Yes, There is a Case for Lower Rates

But primary task remains fixing bad loan problem

Plunging inflation and industrial growth warrant a reduction in the central bank's policy rates, goes the chorus, after the June figure for the consumer price index plunged below 2%, to 1.5%, and growth of the Index of Industrial Production fell to 1.7% in May. True, this is a picture of economic distress that calls for some monetary easing. And some easing of rates is distinctly possible. And it is not necessary for the Reserve Bank of India (RBI) to wait till the next scheduled meeting of the Monetary Policy Committee on August 1. However, there is no simple, straight line from low inflation and output growth to redemption via low lending rates.

Change in the Consumer Food Price Index is in the negative territory, at -2.1%. The obverse of this fall in prices is farm distress, manifesting as farmer suicide, agitations across rural India and knee-jerk farm-loan waivers. The fall in the consumer price index, in other words, is not cause for celebration, but a fit case for reversal by policy action, which would probably take the form of higher minimum support prices, sooner rather than later. This would cause food prices and the broader consumer price index to rise. Farm loan waivers would add to the states' fiscal burden, already heavy with the loans the states have taken over from their failing electricity utilities, under the UDAY scheme to revamp the power sector. If, in addition, a sufficient number of states, besides the Centre, feel emboldened to offer their employees the higher allowances recommended by the Seventh Pay Commission, the combined public sector borrowing would shoot up. States threaten to undermine the fiscal discipline that the Centre has worked so hard to achieve, in other words. On the external front, Janet Yellen has promised more Fed rate hikes and oil prices could nudge up higher on gathering recovery, if not on geopolitical tension. These represent reasons to moderate rate cuts.


Vasant Salu

However, the overriding constraint on growth is banking's bad loans, without resolving which lending and investment will not pick up, even with lower rates.

Innovative Saving Products for Seniors

Parts of India are greying rapidly, pushing up future spending on pensions and healthcare. True, India has moved to funded pensions when it is still young. But the need is to create an array of financial products that would encourage people to both save when they are young and to spend optimally in the initial state of their retired life, instead of saving too much in the face of uncertainty over their later years. Inadequate savings and insurance can impoverish the old, say, if there is a health emergency, while over-saving would be a drag on the economy.

Flexible financial products will encourage people to spend prudently. The National Pension System (NPS) manages the pension funds of civil servants who joined service after 2003 and of voluntary subscribers. A weakness of the NPS is the mandate to buy an annuity with a portion of the saved corpus. The market for annuities is underdeveloped and offers little choice. Letting these subscribers stay invested even after retirement is an option, with the flexibility to invest in a capital asset of their choice at a time of their choice. The market for reverse mortgages, which allow homeowners to exchange their home's equity for a lump sum or a stream of income in retirement, must also take off. India also needs to develop a vibrant annuities market, and that, in turn, depends on a functional market for bonds. The larger point is to offer senior citizens innovative savings products. Hybrid saving and insurance products that ensure care in case of terminal incapacity would encourage active retirees to spend more to realise the highest quality of life they can afford. The economy stands to gain from this.

And, yes, the government will have to chip in with support for senior citizens who have neither savings nor relatives to take care of them.

In either case, the fact that the PM has a double at large raises possibilities

A Mere Lookalike or a Doppelgänger?

Despite what the prime minister's many admirers may make of the word 'doppelgänger' — and as is wont with them, then get very upset about anything they may not decipher — the fact that a man who's a dead ringer for Narendra Modi was spotted at a railway station is an important event. Not for the fact that his photo went viral on Twitter, and then became fodder for the comedy group All India Bakchod. It is important because in these days of doctored images passed on as real, this was an honest image of a person who looked incredibly similar to another person. Doppelgänger literally means 'double-goer' in German. But what it signifies is more than a lookalike. Not only does this 'twin stranger' look like the person he looks like, but he also is supposed to behave exactly like the other person. Which is what brings about the supernaturally natural, yet eerie, question: so is there someone like Narendra Modi out there?

Yes, well, of course, no one else in the universe, let alone the country, is like our inimitable PM. But the fact that a person who looks very much like Modi could actually be his doppelgänger and, therefore, behave — and, by extension, conduct actions in the right conditions — exactly the way the PM does throws up many ideas and possibilities. And perhaps many more ideas than the Opposition can ever hope to entertain.

FOLK THEOREM Don't intervene in equity markets, create million-plus jobs a month

2017, Our Roaring Twenties?


Abheek Barman

Back in the day, Irving Fisher was a celebrity economist at Yale. He was a pioneer of econometrics and monetary theory. Joseph Schumpeter called Fisher "the greatest economist the US has ever produced". This opinion was shared by Nobel laureates James Tobin and Milton Friedman.

Fisher was also an investor in the stock market, who relied on leverage — borrowed money — to build up his portfolio. It was the Roaring 20s in the US, during the interwar years, markets were booming. And why not?

Fisher (correctly) saw the US as the fountainhead of innovation, led by companies like chemicals giant DuPont, Procter & Gamble (soap powder), Revlon (cosmetics), RCA (radios) and accounting machines made by IBM. Blue-collar workers were buying homes and cars — creating new demand. "A prime reason for expecting future earnings to be greater was that we in America were applying science and invention to industry as we had never applied them before," he declared.

Paying the Fisher Price

On October 16, 1929, Fisher said US stock prices had "reached what looks like a permanently high plateau". And then, between October 23 and 29, US markets fell 6%, 2%, 13% and 12%, respectively. By July 1932, the market hit bottom, losing 89% of its value. Indices returned to their 1929 peak a quarter-century later in 1954.

On Thursday, July 13, 2017, the 30-share index of blue chip, Sensex, crossed 32,000 points, its highest level ever. India's stock market capitalisation is now $2 trillion, close to Canada's and Germany's levels. The US is the 500-kg gorilla in the room, with a market worth around $20 trillion.

Now, ask yourself whether India's social, corporate and prosperity levels are equal to wealthy Canada or Germany, Europe's largest economy. The International Monetary Fund (IMF) said in 2016 that the average Canadian earned $42,210 a year, a German $41,902. The average Indian had to get by on $1,723.

A good measure of overall social well-being is life expectancy at birth (LEB), or how many years an average newborn can expect to live. Data published by the World Health Organisation (WHO) for 2016 says the average Canadian will live for 82.2 years and a German for 81 years. An Indian can expect to live only 68.3 years. This is worse than the number for Bangladesh or war-torn Iraq.

So, are we headed towards bubble territory? There's really no definitive answer. Even a genius like Fisher got it wrong in 1929. But you can take something called the price-earnings (P-E) ratio for stocks to get a broad idea. This is the price of a single share divided by the profits generated by that share.

The ratio reflects whether stocks are priced reasonably or not. The higher the number, the more investors are paying for future earnings. If stocks are lower than merited by the stock price. After smashing the 32,000 barrier, the Sensex has a P-E ratio of 23.54. This is way higher than its previous high of 20.72 for 2006-07, during the gung-ho years before the global crash of 2008. By this simple measure, India's equity market is overheated.


Bubble? What do you mean by bubble?

FILE PHOTO

Most people know that India's markets are driven by overseas portfolio capital, run by foreign institutional investors (FIIs), the so-called 'smart money'. Domestic institutional investors (DIIs), like the Life Insurance Corporation (LIC), a quasi-government-controlled giant, make up most of the rest.

Garage Sale

So, here is what the smart money has done. From the beginning of April when this financial year started, to July 12, FIIs have been overall sellers each month, dumping ₹12,435 crore (around $2 billion) worth of stocks, equal to what they had sold in all of 2016. DIIs have picked up the slack.

The government should not intervene in equity markets. But there is plenty of important stuff it can do. First, find ways to solve the huge overhang of bad debt in (largely) state-owned banks. But New Delhi can't wade into this mess with a danda. That will terrify bank officials and freeze up the entire debt market.

Second, it must create viable opportunities for the million-plus Indians as entering the job market every month. Prime Minister Narendra Modi campaigned on the promise of creating jobs through 'Make in India' and other policies.

Yet, till 2015, only 100,000 jobs were created, compared to 579,000 jobs created every year under Modi's predecessor Manmohan Singh. Earlier this week, Mahesh Vyas, head of the Centre for Monitoring Indian Economy (CMIE), reckoned that Modi's demonetisation initiative led to the loss of 1.5 million jobs in January-April 2017.

Before the 1929 crash, Bernard Baruch, a legendary investor, described how he anticipated it, "Taxi drivers told you what to buy. The shoeshine boy could give you a summary of the day's financial news as he worked with rag and polish.... My cook had a brokerage account and followed the ticker closely. Her paper profits were quickly blown away in the gale of 1929." On July 13, this newspaper's site carried a story. Its headline screamed, "Ola [the taxi service] drivers seen day-trading in stocks!"

> During April 1-July 12 this year, FIIs sold ₹12,435 crore (around $2 billion) worth of stocks, equal to what they had sold in all of 2016. DIIs have picked up the slack

TV TRENDS

Breaking News Women Watch


Partho Dasgupta

Women watch soaps. Men watch news. That's the conventional wisdom. But like with many conventions, this one too flew out of the window when Prime Minister Narendra Modi announced his demonetisation initiative.

November 8, 2016, is the cusp around which the Broadcasting Audience Research Council (Barc) India observed this tectonic shift in viewership patterns. As families grappled with demonetisation, TV viewership behaviour also changed, reflecting the new reality. News became the new frontier, and more and more women boldly went where few of them had gone before.

Whether they were working professionals or traditional homemakers, most women didn't mind taking time out of saas-bahu sagas for news programmes. There was more drama happening in their lives by the demonetisation announcement than in any serial, and their immediate worry was to keep their homes running smoothly during this period of disruption.

Women wanted to keep track of daily developments, and the impact on their lives that demonetisation was bringing. And they did that by tuning into news channels. The news genre saw a spurt in viewership like never before. At an all-India level, viewers tuning into news grew 38% post-demonetisation. Viewers were also spending as much as 7% more time watching news around the demonetisation development.

Female tune-ins rose by a whopping 44%. It wasn't just more people watching news. People were also watching more of news — more 'time spent'. While this growth was visible for news across all languages, it was more pronounced for Hindi news. Female viewers spent 33% and 13% more time watching Hindi and English news genres respectively after the announcement of demonetisation.


Primetime Minister

FILE PHOTO

Some of this growth naturally came from those who didn't watch much TV earlier, or any at all. But Barc data shows that a significant amount of the 'new news viewers' were those who otherwise watched other content such as TV soaps and movies. And a large number of them were women.

Viewership trends of the four weeks before and after the demonetisation announcement clearly shows the increased interest of women in television news. Women viewership in English news grew by 36%, while in Hindi news it increased by 56%.

The effect of demonetisation can also be seen through the changes in trend of advertising split by sectors and categories of products. Given the context and fallout of demonetisation, one sector that leveraged on advertising the most was the banking sector. At an aggregate level, the share of banking, finance and investment sector ads rose by 22% after demonetisation. Within that, advertising spots of online payment gateways spiked a whopping 124%.

Barc data proves that what people watch on TV is a subset of larger choices that reflect their behaviour. And when a major event like demonetisation unfolds, television viewership also aligns to how people's lives are impacted.

The writer is CEO, Barc India

PUBLIC SECTOR BANK REFORMS

Non-Performing, So Perish


Krishnamurthy Subramanian

With GoI showing courage in pushing reforms such as the goods and services tax (GST) and Air India privatisation, the time is ripe to highlight the urgent reform needed on the governance of public sector banks (PSBs). The financial sector represents the heart of an economy, and PSBs form the bedrock of the Indian financial sector. Yet, as highlighted by the P J Nayak Committee report, governance problems saddle the functioning of PSBs.

These problems represent the quintessential malaise that manifests itself through a repeated cycle of similar symptoms: indiscriminate lending followed by burgeoning non-performing assets (NPAs), and the eventual recapitalisation of the banks using taxpayers' money.

GoI's measures to empower RBI to resolve stressed assets only represents an attempt to cure the current symptoms. Similarly, the effort to force mergers between PSBs cannot cure the malaise.

Just imagine the benefits to the economy and its citizens if ₹70,000 crore of taxpayers' money, which GoI has earmarked to recapitalise PSBs over the five-year period of 2014-19, had been spent on, say, Sarva Shiksha Abhiyan (SSA). The ₹22,500 crore allocated to SSA in 2016-17 would have increased by more than 60% annually.

At the heart of the reform lie various corporate governance problems that originate from the umbilical cord linking the government and PSBs. Have you ever witnessed a run on a distressed PSB? In contrast, remember Global Trust Bank (GTB), where depositors queued up outside its branches when it became distressed? GTB made bad loans to parties involved in the Ketan Parekh scam, and lost about ₹2,500 crore in today's value.

In comparison, United Bank of India (UBI) reported a net loss of more than ₹1,200 crore for only the quarter that ended on December 31, 2014. Yet, there was no run on UBI, because depositors perceived little risk of UBI going bankrupt thanks to GoI's guarantee in PSBs. A similar story recurred when Syndicate Bank chairman S K Jain was caught for corruption. If it were not a PSB, there would have been a run on Syndicate Bank.


Now recover the bacon

FILE PHOTO

So, such a guarantee enhances the safety of PSBs and is a good thing, right? Wrong. The pernicious effects of such a guarantee are a lot more malignant than any benefit. Suppose I was born with a silver spoon in my mouth because I have a very rich uncle. What if he told me, 'Ja, beta, aish kar! Main hun na' ('Go, son, enjoy yourself! I'll keep bankrolling you'). What will I do?

I would just go, splurge and not worry about my indiscretions because I have someone to bankroll my mistakes. After I run a large amount of credit card debt, I will ask my uncle to 'recapitalise' me. He would box my ears, say that next time I better take care of my expenditure, threatening to cut off his money. I would then say, 'Of course, uncle I'll be very careful' — and go and do exactly the same thing again, knowing well that I'm 'protected'.

In the case of PSBs, politicians and bureaucrats have contributed to recapitalise PSBs because the money used is not theirs either. It is the taxpayer's. When someone pays for one's indiscretions — taxpayer or uncle — bankruptcy is remote. But the moral hazard this creates represents a significant negative.

And this moral hazard is rarely observed directly. It can only be inferred by comparing performances. The P J Nayak Committee report did this exercise by providing a plethora of evidence of such moral hazard affecting the performance of PSBs. It recommends a series of measures to fix these problems. However, the Indradhanush proposals, the Banks Board Bureau (BBB) and its chairman have all been dysfunctional since the spirit of the recommendations has not been adhered to.

For instance, the report strongly recommended populating the BBB only with professional bankers because of the professional expertise needed. Similarly, the committee recommended a phased reform process that envisages the BBB as the first step culminating in the creation of a Bank Investment Company that holds all government stakes and, thereby, governs the PSBs.

Implementing these recommendations is crucial. Without a robust banking sector, double-digit economic growth will remain a chimera. Moreover, governments often view PSBs as political cash cows over which control can be dispensed only to the incumbent party's political detriment. So, reforming PSBs requires political courage. Hence the clarion call to this government to fix the governance problems in PSBs.

The writer is associate professor, finance, Indian School of Business

the speaking tree

Talk of Total Awareness

T S SREENIVASA RAGHAVAN

Scriptures by themselves cannot make a person enlightened. They give knowledge, not wisdom. But the Ashtavakra Gita is different. This scripture negates every facet of life, except supreme consciousness.

Sage Ashtavakra says to Janaka, "My son, you recite or listen to countless scriptures, but you will not be established within until you can forget everything" (16.1). He stresses the import of knowing one's own self. A person may quote extensively from the Bhagavad Gita or the Upanishads. But only through self-knowledge can he even begin to discover the stainless truth.

Ashtavakra insists that the only way to establish oneself within is by unlearning what one has learnt so far (16.11). Janaka is portrayed as a mumukshu seeker of truth who is initially driven by a desire for liberation. However, at the close, he learns that total liberation comes in a state of oneness when the mind becomes incapable of dividing any further. Janaka says, "For me, who am blessed and without limitation, there is no initiation or scripture, no disciple or teacher and no goal of human life" (20.13).

It is difficult to say whether the master dissolves into the disciple or the disciple into the master. Since thought is not when awareness is, any write-up on Ashtavakra is fraught with dangers as it's the result of a chain of thoughts. However, it can get justified when the writer and his writing merge into one entity. If this author has failed in it, Ashtavakra will forgive him.

Chat Room

Opposition Nails It on Unity, V-P

By nominating Gopalkrishna Gandhi, Mohandas Gandhi's grandson and one with excellent secular and liberal credentials, as its vice-presidential candidate, the coalition of opposition parties has shown its intent to take the wind out of the ruling party's sails. Bihar CM Nitish Kumar, who broke ranks with the Opposition and supported BJP's presidential candidate, is now supporting Gandhi. Opposition appears to have learnt its lesson and has forged unity. Gandhi, an accomplished former civil servant and a man of impeccable integrity, will make the best vice-presidential choice.

M JEYARAM
Sholavandan

Time to Divest From PSUs

Apropos the Edit, 'When Markets Are On Cloud Nine…' (Jul 13), the recent reforms have enhanced the positive outlook for the market. Equity MFs received a net inflow of ₹10,208 crore and 6.5 lakh additional equity folios in May, reflecting small investor's confidence. The Sensex's P-E ratio is at a historic peak of 22.71 and seems sustainable. Now that the BJP has gained a majority in the Rajya Sabha, executing reforms should not be difficult. This is the right time for the government to divest from non-strategic companies.

S KALYANASUNDARAM
By email

Today's Seniors are Worse Off

This refers to the Edit, 'Rethinking Old Age To the Benefit of All' (Jul 13). We must have a concrete plan to take care of the ageing group. The current generation of senior citizens, who retired after 35 years of service, is not affluent for two reasons: they have meagre savings after fulfilling their obligations like childrens' marriage, and the steep fall in the interest rate on fixed deposits. Many of them are forced to depend on their children, who have their own obligations.

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