controlled by buyer-driven networks in developed countries.

The major suggestion, however, focuses on making India a major hub for final assembly in a range of products that it calls as network products (NPs). These are producer-driven networks, whose products are not made from start to finish in one country. Such countries specialise in particular stages of production.

The Survey has made calculations that show that if India focuses on NP exports, the total number of jobs attributed to exports of NP will go up from 4.4 million in 2020 to 14.3 million in 2025 and 25.5 million in 2030. This implies that NP exports alone can create 10 million jobs in five years and over 20 million jobs in 10 years.

To place these numbers in perspective, we may point that India's total employment is a little over 400 million and salaried jobs are of the order of 86 million. But, the Survey states there are second order effects of this strategy which could create an additional 38.5 million jobs in the next five years.

Effectively, therefore, the Survey suggests that if India focuses on an export-driven strategy based on NPs inspired by China's experience and leveraging China's potential downturn, it could create 40 million jobs in the next five years.

If Chapter 5 of the Economic Survey was written to address the problem of jobs in India, then it is a rather narrow and clinical approach on the subject. Jobs, here, are an outcome of an export-driven growth strategy. This is fine. But, an export-driven growth strategy is a lot more than merely copying China.

Here is a worry. It is not unreasonable to assume that the proposed strategy of the Survey will not be implemented or be implementable in the next few years. If so, where will the jobs come from?

The Survey does not address the problem of jobs comprehensively. Volume I does not use any data on jobs at all.

Volume II of the Economic Survey shows that according to the Periodic Labour Force Survey (which shall eternally remain not strictly comparable to earlier surveys of the NSSO unless such comparisons are found to be useful for a particular argument), there has been an increase in the share of formal employment as captured by regular wage/salaried, from 17.9 per cent in 2011-12 to 22.8 per cent in 2017-18. Interestingly, according to CMIE's Consumer Pyramids Household Survey, this share was 21.3 per cent in 2017-18. This is interesting because two completely different surveys conducted by different agencies, using different samples and methodologies over a very large and diverse country like India, produce estimates that are very close to each other. This demonstrates the power of large, scientifically produced household surveys.

Views are personal

It outlines initiatives for furthering entrepreneurship, trade, job creation & more, to achieve the goal of $5-trillion economy

PIYUSH GOYAL
Railways and commerce minister

We welcome the positive outlook, but advocate that the Centre needs to announce bolder policy and fiscal measures for recovery

NIRANJAN HIRANANDANI
president, Assocham & Naredco

A corollary for creating jobs through specialisation is participation in global and regional value chain of labour-intensive products

ARINDAM GUHA
Partner, Deloitte India

It underscores the need for measures to strengthen trust across the economy as well as foster ethical wealth creation

ARUN KUMAR
Chairman and CEO, KPMG in India

It is right that any change in GST rates on automobiles will hit revenues but decreasing them could spur economic activity

PRATIK JAIN
Partner & leader (indirect tax), PwC India

MINIMUM GOVT INTERVENTIONS ▪ THIS WILL RESULT IN COMPETITIVE MARKETS AND SPUR INVESTMENTS, GROWTH

Making a case for 'economic freedom'

DILASHA SETH
New Delhi, 31 January

The Economic Survey, presented in Parliament on Friday, made a case for doing away with outdated government interventions, arguing that they hurt more than they helped.

"Anachronistic government interventions" like the Essential Commodities Act (ECA), drug price controls, farm debt waiver, and those in food grain markets stifle "economic freedom", which undermines the ability of markets to support wealth creation, it said.

"... Each department and ministry in the government must systematically examine areas where the government needlessly intervenes and undermines markets ... Eliminating such instances will enable competitive markets and thereby spur investments and economic growth," the Survey noted. It added interventions that were apt in a different economic setting might have lost their relevance in a transformed economy. On doing away with the ECA, the Survey pointed out the frequent and unpredictable imposition of blanket stock limits on commodities neither brought down prices nor reduced price volatility.

Rather, it distorted incentives for creating storage infrastructure by the private sector and discourage movement up the agricultural value chain. Giving examples of the recent onion crisis, the Survey said stock limits in September last year made retail and wholesale prices volatile, because "lower stock limits must have led the traders and wholesalers to offload most of the kharif crop in October itself which led to a sharp increase in the volatility from November".

Retail inflation in onion had crossed 300 per cent in December. "The Ministry of Consumer Affairs must examine whether the ECA is relevant in today's India ... With raids having (an) abysmally low conviction rate and no impact on prices, the ECA only seems to enable rent-seeking and harassment," the Survey said.

ACTS THAT NEED TO BE REPEALED, AMENDED

- Factories Act, 1948
- Essential Commodities Act (ECA), 1955
- Prevention of Black marketing and Maintenance of Supplies of Essential Commodities Act, 1980
- Sick Textile Undertakings (Nationalisation) Act, 1974
- Recovery of Debts due to Banks and Financial Institutions Act, 1993
- The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013

Similarly, the Drug (Price Control) Order, 2013 (DPCO 2013), led to an increase in the prices of regulated pharmaceutical drugs vis-à-vis those of unregulated but similar drugs. The increase in prices is greater for more expensive formulations than for cheaper ones and for those sold in hospitals rather than in retail shops, it pointed out.

According to Economic Survey estimates, the DPCO led to a 21 per cent increase in prices of cheaper formulations (i.e. those that were in the 25th percentile of the price distribution). However, in the case of costly formulations (i.e. those that were in the 99th percentile), the increase was about 2.4 times. The effect of the DPCO, 2013, in increasing prices was, therefore, more potent for more expensive formulations than for cheaper ones — reinforcing the effect opposite to what it was instituted for, i.e. making drugs affordable, it noted. "Government, being a huge buyer of drugs, can intervene more effectively to provide affordable drugs by combining all its purchases and exercising its bargaining power ... Ministry of Health and Family Welfare must evolve non-distortionary mechanisms that utilise government's bargaining power in a transparent manner," said the Survey.

The Economic Survey made a case for repealing or amending the following Acts: Factories Act; ECA, 1995; Food Corporation of India, 1965; Sick Textiles Undertakings (Nationalisation) Act, 1974; Recovery of Debts due to Banks and Financial Institutions Act; and Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act.

The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, introduced in 2013, which regulates land acquisition with 80 per cent of the land to be acquired through negotiations, tilts the balance in favour of landowners, who need to be made an equal partner in developing land and sharing the benefits and costs with the developer/acquirer. As for foodgrain markets, the government's policies of procuring cereals lead to a costly foodgrain economy, adversely affecting competition and acting as a disincentive for crop diversification. Policies for the foodgrain market have led to the emergence of the government being the largest procurer and hoarder of rice and wheat, besides crowding out private trade and increasing the food subsidy burden. Inefficiencies in the markets are affecting the long-run growth of the agricultural sector, it said.

"The food-grains policy needs to be dynamic and allow switching from physical handling and distribution of food-grains to cash transfers/food coupons/smart cards," said the Survey.

Making a case against full debt waivers, the Survey said the beneficiaries of full debt waivers "consume less, save less, invest less and are less productive after the waiver, compared to the partial beneficiaries".

Karnataka, Rajasthan, Madhya Pradesh, Maharashtra, and Punjab have announced loan waivers in the past three years. The Survey said debt waivers disrupted the credit culture and reduced formal credit flow to the very same farmers.

NEW GDP METHODOLOGY ▪ SURVEY SAYS MODELS ALSO MIS-ESTIMATE GROWTH FOR 51 OTHER COUNTRIES

Subramanian vs Subramanian: Survey debunks critics

INDIVJAL DHASMANA
New Delhi, 31 January

The Economic Survey has found no evidence of miscalculation of India's gross domestic product (GDP) growth by the new methodology, as alleged by critics. "...this chapter finds no evidence of mis-estimation of India's GDP growth," said the Survey in the chapter titled "Is India's GDP Growth Overstated? No!"

The issue assumes importance since many critics, including Arvind Subramanian, the predecessor of Chief Economic Adviser Krishnamurthy Subramanian, author of this Survey, found loopholes in the current methodology that uses value addition method and new base year of 2011-12.

Arvind had said in his research paper that a variety of evidence — within India and across countries — suggests that India's GDP growth had been overstated by about 2.5 percentage points per year in the post-2011 period.

There have been similar criticisms of the methodology by other experts as well.

The Survey, penned by Krishnamurthy, however, said the models that incorrectly overestimate GDP growth by over 2.77 per cent for India post-2011 also mis-estimate GDP growth over the same period for 51 other countries by anywhere between 4 per cent and minus 4.6 per cent. These mis-estimates include wrong calculation of the UK's GDP by 1.6 per cent, Germany by 1 per cent, Singapore by minus 2.3 per cent, South Africa by minus 1.2 per cent and Belgium by minus 1.3 per cent.

In the paper published at Harvard University, Arvind noted that the one sector where mis-measurement is particularly high was manufacturing. He said pre-2011, manufacturing value added in national accounts tended to be tightly correlated with the manufacturing component of the index of industrial production and manufacturing exports. But, thereafter, a key methodological change affected the measurement of the formal manufacturing sector, he said.

The former CEA also related the new GDP methodology with exports, imports, real credit to industry, petroleum consumption, railway freight traffic, and electricity consumption etc. The Survey said these parameters are notoriously non-stationary: not only do they flip signs frequently over various 3-year or 5-year time periods from 1980 to 2015, their values change significantly over this time period as well.

THE CRITICISM

- **India switched to new GDP series** in 2015, taking 2011-12 as the base year. This means growth was initially calculated from 2012-13 onwards

- **Now, even back series data** on new base year of 2011-12 is also available
- **Former CEA Arvind Subramanian says** India's GDP growth rate between 2011-12 and 2016-17 should have been about 4.5%, instead of official estimate of close to 7%
- **He relates GDP growth to indicators** such as manufacturing, exports, imports, real credit to industry, petroleum consumption, railway freight traffic, electricity consumption
- **Survey says these indicators are notoriously** non-stationary and volatile

Analysis should take into account changes in district-level GDP

The Survey highlighted that any analysis of new GDP methodology should also take into account changes in the district-level economic growth. It said the granular evidence shows that a 10 per cent hike in new firm creation increases district-level GDP growth by 1.8 per cent.

As the pace of new firm creation in the formal sector accelerated significantly more after 2014, the resultant impact on district- and country-level growth must be accounted for in any analysis. Quoting a study, it said 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.

Also, granular evidence on new firm creation shows that new firm creation in the Service sector is far greater than that in manufacturing, infrastructure, or agriculture. This micro-level evidence squares up fully with the well-known macro fact on the relative importance of the services sector in the Indian economy.

INDIVJAL DHASMANA

COMMENT

N R BHANUMURTHY
Professor, National Institute of Public Finance and Policy

Building trust

At the outset, we must complement the Economic Survey for bringing out a very well-researched report, not only on the current state of the Indian economy but also by trying to focus on the long-term aspect of how to create wealth.

The Survey adopts an analytical framework that integrates Invisible Hand with the Hand of Trust, although not really new, has contextual value. But the best part of the Survey is the way it has built the narrative around the theme by bringing in issues that define the markets versus governments debate. It has brought in the role of public/private banks, issue of gross domestic product (GDP) estimations, ease of doing business, etc, to make a point that wealth creation is an utmost important issue for equity.

The sentence, which is repeated in many places, that "trust as a public good that gets enhanced with greater use" is quite apt, especially when the economy is undergoing a difficult phase. These are for the long-term structural reforms that one should look forward how the government is going to create that trust! But, in short, all of us were looking at what could be the GDP forecast for FY21 that forms part of the Budget.

The Survey puts the growth number at 6 to 6.5 per cent, against the Advance Estimate of 5 per cent for FY20. We just see that the National Statistical Office has revised downwards the FY19 number, from 6.8 to 6.1 per cent and not sure what the final number for FY20 could be! The Survey forecast appears to be on a higher side, which could be aspirational and depends on the Budget proposals.

Most interesting chapter in volume-II is the external sector. Here it argues for promoting exports through liberalising imports. In other words, the Survey very rightly argues that India's exports, especially manufacturing, is increasingly import-led.
Hence, what is needed is reduction in import tariffs, especially on intermediate inputs and raw materials.

This view could be in contrast with the current government's thinking of going for import protection policies. We hope the finance minister could head to the Survey findings and cut the duties while there are pressures to hike. The Survey dedicates one chapter to bank nationalisation and brings out the benefits and costs of public sector banks vis-à-vis private ones. It goes to an extent of putting the cost of public sector banks — a loss of 23 paise out of every one rupee of the tax payers invested! I guess this could have been avoided.

As public sector banks have huge social obligations, one should estimate social costs and benefits. It is unfair to compare public and private sector banks with same parameters of efficiency. If the public policy is to enhance financial access and financial inclusion, one major way is by expanding public sector banks.

The Survey argues that the decline in the GDP growth in the recent period is largely due to financial fragility. While it does not dwell much on how to improve the financial sector, the empirics show the causality is both ways. Overall, if we have to improve growth prospects, it is the fiscal policy that needs to be proactive to help restore stability. One would have expected the Survey to recommend bank recapitalisation. If not, revival in investments could take longer and costlier than expected. On the technicalities, it is just surprising that Survey makes big conclusions based on five data points when it says credit expansion between 2008 and 2012 led to negative investments between 2013 and 2017. Here the Survey ignores its own statement that "Correlation is the basis of superstition and causation the foundation of science".

But the big question that remains is how long it will take to create trust that the Survey argues for.

Views are personal

THALINOMICS ▪ AIMS TO EXPLAIN HOW FACTORS SUCH AS LOW INFLATION IMPACT THE DAILY PLATE OF A CITIZEN

On an average, vegetarian family saves ₹10,887 per year

SANJEEB MUKHERJEE
New Delhi, 31 January

Did the falling prices of food items that caused widespread resentment among millions of growers in the countryside since 2016-17 benefit anyone?

Well, it added on an average around ₹10,887 per year to your family if it eats vegetarian food and approximately ₹11,787 per year if it consumes non-vegetarian food.

The 2019-20 Economic Survey added a chapter called 'Thalinomics' to understand how factors such as low inflation impact the daily plate of a common man and whether the citizen is well-off or worse over a period of time because of it. The Survey found that between 2006-07 and 2019-20, the affordability of a vegetarian *thali* has increased by 29 per cent while that of a non-vegetarian *thali* has improved by 18 per cent for an average common man because of falling inflation.

The Economic Survey advocates raising PDS grain prices, limiting coverage to control subsidies

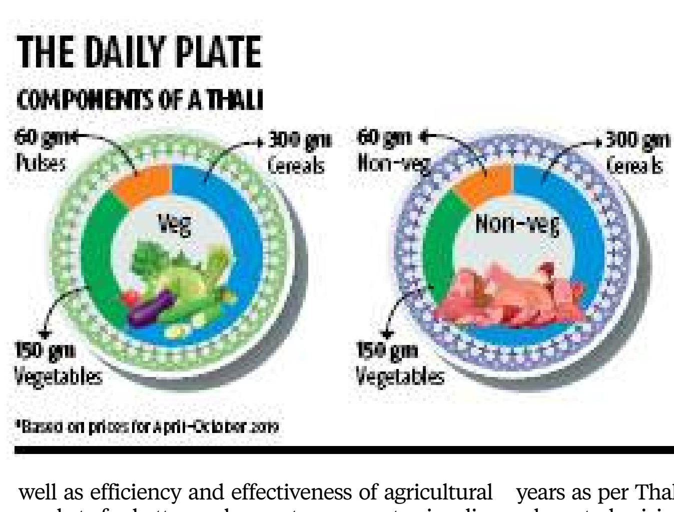
"In terms of the inflation in *thali* prices and all the components, we find a distinct declining trend during the period under review. Affordability of *thalis* vis-à-vis a day's pay of a worker has improved over time, indicating improved welfare of the common person," the Survey said.

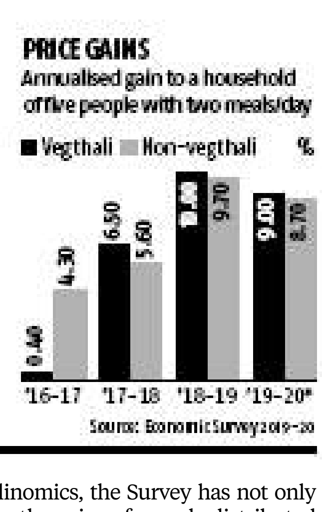
The Thalinomics, which to some is Indian version of the Big Mac Index, also found that rising food prices in the first seven months of 2019-20 were making the *thali* less affordable for a common man on the street as compared to previous three years.

The affordability index has been constructed using the annual earnings of an average industrial worker. For a vegetarian *thali*, the Survey has assumed that an average household of five individuals consumed two *thalis* a day that comprises 300 grams' cereals, 150 grams' vegetables, and 60 grams of pulses.

In case of non-vegetarian *thali*, all the components remain the same, except that 60 grams of pulses is replaced by an equal quantity of non-vegetarian food be it egg, meat, or fish. For fuel, the index uses cooking gas prices as well as firewood prices for which data is available consistently.

The Survey claimed that 2015-16 could be considered as a year when there was a shift in dynamics of *thali* prices as many reforms were introduced to enhance the productivity of the agriculture sector as well as efficiency and effectiveness of agricultural markets for better and more transparent price discovery.





RAISE CEREAL PRICES UNDER FOOD ACT, CUT COVERAGE

At a time when falling food prices seem to have benefitted the common man, the most in the past few years as per Thalinomics, the Survey has not only advocated raising the price of cereals distributed through ration shops but also relooking at the number of people covered under the programme in order to curb spiraling subsidy.

"With a large share of poor people, maintaining food security is still a challenge. The rates under the National Food Security Act (NFSA) and the coverage need to be revisited," the Survey said.

Foodgrains via ration shops are supplied at highly subsidised rates of ₹3 per kg for rice, ₹2 per kg for wheat, and ₹1 per kg for coarse grains according to NFSA. It covers over 67 per cent of India's population in the present form, which the survey has advocated revisiting.

For farmers' welfare, the Survey advocated land reforms for freeing up land markets as the proportion of small and marginal holdings in country's overall agriculture is significantly large.

It also said small holdings of India can be better harnessed through appropriate use of farm mechanisation as the degree of farm mechanisation is low as compared to the other major developing countries like Brazil and China.

That apart, the Survey favoured expanding the coverage of irrigation facilities while ensuring an effective water conservation mechanism. It said an inclusive approach to provision for agricultural credit has to be undertaken to address the issue of skewness in its regional distribution.

It also harped on the need to give increased focus on exploring global markets for agricultural commodities to give an additional source of market for the surplus of agricultural produce India currently has.

Thalinomics captures the govt's relentless efforts to contain inflation to protect the country's poorest of the poor

DHARMENDRA PRADHAN, Petroleum and steel minister

Encouraged to see action suggested for moving towards economically and socially healthier growth path

SANGITA REDDY, President, Ficci

The Survey points out that interventions have not had positive impact. We hope the Budget would allow markets to function efficiently

VIKRAM KIRLOSKAR, President, CII

Survey's projected FY21 growth of 6-6.5% may prove to be optimistic unless backed by a strong fiscal stimulus in the Budget

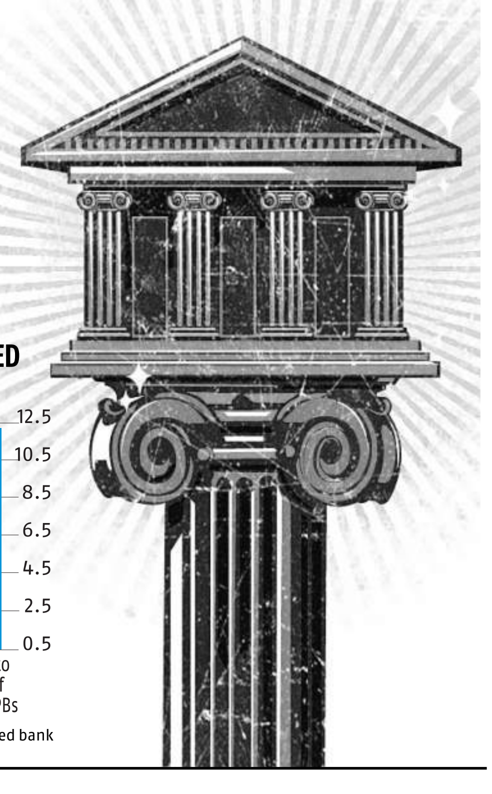
D K SRIVASTAVA, Chief policy advisor, EY India

Thali will soon be Khali. Thalinomics is another obfuscation. Claim of affordable thalis is misleading

MV RAJEEV GOWDA, Congress Rajya Sabha MP

BANKING ▪ PUBLIC SECTOR BANKS MUST IMPROVE EFFICIENCY

India should have at least six banks in top 100 global list



ANUP ROY
Mumbai, 31 January

Being the fifth largest economy, India should have at least six banks in the top 100 global list, and at least eight would be required for a country having a $5-trillion economy, according to the Economic Survey for 2019-20.

Since public sector banks (PSBs) have 70 per cent share of the market, the efficiency of PSBs has to improve, it said.

"India's banks are disproportionately small, compared to the size of its economy. In 2019, when Indian economy is the fifth largest in the world, our highest ranked bank—State Bank of India— is a lowly 55th in the world and is the only bank to be ranked in the Global top 100," the Survey observed. Finland, Denmark, and Austria, which are a fraction of India's size have a bank each in the list, while neighbouring China has 18 banks in the global 100.

"If Indian banks were proportionately large in relation to the size of the Indian economy, we should have at least six banks in the global top 100," the Survey said. Similarly, India becoming a $5 trillion economy will require at least eight Indian banks to be large enough to belong in the top 100 globally. Therefore, the state of the banking sector needs "urgent attention".

Credit growth of PSBs has been falling since 2013, and anaemic since 2016, while private sector banks grew their credit books in double digits. Low credit penetration has harmed the economic growth and welfare, it said. When it comes to efficiency, PSBs also lag considerably vis-à-vis their private sector peers, the Survey said.

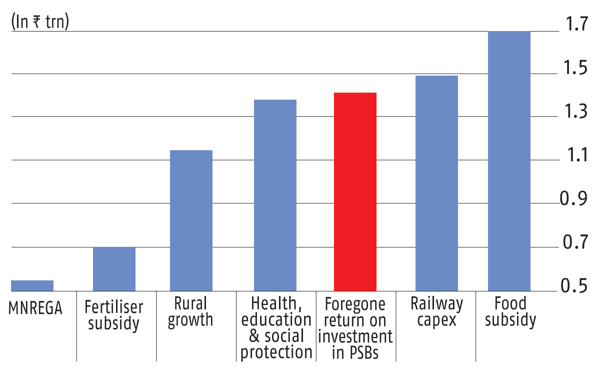
"A large economy needs an efficient banking sector to support its growth. As PSBs account for 70 per cent of the market share in Indian banking, the onus of supporting the Indian economy and fostering its economic development falls on them. Yet, on every performance parameter, PSBs are inefficient compared to their peer groups."

PSBs account for 80 per cent of non-performing assets, carrying a bad debt book of ₹7.4 trillion, and PSBs also reported huge losses, when private sector peers reported profits in 2019. Over 90 per cent of bank fraud cases happened with PSBs. "Therefore, the quality of screening and monitoring processes for corporate lending adopted by PSBs needs urgent attention."

Equity markets also discount PSBs. "The median market-to-book ratio of PSBs equals 0.64, which is less than 1/5th the median of 3.33 for the new private banks," the Survey said. If the market-to-book ratio of each PSB doubled, "which envisages an extremely modest and unambitious increase," the gain would be ₹5.2 trillion, about five times the Budgeted estimate for disinvestment for 2019 of ₹1.05 trillion.

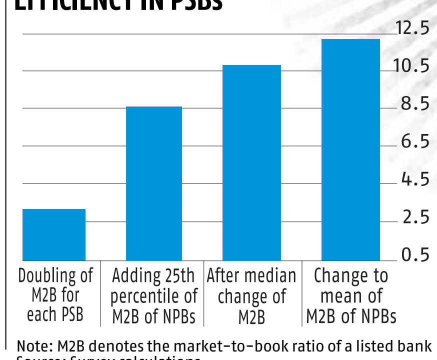
In a more realistic scenario where the market-to-book ratio of each PSB becomes equal to that of the second worst performing private bank, the gain to the government could be as high as ₹9.1 trillion. However, if the ratio of each public sector bank becomes equivalent to the media of private sector banks, the gain to the government would be an enormous ₹11.8 trillion. "This scenario analysis clearly suggests that the costs stemming from inefficiency of PSBs are enormous," the Survey pointed out.

INVESTMENT LOSS IN PSBs VS OTHER SUBSIDY HEADS



Source: Budget documents, RBI data and Survey calculations

POTENTIAL GAINS FROM INCREASED EFFICIENCY IN PSBs



Note: M2B denotes the market-to-book ratio of a listed bank
Source: Survey calculations

COMMENT

SIDDHARTHA SANYAL
Chief Economist and Head of Research, Bandhan Bank

Focus on growth

The Economic Survey underscores the need to support growth momentum in the economy. This reinforces the expectation that the government may opt for the escape clause in the Fiscal Responsibility and Budget Management Act or FRBM Act (that allows up to 50 basis point slippage to the Budgeted deficit under exceptional circumstances) and may settle for a 2019-20 fiscal deficit of 3.6-3.8 per cent of GDP, broadly in line with market expectations. However, if the fiscal deficit exceeds 3.8 per cent of GDP, it will likely trigger negative surprise and concerns not only about the potential immediate additional government borrowing, but also about its longer term commitment to the FRBM road map.

Clearly, there is no easy option for the Finance Minister (FM). A higher fiscal deficit might not necessarily be an immediate boost to near-term sentiment as the higher deficit would primarily reflect government's revenue shortfall and a steep slump in the nominal GDP. The government might have to cut spending below the Budgeted level in order to contain 2019-20 fiscal deficit within 3.8 per cent. Also, a significant dent in debt market confidence and additional upward pressure on bond yields will push the government's debt servicing costs higher, which is already sizeable.

The Survey forecasts 2020-21 real GDP to grow at 6-6.5 per cent. However, a number of forecasters (eg the IMF) currently expect it to be sub-6 per cent. Indeed, the ex ante growth forecasts of the Survey had often been somewhat higher than the eventual actual outcome. Also, real GDP growth of 6-6.5 per cent will likely prompt the government to build in expectations of nominal GDP growth of close to 11 per cent in FY21, materially higher than the single digit growth witnessed during the last two quarterly prints. Any disappointment on this front will complicate the FM's job to meet the targeted fiscal deficit.

Keeping in mind the narrow fiscal headroom, the FM's expenditure plan might focus on rural areas, affordable housing, support for MSME and infrastructure. Further, the government is expected to push social security programmes including healthcare, rural infrastructure such as electrification and irrigation, stronger focus on NREGA, and skill enhancement. Despite popular expectation of reduction in personal income tax, any relief on that front might be small, if at all. The emphasis of the Survey on furthering wealth creation, promoting pro-business policies and entrepreneurship at the grassroots, privatisation of PSUs, strengthening the financial sector, and helping job creation remains particularly noteworthy. Such a focus of the Survey once more flags the relevance of the government's big bang corporate tax rate cut a few months back which can potentially be a material positive in the long run, though likely with limited immediate impact.

Admittedly, there is no quick fix to the economic situation. However, the government is likely to lay down a credible medium-term roadmap towards combating the ongoing slowdown and boosting business and consumer confidence. Given the Survey's emphasis on reviving growth and boosting employment, one remains curious if the FM considers recalibrating the FRBM roadmap, potentially allowing a larger fiscal deficit in the near term.

(Shubhankar Chakrabarty contributed to this column. Views are personal)

NBFC HEALTH INDEX CAN SIGNAL STRESS

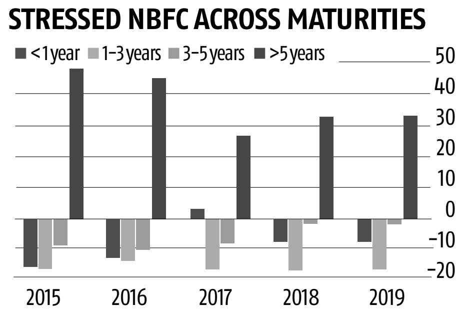
Usage of the Health Score index by regulators can detect early signs of impending liquidity risks in the shadow banking sector. Downtrends in the index can be used to trigger greater monitoring of non-banking financial companies (NBFCs). The health score of the housing finance sector after 2014 exhibited a declining trend and it had worsened by 2019. Similarly, the retail-NBFC index was consistently below par from 2014 to 2019.

The Survey found that NBFCs raise capital from the commercial paper (CP) market at lower cost and face risk of rolling over the CP debt at short frequencies. Since liquid debt mutual funds (LDMF) are the main funding source for NBFCs for short-term debt, any asset side shock to the NBFC, which puts its asset liability management at risk, ends up posing a systemic risk to the LDMF sector. There is also an increased likelihood of concerted redemption by investors across the entire LDMF sector leading to fire sales of LDMF assets. These redemptions increase roll-over risk in a vicious cycle for the stressed NBFCs.

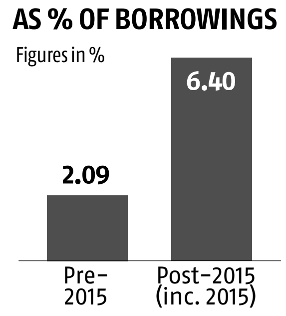
There is a shift in funding sources for NBFCs at present. Bank borrowings has increased 27 per cent over a one-year period. Credit deployment by mutual funds has been contracting since October 2018. The share of CPs decreased 31.2 per cent, while the share of NCDs increased 7.7 per cent.

COMPILED BY SUBRATA PANDA

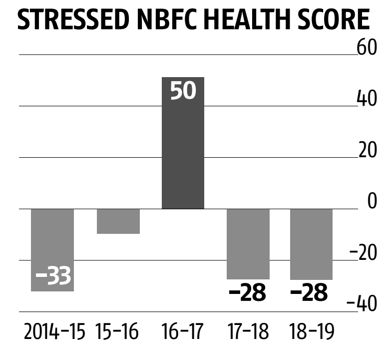
ASSET LIABILITY PROFILE OF A STRESSED NBFC ACROSS MATURITIES



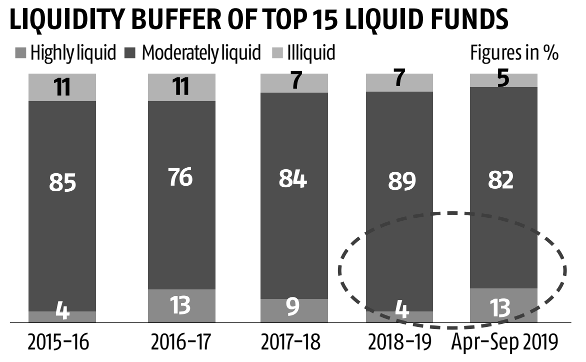
COMMERCIAL PAPERS AS % OF BORROWINGS



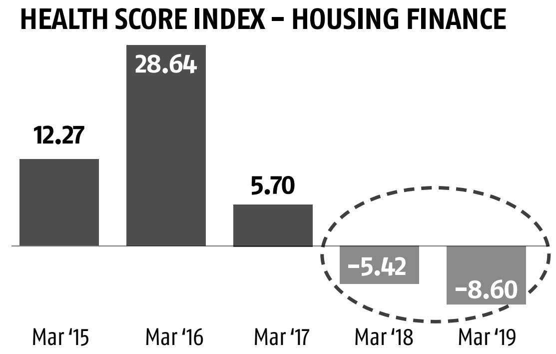
STRESSED NBFC HEALTH SCORE



LIQUIDITY BUFFER OF TOP 15 LIQUID FUNDS



HEALTH SCORE INDEX – HOUSING FINANCE



Source: Economic Survey 2019-20

IBC process needs to speed up

SUBRATA PANDA
Mumbai, 31 January

With the Insolvency and Bankruptcy Code (IBC) entering its third year of operation, total realisable value through the process at the end of December 2019 stood at ₹1.58 trillion. The Economic Survey says although the implementation of IBC is making slow progress, risk aversion of banks to lend further may not reduce unless it speeds up.

Therefore, risk premiums could continue to be high and cuts in repo rates not transmit to lowering lending rates. Private investment could, therefore, remain muted, it said.

The IBC process has contributed in reducing the non-performing assets (NPA) of the banking sector from 11.2 per cent of gross advances in March 2018 to 9.3 per cent in March 2019. However, the NPA ratio remains the same six months forward, at 9.3 per cent, in end of September 2019.

In the October-December quarter (Q3FY20), the number of cases where a corporate insolvency resolution process has been initiated stood at 562 of which 245 were initiated by financial creditors, 301 by operational creditors and the rest 16 by corporate debtor themselves.

Of the cases admitted in Q3, 41.2 per cent of the cases are from manufacturing sector, followed by 19 per cent in real estate, renting, and business activities sector.

According to the Survey, resolution under IBC has been much higher as compared to other processes.

The data shows the amount recovered as a percentage of amount involved in 2017-18 and 2018-19 has been much higher as compared to Lok Adalat, Debt Recovery Tribunals and through other means. The IBC provides a timeline of 330 days to conclude a CIRP. This push has meant that proceedings under IBC take on average about 340 days, including time spent on litigation, in contrast with the previous regime where processes took about 4.3 years.

With the IBC now firmly in place to fix the NPA problem, the Survey feels the Debt Recovery Tribunals can be phased out or integrated with the IBC.

The IBC mechanism now boasts of a strong ecosystem, comprising of three insolvency professional agencies, 11 registered valuer organisations and 2,374 registered valuers as well as 2,911 insolvency professionals as of December 2019.

STATUS OF IBC CASES

Quarterly trend of cases	Apr-Jun 2019	Jul-Sep 2019	Oct-Dec 2019
CIRPs initiated	300	565	562
Resolution plan approved	27	32	30
Cases withdrawn	24	18	5
Cases settled	22	24	14
Cases under liquidation	96	153	132

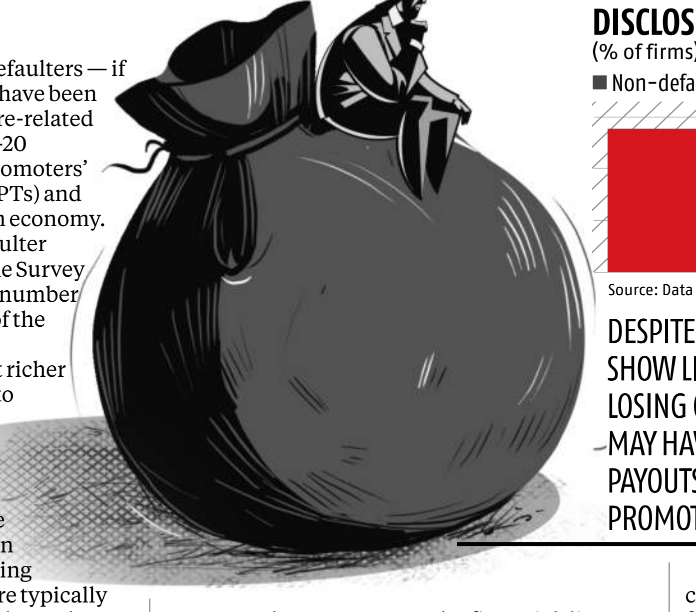
CASES BY CREDITORS

Creditor type	Apr-Jun 2019	Jul-Sep 2019	Oct-Dec 2019
Financial creditor	129	265	245
Operational creditor	154	291	301
Corporate debtor	17	9	16

Source: Economic Survey 2019-20

Common man bears the cost of wilful default as promoters destroy wealth

JASH KRIPLANI
Mumbai, 31 January



The money siphoned off by wilful defaulters — if put back into the economy — could have been enough to fund various social welfare-related Budget allocations, argues the 2019-20 Economic Survey, and highlights promoters' use of related-party transactions (RPTs) and removing assets to destroy wealth in economy.

"Every rupee lent to a wilful defaulter constitutes an erosion of wealth," the Survey states and raises concerns on rising number of such defaulters since beginning of the current calendar year.

"Rich businesses that want to get richer use wilful default as an instrument to redistribute wealth away from the poor," the Survey says. As of 2018, wilful defaulters owed nearly ₹1.4 trillion to lenders.

In India, these defaulters operate with a peculiar modus operandi of an inclination towards excessive pledging and hiding the RPTs. RPTs, which are typically large loans, purchases or sale of goods to other related parties, are a prevalent phenomenon among wilful defaulters, it said.

Also, opacity and lack of regulatory compliance is high among such promoters. Only 40 per cent of wilful defaulters comply with the RPT disclosures that are required legally. Among non-defaulters and the distress-defaulters, the compliance is 60 per cent.

According to the Survey, promoters at the helm of defaulting firms pledge almost 50 per cent of their shareholding to lenders, on an average. The promoters under financial distress tend to have 30 per cent of their shareholding pledged, as against 11 per cent of non-defaulters.

The Survey points out that while there is nothing wrong with pledging, in India it takes a peculiar form.

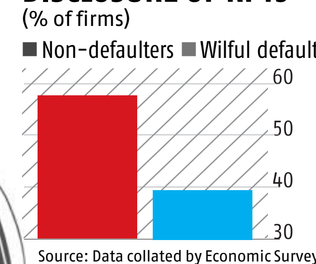
"Promoters, especially those of wilful defaulter firms, pledge shares to obtain financing not for external ventures or personal endeavours but for the firm's own projects," the Survey read.

For lenders, this practice is sub-optimal as the value of collateral used to secure loans should not correlate with the value of the project being funded.

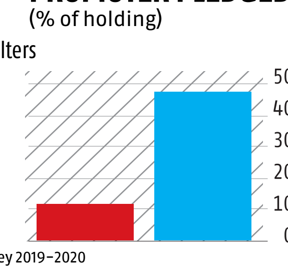
Despite the excessive pledging, promoters show little concern over the prospect of losing control of their company as they may have already siphoned off project payouts before market value of promoters' shares starts to collapse.

"The cost of such wilful default is borne by the common man. Public sector banks get their equity from taxes paid by the common man. They get their debt from deposits made by the common man," the Survey said.

DISCLOSURE OF RPTs (% of firms)



PROMOTER PLEDGED (% of holding)



Source: Data collated by Economic Survey 2019-2020

DESPITE THE EXCESSIVE PLEDGING, PROMOTERS SHOW LITTLE CONCERN OVER THE PROSPECT OF LOSING CONTROL OF THEIR COMPANY AS THEY MAY HAVE ALREADY SIPHONED OFF PROJECT PAYOUTS BEFORE MARKET VALUE OF PROMOTERS' SHARES STARTS TO COLLAPSE

HOLDING OUT HOPE: CHIEF ECONOMIC ADVISOR
KRISHNAMURTHY SUBRAMANIAN

'In times like these, better to lean on growth. That's our directional sense'

Q&A

After presenting his second Economic Survey, Chief Economic Advisor **KRISHNAMURTHY SUBRAMANIAN** spoke with **Dilasha Seth** and **Arup Roychoudhury** about the projections in the Budget, the need for enhancing credit in the system, and how the time had come to choose between fiscal prudence and growth. Edited excerpts:

In the Economic Survey, you have pitched for relaxation of the fiscal deficit target for FY20 to revive growth. What should be the magnitude? Is there an upper limit?

There is always a balancing act between fiscal prudence and spurring growth. In times like these, it is better to lean on growth. And that's the directional sense that we have given. I'll leave it at that. The actual magnitude, of course, depends on a lot of different factors. There is no getting away from the fact that you don't have a benign choice; everything you know you have to make trade-offs and in the trade-off between fiscal prudence and spurring growth in times like these, it is important to actually focus on growth because when your growth increases, your revenues also increase and then, as a result, the fiscal situation also comes under control. But if you actually end up at this point in time just focusing on fiscal discipline without necessarily worrying about growth, then you may neither get growth nor will you get fiscal prudence in subsequent years.

You have proposed the China model to achieve growth by integrating assembling in India with Make in India. Do you think India will be able to compete with China in that?

While the Chinese have specialised in the labour-intensive sectors, we have basically been as good as China in terms of diversifying across product categories. So in other words, pick a few sectors and just invest intensively in those and develop specialisation, instead of carpet-bombing across many different product categories which is diversification. So it's clear that the difference in the Chinese performance vis-à-vis India's is primarily because of specialisation or the lack of it. Besides, trade tensions have been happening between the US and China, as well.

While there is some traction on the deal, it remains that whatever tariffs have been imposed, those will continue. But a larger point is that many countries like Japan, South Korea, Singapore, and Indonesia are now on a declining trend in terms of the benefits that they can derive from exports. In contrast, India is actually now in a situation where we can still increase and that is why there is an opportunity clearly for us to be able to utilise the window.

But what is really crucial is that we should be focused on saying these are the six network sectors where overall trade worldwide stands at close to $8 trillion. And by getting a share of that, not only India achieves the $5-trillion economy goal but also creates 40 million well-paying jobs by 2025 and 80 million by 2030. This is primarily by assembling in India, where we enable import of components, assemble them here using the labour force and export them, and that's a clear-headed strategy that we've actually provided.

PHOTO: SANJAY K SHARMA

Chief Economic Advisor K V Subramanian (*right*) with Principal Economic Advisor Sanjeev Sanyal during a press conference, in New Delhi on Friday

> ...IF YOU LOOK AT A BUSINESS CYCLE WITH ITS PEAKS AND TROUGHS, I THINK WE HAVE REACHED A TROUGH, AND THERE SHOULD BE AN UPTICK IN GROWTH

> ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING IS AN AREA THAT I GENUINELY BELIEVE IN, AND THAT IS WHY WE SUGGEST IT TO THE PUBLIC SECTOR BANKING NETWORK

How confident are you of achieving 6-6.5 per cent growth?

There have been a number of steps taken by the government. There are some encouraging signs. Also, if you look at a business cycle with its peaks and troughs, I think we have reached a trough, and there should be an uptick in growth. That is what we are budgeting. Notice that we have not said 7 per cent-plus, we are keeping it at 6-6.5.

You spoke about bank credit being subscale given the scale of the economy. How big a concern is that and how do we boost credit, without having another NPA issue?

That's why we've actually talked about the use of technology. Artificial intelligence and machine learning is an area that I genuinely believe in, and that is why we suggest it to the public sector banking network, so that it has the ability to generate all the data, and actually use that to generate insights. If you take for instance some of the corporate defaults, there were many indicators, whether it's financial statement quality or the nature of transactions. All these can actually be flagged by using data analytics. Trust me, this is something with a significant potential to be able to enter even for something as simple as geotagging of collateral. The opportunity to extract patterns actually is enormous.

COMMENT

DEVENDRA PANT
Chief Economist, India Ratings

2020-21 likely to be fiscally challenging

The Economic Survey (ES), tabled in Parliament a day before the presentation of the Union Budget, is a technocrat's (chief economic advisor to the ministry of finance) assessment on the state of the economy. In the past, some suggestions made in the ES have found a place in the Union Budget, but the difficult ones have remained suggestions only.

Indeed the GDP estimation over the past few years have come under the lens of analysts/investors and led to some doubts about its veracity. Although establishing the credibility of data should be left to the data gathering/generating agency — National Statistical Office (NSO), the ES has used one full chapter to do so. The survey points out India's GDP growth is estimated correctly. Using cross-country, generalised difference-in-difference fixed-effect model, the ES concludes lack of concrete evidence for incorrect estimation of GDP. This is based on analysis of new firm creation in the formal sector across 504 districts which suggests that a 10 per cent increase in new firm creation increases district-level GDP by 1.8 per cent and new firm creation in the service sector is much more than manufacturing, infrastructure or agriculture. Higher firm creation in the service sector is in line with the bigger share of the services sector in gross value added. The survey also suggests these pieces of evidence must be looked into by the standing committee on economic statistics, headed by former chief statistician Pronab Sen.

According to the assessment of the state of the economy, the ES expects real GDP growth in 2020-21 to improve to 6-6.5 per cent, from 5 per cent (as estimated by the NSO) in 2019-20. A 100-150 bp increase in real GDP growth in 2020-21 originates from its assumption of the government's capacity to deliver on reforms, though important but may act as a stumbling block. One input from the ES, which could find a place in the Union Budget 2020-21, could be 6 per cent real GDP growth and around 3.8 per cent GDP deflator growth in 2020-21 leading to a nominal GDP growth assumption of around 10 per cent. The basic foundation of the Budget on the revenue side depends on nominal GDP growth and buoyancy of taxes. Any deviation from the growth and buoyancy assumption could lead to fiscal arithmetic going wrong, similar to the one likely to be witnessed in 2019-20.

> **Any deviation from the growth and buoyancy assumption could lead to fiscal arithmetic going wrong, similar to the one likely to be witnessed in 2019-20**

The ES has already given sufficient indication that 2020-21 will be a challenging year, fiscally. It argues usage of counter-cyclical fiscal policy to boost demand, consumer sentiment and create fiscal space. In this regard, it recommends relaxation in the fiscal deficit from the fiscal consolidation roadmap. The 15th Finance Commission suggestions on tax devolutions will not only have an impact on Union's but also on states' finances.

The ES stresses on enhancing trust by reducing information asymmetry and improving the quality of supervision. In a market economy, these two aspects are very important but much will depend on the effectiveness of the regulatory institutions. This also means more emphasis on entrepreneurship and wealth creation.

The survey is critical of government interventions in the market and shows four instances where government interventions failed to achieve the desired outcome. These four areas are: Stock limits on commodities under the essential commodities Act, the regulation of prices of drugs, government intervention in the foodgrain market, and debt waivers given by the central and state governments.

To achieve a GDP target of $5 trillion by 2025, the survey suggests a strategy of 'Assemble in India for the world' to be integrated into 'Make in India'. By doing this, India can increase its market share in global trade to around 3.5 per cent by 2025 and 6 per cent by 2030 and will create 40 million jobs by 2025 and 80 million by 2030.

Views are personal

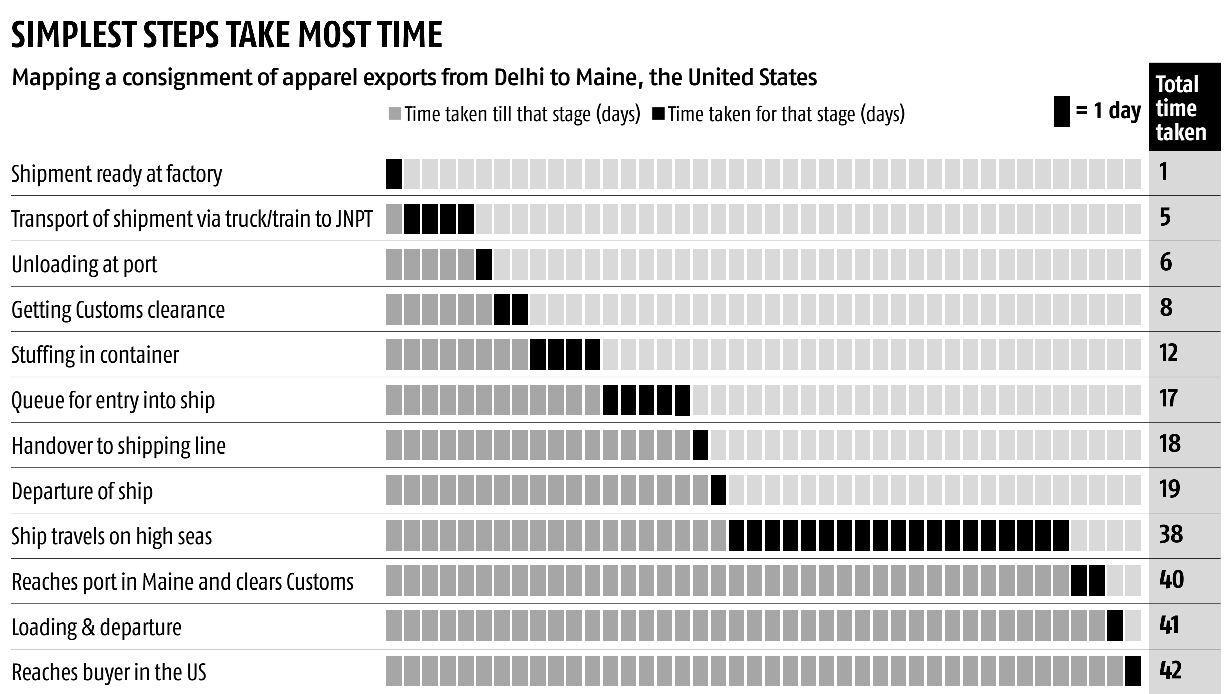
EASE OF DOING BUSINESS NEEDS TO GET EASIER

India's overall rank in the ease of doing business rankings may have improved, but still there are severe on-ground issues, the Economic Survey has pointed out. Case in point: Despite focusing on slashing customs procedures to ease the flow of exports, trading across borders remains a major barrier in boosting outbound shipments.

Currently, it takes 60-68 and 88-82 hours in border and documentary compliance for exports and imports, respectively. On the other hand, in Italy — the country with the least customs hold-ups — it takes only one hour for each. Also, while there is zero cost of compliance in Italy, the survey points out in India, exporters have to shell out $260-281. Delays and procedural inefficiencies further inflate the costs.

The survey mapped the journey of a standard consignment of apparel, a crucial export sector that has recently been battered in recent years by cheaper alternatives from Bangladesh and Vietnam. Exports stood at $16 billion in 2018-19, shrinking 0.7 per cent YoY. Three years after key regulatory and labour changes in the form of fixed-term employment were put in place, apparel shipments to India's largest market, the US, continue to stagnate.

SUBHAYAN CHAKRABORTY



Source : The Economic Survey 2019-20

THE THEME ▪ SPURRING ENTREPRENEURIAL SPIRIT

Of lavender blue, *Rig Veda* and *Band Baaja Baaraat*

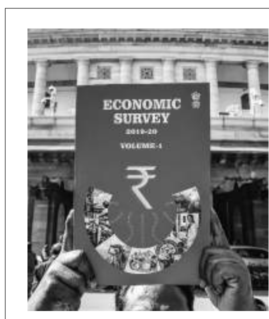
ARCHIS MOHAN
New Delhi, 31 January

The Economic Survey 2019-20, tabled on Friday in Parliament, could well have been titled: 'In search of lost time', or 'Remembrance of things past'.

In lavender-blue paperback jacket, which is also the colour of its charts and graphs, and with its emphasis on "wealth creation" and spurring entrepreneurial spirit at a time of dwindling consumption and revenue, lack of jobs, and industrial activity, the survey is a reminder of the old nursery rhyme *Lavender Blue*: "Call up your men, set them to work. Some with a rake, some with a fork. Some to make hay, some to thresh corn, whilst you and I keep ourselves warm."

The survey insinuates all that currently ails the economy is a result of the country's post-independence policymaking that had lapsed into socialism. It argues there is historical evidence that India had been the dominant economic power for more than three-fourths of the known economic history. It largely ignores the contribution of over 200 years of colonial yoke towards India's deprivation.

In the preface, it states it has documented "that ideas of wealth creation are rooted in India's old and rich tradition ranging from Kautilya's *Arthashastra* to Thiruvalluvar's *Thirukkural*, which emphasises ethical wealth creation as a noble human pursuit." There are also quotes from the *Rig Veda* and other ancient Hindu texts.



On pages 150 and 151, Wikipedia is cited as source of two charts — 'Number of banks in the global top 100' and 'Country's GDP and number of banks in the global top 100'

On entrepreneurial spirit, the survey refers to the 2010 Bollywood movie *Band Baaja Baaraat*. It has used the film — which is a story about an out-of-the-box entrepreneurial venture where the two protagonists start a wedding planning business — as an example of how entrepreneurship is widespread in India and not confined to big cities. The film's story, however, was set in Delhi.

In another insight, the survey has observed that it is much easier to buy a gun than to open a restaurant in India. According to the National Restaurant Association of India, 36 approvals are needed to open an eatery in Bengaluru, 26 in Delhi, and 22 in Mumbai. In stark contrast, you'll require way fewer license to procure new arms and major fireworks, at 19 and 12, respectively. While this is factually true, gun licenses are extremely hard to come by as police forces discourage gun use.

Chief Economic Advisor Krishnamurthy Subramanian, it would seem, has also found inspiration in Prime Minister Narendra Modi's famous comment made in 2018 on how a tea seller discovered a "*jugaad*" to run his stove on the gas from a nearby drain. The survey has advocated the integration of "Assemble in India" into "Make In India" to focus on labour-intensive exports.

The survey, too, has its share of *jugaad*. On pages 150 and 151, Wikipedia is cited as source of two charts — 'Number of banks in the global top 100' and 'Country's GDP and number of banks in the global top 100'.

Realty firms advised to take haircut to clear inventory; it is unfeasible, say developers

ARNAB DUTTA, SAMREEN AHMAD & RAGHAVENDRA KAMATH
New Delhi/Bengaluru/Mumbai, 31 January

Identifying the slowdown in the real estate sector as a key factor in the overall growth deceleration, the Economic Survey 2019-20 suggested that realtors need to take a "haircut" to steer clear of the legacy issues. The measure will also help cleanse the books of its lenders if developers let housing prices fall.

According to the report, the once-booming housing sector is currently reeling from a mounting stockpile, while prices have remained elevated. "Delayed project deliveries and stalled projects leading to a build-up of unsold inventory over the years" has played havoc since 2011. "The decline in household investment in 'dwellings, other buildings and structures' over 2011-12 to 2017-18 is a reflection of slower growth in purchase of houses by households."

It noted: "Even though growth in prices has fallen sharply since April-June 2015-16 and remained muted since then, the level of unsold inventory has stayed several times higher than yearly sales." At the end of December 2018, about 943,000 units worth ₹7.77 trillion with 41 months of inventory were stuck in various stages across the top eight cities, the survey said.

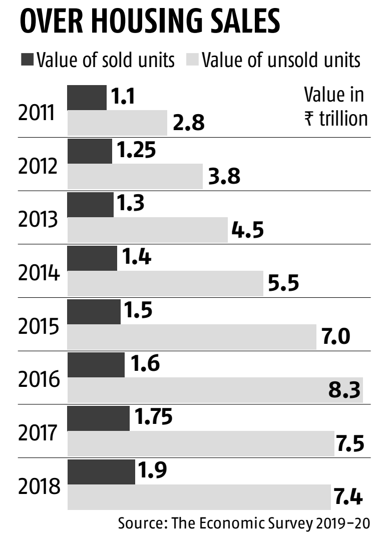
To bring the sector out of the rut, the report said the "existing unsold housing inventory can be cleared and the balance sheets of both bank or non-bank lenders cleaned if the real estate developers are willing to take a 'haircut'."

Realty developers and industry experts, however, were not impressed. At a time when a number of developers, many of whom went bankrupt, are struggling to maintain profitability, taking price cuts is not feasible, they said.

According to Niranjan Hiranandani, MD of Hiranandani Developers and president of ASSOCHAM, there is no scope for price cuts across the board. "In some projects and some pockets, there could be price cuts. But developers cannot cut prices beyond a point," he said.

"The increase of sales in any sector and not just real estate can be attributed to a variety of factors, ranging from consumer sentiment to the economic outlook. While there is always a variety of incentives offered by many developers to buyers, generally, a reduction in the price is not a sustainable plan," said Ashish Purvankara, MD of Puravankara.

According to him, boosting sales would require several related factors to work together. "Lending reforms, attractive and easy home loan packages, and more importantly, a buoyant consumer sentiment, which is a by-product of fiscal confidence," he said.



Source: The Economic Survey 2019-20

Lack of available land in urban centres, the rising cost of construction, and higher fees and taxes are key hindrances that do not allow headroom to realtors to take a price cut, said a top executive from a leading developer. "The announcement of a few subsidies and easy availability of finance can aid the sector in the days to come," he said.

Housing for all

Highlighting the success of the government, the survey noted the number of houses completed under the Pradhan Mantri Awaas Yojana-Gramin (PMAY-G) increased by over 300 per cent — from 1.195 million units in 2014-15 to 4.733 million in 2018-19. Under the PMAY-Urban, against assessed demand of 11.2 million homes, 10.3 million houses were sanctioned, 6.1 million grounded for construction, and 3.2 million have been delivered till January 1, 2020.

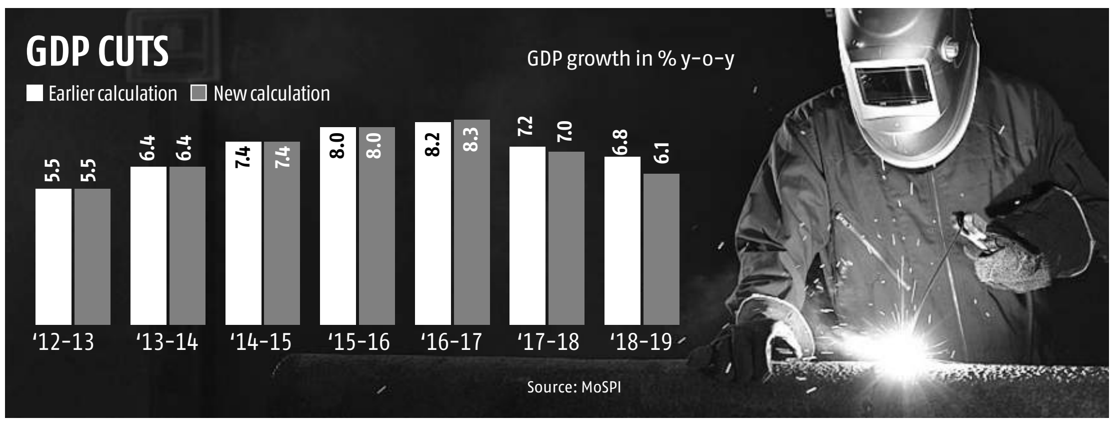
FY19 GDP revised to 6.1% from 6.8%

This means that GDP growth for the current financial year will get a bump of 0.7 percentage points

INDIVJAL DHASMANA
New Delhi, 31 January

Economic growth would get a boost of a whopping 0.7 percentage points in the current fiscal year as the government revised downwards its gross domestic product (GDP) expansion sharply from 6.8 per cent to 6.1 per cent for 2018-19.

According to advance estimates, the economy is projected to grow by five per cent in the current fiscal year, which would be an 11-year low. After the growth was revised for the previous year, this growth would now be 5.7 per cent, which would be a seven-year low.



Aditi Nayar, principal economist at ICRA, said the economy would also get a boost from agriculture in the current fiscal year as the growth in the sector is likely to be higher than projected in the advance estimates. She attributed this to the better-than-expected sowing for rabi crops. Rabi acreage rose by 9.5 per cent till Friday this season over the same period of the previous year.

Advance estimates pegged agriculture and allied sector growth at 2.8 per cent. GDP at current prices would also get a bit of a notional fillip as the growth under this head would now be 7.75 per cent for the current fiscal year against 7.5 per cent calculated earlier.

However, the government will not get any cushion for the Budget, which would be presented on Saturday as GDP in absolute numbers did not see any change for 2019-20.

As such, the government may not get any lever to manage various ratios such as fiscal deficit from these numbers. For 2018-19, agriculture and allied sector growth was revised down to 2.4 per cent from the earlier calculated 2.9 per cent.

Manufacturing was revised to 5.7 per cent from 6.9 per cent and construction to 6.1 per cent from 8.7 per cent. However, trade, hotels and related sector growth saw a rise from 6.9 per cent to 8.5 per cent.

Besides 2018-19, GDP growth for 2017-18 was changed to seven per cent from 7.2 per cent.

GST mop-up hits ₹1.1 trn in Jan as evasion reined in

PRESS TRUST OF INDIA
New Delhi, 31 January

Goods and Servoces Tax (GST) collections have crossed the ₹1 trillion mark for the third month in a row in January with improved compliance and plugging of evasion, sources said on Friday.

According to provisional numbers, total GST revenue was ₹1.1 trillion in January, they said.

The GST collection is in line with the target set by Revenue Secretary Ajay Bhushan Pandey after a high-level meeting with senior tax officials earlier this month.

Domestic GST collection during the month so far is around ₹86,453 crore while ₹23,597 crore has been collected through IGST and cess collection.

The total collection of GST revenue in December came at ₹1.03 trillion.

Going by the provisional numbers, growth in the domestic GST collection comes about to 11.5 per cent while the IGST on import of goods contracted by 6 per cent, sources said.

The number of GSTR 3B returns filed till Thursday was 82.8 lakh.

The government this month set an ambitious target of ₹1.1 trillion monthly GST revenue for the remaining part of the current fiscal and asked taxmen to step up efforts to achieve the goal.

To augment revenue collection, the Revenue Secretary revised GST collection target to ₹1.25 trillion for the last month of this financial year with specific focus on fraudulent input tax credit (ITC) claims as found in data analytics review.

It was emphasised GST authorities would look into the mismatch of supply and purchase invoices, data analytics of mismatch in GSTR-1, GSTR-2A and GSTR-3B, failure of filing returns, over invoicing, recuperation of fake or excess refunds availed beyond the permissible limits etc.

Around 40,000 companies have been red-flagged for excess or fraudulent ITC availment and other tax related wrongful issues through data analytics, out of 1.2 crore GST registrants and focus would be on these identified taxpayers, sources said.

Fiscal deficit crosses 132% of Budget Estimate till Dec-end

The gap between expenditure and revenue is ₹9.32 trn

PRESS TRUST OF INDIA
New Delhi, 31 January

The government's fiscal deficit touched 132.4 per cent of the full-year target at December-end, mainly due to slower pace of revenue collections, official data showed on Friday.

In actual terms, the fiscal deficit or gap between expenditure and revenue was ₹9.32 trillion, data released by the Controller General of Accounts (CGA) on Friday showed.

The government aims to restrict the gap at 3.3 per cent of the GDP or ₹7.03 trillion in the year ending March 2020. The deficit was 112.4 per cent of 2018-19 Budget Estimate (BE) in the corresponding period.

According to the CGA, the government's revenue receipts were ₹11.46 lakh crore or 58.4 per cent of the 2019-20 BE. In the same period last fiscal, the collections were 62.8 per cent of the BE. The data further revealed that total expenditure was 75.7 per cent of BE or ₹21.09 trillion. During the corresponding period in 2018-19, the expenditure was 75 per cent of the BE. Of the total spending, the capital expenditure was 75.6 per cent of the BE, higher than 70.6 per cent of the estimates during the same period in 2018-19.

The government aims to restrict the gap at 3.3% of the GDP, or ₹7.03 trillion, in the year ending March 2020

The Economic Survey on Friday made a case for relaxing the fiscal deficit target of 3.3 per cent of GDP in view of the need to arrest the declining growth, estimated to touch an 11-year low of 5 per cent in the current fiscal.

The Medium Term Fiscal Policy (MTFP) Statement presented with the Budget 2019-20, pegged the fiscal deficit target for 2019-20 at 3.3 per cent of GDP, which was further expected to follow a gradual path of reduction and attain the targeted level of 3 per cent of GDP in 2020-21, and continue at the same level in 2021-22.

In September 2019, the government decided to lower tax rate for corporates, taking an estimated hit of ₹1.45 lakh crore on its revenue mobilisation.

Tax sops were intended to boost investment cycle in the face of slowing GDP growth, which dipped to a six-year low of 5 per cent in the first quarter ended June.

It is widely expected that Finance Minister Nirmala Sitharaman will announce slew of measures to revive the slowing economic growth. The GDP growth is estimated to slow to an 11-year low of 5 per cent during the current financial year ending March 2020.

Non-food credit expansion reduces to 7% in December

ABHIJIT LELE
Mumbai, 31 January

The Reserve Bank of India (RBI) on Thursday said that the pace of non-food credit expansion, on a year-on-year (YoY) basis, moderated sharply to seven per cent in December 2019 from 12.8 per cent in December 2018.

All four categories — agriculture, industry, services and retail — segments showed deceleration in credit growth.

The YoY growth in credit to agriculture was down to 5.3 per cent in December 2019 from 8.4 per cent in December 2018.

Credit growth to industry decelerated to 1.6 per cent in December 2019 from 4.4 per cent in December 2018. Within industry, credit growth to segments like cement and cement products and 'construction' accelerated. However, credit to engineering and infrastructure, food processing decelerated, the RBI said in a statement.

Credit growth to the services sector decelerated sharply to 6.2 per cent in December 2019 from 23.2 per cent in December 2018.

Personal loans growth decelerated marginally to 15.9 per cent in December 2019 from 17 per cent in December 2018.

Core sector growth recovers to 1.3% in Dec

PRESS TRUST OF INDIA
New Delhi, 31 January

Growth of eight core industries recovered to 1.3 per cent in December 2019 after remaining in the negative zone in the previous four months helped by expansion in production of coal, fertiliser and refinery products.

The growth was, however, lower than 2.1 per cent recorded in December 2018.

Production of crude oil, natural gas, and electricity contracted in the month under review.

Sectors which recorded positive growth are coal, refinery products and fertiliser.

However, growth rate of steel and cement sectors slowed down to 1.9 per cent and 5.5 per cent respectively.

During the April–December period, core industries recorded growth of 0.2 per cent against 4.8 per cent in the year-ago period. The eight core sectors recorded negative growth in the four months to November 2019.

BANK EMPLOYEES ON 2-DAY SRIKE

Employees take part in a rally during a two-day nationwide bank strike, in Mumbai on Friday PHOTO: KAMLESH PEDNEKAR

Brexit Day: Businesses see promising India-UK ties ahead

PRESS TRUST OF INDIA
London, 31 January

The UK will officially become a non-member of the European Union (EU) from Friday night, a certainty welcomed by Indian businesses operating in the UK as well as British businesses keen to expand into the Indian market.

The official transition period from Saturday until the end of December means status quo in terms of much of the trade and business operations vis-a-vis the UK and EU, but what does change is Britain's free hand to strike new deals and partnerships around the world. Leading trade organisations and Indian entrepreneurs see this as an exciting time for the India-UK trade and economic partnership to be taken to a new level.

"There's no question that India will be a vital trading partner as the UK charts a new future outside the EU. The golden opportunities for British firms in India play to the best strengths of UK plc – from infrastructure to healthcare to FinTech," said Lord Karan Bilimoria, founder of Cobra Beer and Vice-President of the Confederation of British Industry (CBI) – the key voice of British businesses in the UK.

As someone who campaigned for the UK to remain in the EU in the June 2016 Brexit referendum, the India-born entrepreneur is now focussed on ensuring that the opportunities unleashed by Brexit are fully capitalised and that is where comes a checklist for India. "To fully capitalise on these opportunities, British firms would like to see further progress in reducing corporate tax rates, data privacy and ease of doing business indicators. If these steps are taken, and the UK maintains an active strategy for engagement and interaction with the Indian economy at all levels, it will remain a significant partner in India's future growth story," notes Bilimoria, who has business interests both in the UK and India.

The end of a 47-year relationship was never going to be easy and the long-drawn divorce process between the UK and EU took a toll on businesses, which operated on a kind of pause mode as Britain missed Brexit deadlines since 29 March last year. "There was a mess in the handling of the Brexit negotiations, and everyone will just be glad that the mess is over," said Lord Swraj Paul, who heads the London-headquartered Caparo Group with operations worldwide.

Execution of 4 Nirbhaya convicts postponed indefinitely

The four death row convicts in the Nirbhaya gang-rape and murder case will not be hanged on Saturday as scheduled after a Delhi court postponed their execution indefinitely giving the condemned prisoners a reprieve for the second time in two weeks.

Additional Sessions Judge Dharmender Rana while passing the order on Friday on the plea by the convicts seeking adjournment of the executions "sine die" (with no appointed date for resumption), however, took note of their "dilatory tactics" but did not comment on them.

Mukesh Kumar Singh (32), Pawan Gupta (25), Vinay Kumar Sharma (26) and Akshay Kumar (31), who are lodged in Tihar jail, were ordered to be hanged on February 1 at 6 am.

With Advocate A P Singh, the counsel for Pawan, Vinay and Akshay contending that their legal remedies were yet to be exhausted, the hanging date remains uncertain.

As of now, only Mukesh has exhausted all his legal remedies including the clemency plea which was dismissed by President Ram Nath Kovind on January 17 and the appeal against the rejection was thrown out by the Supreme Court on January 29. PTI

ECONOMIC SURVEY

A decade-old slowdown reversing?

ABHEEK BARUA

An Economic Survey (ES), written at the time of what appears to be a prolonged economic slump can perhaps be best "judged" on the basis of its ability to answer two questions. Has the government's chief Economic Advisor (CEA), its intellectual-in-residence and the ES' principal author, provided a consistent diagnosis of why such a situation has come to pass? Second, has he come up with a set of solutions that could alleviate the crisis or at least halt the slide in the economy?

I would argue that the ES scores reasonably well on its reading of the current economic slowdown. For one thing, it offers fresh insight that goes beyond the much used binary classification of a structural versus cyclical slowdown. It does so by the somewhat provocative claim that the Indian economy has been under the influence of a slowing growth cycle since 2011-12. The roots of the slowdown go back to a credit bubble of the 2000s that quickly boosted consumption and growth. However this bubble burst as they invariably do. Companies either became insolvent or rushed to pay down their debt anticipating imminent insolvency. The credit fuelled boom of the 2000s ended with the bust of current decade.

Investments suffered as companies were keen on repaying debt rather than taking fresh loans to add to capacity. While investment deceleration began to dent GDP growth, slowing GDP growth in turn started to weigh on consumption demand. In this rather bewildering world of economic dynamics, the impact of a slowdown in one variable is felt on another with a considerable lag. The ES finds that private investments affect GDP with a lag of three-four years and the effect of GDP growth on consumption manifests after a lag of one-two years. Going by these calculations, a marked consumption slowdown set in in 2017-18. Throw in tepid global growth and enhanced risk in the financial sector and you get an intense economic slowdown of the kind that seems to have gripped our economy over last couple of years.

Is there an end in sight? The ES seems convinced that 2019-20 saw the bottom of the economic cycle. While it pegs the growth rate for the current fiscal year at 5 per cent, it forecasts growth in 2020-21 to pick up to 6-6.5 per cent. Going by most other forecasts, this would appear a tad optimistic but not entirely unrealistic. This would translate into a nominal growth rate of 10 to 10.5 per cent and is likely to underpin in the revenue forecasts of Budget 2020.

How will GDP growth pick up by a full percentage point from this year to the next? To answer this, the ES picks a side in the current debate on whether fiscal stimulus or consolidation is desirable at this stage. It makes a case for counter-cyclical fiscal policy that is either the government putting more money hands of people (through tax cuts or income transfers) or by spending more itself... While this might raise the hackles of those who have argued that an insidious fiscal crisis has already crept in, the ES sees no reason for alarm for essentially three reasons.

First, a low share of external debt in the debt portfolio with almost entire external borrowings being from official sources pretty much rules out the typical emerging market crisis. Second, "most of the public debt has been contracted at fixed interest rate making India's debt stock virtually insulated from interest rate volatility". Third, the gradual elongation of the maturity profile of the central government's debt reduces debt rollover risks for the government.

While the ES seems fairly confident in both its prognosis of the current slowdown and the cure for it, it suddenly turns more reticent when it comes to the business of mitigating risk in the financial sector. The only counsel that the CEA has for the devastated realty sector and housing finance companies that are sitting on mounds of toxic assets is for builders to drop house prices to clear inventories. The refusal to even discuss a fiscal mechanism to flush out some of the toxic assets that have clogged the financial system is disappointing. Some would argue that if today's Budget is just as silent on this issue, it would delay an economic recovery indefinitely.

It is interesting to see that the so-called "theme" of the ES is "Enable Markets, Promote 'pro-business' policies and strengthen 'trust' in the Economy". Besides, Volume 1 that contains the softer chapters of the ES begins with a discussion on ethical wealth creation and the need for business and market-friendly policies to attain the much discussed goal of becoming a $5 trillion dollar economy. These along with its fairly sharp argument against government interventions in markets (as with the ESMA) or in prices (as with the DPCO) seems like an attempt to bring about a rapprochement between the government and industry that has often complained of getting short shrift. I would be curious to know whether the CEA is offering an olive branch to industry or alternatively sensitising his colleagues in government to the perils of being anti-business.

It is difficult to come up with a final verdict on an ES. As far as its thesis for the economic slowdown is concerned, it makes for interesting reading although there is every chance that its predictions will go awry as they do with most economic models. It is both credible and independent in that it is not in denial of the current economic predicament. Neither does it make an unabashed defence of the government's economic policies. The problem with it (as with all ES') is that it really doesn't matter in the bigger scale of things. To get a sense of what the future really holds for us, we have to wait for the Budget.

The author is chief economist, HDFC Bank. Views are personal

A poor country of very rich people

Nowhere amidst the efflorescence of the Republic Day parade was there any hint that India was not really that rich country of poor people

WHERE MONEY TALKS

SUNANDA K DATTA-RAY

Military muscle, martial music and a flowing turban are *sare jahan se achha*. But sitting glued to the television on Republic Day while prime ministerial — I mean the parade's — splendour unfolded on the screen was a trifle disappointing. The feisty Nirmala Sitharaman should have demanded a finance ministry float to showcase the billionaires who are the NDA's principal creation. Indians may starve but who cares if the declared riches of only 63 tycoons exceed the 2018-19 Union budget of ₹24.5 trillion? Perhaps she didn't want to encourage the bolshie Abhijit Banerjee to push for a wealth tax. Perhaps a display of money power might have made parade highlights like Mission Shakti's surgical strikes in space or the $63 billion Rafale deal, if not Anil Ambani himself, seem a trifle redundant.

There were surprises galore. With the Tejas flaunted as wholly desi, no one remembered that India and the US were squabbling over jointly developing the Light Combat Aircraft as early as the 1980s. The "Back to Village" tableau rubbed salt into the wounds of a disgruntled Kashmir Valley which has travelled from independent kingdom to autonomous state to Union Territory by recalling the August 5 relegation to the village and worse. Chefs catering to the gastronomic sophistication of French and Chinese tourists didn't relish having to seek chicken or fish substitutes now that Goa is determined to "Save the Frog".

Younger Bengalis wondered last year who the old man wrapped in a sheet sitting companionably with Rabindranath Tagore was. Gujaratis may have asked if Mohandas Karamchand Gandhi was entertaining Father Christmas in the Bengal tableau. New Delhi scotched this year's hope that Mamata Banerjee would steal the show in the awesome simplicity of white cotton and flip-flops by chanting anti-CAA slogans and designing shrouds for the NPR and NRC. Alas, like other states beyond the BJP's grip, Bengal was refused a place in the parade. Didi could have stormed the Daredevil bikers, expecting fellow Bengali inspector Seema Nag to welcome her. But it's not easy to salute standing upright in a saree on a moving bike. Worse, you-know-who standing next to Brazil's president and ours would have assumed she was saluting him. Besides, like Indira Gandhi, Didi doesn't relish being bracketed with a gaggle of women. Unfortunately, Captain Tania Shergill wasn't ready to relinquish her slot as commander of a men-only contingent.

One of several firsts this time for which Modi mustn't be denied full credit was starting the ceremony at the National War Memorial he inaugurated last February instead of at the Amar Jawan Jyoti Indira Gandhi constructed in 1971. Balakot isn't Bangladesh and a surgical strike hardly compares with the surrender of 93,000 Pakistani troops. But to no one's surprise, Modi's handiwork shoved Mrs Gandhi's into oblivion. When George-V's statue was shunted out of the nearby canopy, Modi's Jana Sangh ancestors refused it even park space. That's Delhi. Each ruler seeks to recreate it in his/her own image. After seeing the ruins of seven pre-British Delhis, Georges Clemenceau, the veteran French statesman, reportedly exclaimed at the foundations of Lutyens capital, "And what a magnificent ruin this will make!" Cynics may not be alone in wondering whether the grand new "Modinagar" that Modi, who professes contempt for "Lutyens Delhi", is designing might end up as another ruin testifying to Ozymandias-like vanity.

Nowhere amidst the efflorescence of 13 military bands, 16 marching contingents and 22 tableaux was there any hint that far from being a rich country of poor people (as the fashionable claim), the closely-guarded secret is that India is a poor country of extremely rich people. The rich wouldn't have remained rich if they hadn't managed a simple matter like abolition of wealth tax by keeping the yield down to a paltry ₹1,008 crore. A more calculating Vijay Mallya might not have been running from pillar to post to avoid extradition if he had invested in a ₹4.31 crore monogrammed coat instead of a gold toilet seat. Gold has medicinal virtues and the ancient Chinese used it for many complaints including constipation, which might explain the lavatorial link. But Mallya mustn't be underestimated either. He knows that Mrs Sitharaman won't revive a variant of Morarji Desai's Gold Control Act for the same reason she won't fall for Banerjee's redistributive philosophy. Both would alienate the BJP's moneybags. It needed Dominic Asquith, Britain's high commissioner — Britain still takes a proprietorial interest in India — to remind Modi of his *sabka saath, sabka vikas* commitment.

LUNCH WITH BS ▸ RATHIN ROY | DIRECTOR OF NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY

The straight and narrow

Roy chats with **Arup Roychoudhury** about his life, his views on the slowdown and on economic policies in general

The call to Rathin Roy to set up this lunch leads to a fervent discussion on the futility of going to overpriced eateries in central Delhi, especially when there are so many state government *bhawans* and *niwases*, whose in-house canteens serve amazing fare from their respective regions. "We have to do it in one of those places," says Roy, director of National Institute of Public Finance and Policy (NIPFP), and a former member of the Economic Advisory Council to the Prime Minister (EAC-PM).

We settle on Assam House in Chanakyapuri, Delhi. Not to be confused with the better-known Assam Bhawan a few kilometres away, the Assam House's restaurant, Gam's Delicacy, is one of those lesser-known gems that serves scrumptious Assamese fare at very reasonable rates.

As we walk in, the place appears quite full for a Friday afternoon. A waiter places complimentary servings of clear hot soup, with pepper and ginger, perfect for the Delhi winter as we settle down.

Within minutes, Roy and I are in an intense discussion with the waiter. There are just so many chicken, fish, pork and duck options, and we would ideally like to try all of them. We settle on raw papaya *khar* (a dish made with banana peel ash), daal, pork fry, duck curry with sesame seeds, and plain rice. I order some lime soda, while Roy is fine with just plain water.

"Short-term steps are necessary to boost the economy. But those short-term steps without a simultaneous medium-term strategy mean nothing"

That out of the way, we get down to brass tacks. Readers would know Roy for his work as a member of the Seventh Pay Commission, the Fiscal Responsibility and Budget Management Committee, as a former advisor to Prime Minister Narendra Modi, and as a critic of the Centre's fiscal policies, especially the finance ministry's propensity to hide the extent of its budgetary gaps. But not many would know that both his parents were journalists and he is married to one.

"My father was, like you, a reporter. In fact, my parents met at the *Economic & Political Weekly* in Mumbai. My mother is from Andhra Pradesh, my father's family is from Bengal, but has been settled in Maharashtra for more than 100 years. So I consider myself a Maharashtrian and Marathi as my mother tongue," he says.

Roy did part of his schooling in Delhi, when his father was one of the senior editors at *The Economic Times*. He went to St Stephen's College, then Jawaharlal Nehru University and, in the late eighties, taught briefly in Shriram College (SRCC) and then worked as a stockbroker in Mumbai. Then in 1989, he moved to Cambridge University to pursue a PhD, after which he taught at the School of Oriental and African Studies in the University of London.

By the start of the new millennium, Roy had switched careers and had joined the United Nations Development Programme (UNDP) in New York. Most of his work there was focussed on calling out what he terms the damage done by the IMF and the World Bank on developing economies by imposing unreasonable structural and fiscal adjustments on them. He dubs such measures as neo-colonial. "I think I was moderately successful in turning that tide."

By 2013, when he was actually doing his second stint at the UN — this time in Brazil and Thailand — he was offered the role of the director of NIPFP, and continues in that role in his second and last term. "When I returned, I realised that given how tough it is to work in this system, coming back on a sabbatical was never going to work. It had to be full-time."

Our food arrives. We ditch the cutlery and use our hands. "Just like you can never enjoy Indian food with a fork and a knife, you cannot have the distance afforded by a sabbatical as an economist. You have to come back and immerse yourself full time," he quips. The food is quite good, and the pork and duck are extraordinarily so.

"It is my view that very few low-hanging fruits are left for policymakers to work with. Painful medium-term steps will have to be taken to get the economy on the growth path that is both inclusive and sustainable," Roy says, while talking about the factors that have to be considered in the daily push and pull of economic policymaking. "Short-term steps are necessary to boost the economy. But those short-term steps without a simultaneous medium-term strategy mean nothing. Which is why I am very disappointed when the instrumentation of economic policymaking continues to be short-sighted and short-term. It is not a matter of pleasure for me, when on the 1st of February (today), the finance minister will rise to present yet another annual Budget. Sure, there will be some medium-term documentation which has no connection or relevance with the actual Budget," he says adding that there is "no political will to think medium-term".

ILLUSTRATION: BINAY SINHA

The fact is, Roy has long been a proponent of a credible medium-term budgeting framework, most clearly through his work in the FRBM panel during the Modi government's first term. While he is a supporter of the FRBM Act and its emphasis on the medium-term fiscal deficit target of 3 per cent of GDP, he is disappointed that Budget-makers don't take it as seriously as they should.

After the 2019-20 Budget was presented in July, Roy, who was then a member of EAC-PM, was one of those who vociferously criticised the now dead proposal to issue overseas sovereign bonds, and also said that India was staring at a "silent fiscal crisis". This was because although the provisional actual revenue and expenditure numbers for 2018-19 were available, the finance ministry had based its FY20 numbers on revised estimates of FY19. This led to what Roy calls a ₹1.6 trillion hole in the Budget. "What it pointed to me was a terrible incompetence on the part of the then Budget administration," he says. "None of these have consequences for bureaucracy. This is a system unwilling to accept greater accountability," he says.

"When it is business as usual, one can perhaps get away with not revealing the true picture of the fiscal situation. But in times of stress we cannot afford that. The lack of transparency promotes lack of accountability."

In October, the EAC-PM was reconstituted, and Roy and economist Shamika Ravi of Brookings Institution were not retained. It is widely believed that was a result of their criticism of the finance ministry.

So, is the Modi government averse to good advice? "It is getting the advice it seeks. This means it got advice from me when it sought it, and now it is seeking advice from those it is seeking from now." Roy is quick to point out that this phenomenon is not restricted to only the Modi government. He is a supporter of some of the steps taken by the current dispensation, such as the implementation of the goods and service tax, the Insolvency and Bankruptcy Code, and the stress on budgetary discipline in the early years of this government.

However, just like previous administrations, there is a lack of comprehensive thinking to carry out structural reforms. "Even without major reforms, with a business as usual scenario, and with current inflation trends, we should be clocking around 11-12 per cent nominal growth. That is not happening and is a source of worry," he says.

So what next for Rathin Roy?

"I came back to this country because I am a patriot. I believe egalitarianism only comes in when people participate in making the economy grow. The rest of my life will be devoted here. I am back for good. I have no plans of moving abroad again," he says, as we finish what has been a fantastic, and, quite frankly, a ridiculously inexpensive meal.

Of broken hearts and folded hands

PEOPLE LIKE THEM

GEETANJALI KRISHNA

At a time when almost every driver, plumber or househelp I meet is a school dropout but has been to the hallowed University of WhatsApp, I find it fascinating to observe how people like them, many of whom aren't fluent in reading and writing, are interacting with one another online. They're posting videos, sending voice messages and using emojis, using voice and pictures to replace the more conventional text. I got thinking about this a couple of weeks ago when I found Kamini sobbing into her *sari pallu*. She had just discovered that her husband of 30 years had been cheating on her. When I sympathised, she launched into the age-old lament of having given him the best years of her life, borne him three children and contributed handsomely to the family coffers — only to discover that he had secretly married a woman who was barely a couple of years older than his daughter. I asked her how she'd discovered her husband's infidelity and this is what she told me.

"Last month, my son who has just got a raise at work, bought me a smartphone," she said. "Till now, I only had a *dabba* phone and this was such a welcome change." The phone came preloaded with Facebook Lite and her son downloaded Hike Messenger and WhatsApp for her. Although Kamini has only studied till class five, she quickly got the hang of sending audio messages and followed her children's lives through the videos they posted. Then, she sent her husband a "friend request" and life as she knew it, disappeared in an instant.

"I saw that my husband had posted some very flattering pictures of himself online," she said, "but assumed that was natural." In the next few days, she realised that he was "liking" videos posted by a woman she didn't know. "I asked him who she was," she said tearfully, "and he replied that he had randomly sent her a request to connect in the quest for more Facebook 'friends'." She found this suspicious and, with the help of her son, accessed that unknown woman's profile. To their stupefaction, they discovered that her profile picture had ostensibly been taken at her wedding — with Kamini's husband!

Kamini and her son spent the day looking at that woman's various social media accounts and learnt that she had married Kamini's husband about 15 years ago. She had posted videos of the happy couple celebrating festivals, dancing on New Year's Eve and even worse, with two teenage children. There was nothing much that Kamini's husband could say when she presented him with the damning evidence, except that his second wife's obsession for posting videos online and getting "likes" had finally boomeranged.

Kamini fought bitterly with her husband that night and woke up to find that the "other" woman had sent her a "friend" request! She'd also texted her two emojis — "folded hands" and a heart. Her husband helpfully told her that these meant that his second wife wanted Kamini to accept her. More penitent emojis followed. I asked Kamini how she responded. "I chucked my no-good husband out of the house," she said tearfully. "As for the other woman, I had no desire to engage with her so all I did was send a 'broken heart' emoji in response."

Budding talent

PEOPLE LIKE US

KISHORE SINGH

You wouldn't think so, but the capital is bursting at its seams with the good intention of ladies bent on improving upon nature. They meet frequently and with dedicated purpose, devoting their days and lives to growing the perfect pumpkin, creating the ultimate floral arrangement, finding the right vase, or twig, or branch, pebbles and baskets. Around a score years ago, my wife joined one such club — reluctantly, I might add — having, at the time, not a very high opinion of those whose only purpose in life appeared to hinge on calculating the appropriate distance between three blooms to recreate the relationship between heaven (the sun and the moon, methinks) and earth.

Over the years, her enthusiasm blossomed. She joined kitchen garden associations that spoke for the city as well as groups that confined themselves to residential pockets; she became a member of societies local, national and international. If one met in the morning, another had a get-together in the afternoon. There were annual competitions, judgings, prize ceremonies and demonstrations. When their timings clashed, she had the painful decision of choosing one over the other — causing friction within her swelling group of *ghaasphoos* acquaintances. You risked alienating the lady from the lane thrice removed who was good for a car pool, but was likely to be offended to discover my wife was fraternising with the oharians when she ought to be socialising with the suigetsuians.

For, it was ikebana that most challenged her logistics. New Delhi has its ikebana specialists and clubs. But if you thought it was enough for the ikebana ladies to battle it out for laurels amidst themselves, you would be mistaken, the main rivalry being reserved for the protagonists of its two schools — dating back not months, or years, but centuries. That it even existed was something I was unaware of till this morning, eavesdropping on a conversation in the car, I heard my wife say, "I'm off to a suigetsu meeting but, actually, I'm an ohara loyalist."

Now if, like me, you don't know a bough from a branch, you wouldn't have the foggiest idea the red flag a comment such as this might raise, especially if the lady you're so informing happens to be a suigetsu loyalist — for, just as the West is West and the East is East, never the twain shall meet. It is considered impolite to be a member of both schools simultaneously, thus posing issues of loyalty to one or the other. No wonder my wife's pronouncement was met with frigid silence. I foresee further car-pooling likely to face a hurdle in the foreseeable future.

Not that ohara or suigetsu will want take credit for my wife's inability to balance an arrangement. She spends hours poring over the right leaf, or cluster of berries, with which to balance an arrangement, but her attempts end up keeling over, the drooping flowers lacklustre — appearing scanty rather than in harmony. Nor are we short of such instances, most tabletops at home a testimony to her perseverance if not her talent in which both suigetsu and ohara stand compromised. There might come a day when a floral arrangement at home will look the way nature intended it to — for now, though, my wife is succeeding in showing us the way climate change will impact nature.