A Seeming Stillness: RBI is Quite Busy

Action needed, on bank capital and bad loans

In its first monetary policy review of the new fiscal year, the Reserve Bank of India (RBI) has kept the repo rate unchanged. But it has narrowed the policy rate corridor, the gap between the rate at which banks can deposit money with the central bank (the reverse repo rate) and the rate at which banks can get money for a fortnight from the central bank (the marginal standing facility, or MSF). The RBI has also tightened prudential norms to secure banks in the face of worsening asset quality, under its Prompt Corrective Action (PCA) framework. Clearly, when it comes to central banks, the seeming act of standing still entails a lot of hard work.

The government has to stump up more capital in the months ahead, as revised PCA norms make banks scurry for additional own equity when loans turn further sour. Restructuring bank loans is the way to go, to strengthen banks and enable them to resume lending. Raising the reverse repo rate by 0.25 % to 6% would incentivise banks to park more funds with the RBI, that is, lend less. But lending is a function, essentially, of growth. The RBI finds global and domestic growth prospects have brightened, so cutting rates is not a priority. Further, "underneath current benign inflation conditions, there are broad-based inflation pressures, which make the inflation outlook for 2017-18 challenging", says the RBI, citing an uncertain monsoon, the impact of the pay commission and one-off effects of the goods and services tax. Why tempt inflation by slashing rates? If world growth improves, commodity prices would be buoyant and the rupee is more likely to depreciate than to strengthen, given a recent spell of firmness even as the dollar has risen against most currencies. The RBI is right to worry about inflation. The government can help, by pushing reforms on the food front.

The RBI's move to allow banks to invest in real estate investment trusts is welcome, but a clean-up of bank books to enable them to lend afresh holds the key to revival of growth. That calls for political resolve and fresh capital. That is up to the government, which now has to act.

Tone the Rhetoric Down on Arunachal

India has nothing to gain by entering into a war of words with Beijing on Arunachal Pradesh. Action speaks louder than words. India considers Arunachal Pradesh to be an integral part of the country and allowed spiritual leader of Tibetan Buddhists, the Dalai Lama, to visit that state. If Beijing wants to take offence, it has the freedom to, but no offence is meant. Beijing, on the other hand, is building a so-called corridor of peace with Pakistan over territory that is part of the Jammu and Kashmir occupied by Pakistan.

Its pro-Islamabad policies include refusing to identify Pakistan-based terrorists as terrorists and trying to keep India out of the Nuclear Suppliers Group. Beijing is also trying to worm its way into the rift it imagines has been created in New Delhi's relationship with Kathmandu. India and China are both members of the Brics grouping of large emerging economies and bear the responsibility of serving as the locomotives of world growth, by continuing to grow fast, even as the rest of the world falters. Further, both have taken on huge commitments to make their growth green, fighting climate change not only for the sake of the world but for protecting their own huge domestic populations from the murderous effects of air and water pollution. In their long history of civilisational coexistence and give-and-take, there have been active hostilities only over a short period, post-Independence.

Sensibly, both countries have decided to settle their differences over where precisely their borders are through negotiations rather than through the use of force. Neither can hope to coerce the other into seeing one-sided sense. Chinese media have dangled the bait of a heated verbal exchange. Refusing to bite would be the right response for New Delhi and the Indian media.

Who wouldn't prefer a seven-star resort to a spartan cabin in the hills?

Mar-a-Lago Trumps Camp David Retreat

Those whose businesses are affected by the no-fly zone and other restrictions when Mar-a-Lago's First Member comes to spend the weekend have a right to grumble about the 'Winter White House' in Palm Beach, Florida. And US President Donald Trump is certainly skirting the edge of propriety by taking his new peer group of world leaders to his private property. But who would not prefer a sun-drenched seven-star resort to the scenic but spartan charms of the official presidential retreat, Camp David in Maryland? Even Barack Obama was not wildly enamoured of the mountain cabin, going there a mere 39 times, compared to George W Bush's 139 visits. And records of the famous two-week summit there between Egyptian President Anwar Sadat and Israeli Prime Minister Menachem Begin during Jimmy Carter's presidency reveal the visitors found it gloomy and forbidding.

No one can accuse the florid and flamboyant, 1.1-lakh-sq-ft Mar-a-Lago mansion — arguably a mirror image of its proprietor — of being dull. Whether its charms beguile world leaders more than Camp David remains to be seen, but at least it has lived up to the dream of its original owner, General Foods' founder Marjorie Merriweather Post, who wanted it to become a winter retreat for US presidents. Pundits should have foreseen November 2016 when Trump bought it in 1985.

Despite a slowdown, there are now early signs that global investment growth may be accelerating

Things Can Only Get Better

Chetan Ahya

Overall investment growth in the top five developed markets (DMs) and top 10 emerging markets (EMs), excluding China, slowed significantly in the aftermath of the global credit crisis. In China, although investment growth has remained higher than in other economies, it almost halved in pace in 2015-16 relative to the 2000-07 period.

However, there are early signs that global investment growth may be accelerating. Particularly in DMs, investment growth seems to have troughed during 2Q16 and is now likely to recover meaningfully in 2017 and 2018.

Investment trends in DMs had been sluggish, with persistent deleveraging pressures holding back aggregate demand, which resulted in lowflation. The disappointing growth and inflation outcomes, in turn, had adversely influenced the corporate sector's expectations on future growth and returns. However, after six years, the DM private sector is now exiting the deleveraging phase.

Home-Made Demand

In particular, the US household sector, which was at the epicentre of the credit crisis, has finally stopped deleveraging since 2Q16. As a result, DM domestic demand growth should rise further, which will raise inflation expectations. Indeed, import volume growth has already recovered in a synchronous fashion across the US, Europe and Japan.

As output gaps continue to narrow, wage growth is gradually accelerating across DMs, lifting inflation expectations. Monetary policy also remains accommodative, especially in the US and euro area, where real policy rates are still below the neutral rate, even as the US Fed has begun to reduce accommodation.

At the same time, fiscal policies have turned moderately expansionary in the US and Japan, and stayed broadly neutral in the euro area during 2016. Along with the fact that the worst of the disinflationary pressure in DMs is now behind us, there should be faster reflation in the group.

In short, the reflationary policies that had been taken up have begun to kick-start a positive feedback loop of accelerating growth, rising inflation (moving closer towards central banks' goals) and increasing return expectations, all of which are driving a recovery in investment. In and of itself, the accelerator effect should mean that an improving growth environment should be conducive to a pick-up in investment growth.

In EMs, there is a transition from a prolonged period of adjustment (2013-16), triggered first by the 'taper tantrum' and then a sharp fall in commodity prices, to a recovery phase. By now, most of the EMs have experienced a significant improvement in macro stability — current account balances are higher and inflation risks are lower — and the productivity dynamic. EMs should benefit from an improvement in DM domestic demand.

Considering that DMs still account for 60% of EMs' exports, this should result in a more conducive growth environment for EMs. Moreover, EMs have built an adequate buffer of real rate differentials with the US, which should ensure that their recovery isn't derailed by a gradual rise in US rates.

FILE PHOTO

Well, yes, it could also be a train

Within EMs, commodity-exporting countries had been a major drag on global investment and trade growth during 2015-16. However, following deep adjustment and a bottoming out of commodity prices, they should see a significant improvement in investment growth, even if staying below 2003-07 levels. EM commodity importers ex-China, on the other hand, have suffered from a subdued global trade environment post-credit crisis that was accompanied by a steady decline in capacity utilisation to levels similar to the 2008 lows for key EMs (where these data are available).

Investment Hits Great Wall

India is part of this group and had experienced a similar drop in capacity utilisation rates. For this group, a pick-up in manufacturing exports should help to improve capacity utilisation and drive a recovery in investment with a lag in 2018. Finally, in China, a continued slowdown in investment growth due to the structural shift in its growth model is expected.

A pick-up in external demand will help to improve capacity utilisation and provide a more favourable environment for investment. But policymakers are now focused on maintaining financial stability and better managing the debt-disinflation challenge, which entails toleration of slower GDP growth and, thus, a further slowdown in investment growth.

To be sure, structural challenges including high debt levels, weakening demographics (reflected in a rise in the global age dependency ratio) and the productivity growth slowdown will continue to weigh on global potential growth and the corporate sector's return expectations. As a result, while a meaningful cyclical recovery in investment in 2017 and 2018 is expected, the rate of growth is unlikely to rise to pre-credit crisis levels.

These challenges are prevalent not only in most of the DM economies but also in several emerging economies. In this context, structural reforms such as market and product deregulation as well as fiscal incentives to boost investment can play an important role in driving stronger growth in investment.

Three key risks to the continued recovery in investment growth need to be monitored: one, policy uncertainty — any aggressive monetary policy tightening or under-delivery on fiscal support/tax reforms in the US; two, protectionism and its impact on business confidence; three, a major slowdown in China's economic growth and drop in commodity prices.

The writer is co-head of global economics, Morgan Stanley

Following deep adjustment and a bottoming out of commodity prices, emerging economies should see a significant improvement in investment growth

WIT & WISDOM

"Give me golf clubs, fresh air and a beautiful partner, and you can keep the clubs and the fresh air."

Jack Benny
Comedian

Destination India

India has moved up 12 places to rank 40th on the World Economic Forum's 2017 Travel and Tourism Competitiveness Index, joining four other countries – South Korea, Israel, Azerbaijan and Tajikistan – that improved their standing by more than 10 positions. Globally, Spain, France and Germany took the top three places...

Travel & tourism competitiveness index 2017 ranking

Rank (change since 2015)	Country/ economy	Score
1 (0)	Spain	5.43
2 (0)	France	5.32
3 (0)	Germany	5.28
4 (5)	Japan	5.26
5 (0)	UK	5.2
6 (–2)	US	5.12
7 (0)	Australia	5.1
8 (0)	Italy	4.99
9 (1)	Canada	4.97
10 (–4)	Switzerland	4.94

Countries that improved ranking by 10 places

Rank (change since 2015)	Country/ economy	Score
19 (10)	S Korea	4.57
40 (12)	India	4.18
61 (11)	Israel	3.84
71 (13)	Azerbaijan	3.70
107 (12)	Tajikistan	3.18

The WEF report ranked 136 countries

CAMERADERIE

REUTERS

And here's a message to all my critics: Black Power!

BEIJING'S ENVIRONMENTALISM

A Climate Change in China

Rajiv Saxena

By signing his 'Energy Independence' order on Tuesday, US President Donald Trump has sought to fulfil his poll promise to promote US coal industry and generate jobs. But, in the process, he has distanced his country from its stated positions on global warming and climate change.

The move has invited vehement criticism from a rainbow coalition of 23 states and local governments, environmentalists and others who had reposed faith in former President Barack Obama's Clean Power Plan aimed at cutting carbon emissions. However, Trump's top priority is to speedily create jobs for blue-collar America.

But not many may have noticed how Trump's executive order has unwittingly offered the US' main competitor, China, a golden opportunity to establish itself as a world leader. Though lagging miles behind the US in global industrial evolution, China became the second-biggest emitter of greenhouse gases within decades of launching unfettered industrialisation under its totalitarian regime. The new millennium has witnessed China topping the pollution charts.

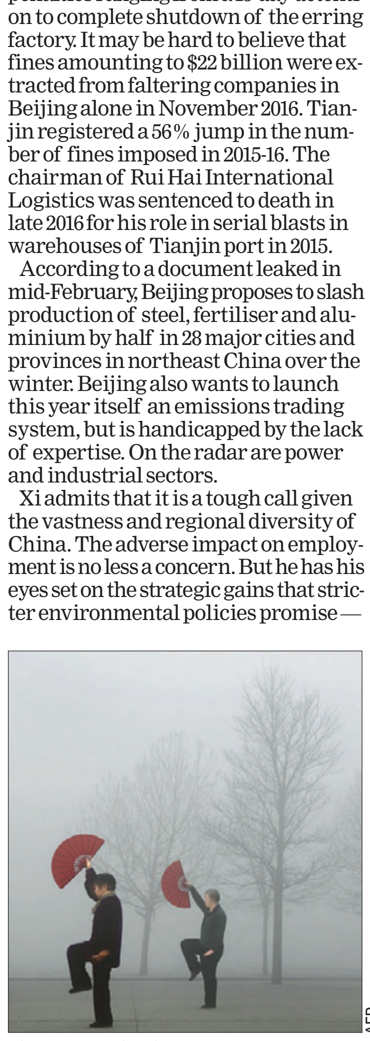
Beijing wishes to change course. It realises that economic and military clout alone cannot ensure it the position it seeks in the comity of nations. President Xi Jinping has been trying to align China's environmental policies with its geopolitical objectives.

While Trump's environment-adverse move may have come as a godsend, Beijing has been working on environmental reforms, sincerely, for around three years now. Increasingly stringent environmental policies are in evidence following the promulgation of the 13th Five-Year Plan in 2016.

Beijing institutionalised environmental inspections in 2016 in the country's 16 provinces and regions, beginning with Hebei. Non-compliance invites penalties ranging from a 15-day detention to complete shutdown of the erring factory. It may be hard to believe that fines amounting to $22 billion were extracted from faltering companies in Beijing alone in November 2016. Tianjin registered a 56% jump in the number of fines imposed in 2015-16. The chairman of Rui Hai International Logistics was sentenced to death in late 2016 for his role in serial blasts in warehouses of Tianjin port in 2015.

According to a document leaked in mid-February, Beijing proposes to slash production of steel, fertiliser and aluminium by half in 28 major cities and provinces in northeast China over the winter. Beijing also wants to launch this year itself an emissions trading system, but is handicapped by the lack of expertise. On the radar are power and industrial sectors.

Xi admits that it is a tough call given the vastness and regional diversity of China. The adverse impact on employment is no less a concern. But he has his eyes set on the strategic gains that stricter environmental policies promise — domestically and internationally.



AFP

Finally, fanning it away

The high moral ground on the environmental front has so far been the preserve of the West. China wants and needs to carve out its place in the sacrosanct space for a bigger role in world affairs. But it is difficult for Xi to implement environmental reforms in a country hitherto fixated to GDP growth.

As such, China's growth is on the decline. More than the people, it is the satraps of the Communist Party of China who need to feel convinced about the efficacy and sustainability of the president's dream plan. This, despite the fact that almost half of China's surface water sources fail to meet quality standards and groundwater contamination is an existential problem in urban areas. Soil quality is a big casualty and wearing masks and carrying imported oxygen containers is a norm in smog-ruled areas, especially in winters.

So, China's National Development and Reform Commission recently came up with a reassuring announcement that compliance with environmental policies will now surpass GDP growth in appraising provincial and local governments. Xi felt compelled to publicly tell Hebei's government not to remain "tied up in GDP". He is getting support from China's new middle class that is more aware of global developments.

China is gradually bidding adieu to the low-end manufacturing and exports model and is trying to tightly embrace high-end manufacturing and internal consumption construct. The obvious goal is to position China among leaders of low-carbon technology development and manufacturing. Also, investment of hundreds of billion dollars has been allocated for solar and wind energy.

Xi's commitment at World Economic Forum in January to lead the global effort against climate change needs to be seen in this perspective. If the US is ceding ground, then China will not like to miss the opportunity of being its most prominent occupant.

Citings

From Groan to Grown

ALBERT BOLLARD ET AL

Companies know where they want to go. They want to be more agile, quicker to react and more effective. They want to deliver great customer experiences, take advantage of new technologies to cut costs, improve quality and transparency, and build value.

The problem: while most companies are trying to get better, the results tend to fall short: one-off initiatives in separate units that don't have a big enterprise-wide impact; adoption of the improvement method of the day; and programmes that provide temporary gains but aren't sustainable.

We have found that for companies to build value and provide compelling customer experiences at lower cost, they need to commit to a next-generation operating model. This operating model is a new way of running the organisation that combines digital technologies and operations capabilities in an integrated, well-sequenced way to achieve step-change improvements in revenue, customer experience and cost.

A simple way to visualise this model is to think of it as having two parts, each requiring companies to adopt major changes in the way they work: (a) from running uncoordinated efforts within silos to launching an integrated operational-improvement programme organised around journeys, and (b) from applying individual approaches or capabilities in a piecemeal manner to adopting multiple levers in sequence to achieve compound impact.

From "The Next-Generation Operating Model for the Digital World"

the speaking tree

A Gita for the Masses

A G MIRAJGAOKER

Maharashtra has a unique tradition of Bhakti. Great saints propagated the bhakti marg, a path of complete devotion and surrender to God. Poetic compositions called abhangas, shlokas and bhajans of saints like Sant Dnyaneshwar, Tukaram, Ramdas, Namdev and others are sung or recited in all traditional Maharashtrian homes. Dnyaneshwari is a critical discourse on the Bhagavad Gita by Sant Dnyaneshwar.

The great Mahabharata war took place between the Pandavas and their cousins, the Kauravas, some 5,000 years ago at Kurukshetra. Faced with the might of the huge Kaurava army, Arjuna lost his nerve to fight against his own kith and kin. At that moment, Krishna, who was his charioteer, exhorted him on the battlefield to perform his duty as a Kshatriya and fight without worrying about the consequences. Krishna's advice in the Bhagavad Gita is a small chapter in the Mahabharata, comprising 700 shlokas, or verses, in Sanskrit.

Sant Dnyaneshwar realised that the Gita's teachings could be read and understood only by a small Sanskrit-knowing elite. Dnyaneshwar, under the advice of his guru Nivrathinath, rendered a Marathi version of the Gita known as Dnyaneshwari. It contains more than 9,000 verses called ovies.

So, Sant Dnyaneshwar brought the teachings of the Gita within reach of the common man. Dnyaneshwari was composed around the 12th century, when Dnyaneshwar was only 16 years old. He took samadhi at the age of 22 and left this mortal world.

Chat Room

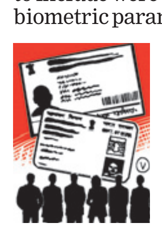
Corporate vs Farm Loans

Apropos the Edit, 'Loan Waiver: Reduce the Moral Hazard' (Apr 6), UP farm loans waived is a minuscule amount as compared to the corporate defaulters. And, the corporates have enough skills to get their debts restructured through balance-sheet window-dressing. The farmers in Maharashtra, Tamil Nadu, AP, Chattisgarh and Odisha are facing drought, but the corporate defaulters are free birds. The banks should waive farm loans in affected areas and direct defaulter corporates to divert their CSR proceeds towards farmers.

SANJAY TIWARI
Hisar

From the Frying PAN to Aadhaar

So, electronic linking of PAN and Aadhaar has run into fundamental problems. That's because the so-called 'brains' behind the schemes did not think through the issues. Since PAN came earlier, why was PAN not made mandatory? All you had to include were address and biometric parameters. The government should have first got everyone to standardise the manner in which names are written, with and without initials, form of address, etc. Except for the apartment number and name of building/society, I have different addresses on each of my identities, because each one asked for it in a different format. Some want road, others locality, some want village, plot number, post office, police station, etc.



As a result, we have confused the machines. I had written on the issues more than a decade ago. It had fallen on deaf ears, and the cows have come home to roost. We are trying to digitise 21st-century India with British Raj laws and formats. Look at our judicial papers, government formats etc. One would think Robert Clive, Lord Canning or Mountbatten are still ruling us. Instead of wasting time and money in changing road and building names, we should have spent more time in getting our own names and addresses right for digitisation. Welcome to a second round of documentation.

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