

# Stable Prices Raise Rate Cut Hopes

But bad loans holding back investment, growth

On August 2, the RBI will review monetary policy and, possibly, tweak policy rates. Markets that had run up to record highs in July are looking forward to this. The consensus among analysts is a 25-basis-point cut in rates. Analysts believe that a recent drop in consumer price inflation (CPI) should lead to a rate cut. This is expected to boost sentiments, so that investors start putting money into real projects. In June, overall CPI grew only 1.54% and food prices shrank by a little more than 2%, compared to the year-ago period. In an ideal economy, low or falling inflation should merit rate cuts, to stimulate investment and growth. But riddled by market imperfections and real supply constraints, India is far from an ideal economy.

Indeed, it is likely that when July inflation numbers are released later this month, food prices will show an abrupt increase. For example, tomatoes now sell for ₹120 per kg in many urban markets, compared to ₹20 per kg a few months ago. This is an outcome of untimely rain and supply disruptions caused by the demonetisation exercise last year. Prices of pulses and edible oil, which had been tempered by an increase in imports and government intervention, are also expected to head north. So, it is futile to project sub-4% inflation as the "new normal". India has two big, related problems that interest-rate tweaks cannot address. These are stagnant or shrinking private sector investment and the terrible state of bank balance-sheets.

In July, rating company Moody's polled investors in Hong Kong: 70% of respondents picked India's banking system as the most vulnerable among seven south and southeast Asian economies. Indian banks' bad debts are reckoned to be around \$191 billion. Much of this is concentrated in state-owned banks, but private lenders like Axis Bank are also distressed. Most banks balk at outright liquidation, because they will have to put aside 100% of the bad debt for provisioning. Restructuring has not worked. Today, banks are unwilling to lend, choking even viable projects. The RBI must focus on clearing up this bad debt to get lending, investment and growth back on track.



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Third, the global investment cycle has improved meaningfully, as global ex-China gross fixed capital formation grew at the fastest pace in 2017 Q1 since 2015 Q1 in annual percentage terms and in a broad-based fashion.

Finally, while the strength of the recovery is similar to that of 2010-11, the recovery was, to a large extent, driven by base effects and was, therefore, somewhat statistical in nature as it reflected a recovery from a deep recession, that recovery driven by aggressive monetary and fiscal expansion in both DMs and EMs. When evaluated against this context, global growth is currently tracking at the best rate since the 2003-06 cycle.

**Sharp Slowdown Ahead?** Despite the recent strength in global growth, there is still a fair bit of scepticism. The three key debates are:

● Will tightening by DM central banks cause a sharp slowdown? Investors contend that the recent subdued inflation prints are pointing towards some weakness in aggregate demand, and the planned removal of monetary accommodation by DM central banks will hurt the recovery.

However, private sector risk attitudes are normalising, as deleveraging pressures are now behind us. Indeed, within G4, the non-financial private sector has been leveraging up for the last four quarters. Fiscal policy is not tightening, as it was between 2011 and 2015. As the private sector takes on a greater role in driving growth, monetary accommodation can be gradually rolled back without causing a sharp slowdown in growth.

● Will a weakening of credit impulse in China weigh heavily on growth? Investors are concerned that with

fundamentally the majority of EMX growth had to undergo a period of adjustment (payback), as they had pursued unproductive expansionary policies post-2009, which resulted in elevated macro stability risks. This adjustment is now completed in most of these EMs. Hence, a gradual recovery is now underway.

**Risks to Growth** To be sure, there are still risks to global growth, particularly in DMs as they are more advanced in the business cycle. If DM central banks were to tighten even more aggressively than we are building in, it could weigh on growth. In China, we are watching risks to growth that could emerge if policymakers take up more aggressive tightening from 2017 Q4 post the 19th Party Congress.

Our base case is that global growth will moderate somewhat in the coming quarters from the current high run rate, but will settle on average at above trend for both 2017 and 2018.

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

The last five years are unlikely to be a good guide for what will unfold next in the global economy

# Why 2017 is Not 2012-16



Chetan Ahya

Over the last five years, the global economy has been through a number of wobbles. Initially, developed markets (DMs) faced unprecedented deleveraging headwinds. Subsequently, China and other emerging markets (EMs) underwent a period of deep adjustment.

The outcome was a global expansion that was un-synchronous and heavily dependent on policy stimulus, which has been reflected in years of below-par growth. From 2012 to 2016, global GDP growth has averaged just 3.3% a year and, more recently, since 2014 Q2, global GDP growth has averaged just 3.2% a year, well below the long-term average of 3.5%.

Fast forward to today, global growth is tracking at its fastest pace since 2014 Q2. The growth has been broad-based, with upside surprises in Europe and China. While some moderation in growth in the second half of 2017 is expected, full-year global GDP growth is estimated at 3.6%, which would be the strongest rate of growth since 2011. Moreover, global growth is tracking better than what we have built in for the full year (2017), principally due to a stronger-than-expected turn in Q2.

There are a number of factors that differentiate this year. First, both DM and EM growths are accelerating for the first time since 2010. Within that, the recovery has been broad-based

across individual economies too. Second, global trade in value and volume terms is at its strongest since 2011.

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It's got cloudy

policy makers now dialling back the stimulus, growth would decelerate sharply, as it did during 2013-15.

There are three offsets to this policy tightening. First, external demand is recovering and the contribution of net exports to growth has turned positive. Policymakers in China—who tend to run a countercyclical growth model—are relying less on debt-fueled public investment demand, which is resulting in a paring back of aggregate credit growth.

Moreover, private sector investment and private consumption are improving, which is lending support to the ongoing recovery. In the property market, inventory levels have been declining rapidly. Even though property purchase restrictions have been tightened, the property market is unlikely to require, or experience, that depth of adjustment it experienced during 2013-15.

● Is recovery in emerging markets ex-China (EMX) just about commodity price improvement and China? As China withdraws its stimulus and commodity prices reverse, growth in EMX will decelerate. But the recovery underway in EMX is not just about commodity prices. Indeed, both commodity exporters and importers have had a recovery in growth. More

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Our base case is that global growth will moderate somewhat in the coming quarters from the current high run rate, but will settle on average at above trend for both 2017 and 2018. In other words, the experience of the last five years is unlikely to be a good guide for what will unfold next in the global economy.

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# Managing Desire

SWAMITEJOMAYANANDA

There are some people who do little, but make others do a lot. Brahmin, the pure Consciousness, too, is actionless—but in its presence, everything else works.

Observe an infant. It does little other than kick about, cry and laugh but it spurs everybody into willing action. The mere presence of an infant brings joy. What makes a baby so lovable, a source of joy for all? The answer is simple but profound: a baby is free of desires. It has biological needs like hunger and thirst but, other than these, a baby has no desires. Its eyes reflect its state of freedom from desires. The great scriptural texts have exalted the state of desirelessness as the ultimate state. Besides babies, only one other kind of being has eyes that reflect total desirelessness: the realised person.

Man begins his life without desire (as an infant), goes through life's tribulations and, eventually, through spiritual evolution, once again becomes free of desires as a man of realisation. The first aspect of life management is desire management. Desire per se is neither trouble nor a cause of bondage, but when it increases in quantity and decreases in quality to unmanageable levels, it can destroy us.

The scriptures divide life into four stages and at each stage, there are specific rules to be followed. If each stage of life is lived by its founding principle, desire management will be spontaneous. We move through discipline, spirit of service and self-enquiry to abidance in the Self, and achieve the transcending of desire to reach the state of desirelessness.

# Case for Tightening India's Airport Security

Three recent developments warrant an upgrade in India's airport security systems. One, the defection of a Hizbul militant to the Islamic State (IS) in Jammu and Kashmir; two, the establishment of a base by the IS in strife-torn Mindanao, in the Philippines, where its fighters, including from lands as far away as Chechnya, are combating the army; and, three, Australia has just foiled a plot to use a new kind of chemical bomb on a Dubai-bound flight, designed to release a poison gas that would kill everyone aboard. After losing its Caliphate in Iraq and Syria, the IS has, clearly, spread out its operations, with a special focus on Asia.

There is no reason to believe that India would not be a major target for IS expansion and attacks. Several Indians have already demonstrated their willingness to join the terror outfit, some have died fighting abroad. Wanton attacks in different parts of the country on Muslims in different parts of the country for no reason other than their faith produce a fertile ground for recruiting fresh volunteers to the radicals' cause. This being the case, there is every reason to raise the level of vigilance across the board against fresh terror attacks. Intelligence, of course, is the first line of defence. But policing and security protocols at sensitive spots such as airports must go up. If unconventional chemical weapons disguised as articles of everyday use are being used by the terror outfit, airport security must prepare for and guard against this possibility.

Eternal vigilance is the price of liberty. That, and painful queues, as searches and screening become more thorough. What the government can and should do is to man every screening terminal and deploy more personnel for security checks, to minimise the pain for legitimate passengers.

There should be a space-to-content ratio on airlines as in other canned goods

# A Pitch to be Put on Par with Sardines

Even the number of sardines in a can is dependent on the dimensions of the receptacle. But not so passengers in commercial aircraft, though human beings are considerably larger and more important—at least in our own estimation—than small fry. Which is why it is curious that it has taken so long for the matter to come to court (in the US, in this case) and for a judge to demand a relook at the curious matter of the "incredible shrinking airline seat". It would make sense to fit in more seats, with a narrower width and less pitch if humans were also in similar shrink mode. But the truth is quite the opposite. Humans are growing apace both vertically and laterally; according to some estimates, the average woman today weighs as much as a man did 50 years ago, and is almost as tall too. Add to that the airlines' goal of fitting in more and more passengers into cabins, even the allusion to a finite number of decapitated, eviscerated and cooked sardines in a can becomes inapplicable.

Moreover, as sardines have no reason (or ability) to exit cans speedily and safely in case of emergency but passengers may, clearly, there has to be some space-to-human ratio for aircraft cabins as for items in cans. Hopefully, US and other nations' airline regulators will step in to ensure that humans are put on par with sardines at least.

**WIT & WISDOM**

"Hope is but the dream of those who wake."

Matthew Prior  
Poet

## Hepatitis Warning

New WHO data reveal that an estimated 325 million people worldwide are living with chronic hepatitis B virus (HBV) or hepatitis C virus (HCV) infection. And a large majority of these people are at risk of a slow progression to chronic liver disease, cancer, and death because they lack access to life-saving testing and treatment.

**Hepatitis B & C prevalence by WHO region**

Hepatitis C		WHO Region	Hepatitis B	
Million	% of Population		% of population	Million
14	1	Western Pacific	6.20	115
11	1	African	6.10	60
15	2.30	Eastern Mediterranean	3.30	21
10	0.50	South-East Asia	2	39
14	1.50	European	1.60	15
7	1	Americas	0.70	7
71		Total		257

Source: WHO Global hepatitis report, 2017

## MEME'S THE WORD



## BIHAR POLITICS

# Nobody's Alliance to Save



Mohammad Sajjad

Much is being written on Nitish Kumar's 'self-preservation' and his having 'turned turncoat'. It is being said that allies of all ideological persuasions love to 'romance with him', and eventually cry foul over his frequent flip-flops. A quick look back into Kumar's political dealings suggests that more often than not, with each such flip-flop, the Bihar chief minister has grown stronger.

Early ground reports from Bihar would suggest that apart from Muslims and Yadavs, no other social group is really angry with Kumar wrecking the mahagathbandhan (grand alliance), but another ground reality has it that even the Yadavs are not feeling as devastated as one might want to believe.

Muslims have been offering more unflinching support to Lalu Prasad Yadav than the Yadavs. As Centre for the Study of Developing Societies (CSDS) data show, electoral results have been most adverse for Lalu Yadav: 24-40% of Yadavs deserting the Rashtriya Janata Dal (RJD), compared to less than 20% Muslims deserting the party in any given election.

No other social group in Bihar has ever reposed as much of trust in Lalu Yadav as the Muslims. So much so that when Nitish Kumar quit the NDA in June 2013, it was perceived as a move only to win Yadav's Muslim supporters back to the Kumar fold. The unflinching support of Muslims to Yadav became obvious in the 2014 Lok Sabha elections when the RJD leader's vote share of 29% was almost the same as the demographic proportion of Muslim-Yadav (M-Y) voters. Every time Kumar went alone, his electoral performance has been miserable.

So what did Bihar's Muslims and th-

eir messiah Lalu Yadav do to prevent the wreckage of the mahagathbandhan, especially with the BJP in the ascendant in the state? Cracks in the JD(U)-RJD-Congress alliance became visible the day former parliamentarian from Siwan and criminal Mohammad Shahabuddin got bail.

While coming out of Bhagalpur Central Jail on September 11, 2016, he stated his deep mistrust in the leadership of Nitish Kumar, adding that his leader was Lalu Yadav and that only certain situations had made the M-Y social base accept Kumar as the chief minister. Shahabuddin's statement—and subsequent 'shobha yatra' from Bhagalpur to Siwan—was 'approved by silence' by large segments of the Muslim leadership, intelligentsia and clergy. The role that show of support for a gangster played in making the mahagathbandhan untenable, and firming up the NDA's position in Bihar, should not be underestimated.

In any case, observers of Bihar's politics believed that Lalu Yadav was trying to marginalise Kumar and push his son Tejashwi all the while. But if Muslims felt so 'scared' of an impending BJP-included NDA rule in Bihar, what did they do all those months when the mahagathbandhan increasingly became unstable?

Abdul Bari Siddiqui, RJD's senior-most leader, kept mum. Former RJD MP from Darbhanga, Mohammad Ali Ashraf Fatmi, bargained an assembly



The real gathbandhan

ticket for his son, Faraz Fatmi, and also kept quiet. So was the case with former Congress MP from Madhubani, Shakeel Ahmad.

The clergy, more prominently of the Imarat-e-Shariah, maintained its inexplicable silence. If the BJP's rise in Bihar is seen as an existential threat to them, why did they not mount enough pressure on Lalu Yadav to do everything possible to keep the mahagathbandhan afloat? They did not dare ask the RJD leader to put secularism before dynasty.

But did Lalu Yadav really want to salvage the alliance? Or did he want to get rid of it, as with Kumar being there, Tejashwi was unable to dole out favours to the Yadavs, thereby losing his grip on the RJD's core constituency? Sitting in opposition was a better way of retaining his grip on Yadavs, as favours wouldn't be expected from Tejashwi out of power.

JD(U) MLA from Sikta in West Champaran district, Firoz, a.k.a. Khurshid Ahmed, had chanted 'Jai Shri Ram' last week outside the Bihar assembly in Patna. Bihar's Muslim clergy swiftly issued a fatwa against him. This self-destructive politics of selective silence and fatwa is something Bihar's Muslim leadership needs to examine.

More breast-beating and the self-perception as 'victims' will not take them far in any direction of empowerment. Nor does it augur well for the health of the national politics where terms of participation in the democracy are referred to in such cynical ways.

Agreeing to remain slavishly hostage to Lalu Yadav, a politician who has brought little progress and development to Bihar's Muslim community after having 'empowered' them once decades ago, needs a relook. This aspect is as much desperately needed to retrieve the secular component of Indian democracy as keeping it safe from the 'other kind of mob'.

The writer is Professor, Centre of Advanced Study in History, Aligarh Muslim University

## Citings

# Construct Change

FILIFE BARBOSA ET AL

Global labour-productivity growth in construction has averaged only 1% a year over the last two decades, compared with growth of 2.8% for the total world economy and 3.6% in manufacturing.... Too often, regulatory complexities hinder productivity.

Indeed, non-technical risks, including political risks related to regulation and transparency, are often cited as proximate root causes behind poor outcomes, even more so than technical factors.... Governments can help reshape regulatory environments by streamlining permitting and approvals processes, reducing informality and corruption, and encouraging transparency on cost and performance. Many governments allocate grants for innovation and training.

There is a major opportunity to improve productivity by institutionalising value engineering into the design process and pushing for repeatable design elements. In asset classes such as deepwater oil and gas for which standardisation might not be the panacea, the opportunity for parameter specification rather than individual company specifications is significant....

Construction lags other sectors in its use of digital tools and is slow to adopt new materials, methods and technology. Significant advances being deployed or prototyped today can transform the effectiveness and efficiency of construction in three areas: digital technologies, advanced materials and construction automation.

From "Improving Construction Productivity"

## Chat Room

# Getting It Right With China

Appropos 'India, China to Build CBM Through Multilateral Fora' by Dipanjan Roy Chaudhury (Jul 31), it is commendable that India is not getting emotional but taking a professional stance in forging diplomatic relations with China. Placed as India is, it is rightly making the best use of institutional structures created through Brics and other regional fora like AIB, the Shanghai Cooperation Organisation and the New Development Bank to intensify economic ties so that the complex political issues would get softened gradually and, hopefully, solved soon.

KUMADA  
Mumbai

# Big Change in Pakistan

Pakistani PM Nawaz Sharif's fall from grace following his disqualification over the Panama Papers scandal by the Supreme Court is a watershed moment in Pakistan's history. The unprecedented judicial action against a sitting PM is a rare first. Though the baton of the PM could pass on to Sharif's younger brother Shehbaz, the former's exit has the potential to drastically alter the power dynamics in a country where the military holds sway, besides leading to chaos and confusion in the near term.



Nawaz Sharif

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N RAVI CHANDER  
Bangalore

# Theories Wait to be Disproved

This refers to 'The Mystery of the Killer Litchi' by Deb Kumar Mitra (Jul 31). A hypothesis is out there to be falsified by any credible future research—irrespective of how many times it has been proved. However, this spirit is not truly followed by the scientific community itself. One recalls the four ethos of modern science proposed by the famous sociologist Robert K Merton: Universalism, Communalism, Disinterestedness, and Organised Scepticism. One should be open to critical scrutiny of one's own findings, the hallmark of the evolution of science.

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