

Make PNs Dearer, Kill Money Laundering

But Sebi must ensure a thriving derivatives mkt

Sebi's move to propose tighter rules for participatory notes (P-notes) to enhance transparency with regard to the identity of those investing in Indian stocks makes sense. The new rules include levying a regulatory fee on issuers of P-notes — offshore derivative instruments (ODIs) that allow investors to bet on India without registration — and prohibiting these instruments from being issued against derivatives for speculation. Concerns that P-notes could be a possible conduit for illegal funds in the capital market aren't misplaced. A fee of \$1,000 every three years, starting April 1 this year on ODI issuers and each investor ostensibly to discourage ODIs. Issuers have been given time till December 31, 2020 to wind down these products unless they were taken for hedging purposes, providing a needed window to wind down positions.

Data shows ODIs issued against derivatives had a notional value of about ₹40,165 crore — about 24% of the total notional value of outstanding ODIs. The new rules are in addition to enhanced disclosures to prevent P-notes misuse. Non-resident Indians, for example, have been barred from using this route. Funds routed via P-notes now account for less than 6% of the secondary market compared to about 50% in 2004. Making issuance expensive will lead to a further fall.

Rightly, the norms for direct participation of overseas investors in the stock market, too, have been greatly simplified. But Sebi must give leeway to allow P-notes on a very selective basis for bona fide investors like college endowments whose identification it's comfortable with. The regulator should also be watchful that rules to curb volatility don't stifle the overall derivatives market. Also, India should build on Aadhaar to provide all legal entities, and not just individuals, a unique identifier for transparency on beneficial owners. The OECD's global forum on tax transparency is reportedly discussing a new standard on beneficial ownership. The initiative is welcome. As a signatory to the automatic exchange of tax information, India will benefit with standardised and interlinked registries.

Gather Around, the Enemy is Clear

It has been a fortnight of relentless terrorist attacks, targeting children and senior citizens, ordinary people from Baghdad to Kabul to London to Manchester. It is time for the global community to work together to fight back. It is a common war: That means confronting governments that provide support and finance to terror outfits. It also requires countries like India, Germany, France and Britain to push back on Washington to go after all governments that support and fund terror; and not play favourites.

US President Donald Trump has done great harm to the global effort on terror by holding Tehran solely responsible for funding and shielding terrorists. The terror attacks this past fortnight, like most before, are carried out by the Islamic State (IS) and al-Qaeda, and their affiliates, all Sunni outfits, all with ties to Saudi Arabia. There is intelligence evidence that Saudi Arabia has been funding IS affiliates in countries like Yemen, funnelling funds to promote radical Wahabi ideology in South Asia and Southeast Asia. There is evidence that Pakistan is providing safe haven for terrorists, and is allowing the use of their territory for mounting attacks on India, Afghanistan and Iran.

As an advocate for a global response to terrorism, including the adoption of the Comprehensive Convention on International Terrorism, India must work with partners in Europe to convince hold-outs like the Organisation of Islamic Countries (OIC) to know where the enemy lies. The G-20 Summit in early July in Hamburg is a good place for the major economies to take a strong stand against terror. All those who encourage, support and finance terrorism — as well as those who choose to look away on account of political expediency — should know where the wind is blowing, and it should blow hard.

Age No Bar in Ever Youthful Bihar

If Bihar's police can insouciantly claim gallons of liquor have been quaffed by rats, it is not impossible that a school's authorities would not notice that a student of Class XII looked more middle-aged than a teenager: That a 41-year-old would go on to top the senior secondary exam in Bihar with none of the examiners any the wiser about his apparent lack of appropriate youthfulness is also curious. Presumably in a country where youth loosely encompasses even those in their forties — especially in politics — and generous grace marks are the norm in examinations, school teachers and invigilators can hardly be expected to be sticklers for accuracy on any issue. As students across the country have been awarded as much as 11 grace marks for papers deemed tough in the Class XII examinations conducted by the Central Board of Secondary Education (CBSE) this year, a similar leeway for age by the Bihar State Education Board (BSEB) — 65% of whose students failed this year — does not seem unlikely.

However, that a 97-year-old gentleman is also sitting for MA exams from Nalanda Open University this year underlines the fact that age is indeed no bar for people living in Bihar when it comes to education. The difference, of course, is that at least the nonagenarian is not trying to pass off as, say, a sprightly 41-year-old.

RBI and US Fed are at opposite ends of the spectrum. This imposes additional constraint on the former

Very Different Strokes



Mythili Bhusnurmath

Over the next few days, two central banks will announce their policy stance. The Reserve Bank of India (RBI) will announce its decision on Wednesday, after its Monetary Policy Committee (MPC) concludes its two-day meeting. The US Federal Reserve will announce its decision exactly a week later, after the Federal Open Markets Committee concludes its two-day deliberations. Both will be keenly watched.

But there the similarity ends. RBI must contend with an economy growing below potential. Latest numbers released by the Central Statistical Organisation (CSO) show the economy slowing. Though growth in GDP in 2016-17 was a respectable 7.1%, gross value added during January-March 2017 was a dismal 5.6%, the lowest in the past 16 quarters, barring the fourth quarter of 2013-14. Worse, the ratio of gross fixed capital formation to GDP, a measure of investment, has fallen to 28.5%, the lowest in 16 quarters.

Juxtapose the inflation rate (barely 3% in April 2017 vis-à-vis RBI's target of 5% for Q4, 2016-17 or its repo rate (6.25%), with the dismal investment rate and the case for a reduction in interest rates seems self-evident. A real repo rate of 3.25% (taking actual inflation as a proxy for inflation expectations) is not only well above RBI's stated objective of keeping real interest rates in the range of 1.5-2%, it is more likely than

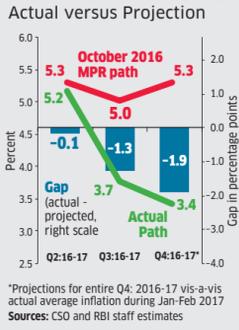
not to discourage investment.

Surplus Liquidity

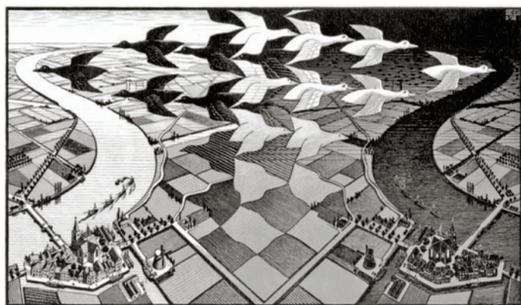
But it would be simplistic to see this as a cast-iron case for a repo rate cut. Not only is there no one-to-one relationship between interest rates and investment, demonetisation has already done what a rate cut could hope to achieve. Indeed, it has done what repeated signals from RBI have failed to do. Add to this the fact that the US Fed is poised to raise rates at least once, if not twice, this year, liquidity is still surplus, there are signs of asset price bubbles in some asset markets, and the case for a rate cut becomes much weaker.

The Fed is at the other end of the spectrum. First quarter GDP growth has been revised upwards from 0.7% to 1.2%. Unemployment at 4.4% is at a decadal low and infla-

CPI Inflation Path (y-o-y) Actual versus Projection



tion is close to the Fed's target of 2%. After the quarter percentage hike in interest rates in March 2017, the Fed is on course to raise rates by another quarter percent at its meeting next



Opposites don't necessarily attract

week. In all likelihood, this will be followed by another in September, in line with the Fed's projection of three rate hikes in 2017.

Central bank governors, the world over, like to say (believe?) they frame monetary policy keeping the domestic situation in mind. The reality is quite different. "Monetary policy in India is solely conducted with domestic objectives in mind and our decision to change the policy repo rate, if and when taken, will be on the basis of growth-inflation dynamics in our country," said Urjit Patel, responding to an earlier question on how Fed policy would impact India.

Dynamics

By that logic, the current domestic growth-inflation dynamics would seem to support a rate cut. But here's the catch. When the Fed is on a tightening cycle, few central banks can afford to cut rates. Not without risking capital outflow. The freedom to fashion policy, divorced from the Fed, is further constrained when overseas capital flows play an important role in macro-economic stability, as in India.

Hence, despite governor Patel's bravado about being guided solely by domestic factors, the MPC will have to keep in mind the possible consequences of Fed action. Lending rates are already quite low. If investment is not happening, it is for other reasons. A repo rate cut by RBI on Wednes-

day is unlikely to reduce lending rates further or stimulate investment. It could, at best, bring policy rates in consonance with the market, but at the risk of aggravating asset price bubbles and reigniting nascent inflationary pressures that are never very far from the surface in India.

Agreed, under Patel, RBI has consistently over-estimated upside risks to inflation (see chart). But that is inevitable in a monetary policy framework that gives precedence to inflation targeting over growth.

The truth, however unpalatable it might be to politicians looking for quick fixes — and regardless of far-from-subtle hints from government officials — is that no purpose will be served by cutting interest rates today. Apart from the limited objective of aligning policy rates with the market to make RBI appear technically correct, a rate cut alone will not rid the economy of the pain vested by demonetization. The answer to lower growth lies elsewhere.

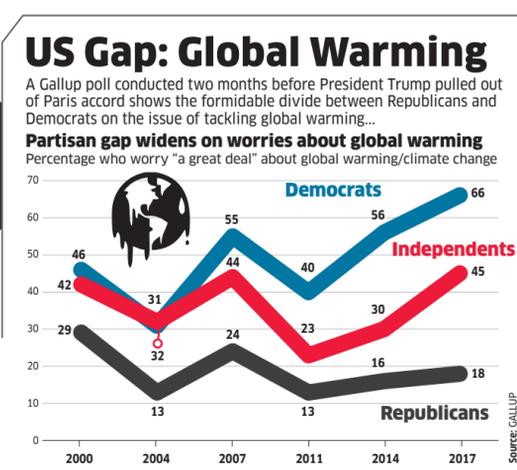
"An economist," said former US President Ronald Reagan, "is someone who sees something that works in practice and wonders whether it would work in theory." It would be tragic if the MPC, constituted solely of economists, were to prove him right and opt to cut rates to uphold its academic credentials (and, maybe, satisfy government). There is no other case to cut.

Not only is there no one-to-one relationship between interest rates and investment, demonetisation has already done what a rate cut could hope to achieve.

WIT & WISDOM

"Money won is twice as sweet as money earned."

Paul Newman
Actor



MEME'S THE WORD

Such Nonzenze Over Zika



Debkumar Mitra

Why did Gujarat not report the Zika virus (ZIKV) infection when it was confirmed? The government "consciously" did not go to the public. The head of bureaucracy in the state informed the press. It consciously, as per protocol, reported to the health ministry. The health minister of the state was more forthcoming on the issue. He admitted that the virus may be present in the local population and risks of fresh infections were there. He rounded off "with a good-intentioned, pray-there-are-no-fresh-cases, wish."

So, do we check the WHO website, or know from the newspaper for ZIKV cases? Or, are we assured that the ZIKV story ended with those three Ahmedabad patients? We do have some answers. The media has been active in churning out lots of information on ZIKV — from reliable to callous. We know the symptoms, if not the medication, vaccination (still in the lab), mortality rate and dangers to pregnant women. In the absence of an advisory, rumour-mongers are having a field day.

We have already seen some "natural therapy" for ZIKV infection. Soon someone will come up with a cow urine solution to eradicate ZIKV. Once a vector-mediated infection is detected in a population, mere assurances are not enough. With such a large illiterate population, if you consider science health illiteracy, then it will cover a larger percentage of people, with an absence of directives. In March, the WHO, in its "Zika situation report", noted: "Ove-

rall, the global risk assessment has not changed. ZIKV continues to spread geographically to areas where competent vectors are present. Although a decline in cases of Zika virus infection has been reported in some countries, or in some parts of countries, vigilance needs to remain high." All that people want to hear from the government is that it is vigilant and geared to thwart a possible ZIKV outbreak.

In the WHO ZIKV classification published in March, India is a Category 4 country — an "area with established competent vector [Aedes aegypti mosquito that carries the virus] but no known documented past or current transmission". Post the WHO announcement in April, a change in the ZIKV status of India is in the offing.

Reclassification is only a part of documentation. But the need of the hour is to share the information with the medical community and draw up an action plan. From laboratories for testing possible ZIKV-infected samples to vector control plans, nothing seems to be in place in the country. We do not even know if there are other patients in Guja-

rat or in any other part of India.

With monsoon around the corner, mosquito-borne diseases are bound to increase. Indians battling malaria, dengue, encephalitis and chikungunya want to know if they need to arm themselves against ZIKV or not. If the answer is no, then let it be backed by testable scientific evidence and not by some obscure gau-mata sutra.

It is unfair to put the Gujarat government in the dock. Almost all other state administrations have the habit of hiding, or under-reporting, infectious disease data. Once the things go out hand, the government agencies scramble to create control measures. By then, precious lives are lost. In the recent past, when swine flu wreaked havoc, the government was in denial for several weeks before waking up to put things in order.

Every year, dengue, with its four strains, torments the population in Delhi, Kolkata, Mumbai and Chennai. To keep the number of dengue victims low, government agencies ignore the death certificates issued by qualified medical practitioners where the cause of demise is mentioned, even when the patient dies in a public hospital. It's the same when it comes to encephalitis infection and death reporting in rural Uttar Pradesh and Bihar.

Viruses do not read government protocol. They need healthy human or animal bodies to multiply and evolve. Red tape, under-reporting and ignorance, are the ingredients of a vicious cocktail that help viruses break into new ground and cause an epidemic. Educating the masses is possibly the best way to stop diseases from spreading. It can help tackle ZIKV, provided we stop assuming that we know more than medical scientists — or the fact (sic) that our scriptures have no mention of the virus.



The buzz is about mosquitoes

No wonder a middle-aged school topper raised no suspicions there

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the speaking tree

Fetch Your Breath Up

SENSEI SANDEEP DESAI

Men of wisdom fetch their breath up from deep inside and below while others breathe with their voice box alone. Great leaders like Mahatma Gandhi, Abraham Lincoln and Nelson Mandela often relied on mind-cleansing meditation combined with deep breathing to restore their flagging energy and create inner peace whenever stress built up in their lives.

Normally, we tend to breathe with just the top half of our lungs, leaving the bottom half unused and full of stale, impure air, preventing the fullest absorption of oxygen. The stale air resulting from the poor use of lung capacity virtually affects every organ in the body. We take tens of thousands of breaths per day; yet, it is quite possible that we may spend our whole lifetime without ever pondering about whether we can improve the quality of breathing. Considering our breathing becomes more and more shallow and ineffective from birth onwards, this is a matter of utmost concern.

Those engaged in teaching disciplines such as singing, playing a wind instrument, athletics, yoga and martial arts are required first to become attuned with their breathing to mark growth in their chosen fields. In order to record progress in any type of spiritual discipline, it is immensely important that all parts of the body receive sufficient oxygen, especially the brain. The natural motions resulting from deep breathing help to open up the chakras through which chi — alternatively called prana or ki — enters the body.

Chat Room

Eco-Friendly Goods Needed

We celebrate World Environment day on June 5 to demonstrate support for environmental protection. While constant research and innovation make it possible to make new products, we are lagging behind in finding out ways to make environmentally friendly products. A simple example is ice-creams served in edible cones. This is far superior to ice-cream served in a cup with a plastic spoon that's difficult to dispose. We need to push environment friendly products for the sake of our future generations.

TS KARTHIC
Chennai

Move On With Climate Accord

Apropos 'Despite Washington, there will be Paris' (June 3). It is unfortunate that US President Donald Trump has fled the battle to save the planet from the threat of climate change ostensibly to honour his campaign pledge instead of joining forces with the rest of the world to contain runaway global warming. For the second-largest emitter of greenhouse gases to withdraw from the voluntary and legally non-binding agreement in utter disregard of the "polluter-pays-principle" and "climate justice" is the height of irresponsibility. On the positive side, all other signatories are determined to redouble their efforts to make a success of the deal.

G DAVID MILTON
Marathancon

Promote Branded Foods

This refers to new reports of exempting unpacked and unbranded items from GST as there is no mechanism to collect the levy. But branded and packaged items will come under the tax net. However, the exemption on unpacked items could lead to adulteration. The only way to deal with this danger is to encourage the sale only of branded food items.

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From: The US Needs a Proactive Asia Play — Or Risks Losing Ground to China