OKONOMOS

ECONOMICS

2020

8th Edition

THE ANNUAL ECONOMICS JOURNAL
HANSRAJ COLLEGE

MESSAGE FROM THE PRINCIPAL

PRINCIPAL'S MESSAGE

"Hans Raj College is a prestigious institute that has always been one of the sought after colleges in India. In its 69 years since inception, it has acquired the distinction of being one of the top six colleges out of 13500 colleges in the country.

The heritage of the college is distinctly visible from the accolades it has achieved across fields in academia and other non scholastic spheres.

I'm extremely delighted to know that the Economics Department of Hansraj College is publishing 18th Edition of their Economics journal 'Okonomos'.

It is a creative channel for students to express their views on pertinent economic and social issues concerning our lives.

I congratulate the department for their initiative and I wish them best of luck for more such endeavors".

DR.RAMA

PRINCIPAL
HANSRAJ COLLEGE

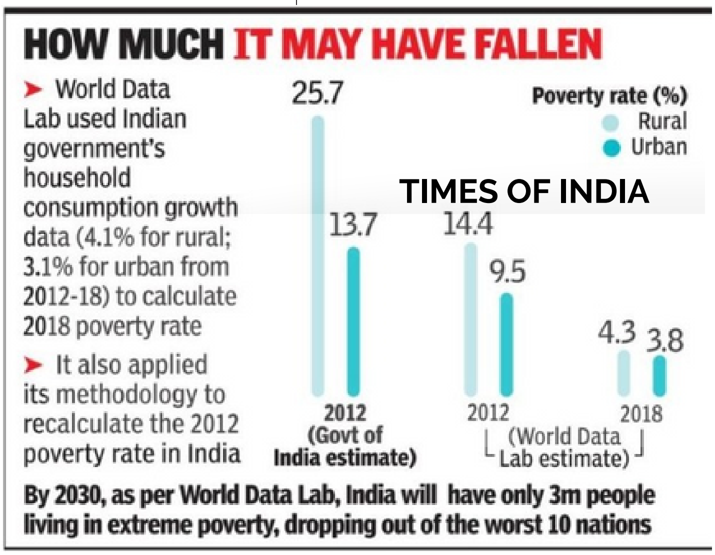
GUEST ARTICLES

TEAM ARTICLES

INNOVATIVE SOLUTIONS TO POVERTY

ROOPAL DHAIYA

“Why are we so rich and they so poor?” is the looming, fundamental question in Development Studies. The question was posed by David S. Landez in his book ‘The Wealth and Poverty of Nations’ in 1990. In ‘Development Economics’, Debraj Ray further illustrates the case of poverty, remarking that it is not only a concern at a global level but even within a country,as there is extreme inequality. Even when following Amartya Sen capability approach, it is clear that poverty is a major cause that restricts a person’s capabilities to lead a good life.



Development is a holistic concept but crucially, it first deals with the issue of poverty. Poverty alleviation is an initial step to the process of development; in the presence of inequality all economic growth, social cohesion and political stability are at risk.

As of 2015, about 736 million people still lived on less than US$ 1.90 a day (UNDP, 2015). With new threats like climate risks, conflict and food security, the poorer regions are more vulnerable to deprivation than before. Actions to rapidly eradicate poverty are imperative today.

UNDP has made alleviation of poverty its first Sustainable Development Goal – SDG 1: No Poverty. The goal is to end poverty in all its means and forms by 2030, an ambitious but possible and alarmingly needed target.

Technological inventions, government interventions, non-governmental field-work, academic research, there are a thousand ways in which we are moving in the direction of ending poverty but there are many innovations and ways that can possibly yield positve results.

This essay presents three under-utilised methods to end poverty and examines how they can lead the way to poverty alleviation. All three methods are presented based on their relevance in contemporary times and they call for more action by state and non-state actors in implementing and subsequently measuring their outcomes in advancing towards the goal of poverty reduction.

NATURAL RESOURCE MANAGEMENT

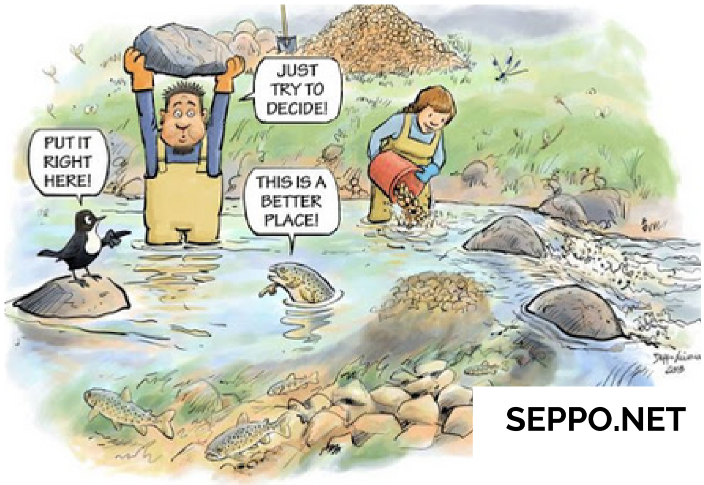
About 3 in 4 people in the developing world live in rural regions where dependency on the resource-base is substantial and out of the 1.1 billion poor people, 90 % are dependent on forests for at least some part of their income (Adam Sheingate,2008).

Resources are a significant part in the lives of poor persons especially in rural regions.

Inequitable access to resources accounts for exploitation and ever-increasing poverty. Lack of knowledge and infrastructure to optimise return on resources which sustain the livelihood of people is a severe disadvantage for the community. And therefore, it is necessary that the capabilities of the people to access and manage these natural resources are adequately developed.

Degradation of resources makes it even harder for poor people to use these resources to generate income and wealth. Findings from the Millenium Ecosystem Assessment in 2005 confirmed that the burden of environmental decline already falls heaviest on the poor and that further degradation will increase the numbers of poor people.

ENHANCING MEANS OF LIVELIHOOD



SEPPO.NET

Resources are renewable, widely dispersed and accessible. Harvesting is the primary source of income for the rural population. In terms of proportion, the poor population derive a higher proportion of income from natural resources than the rich. They also have diversified income-generating activities such as collecting firewood, generating fuel, harvesting fields etc. And proper access and management to natural resources can secure and upscale these livelihoods and raise income.

The International Water Management Institute (IWMI) conducted an analysis in 2009 of its project which aimed to raise irrigation infrastructure quality in Sri Lanka. Results showed strong evidence that irrigation does help in poverty reduction, particularly chronic poverty.

Findings suggested that the incidence, and severity of poverty was the lowest in areas where there was access to established irrigation infrastructure, with adequate water supply. Improved irrigation reaps benefits such as land augmentation, improved productivity, expansion in economic activities etc. that helps raise income levels of the rural population (IWMI 2009).

EXPLOITATION NETWORKS

Resources have been historically central in accounts of exploitation. Such exploitation deprives people of opportunities to earn stable incomes and secure themselves and their families. Another project of IWMI in Gujarat worked on electricity management. It recommended intelligent rationing of electricity instead of subsidies.

It also suggested issuing of a roster and a full supply of high voltage electricity during rationing hours.

Prior to the change, tube-well owners had been holding rural communities to ransom by ‘stealing’ power for irrigation and exploiting the rest of the village population. Implementation of an innovative mechanism enabled farmers to conserve water, save on pump maintenance costs and use labour more efficiently which in turn boosted on-farm income (IWMI 2013)

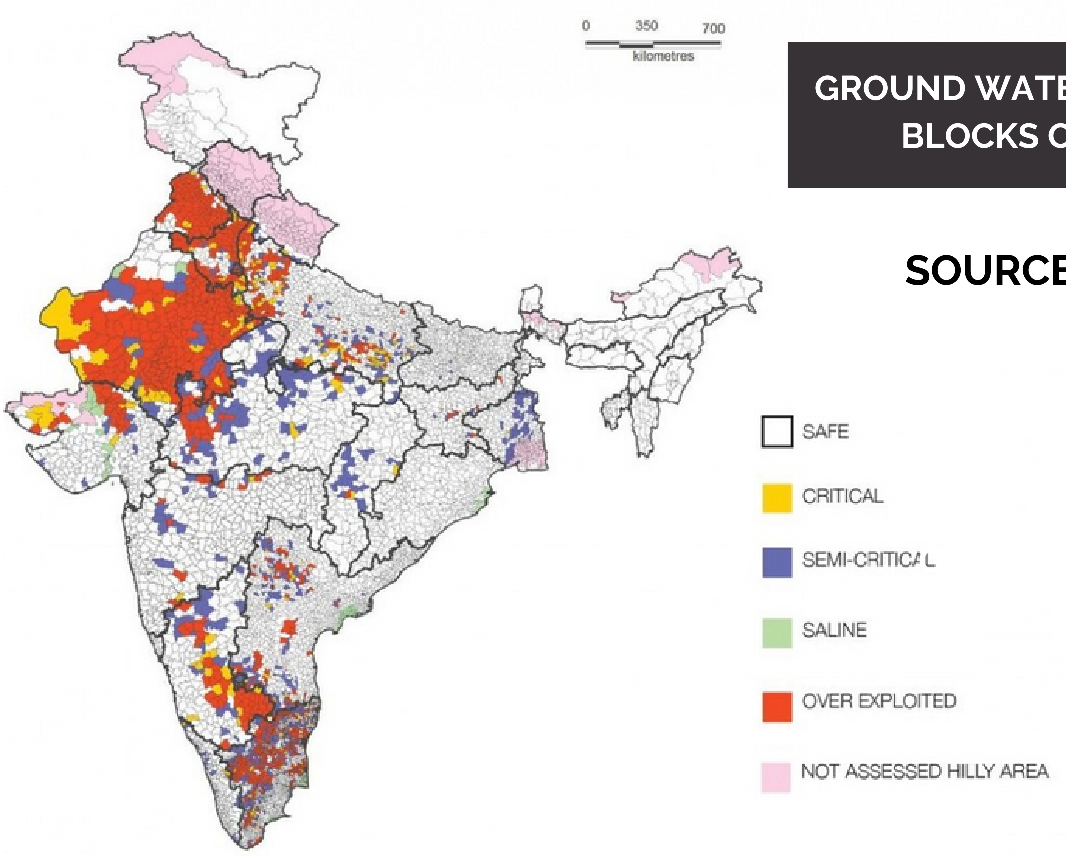
FINANCIAL LITERACY

Financial education is one of the most promising and under-utilized leads that can help bring an end to the cycle of poverty. Financial education teaches one to optimise their resources, manage debt, money and savings, acquire good assets through investment in the right direction etc.

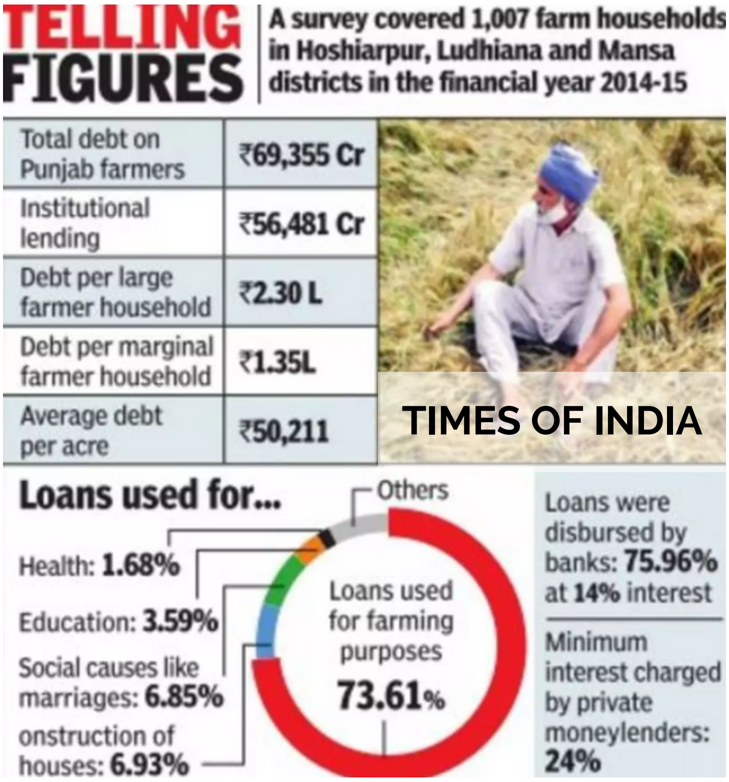
The economically weaker section of the society has much to benefit from this knowledge just like everyone else but for them it can help in ways that help them fight poverty.The percentage of adults who are financially literate in the BRICS nations ranges from 20 % to 40% (S&P Global FinLit Survey,2016). One of the common shortcomings of the rapidly growing economies is lack of inclusive growth. The poor are left out and made worse off.

GROUND WATER STRESSED BLOCKS OF INDIA

SOURCE: IWMI



GETTING OUT OF THE DEBT TRAP



Debt is a frequently used indicator of poverty wherein a strong correlation between debt and poverty is evident. In Telangana, India 79 % of farmers struggle to pay their debt (NABARD 2018).

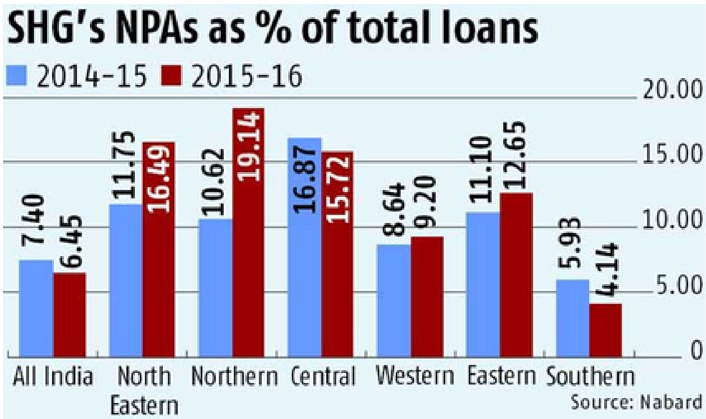
This staggering statistic is also linked to an increase in farmer suicides. It is the financially illiterate population that fall prey to predatory lending. People lack information about safe alternatives and the strategies to acquire asset or save money against which they can borrow from formal institutions.

Without the knowledge of how to manage and repay their loans, households get negatively affected as they start cutting down on their basic needs. Financial literacy, especially when adapted to local priorities, can tackle this grim situation and assist in moving towards freedom from poverty.

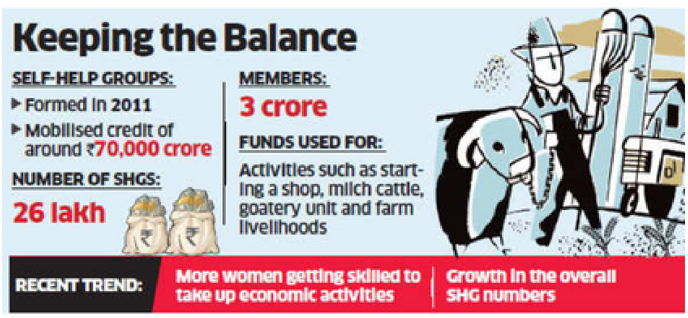
ENHANCING FINANCIAL SCHEMES

Many financial schemes, like ‘Grameen Banks’ and ‘Self-Help Groups’, are renowned for providing financial solutions to low-income communities. Financial literacy can actively strengthen such schemes. With an educated client-base, there will be a wider demand for these services and for an increase in their efficiency.There are also low-cost digital financial services available that can bring the rural poor closer to markets.

While such facilities are available, they are rarely accessible due to the lack of required understanding. Financial literacy can therefore lay a strong foundation for policies of financial inclusion to build on, efficiently. Financial literacy can substantially help protect and empower the low-income earners. It is a solution that needs more attention and adoption when targeting the eradication of poverty.



SOURCE: NABARD, TOI

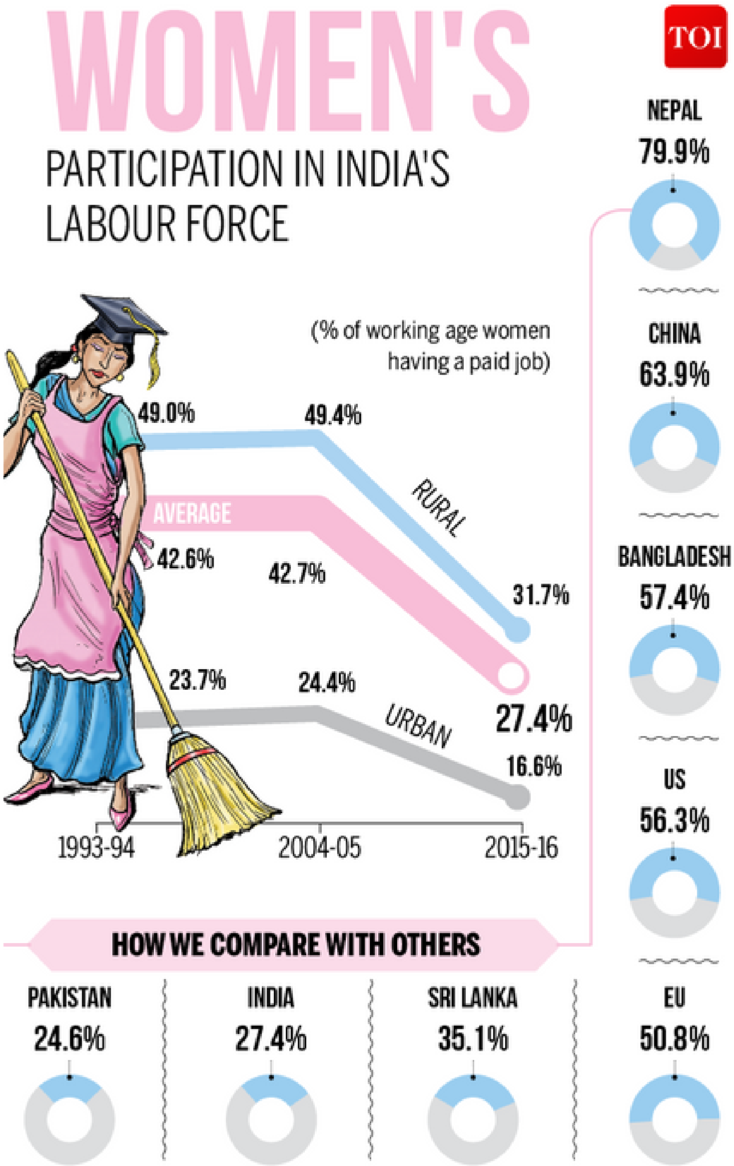


WOMEN EMPOWERMENT

Women empowerment and gender mainstreaming is a prerequisite to inclusive growth and other SDGs. According to OECD, gender equality “yields highest returns involving just about all development investments.”

A study showed that throughout Brazil, the likelihood of a child’s survival increases by 20 % when mothers took control of the household income (OECD, 2010). Studies by World Bank has also proven that women empowerment have an alleviating effect on poverty levels.

Empowered women participate more in the formal labour market, fight for inclusive laws and their exercise, decide on family matters with an equal say and more. Women’s economic empowerment is highly connected with poverty reduction in the long run also because women tend to invest more of their earnings in their children and communities (World Bank, 2015).



WORKFORCE PARTICIPATION

Women’s labour force participation in India is one of the lowest in the world. Women comprise half of the Indian population but make up less than a quarter of the labour force. Three in four Indian women do not work in the country (Oxfam, 2019). Globally, women’s labour force participation has stagnated, and the gender gap in labour force participation rates remains very high at 27 % (UN Women, 2016).

And bearing in mind the fact that according to a World Bank study, between the ages of 20 and 34 years, women are more likely to be poor than men, increase in own income means reduction in poverty numbers and also reduction in poverty at the household level. Ways to increase workforce participation starts from compulsory and quality education for the girl child, vocational skills training, maternal care and childcare services, safer workplaces and encouragement in entrepreneurial initiatives.

CLOSING THE GENDER PAY GAP

Discriminatory attitude towards women acts as a hurdle in achieving maximum economic outcomes of a woman's work. One key problem is that of the gender pay gap. The gender pay gap was 34 % in India, that is, women get 34 % less wage compared to men for performing the same job with same qualifications (Oxfam, 2019).

The global gender pay gap is also significant at 23 % – this discrimination robs women of the ability to adequately support themselves and their families, to pull themselves out of poverty, enjoy an adequate stand of living and save for retirement (UN Women, 2016)

WOMEN IN THE ECONOMY

India's rank among 153 countries

	2018	2019
Overall	**108**	**112**
Economic participation and opportunity	142	149
Educational attainment	114	112
Health & survival	147	150
Political Empowerment	19	18
Labour force participation	138	145
Wage equality	**72**	**117**
Legislators senior officials, managers	130	136
Professional & technical workers	133	132
Women in parliament	123	122
Women in ministerial positions	77	69

BCCL

Source: World Economic Forum

India's ranking in gender-gap report

	2017	2018
Overall ranking	108	108
Economic participation & opportunity ranking	139	142
Educational attainment ranking	112	114
Health and survival ranking	141	147
Political empowerment ranking	15	19

Source: World Economic Forum

These are but few underutilised methods to meet the sustainable development goal of ending poverty worldwide by 2030.

More research and outcome-based execution of policies have to be undertaken to accurately evaluate and quantify the effect of these methods on poverty levels.

Lessons from across borders need to be shared in the implementation and success of targeted policies but also should be acclimatized to local environments for best results.

Poverty alleviation needs to find its way to the top of the priority lists for countries for a sustainable, inclusive and better world

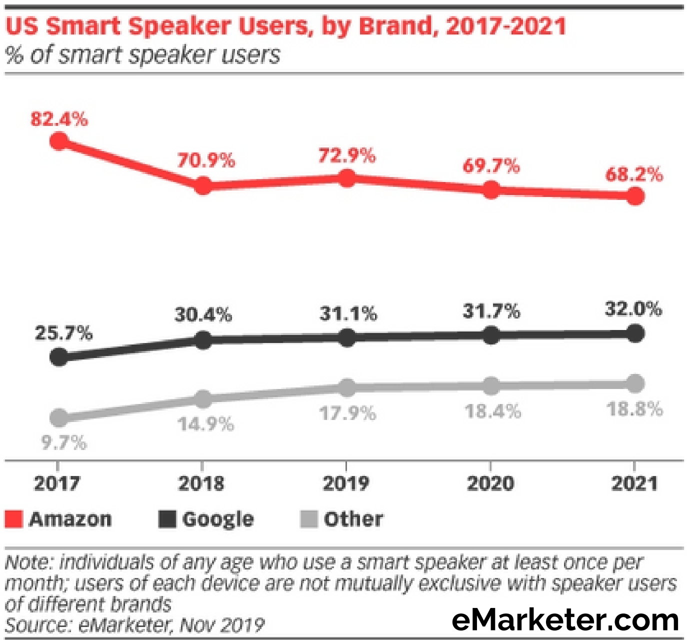
The New Economics Data Economics Emergence Of A Virtual Market In The 21st Century

RITO CHAKRABORTY

Alexa, what's the time….". "Alexa, play my favorite song….

" A few months back there was a snap of an advertisement by The Economist, which went viral. The ad said, "Alexa's listening. Say something intelligent."Alexa knows your song playlist. It knows the groceries you will be needing to buy next Tuesday. It knows the places you have visited, as you asked for directions. It knows the time you wake up on. And Alexa keeps on listening.

While it might seem that the AI induced Amazon Echo Dot is merely a response system to the commands given to it, it also creates its own algorithm for various suggestions based on the previous data feeds and actions so taken.



The simple idea behind it is that it takes up various commands given by you initially, sends it to the Amazon cloud and uses them repeatedly to create for you song recommendations, time alerts, grocery reminders. It functions on the lines of a data analytics, data integration in order to feed the Artificial Intelligence System- perhaps the most talked about topic in technology and economics.

It is interesting to note that data has today become a resource, an asset which can be potentially be used to drive the **supercomputers** or bring out excellent response mechanisms in humanoids. It is even more interesting to note how this data is creating an economy of sorts where the trade and transaction of the data can take place..

DATA ECONOMY

So to begin with, we could pretty much agree that the Data Economy is an economic system of sorts wherein the transaction (physical, but majorly digital) of data takes place between two or more entities. Just like in mainstream economics, there exists mainly three entities or stakeholders in the Data economy, namely- the households, generating personal data; the private firms, generating their own pool of data from economic transactions and the government, mainly regulating the data economy and the newest entrant to this set up.

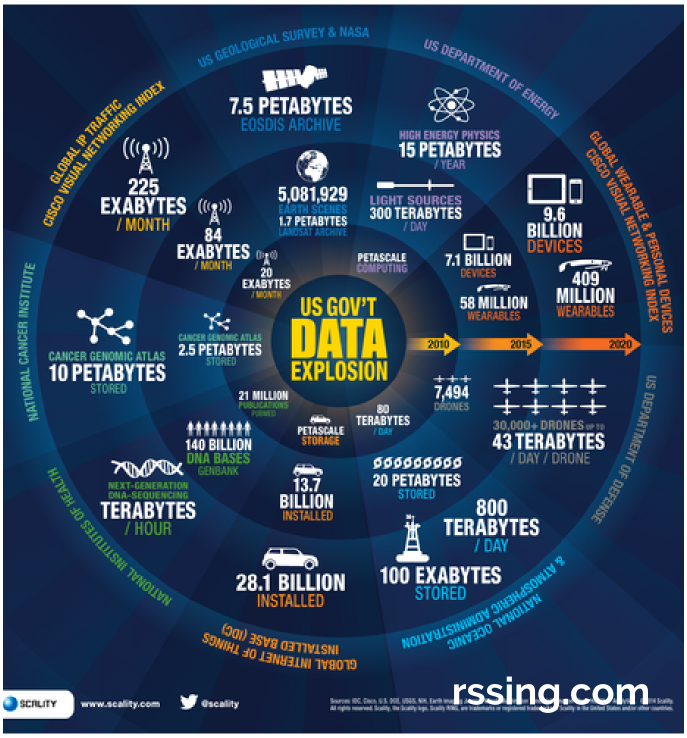
Top Ten Economies (by GDP) Ranked by Size	Rule of Law World Justice Project
United States	7.1
China	4.9
Japan	7.8
Germany	8.4
India	5.1
United Kingdom	8
France	7.3
Italy	6.5
Brazil	5.3
Canada	8.1

forbes.com

To have an idea of the economy we are talking about let us start by measuring it. Last year, Statistics Canada tried to measure the value of data it generated (stock plus the relevant intellectual property) and estimated it to be somewhere between $118 billion and $164 billion. If that number is close, the value of all the data in America, whose GDP is 12 times that of Canada, could amount to $1.4 trillion - $2 trillion, which would be nearly 5% of America's stock of private physical capital.

I WANT TO SELL DATA

Throughout columns of news articles one can easily find an unassuming comparative existing between that of data and of oil. Previously, it was said that data was almost like oil, in resemblance of the resource it represents. That is to say, that there were few mega firms that exclusively refine and cleanse (interpret) and trade the data. Thus, it went on to be perceived as a 'private good'. On the other hand however, some analysts call it a more of a 'public good' like sunlight. They argued that it was something underlying everything and everywhere.



Since data can be copied and cloned, it meant availability at a place leads to availability at all others. More recently however, both the concepts have been put aside. It is now argued that data, in the 21st century is more like a 'Club good'- something that is available to members of a certain club.

The idea of a club good arises from the fact that although data can be openly available, it can be regulated and hidden from outsiders, or so to say in technical terms, they can be encrypted and coded. But most importantly, it arises out of the fact that the same data set may have different meanings for different entities. Take for example, the data on number of clicks on a particular product on the Amazon site.

For Amazon itself, it will show what consumers' preferences are or which products are mostly bought together. However, for a competitor like say Flipkart or Alibaba, it would mean the products that it should potentially market on the same lines and maybe during the same times.This is just a very crude example.

The rationale behind this is that the derivative meaning from the same data set can be very different, somewhat akin to how the meaning of a Club can be different from person to person- some go there for the free beer, others to swim.

The most interesting part is how the data is also being used by third party buyers who sell these to potential firms at a higher price. These pool of Data Brokers, include well known firms like Oracle, Thomson Reuters and Cambridge Analytica to all smaller start-ups that get hold of these data through smaller projects. The question of these brokers trading data has led to a lot of security issues, we come to that later. What they have facilitated, is an emerging market of digital trade where firms are racing against each other to get hold of the data. They become in essence, a monopoly (if the data is encrypted) or a monopolistic one (more generic data) and can sell it at a higher price.

This has not only changed the very perspective of economic competition but also, brought forth newer concepts of policy regulations (externalities) and trading regulations. Take for example Huawei, which has been the center of discussion of the US- China trade war.

It is alleged that it uses various users' data to track businesses in the Western world. And since, it is under the purview of the Chinese government, some say it can basically be used for smarter manifestations. We always have the case of Cambridge Analytica reminding us how it ended up messing the polling equilibrium.

In yet another interesting perspective some say, it is actually monopsony, one with single buyer but infinitely many sellers. This type exists majorly in lines of personal data such as those which give an idea of the demographics of an area. It involves a single buyer, when represented by one such mega firm, demanding the data for a specific use of it in a certain algorithm.

PERSONAL DATA PROTECTION

Now the problem with personal data (or private data belonging to a single firm) is obviously the question of privacy. Some analysts have compared it to genetic frameworks. If I have the gene data from certain sources of your father, I will somehow be able to predict your gene data. This does call for greater rules for data privacy, encryption and regulation. This is where perhaps, the government enters. Not that they have no role otherwise (they do source data, for example the UIDAI in India), but this gives them better leverage and control over the economy.

In the wake of protecting the data, governments have started to erect virtual borders- which firms can enter the economy, a set of regulations to be followed, which data is to be shared and what the firms engaged in are needed to state to the government- are some of the basic guidelines to begin with.

Well known are the General Data Protection Regulation, the EU's tough privacy law that went into effect in 2018. These have literally created a virtual 'AI nationalism'.

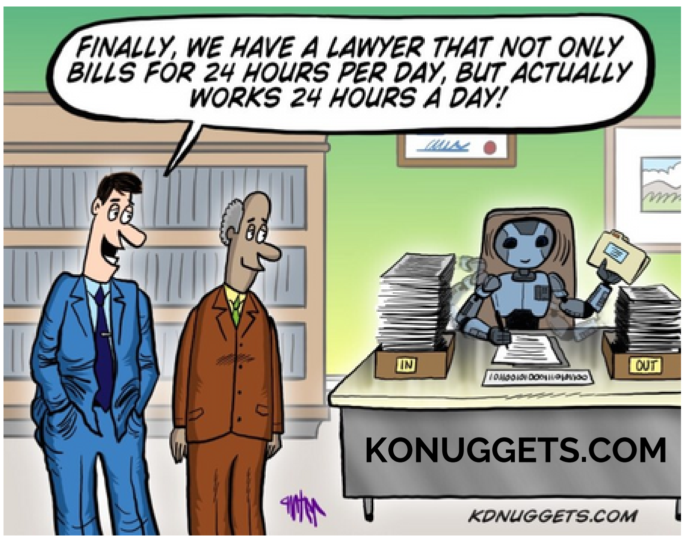
This barrier to entry adds more points to the argument of the "Club economy". Thus while this virtual economy is emerging, it is creating its own externalities- the benefits initially derived by the firms or governments (or any third party data broker) are now being offset by the borders.

SHOULD I WORRY ABOUT THIS ECONOMY?

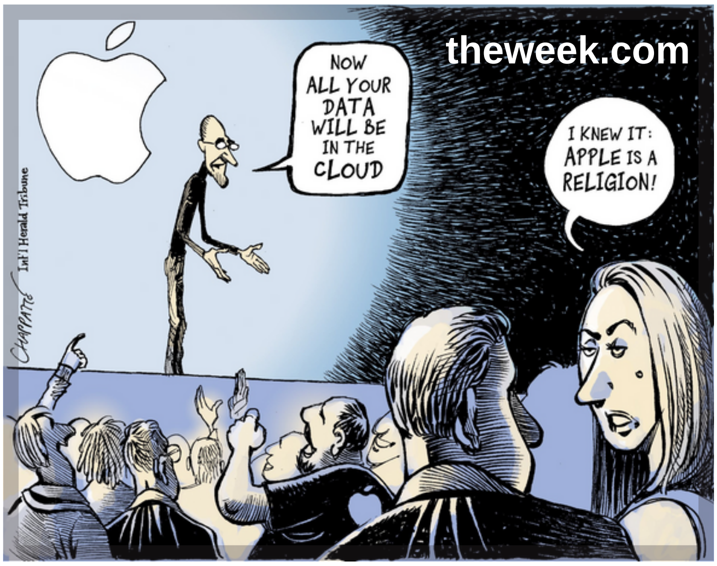
"For researchers to ask the right questions, they need the right data".

According to Dragomir Anguelov, principal scientist at Waymo. The data economy is still growing, but already accruing immense benefits. The whole idea behind A.I is that it gives predictability.

Say for example, forecasts on meteorology, crop productions, virus outbreaks and most importantly financial uncertainties. In other words, it creates a more efficient economy by dealing the otherwise market failures or perhaps predicting it. There is however a different approach to this. There already exists enough inequality in the Data Economy.



The major profits (and data) today are held by five main firms- Microsoft, Apple, Google, Facebook and Amazon. The majority of the free data today is associated with mainly China and the US. What does this imply? More data suggests better AI and efficient functioning of consumer-end processes, thus better supply and more profits. More profits lead to more R&D and more supply leading to more data, thus better AI and so on.



Where does this lead us?
It leads us to believe that this might widen the already existing inequality amongst the data providers and suppliers. And more so is the fact, that as certain firms go higher on the profit curve, they hire more labourers. Not to do any data work but literally labour workers, who in turn will feed in more data. So in summation, it might turn out to be lopsided

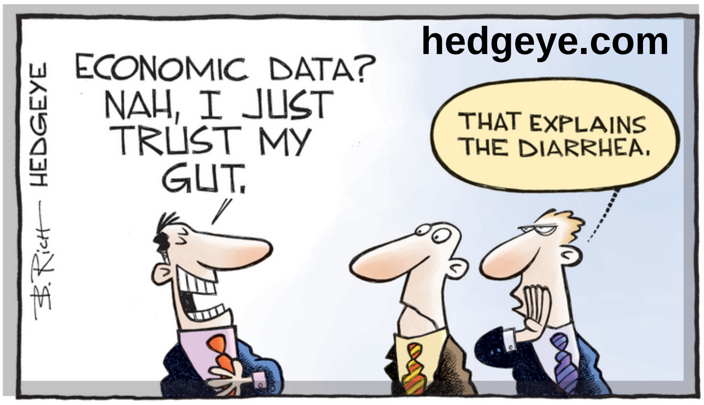
But why study the emergence of data economics in the first place? The answer to this is that we are at a turn of a new economics. With the Nobel Prize winning trio last year focussing their work on RCT and basically, data powered solutions and theories, it gives us more reason to turn towards the importance of data..

Today the trending ones are empiricists known for finding new data sets and applying new techniques to analyze data. Harvard's Raj Chetty; Thomas Piketty, of the Paris School of Economics; Berkeley's Emmanuel Saez; and the Nobel trio.

While we were busy in the twentieth century defining rational theories, we have ignored the emergence of newer fields of economics – the Data Economy being one of them.

And after all when the data driven world is becoming magnanimous, soon enough the mother of the social sciences, Economics will be fundamental to it.

All we can do meanwhile is be aware of our personal data and privacy and say something intelligent for Alexa.



Economic Diversification Or Specialization? A Feminist Analysis

TANYA SINGH (LSRC)

There is a growing recognition of the fact that countries need to diversify their economies to promote growth, generate employment and further the cause of human development. Many developing countries have relied on their competitive advantage in cheap labor to make use of export manufacturing as a strategy to boost growth and create employment.

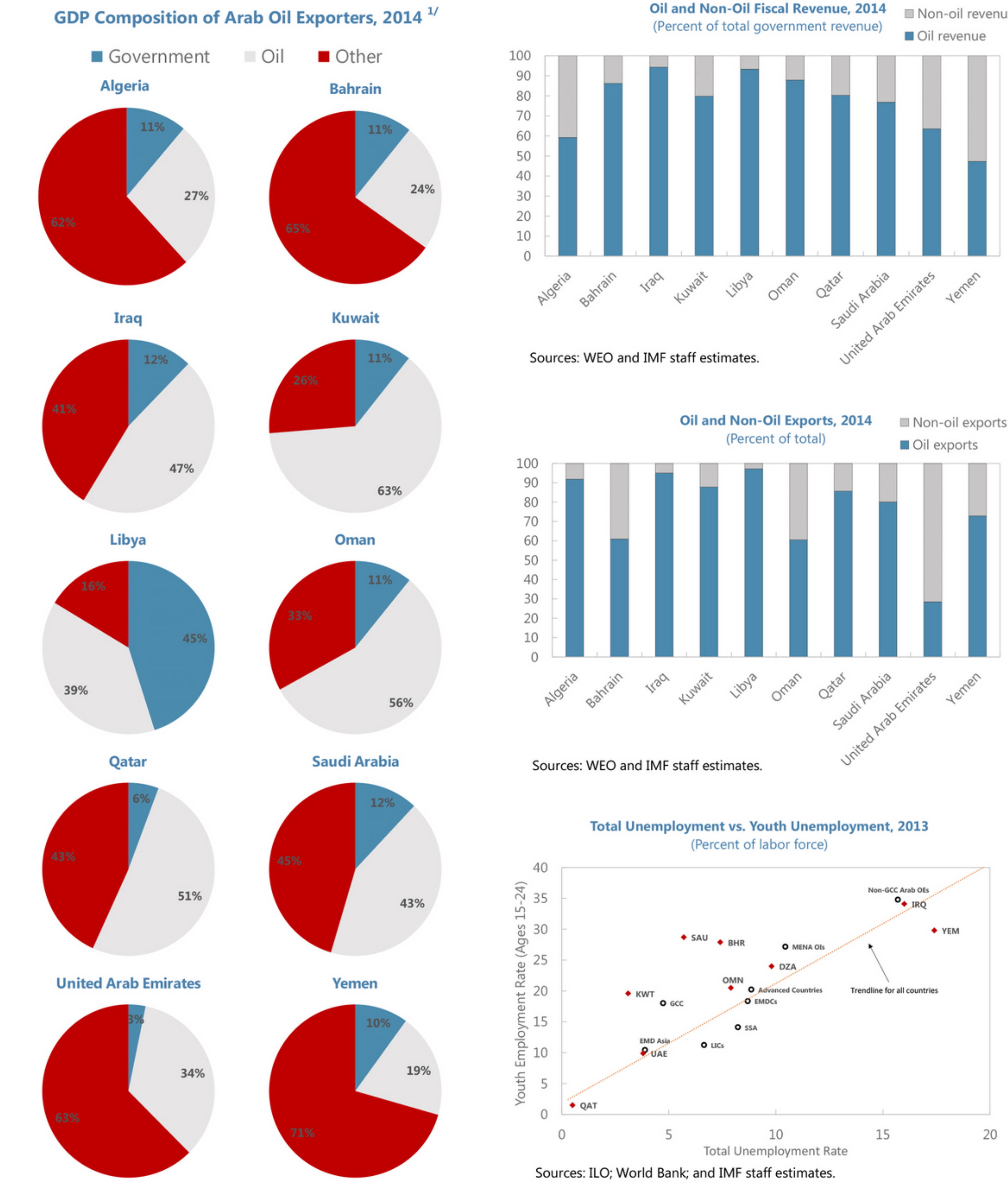
The source of this cheap labor supply is predominantly women due to having low levels of education and skills when compared to their male counterparts. The firms, therefore, often rely on this underpaid and unpaid cheap labor in order to maintain and further strengthen their competitive advantage in a global market regime that is highly unstable due to volatile capital flows.

Consequently, the third world has witnessed feminization of, and a high dependency on certain low-wage and low value-added sectors. This has also meant that export growth as well as output growth that relies on labor-intensive industries creates employment for primarily women and the male labor force does not gain from such a process.

However, overreliance on export to fuel growth means that export-oriented industries become vulnerable to foreign capital flows and during times of economic crises, women of the third world countries who gained employment in such industries are disproportionately affected due to reduced output and exports.

This volatile and sporadic nature of international commodity markets has served as a strong and urgent reminder to countries to diversify both their output and export, in terms of the number of products and market outreach.

Figure 1. Selected Indicators for Arab Oil Exporters

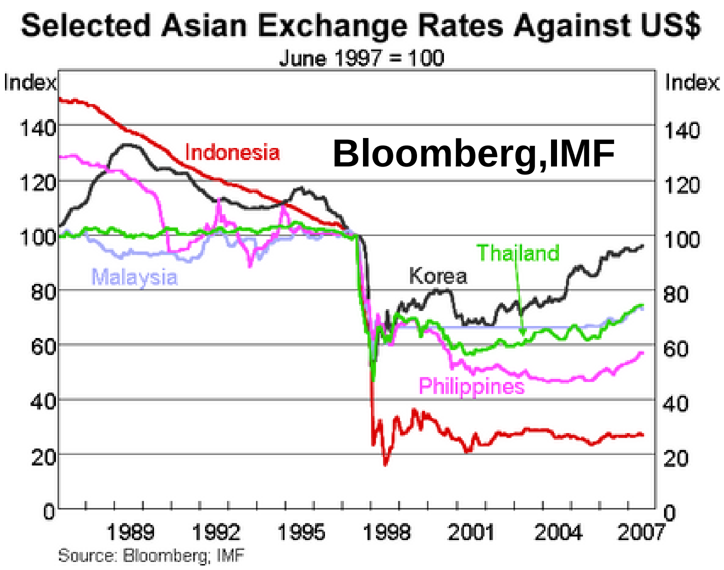


Sources: WEO; and IMF staff estimates.

diversify both their output and export, in terms of the number of products and market outreach. Also, occupational and sectoral segregation is a worldwide phenomenon. It refers to the tendency of men and women to get concentrated in certain industries due to social and cultural norms that label certain jobs as ‘feminine’ and others as ‘masculine’.

A direct implication is that if the growth of an economy is directly fueled by a small pool of industries, the benefits of expansion, or the losses due to contraction are highly gendered. To elaborate, the growth of the East Asian economies relied on certain labour-intensive export-oriented industries which led to large scale job creation for women, primarily due to their willingness to work at lower wages. This however meant that with the onset of the 1997 Asian Financial Crisis and the lowering of global demand, these export-oriented industries collapsed and women faced major job losses.

As a result of similar developments in countries all around the world, product, export and market diversification have gained importance amongst policymakers and economists, as a prerequisite to ensure an economic system that is immune to sporadic economic shocks,



Ricardo's theory of comparative advantage, a long-held tenet of international trade, promotes the idea that countries should specialize in producing goods and services that they can produce at lower relative opportunity costs. Historically, many low-income countries depended on relatively few trading partners and were specialized in commodities and primary products, largely because of their resource endowments, as the Heckscher-Ohlin model would expect.

The literature has now well established that diversification and structural transformation — continued, dynamic resource reallocation to more productive sectors and activities — is associated with economic growth, especially at the early stages of development.

The analysis presented here relies on the Classical Linear Regression Model (CLRM), with data taken from a total of 60 countries, to test the effects of export, market and output diversification on the state of gender development.

Export diversification is measured by the Herfindahl-Hirschman Product Concentration Index, whereas market diversification is measured by the Herfindahl-Hirschman Market Concentration Index.

$$H = \sum_{i=1}^{N} s_i^{\,2}$$

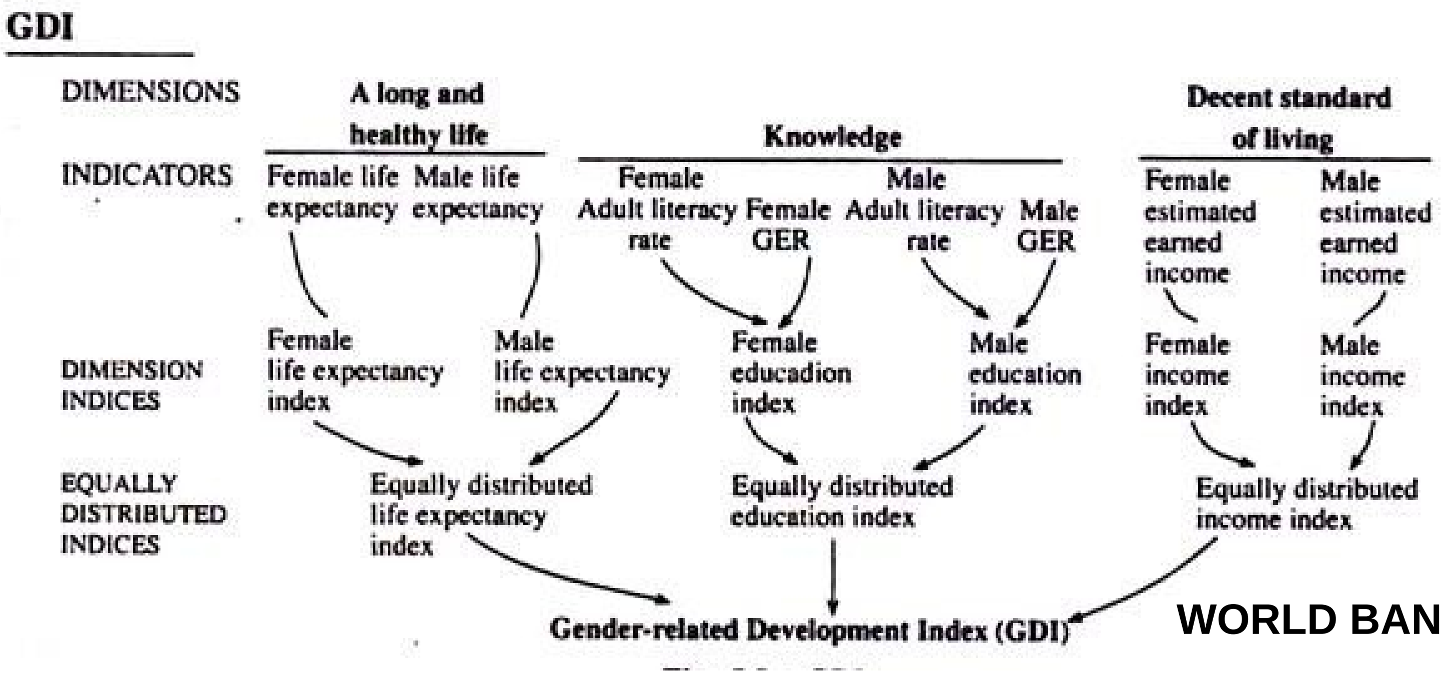
Output diversification is measured by the Economic Fitness Metric, which is an indicator of a country's diversification and the ability to produce complex goods on a globally competitive basis. The Gender Development Index has been used to measure the state of gender inequality. The data has been taken from the World Bank for the most recent year available, and the level of the Gender Development Index is taken corresponding to that particular year for each country.

These results point to the need for effective policies to counter gender discrimination in labor markets that should follow any attempts to diversify economies, including dealing firstly with the gender wage gap, so that women do not get concentrated in merely labor-intensive and export-oriented industries which rely on the cheap labor of women, and secondly with occupational segregation which causes a concentration of men and women in different industries.

However, the gender wage gap and occupational segregation are structures that are extremely hard to dismantle. This is best exemplified by the developed world, which despite having some of the highest levels of gender development indices exhibits high levels of both the wage gap between men and women, as well as the segregation of industries on the basis of gender.

A better way to 'degender' an economy by ensuring that only one gender does not benefit from economic growth or face the negative impact of global and local economic shocks is to diversify the economy in terms of products, exports and markets.

FIG: G.D.I



WORLD BANK

The results presented above hint towards a similar argument by establishing that countries that are more diversified perform better when it comes to participation of women in labor markets.Earlier theories of trade that emphasized comparative advantage and specialization failed to appreciate the gendered nature of industries.

Moreover, these theories lacked an explanation for the vulnerability that comes along with relying on a small pool of industries, especially in an increasingly globalized world with a greater degree of capital mobility.

Apart from the gender question, even empirical evidence supports the fact that the process of economic development shows a better relationship with diversification than with specialization, a finding that has been termed as the Imbs-Wacziarg result.

While economic diversification is essentially a nationally driven process since it is a function of a country's industrial and manufacturing capacity, the international community can offer assistance in creating a supportive environment for tackling supply-side constraints, providing access to a greater number of markets as well as trade finance, issues that have been cited as major barriers in the way of diversification.

This shall further not just the process of economic development, but also the cause of gender equality.

ASSESSING THE EFFECTIVENESS OF PREFERENTIAL TRADE AGREEMENTS

ROOPAL DAHIYA

The Emergence of Preferential Trade Agreements

The WTO is based on the core principle of the 'Most Favoured Nation' – the MFN principle. This in effect aims to bring equality in the imposition of tariffs or other charges by one country to the rest of the world. By liberalizing in tandem and applying all tariff reductions to all members, trade barriers should be reduced comprehensively and without favouritism. This would automatically ensure that trade is liberalized multilaterally.

However, there can be certain exceptions to this principle. Article 24 of GATT allows for cases such as the formation of a Customs Union or a Free Trade Area.

The first CU established was the European Union (EU) in 1968. Whereas the first landmark FTA that changed the path of opening up trade was the North American Free Trade Agreement (NAFTA). The EU only provides MFN status to 9 WTO members and with the rest 153, EU has its own FTAs or other PTAs.

Earlier regionalism and multilateralism moved ahead simultaneously, the Dillion Round of GATT (1960-61) "dealt with tariff concessions European members had to make to other GATT members in compensation for the formation of their customs union."

Debate about FTA vs Multilateralism

Even subsequently, EU membership expanded, bilateral agreements were being entered into and countries would address trade diversion caused by the CU within the GATT framework. However, from 1980s FTAs and CUs, RTAs more broadly started diverging from the multilateral ground. Countries preferred entering into FTAs as it gave them more control over leaving out sensitive areas and agreeing to conditions they are easily comfortable with as opposed to the multilateral framework where there is the rule of a “single undertaking” i.e. nothing is agreed to unless everything is agreed to.

By the end of the 20th century new problems were emerging such as trade in investments and services that GATT was not catering to and the countries took these discussions outside GATT in RTAs to decide on. In 1986, about 40% of global trade took place inside FTAs.

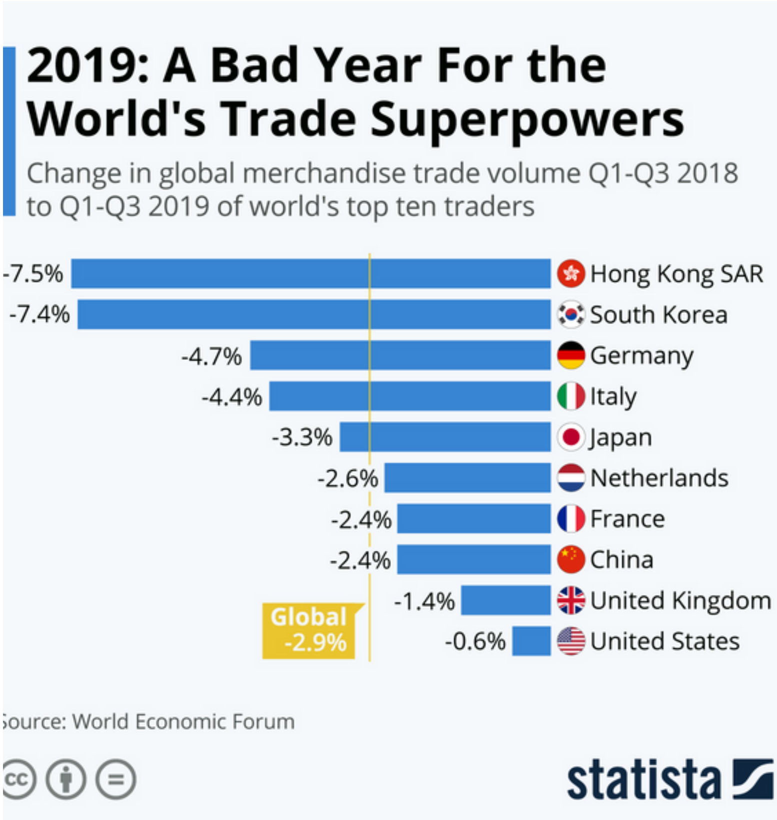


FIG: CHANGE IN TRADE VOLUME 2019

The skyrocketing numbers of RTAs from 1990s to 2000s and the failure of latest negotiation rounds of the multilateral trade organisation – the WTO – has spurred the debate about regionalism in the international trade arena.

Those who argue that it is a detour from the path of multilateral liberalisation and removes the world from achieving it would talk about the following things:

First, it has eroded the MFN principle and made preferential treatment to countries a norm. As a result, countries lack any incentive to make progress multilaterally.

Second, scarce resources and constrained time are invested in negotiating and establishing RTAs instead of multilateral talks which impede advancement under the multilateral framework.

Third, complex rules of origins, overlapping commitments and inconsistent rules across FTAs make it what is called a “spaghetti bowl” that cannot be unified and used to move forward multilaterally.On the other hand, proponents of regionalism would argue that RTAs facilitate achieving multilateral trade liberalisation in the long run.

On a basic level, FTAs boost trade significantly amongst countries, leading to increase in the size of global trade. The “Domino theory of regionalism” proposed by Richard Baldwin says that once a regional bloc is formed then the forces within a non-member country would get activated by losing their profits and the country would be influenced, by its internal forces, to incline towards joining the bloc.

Once these hitherto non-members join the bloc then the costs to present non-members increases as they face a disadvantage against a greater number of countries causing these countries to join in. Regionalism would then seem to spread like “wildfire”.

"The world is at crossroads".

There are inconclusive debates on whether regional trade agreements are the ‘building blocks’ to multilateralism or the ‘stumbling blocks.’

Looking at the South Asian Free Trade Area

This paper examines the effects of Preferential Trade Agreements through a quantitative data analysis on the South Asian Free Trade Area (SAFTA) which was signed in 2004 and came into force in 2006 between the countries comprising the South Asian Association for Regional Cooperation (SAARC) i.e. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

“Seekkuwa Hirantha also employed the gravity model, using both panel and cross-sectional data from 1996 to 2002 to estimate trade creation and trade diversion effects under the current SAFTA regime.

Hirantha found evidence of trade creation among the SAARC member countries, without any trade diversion with the rest of the world.”

We use a measure called the “Index of Economic Freedom” created by The Heritage Foundation and The Wall Street Journal.

The index score ranges from 0 to 100 with 0-49.9 indicating a ‘repressed’ country, 20-29.9 indicating a ‘mostly unfree’ country, 60-69.9 indicating a ‘moderately free’ country, 70-79.9 indicating a ‘mostly free’ country and above 80 points indicating a ‘free’ country. Within that index, the index of “Trade Freedom” indicates the freedom a country enjoys from a scale of 0 to 100 and we use these scores in our graphs to observe the effect of SAFTA, coming into force in 2006, on SAARC countries scores over a period of 24 years, from 1995 to 2019.

SAARC	Index	Rank	Classificati
Afghanistan	51.10	138	Mostly Unfi
Bangladesh	52.60	132	Mostly Unfi
Bhutan	55.20	119	Mostly Unfi
India	55.10	121	Mostly Unfi
Maldives	60.70	81	Moderatel Free
Nepal	55.00	122	Mostly Unfi
Pakistan	49.00	149	Repressec
Sri Lanka	50.40	144	Mostly Unfi

Source: heritage.org

Methodology of the Trade Freedom Index:

The trade freedom score is calculated on two parameters – trade weighted average tariffs and non-trade barriers (NTBs). Weighted average tariff uses weights of each tariff based in the share of imports for each good, it is a purely quantitative measure. Whereas, NTBs are divided into 5 possible values – 0, 5, 10, 15, 20 – indicating how extensively NTBs are used across many goods and services and/or to impede a significant amount of international trade. The calculation of the trade score is done using the following formula:

SAFTA DATA ANALYSIS

Source: Wikipedia.com

Trade Freedomi = 100(Tariffmax – Tariffi)/(Tariffmax -Tariffmin) – NTBi

The source of information for these variables are World Bank reports, World Trade Organization reports, Office of the U.S. Trade Representative, U.S. Department of Commerce, Economist Intelligence Unit, World Economic Forum reports and official government publications of each country.

We take trade freedoms of the 8 SAARC countries over the years and combine them to give an average trade freedom index for the region. We then divide the timeline into before SAFTA (before 2006) and after SAFTA (after 2006).

Trade Freedom in Developing Countries

Trade freedom scores for 62 developing countries under consideration for assistance by the U.S. Millennium Challenge Corporation:

Afghanistan	66.0	Ethiopia	60.8	Malawi	75.4	Sierra Leone	69.4
Angola	66.2	The Gambia	64.6	Mali	65.0	Solomon Islands	48.0
Bangladesh	63.6	Ghana	63.8	Micronesia	70.8	Tajikistan	75.0
Benin	49.4	Guinea	60.4	Moldova	78.0	Tanzania	67.8
Bhutan	79.4	Guinea-Bissau	49.0	Mongolia	74.0	Timor-Leste	75.0
Burkina Faso	61.8	Haiti	67.0	Morocco	78.6	Togo	63.2
Cabo Verde	68.2	Honduras	79.4	Mozambique	78.0	Tunisia	66.4
Cameroon	59.6	India	73.4	Nepal	60.4	Uganda	75.4
Central African Republic	47.2	Indonesia	80.8	Niger	61.2	Ukraine	81.2
Chad	47.2	Kenya	60.4	Nigeria	62.4	Uzbekistan	67.6
Republic of the Congo	56.8	Kiribati	23.8	Pakistan	64.8	Vanuatu	63.4
Côte d'Ivoire	69.4	Kyrgyz Republic	79.2	Papua New Guinea	79.8	Vietnam	79.6
Djibouti	49.8	Laos	82.0	Philippines	81.6	Yemen	70.0
Egypt	70.2	Lesotho	82.2	Rwanda	70.4	Zambia	72.6
El Salvador	80.8	Liberia	60.6	São Tomé and Principe	64.2		
Eswatini	88.6	Madagascar	73.6	Senegal	65.4		

SOURCE: The Heritage Foundation's *2020 Index of Economic Freedom* (forthcoming 2020).

Source: heritage.org

The graph shows a steep climb in the combined average of the region after two years of SAFTA coming into force and the climb is ever-increasing. The climb in 2008 is a 52.51% increase from 2007.

The year-on-year growth ranged from -0.65% to 8.86% for the next 8 years. In 2017, the freedom average again picked up on 19.38% increase from 2016.

The region as a whole moved from a moderately free trade environment to a mostly free trade environment.
On an average from 2007 to 2019, the region shows an average increase of 6.7% per year.

This supports the effectiveness of SAFTA as with the promised tax cuts and coverage of an all-goods market, trade freedom within the region shows a significant increase. The increase is almost always positive and the negative increase is of negligible magnitude of around 0.5%.

From 2006 onwards all countries (except the one without the availability of data) show transition towards greater trade freedom scores. Afghanistan joined SAFTA in 2011 and has moderately free trade since the point of availability of data, i.e. 2017.

Pakistan and Nepal have especially shown increases immediately after the enforcement of SAFTA in 2006, while India shows greater increases from 2009.
On using trade freedom scores just for India, we found a similar interesting trend in plotting the scores on a timeline from 1995 to 2019..Right from a severe downfall from 2005 to 2006, India's score shoots up from 24% in 2006 to 51.2% in 2007, a 113.3% increase from the previous year. India's score keeps improving year on year and it transitions from a 'moderately' free country to a 'mostly' free country in terms of international trade.

This indeed points towards the helpfulness of SAFTA in increasing trade freedom in India greatly. India's trade freedom index score went from 24% ('repressed') in 2006 to 72.4 % ('mostly free') in 2019 which is a remarkable path for any country to follow over a course of 12 years.

CONCLUSION

Our analysis of the South Asian Free Trade Area leads us to underlining the fact that **trade increases** as a result of formation of **Free Trade Areas**.

Member countries facing negligible tariffs become competitors to hitherto non-members which now face relatively higher taxes.

A country's extent of expansion of trade post entering an FTA depends on their product mix. However, intuitively it can be noted that FTAs work better with the gravity model where distance between countries is taken as an important factor.

The effectiveness of FTA in increasing trade is noted while keeping all other factors constant such as political tensions, availability of desired goods. It is known, especially in the case of SAARC, how political tensions can lead to turns in trade. Also, individual countries' trade will be influenced by what products they desire – capital goods, military goods, high-technology goods – and countries with comparative advantage in these goods will have an upper hand over members of the FTAs in case of an unavailability of such goods in FTAs.

INDIAN YOUTH TO REALISE THEIR POTENTIAL IN THE DIGITAL ERA?

DR.CHAVI ASRANI

Are India's Massive Skilling Programs Consenting the Indian Youth to realise their potential in the digital era?

Probing data concerning increased job creation and the decline in unemployment has been holding the attention of economists and been subject of discussions in several think tanks in the preceding months. NITI Aayog reports that 3.53 million new jobs were created during September 2017 and February 2018 and 7 million(73,50,786) people could have been added to the payroll in fiscal 2018. These numbers are based on the data of Employees' Provident Fund Organisation (EPFO) and Pension Fund Regulatory Development Authority (PFRDA).

Experts have been examining the real job market situation vis-à-vis the above numbers. Many regard it is the formal sector which has witnessed the growth, and overall unemployment scenario is still dismal.

Even while economists have taken a contrary stance on the data published by EPFO, there are unsettled questions connected with these fresh employment opportunities.

These questions include: Is the growth in job creation leading to skill development? If substantial formal jobs are created are these opportunities sustainable? Do the new employment offerings result in wage premium? If the response to the above questions is affirmative, it hints there is a sizeable overhaul social security that India’s job market is allowing.

Response to these inquiries depends on the vibrancy and the growth of the services sector. Since the 1990s the share of agriculture sector in India’s GDP has weakened from about 30% (26.9% in 1990) to now about 17% (15.62% in 2017) in 2017-18, while that of the services sector has progressed from about 45% (42.5% in 1990) to 60% (48.45% in 2017) during the same period.

While most of the workforce has shifted from the agricultural sector to the service industry, two fundamental points demand attention, while assessing the growth of the services sector. One, most jobs in this sector demand skills of some sort which was not there in agriculture and; the agriculture sector had the indulgence of disguised unemployment which is absent in the services sector.

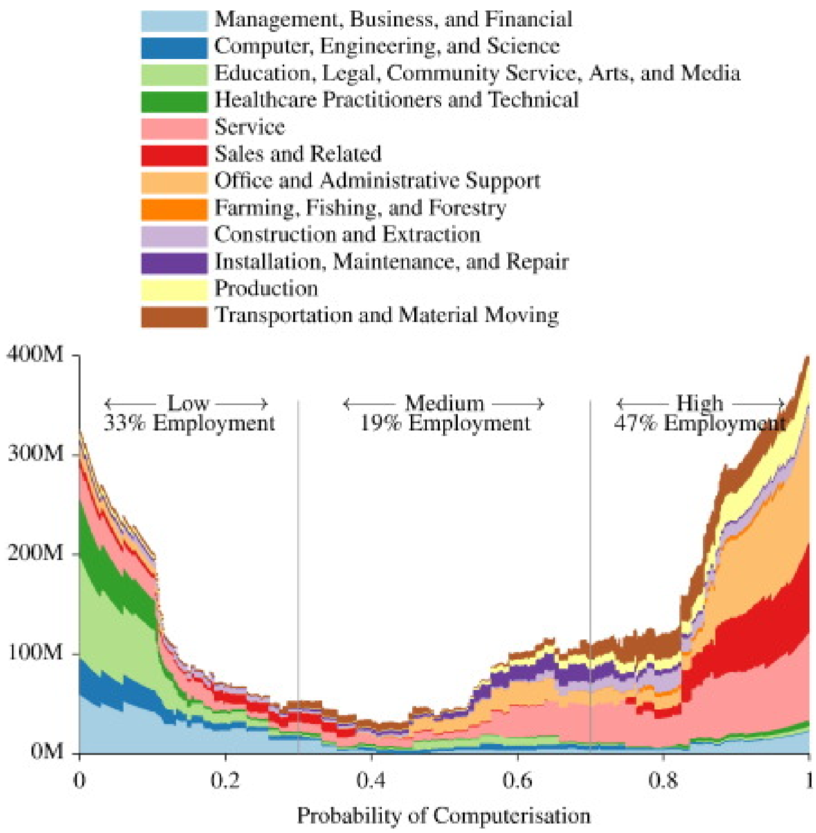
So in today’s services led Indian economy, each member of a family have to account for his/her skills. On the positive front, each member earns for his/her ability, and those with better skills will command a wage premium.

These structural changes of the Indian economy have led to alterations in the task content of jobs, and therefore there is a concern around skill creation. Shortage of skilled workforce is something India has lived with several decades.

With the advent of the fourth industrial revolution, concerns are foremost for the prospects of employment and intensifying income inequalities. The InformationCommunications Technology (ICT) revolution has obliged the wage payouts of skilled worker vis-à-vis unskilled workers globally.

A study by Carl Frey and Michael Osborne in 2017,“The future of employment: How susceptible are jobs to computerisation” evidences that over the next two decades 47% of the US workers are at risk of automation. World Bank’s, "World Development Report, 2016" also observe that 57% of jobs in the Organisation for Economic Co-operation and Development countries could be automated over the next two decades.

Source: wto.org



However, Asian Development Bank's, "Asia Development Outlook 2018" report reveals that while there exists growing anxiety that technological progression could lead to extensive job loss, there is optimism about developing Asia's job outlook. The report explains that rising domestic demand in these economies could offset job displacement driven by automation. Further, technological advances copulated with economic growth would generate brand-new jobs and industries.

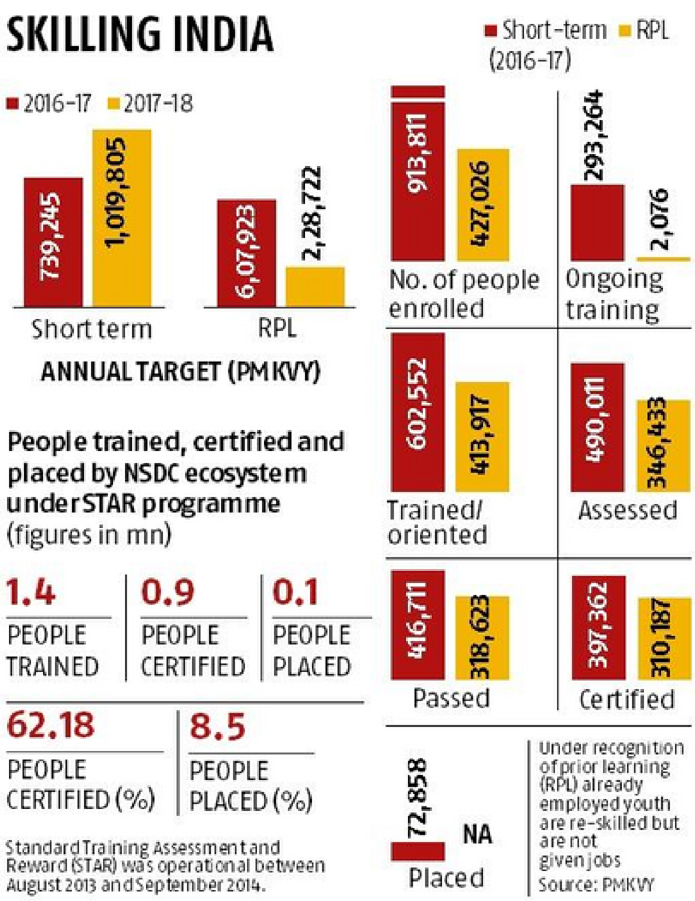
Various new professions have come up in the ICT sector, and new careers shall arise in health care, education, finance, insurance, real estate, and other business services. Nonetheless, technological headway has altered the workforce's skills requirement, which may instigate joblessness as some firms downscale or close. Thus the key to deal with the technologically induced changes is primarily through upskilling.

A recent study by Indian Council for Research on International Economic Relations titled, "Changing Task Contents of Jobs in India: Implications and way forward" confirms that in line with the worldwide trend, non-routine cognitive analytical and interactive task intensity of jobs has augmented in India, whereas manual task intensities have weakened. However, unlike in the US and Europe, the routine cognitive tasks have not decreased in India.

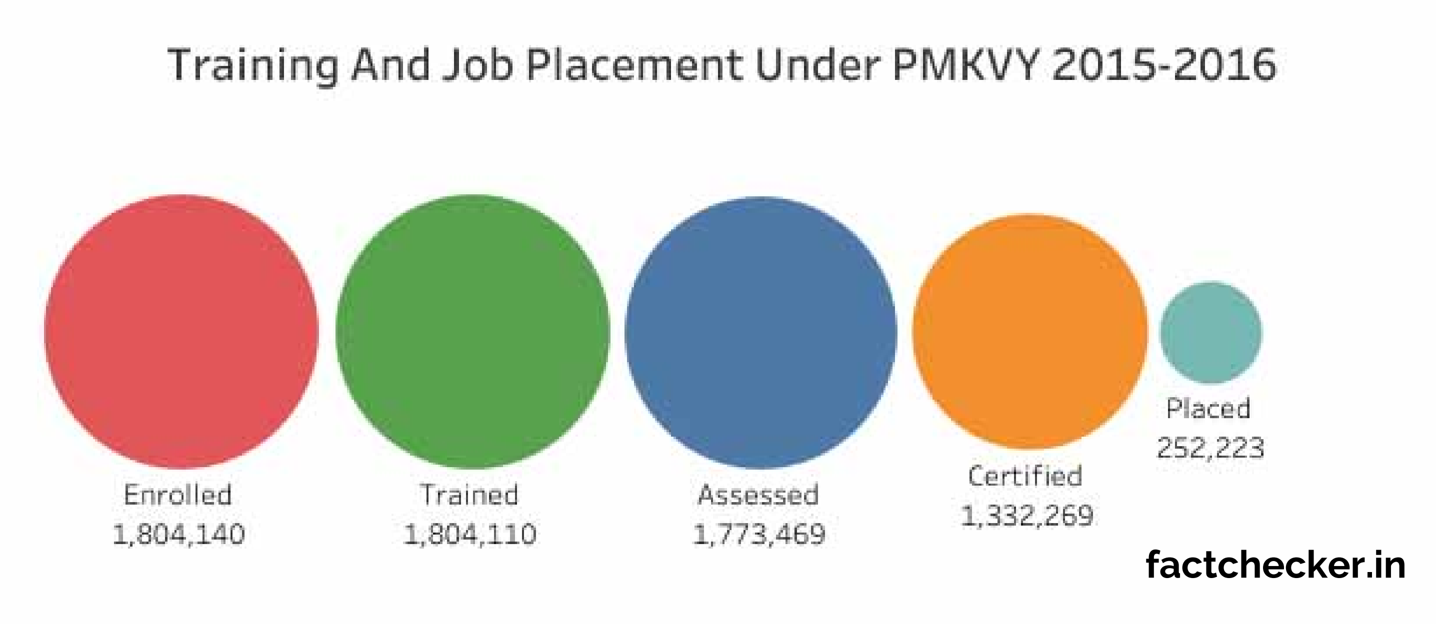
The analysis records that technology is the primary factor that led to the increase of non-routine cognitive analytical and interactive functions in India whereas structural change and alteration in the labour supply shaped the manual task content.

To secure the potential of the demographic advantage (median age in India currently is about 28 years), India needs to ensure that its workforce is aptly skilled. Further, even though human capital is not transferable by nature, it inevitably spills over via knowledge and information sharing and also passes over generations. Fortunately, these kinds of jobs are flooding the Indian market, which can be taken advantage of.

To get the much out of India's job-seeking youth, the Indian Government had established the National Skill Development Corporation (NSDC) in 2010. The private-public joint venture aimed at upgrading skills of youth including school dropouts through various training schemes and programs. NSDC's flagship programme Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was a novel scheme launched in 2015.



Source: PMKVY



Although the placement was low initially, PMKVY II launched in 2016 aims to skill one crore Indian youth by 2020, with an outlay of INR 12,000 crores. According to NSDC data between November 2016 and February 2018, over 13 lakh candidates have been certified under the Yojana's Short Term Trainings Programs and Special Projects.

Under the third component of the scheme, Recognition of Prior Learning (RPL), targeted to those with prior work experience and who require up-skilling and certification for better prospects, over 4.5 lakh (now more than 6 lakhs) candidates were certified till February 2018.

Further, besides providing training according to the National Skills Qualification Framework, the PMKVY also focusses on developing soft skills, entrepreneurial traits, and enhancing financial and digital literacy.

The need to introduce the skilling programmes in India has been the failure of the formal education system. Pratham foundation's Annual Status of Education Report (ASER) since 2005 has been writing about India's schooling status.

Time and again the report has emphasised the weakness of the Indian education system.

ASER documents that although over 95 % of children are enrolled in school, they are not acquiring the foundational skills that could enable them to propel themselves forward.

The report finds that in 2014-15 only 44% of grade VII students could solve a grade IV level division problem and about 75% of class VII students could read grade II level text. 56% of grade VIII students can't do basic maths according to a 2019 report India Today.

Although the most prominent skill India scheme PMKVY is a step in the right direction, it is not directed towards cognitive skill formation and thus, cannot be a substitute for formal education given at various levels.

But in the intervening period, it's a welcome fix from getting the youth disillusioned and keeping them workforce. Strengthening the Indian education system is crucial if India is to realise its potential growth amidst the destructive technological advancements.

Programs like PMKVY cannot be substituted for the weak education system if India aims to harness the full potential of its demographics and the ICT revolution. This returns attention to our three questions on whether adequate skills have been acquired, whether such jobs can be sustained resulting in social security and if the people with skills are getting a wage premium. On the surface of it PMKVY, with its several features, appears to be echoing these inquiries. In real answers to such questions are complicated and not straightforward. However, if these answers are not attained the objective of such training programmes are only half met.

Observing the socio-economic outcomes for those who have undergone training under PMKVY and comparing it with youth who were not a part of the training program, shall allow evaluating the real cost and benefit of the skilling program.

Further, while the yojana envisages providing job placement, it is also critical to ensure retention of trained youth in the labour force to ensure that the programme is effective.

Meanwhile, to ensure that the PMKVY 2016-2020 delivers tangible results NSDC has been organizing Rozgar Melas (job fairs) across districts, to provide a platform for employers and employees to interact. Till May 2018 PMKVY connected the job candidates to over 7000 employers via about 800 Rozgar melas, which included wide-ranging industries—from e-commerce to manufacturing. SROI can help NSDC and the Ministry of Skill Development revisit their curriculum if need be.

The Ministry of Statistical Implementation and Planning’s report “Youth in India 2017”, claims that PMKVY has the potential to increase India’s skilled labour force, which in turn can directly lift the overall quality of life of about 35% of the population. However, an independent socio-economic impact valuation of the training program, would enable to assess the effectiveness and sustainability.

Currently under the Yojana, the skilled candidates are tracked for three months, however tracing the candidates trained under the scheme for a more extended period post the PMKVY training is requisite to help understand the effectiveness of the yojana better.

NET EXPORTS

SHRUTI YADAV

INTRODUCTION

Net exports are calculated by subtracting the value of total imports from total exports and they are the fourth component of Gross Domestic Product (GDP). The calculation is done because in case of imports, the goods are bought and shipped from other countries and not produced in the country for which the GDP is being calculated for. GDP is the total value of goods and services produced within the boundaries of the country. However, these goods are accounted for in consumption when they are purchased by the citizens of the country for trade and domestic purposes.

Net exports are also known as Balance of Trade (BOT) and can be used interchangeably. BOT measures the relative strength of a country's economy as it tells us about the difference between the value of exports and imports. A positive value of net exports means the value of exports is higher than the value of imports and in such a condition, a country has a trade surplus.

PERFORMANCE OF FOREIGN TRADE SECTOR IN INDIA

The variation in the performance of exports and imports before the scope of this research are discussed in this section. From the years 2000 to 2008, the growth of exports was almost fixed and positive, that is more than 20% every year with the exception of year 2001-02.

Table 27.6. The Performance of Foreign Trade Sector

	Annual Percentage Change		*As a percentage of GDP_{MP}*		
Year	Exports	Imports	Trade Balance	Invisibles (net) as%	Current account balance
1990-91	9.0	14.4	–3.0	–0.1	–3.1
1991-92	–1.5	–19.4	–1.0	0.6	–0.3
1992-93	3.8	12.7	–2.3	0.6	–1.7
1993-94	20.0	6.5	–1.5	1.1	–0.4
1994-95	18.4	23.0	–2.8	1.8	–1.0
1995-96	20.8	28.0	–3.1	1.6	–1.7
1996-97	5.3	6.7	–3.8	2.7	–1.2
1997-98	4.6	6.0	–3.8	2.4	–1.4
1998-99	–5.1	2.2	–3.2	2.2	–1.0
1999-2000	10.8	17.2	–4.0	2.9	–1.1
2000-2001	21.1	4.6	–2.7	2.1	–0.6
2001-2002	–1.6	–2.8	–2.4	3.1	+0.7
2002-2003	20.3	19.4	–2.1	3.4	+1.3
2003-2004	21.1	27.3	–2.3	4.6	+2.3
2004-2005	30.8	42.7	– 4.8	4.5	– 0.4
2005-2006	23.4	33.8	– 6.4	5.2	– 1.2
2006-2007	22.6	24.5	–6.8	5.7	–1.0
2007-2008	29.0	35.5	–7.8	6.3	–1.3
2008-2009	13.6	26.7	–12.0	7.8	–2.4
2009-2010	–3.5	–6.0	–8.7	5.9	–2.8
2010-2011	40.5	28.2	7.4	4.6	–2.8
2011-12	21.3	32.3	–10.1	6.0	–4.2
2012-13	–1.8	0.4	–10.8	–	–4.8

The reason for decline in 2001-02 was because of the global uncertainty due to 9/11 terrorist attacks due to which both the growth rates of imports and exports became negative but they also got back on track in subsequent year.

In 2008-09, there was a fall in both exports and imports, the reason being the Global Financial Crisis due to which India became more trade deficit than it has been in the past many years.

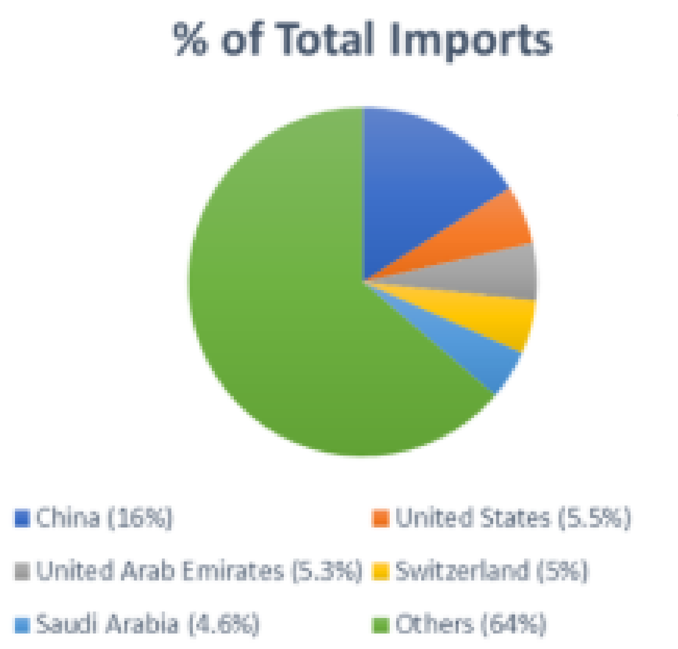
The negative growth rate of the succeeding year was just the aftermath of the recession in the previous year.

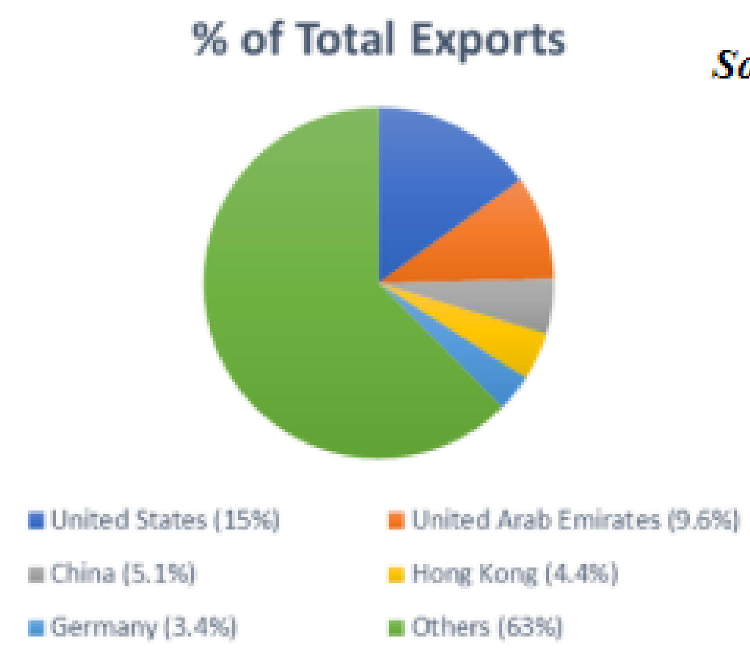
In 2010-11, however, the growth in exports was over 40% and it was the first time that the exports were so high after the country got its independence. That was also the only time in which the trade balance of the country was positive and India also became the third largest economy during that time.

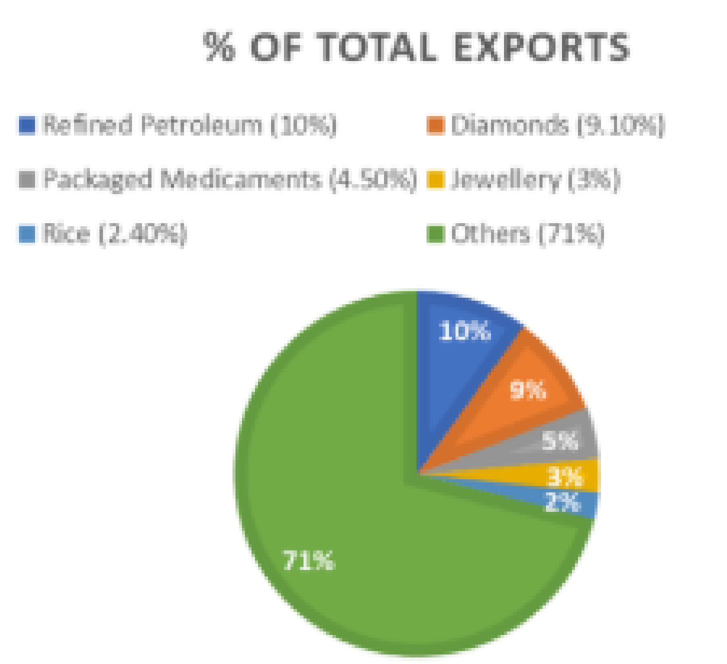
It was only possible due to measures taken by the government to aid exports. The trend of the country's exports shows a strong correspondence with the world exports throughout the 21st century.

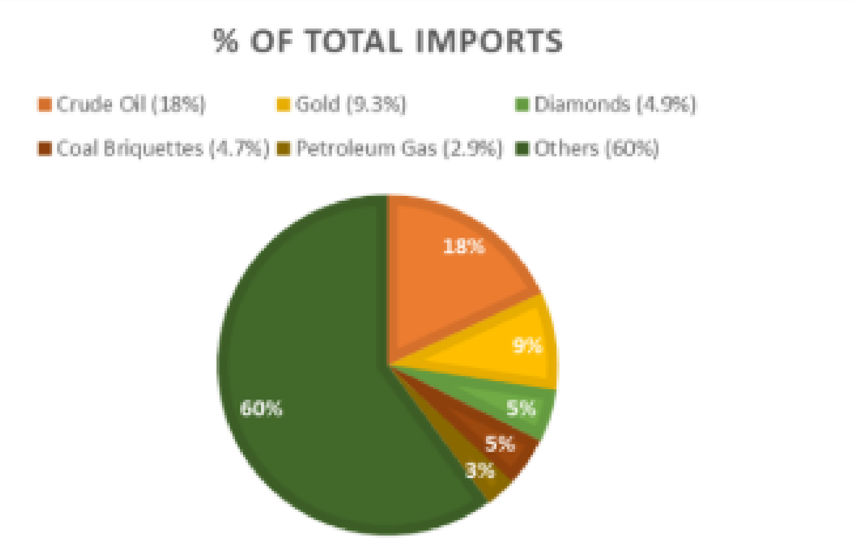
COUNTRIES AND COMMODITIES OF SIGNIFICANCE

India is the 17th largest exporter and 11th largest importer of the world. The top origin of imports is China and the USA comes next, followed by UAE while the top destination of export is the USA, followed by UAE and China. It can be concluded that the goods and services go back and forth from these countries to India.



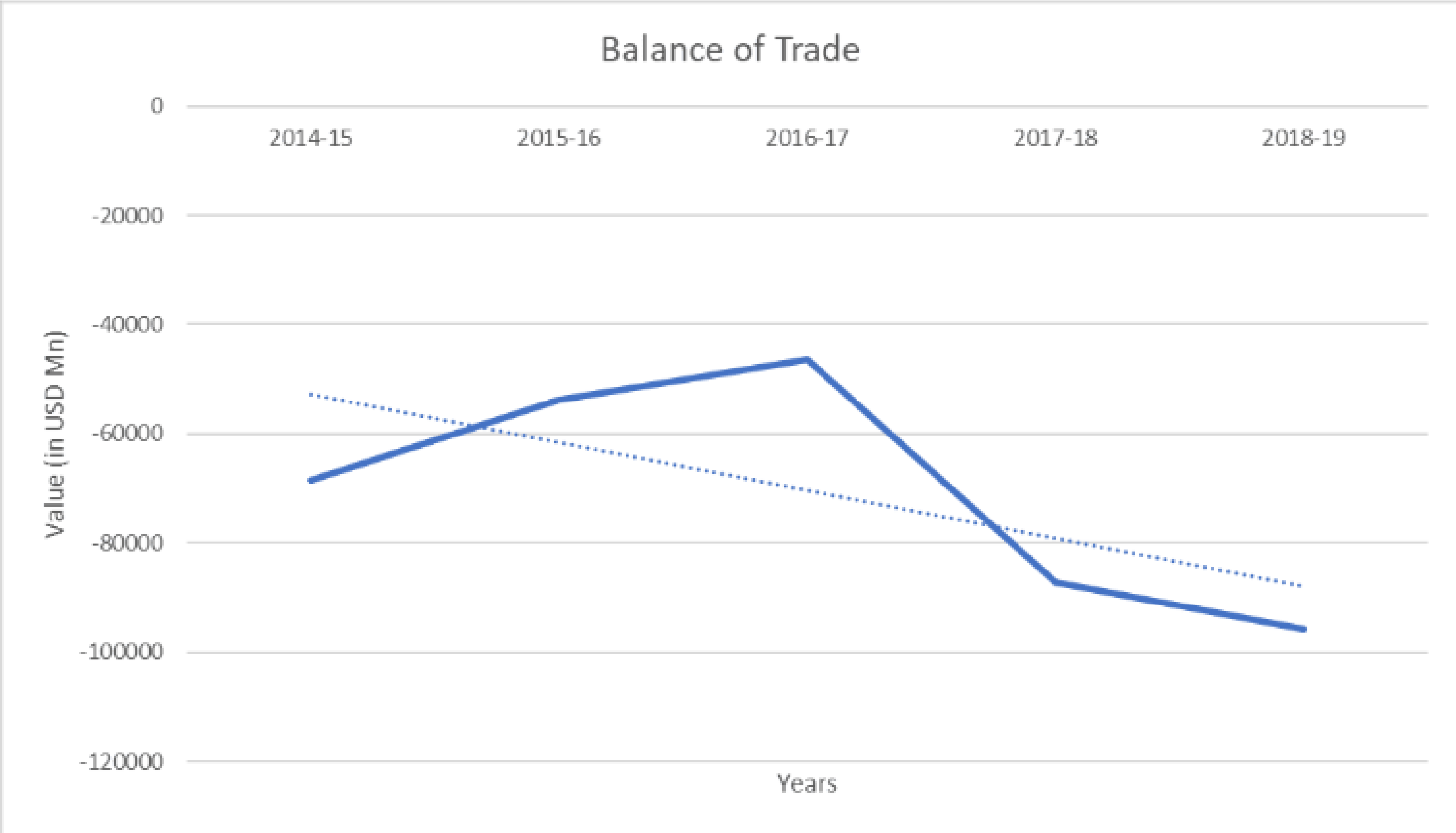






Source: Observatory of Economic Complexity

The main commodities that are exported by the country are refined petroleum and diamonds, followed by packaged medicines and jewellery. The main import commodity is crude oil followed by gold and diamond. Oil in general is a very significant commodity of trade so mercantile trade is divided into oil and non-oil imports and exports respectively.



Source: Press Information Bureau, Govt. of India

NET EXPORTS 2014 - 19

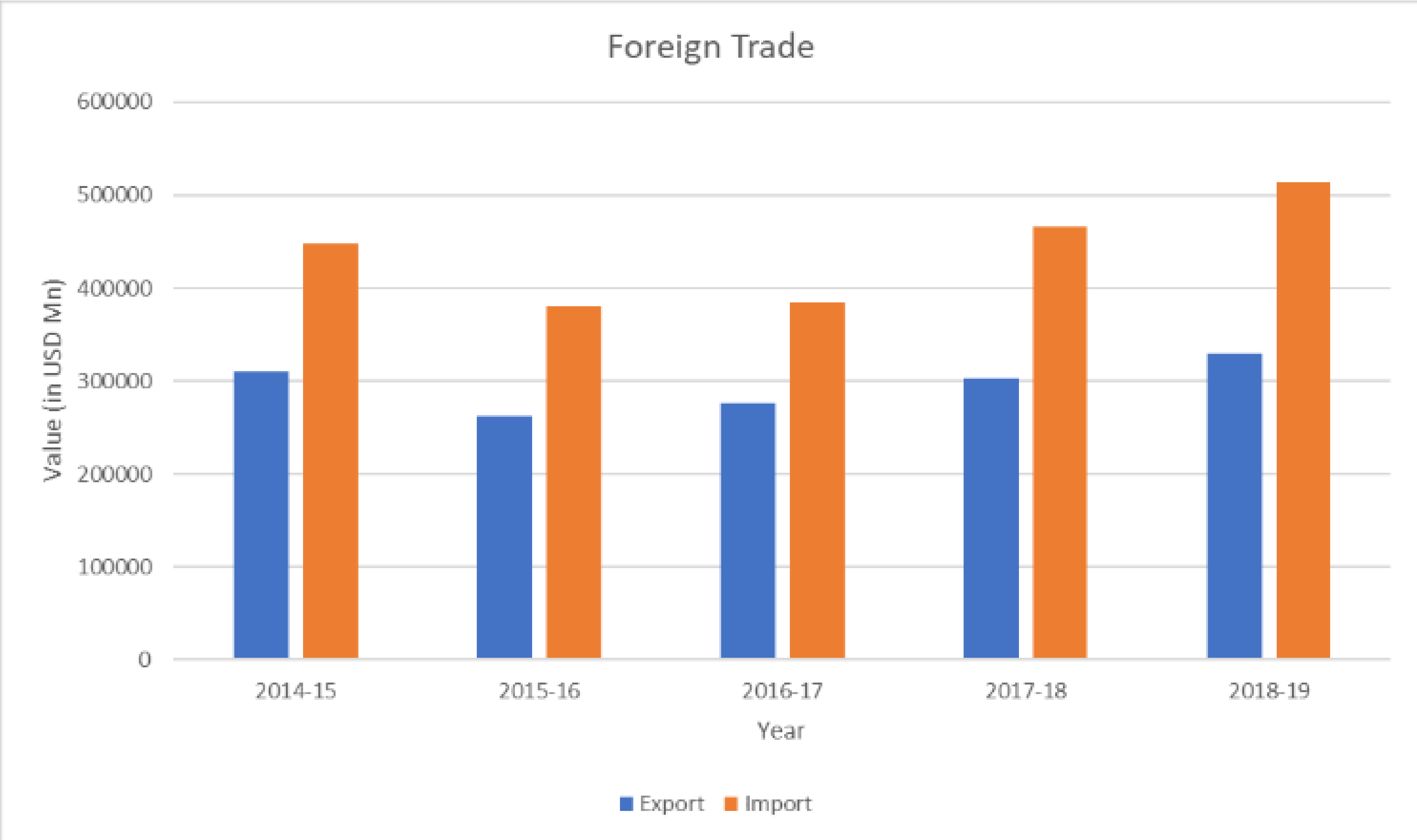
India is exporting much less than it is importing. Trade deficit was decreasing at a steady rate till 2016-17 but it rose again in 2017. One of the major events that happened during that time was demonetisation of ₹500 and ₹1000 bills and introduction of new ₹500 and ₹2000 bills. It came in place in November 2016 and the step was taken to curb corruption.

The trade deficit had been constantly decreasing until 2016-17 and in that period, the exports that had been declining from the last five year grew by over 4% even with the reduction in domestic economic activity post demonetisation. The commodities that played a major role in this were the export of petroleum, textiles, engineering goods,gems and jewellery.

There was also a **rise in imports** during this period due to higher gold imports and many economists believed that such a spike was unsustainable.

We analyse the trends of exports and imports separately now and try to figure out what are the possible causes of the sudden upsurge in trade deficit in 2017-18. From the bar graph, it is evident that the rise in imports was much more than the rise in exports from year 2016-17 to 2017-18. The exports have been rising at a very steady rate after 2016-17 but the growth rate of imports varies.

The increase in imports in 2018-19 was much lower than that in 2017-18. It must not be forgotten that net exports or trade balance increased in 2017-18 because the difference between exports and imports is more negative than it was in 2016-17.There is a possibility that due to liquidity crunch the cost of domestic production spiked and became higher than that of importing the goods.



***Source:* RBI Handbook of Economic Statistics 2019**

In 2017-18, the exports rose by almost 10% whereas the imports rose by twice the growth rate of exports. It is even more concerning that during this period, the overall world trade grew at the rate of 4.4% and India, because of its sluggish exports, was lacking behind when major economies of the world were showing steady growth.

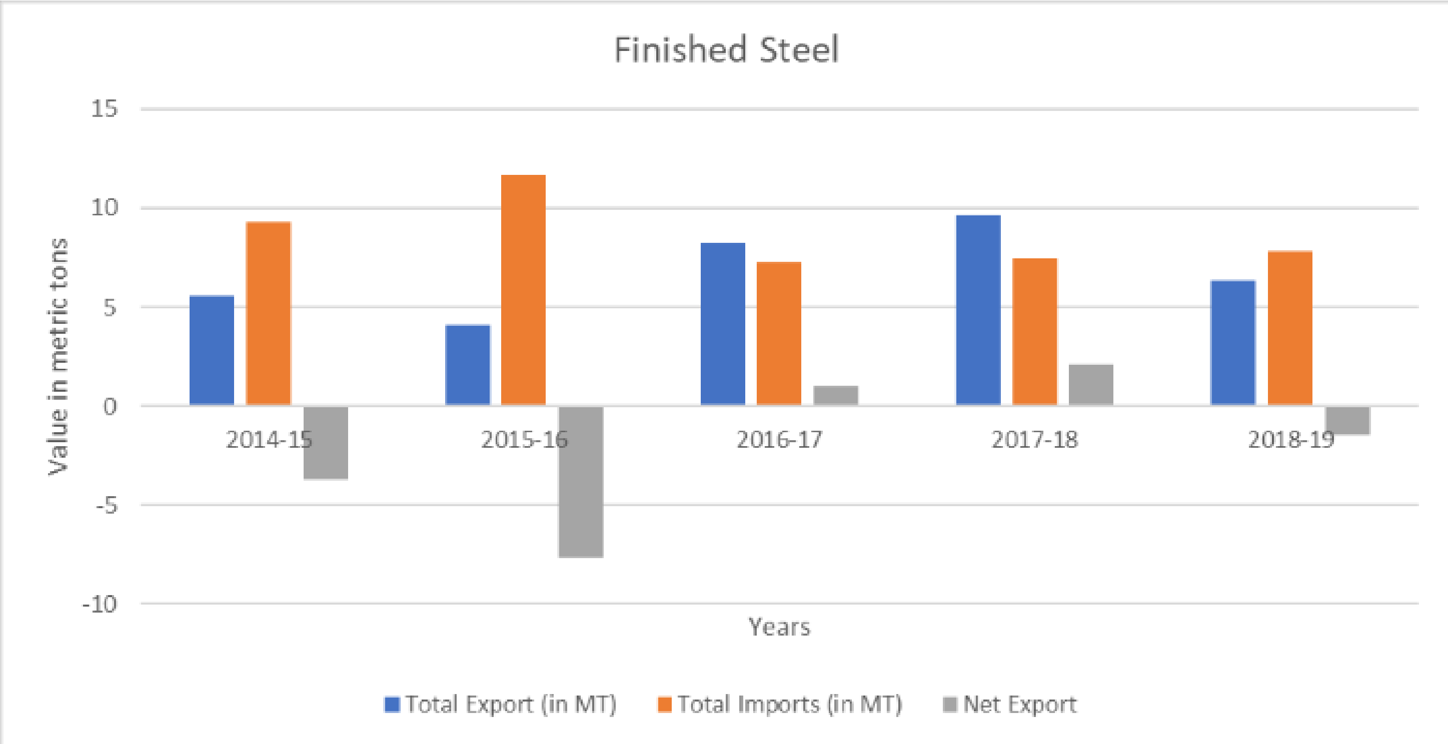
It was found that GST (Goods and Services Tax) and delayed refunds under new tax policy were the main cause of widening of trade deficit. The commodities that showed very high rise in imports were fertilisers, crude oil, metalliferous ores and minerals. The imports of gold declined. Overall, only 60% of major product groups showed positive growth.

Exports reached an all time high in 2018-19 and strong performance in pharmaceutical, petroleum engineering industries are the ones that led to this.

Service sector has also done well as service exports account for almost 40% of the total exports. The traditional commodities of trade that didn't perform so well, however, were gems and jewellery, farms and engineering and the main obstacles for exports was liquidity crunch due to implementation of GST and global factors.

Oil makes up a huge portion of India's foreign trade and so the data of oil trade is very similar to that of the overall trade, with a rise in trade deficit in year 2017-18. The global oil prices have played a major role in the higher overall trade deficit because India is both a substantial exporter and importer of oil. The global prices of oil are directly related to how much India imports, so if there's a fall in price, there's also a fall in oil imports and vice versa. Hence, it is safe to say that the oil trade deficit is driven by global factors more than the domestic factors in play.

Steel Trade



Source: Joint Plant Committee; *prov. Ministry of Steel

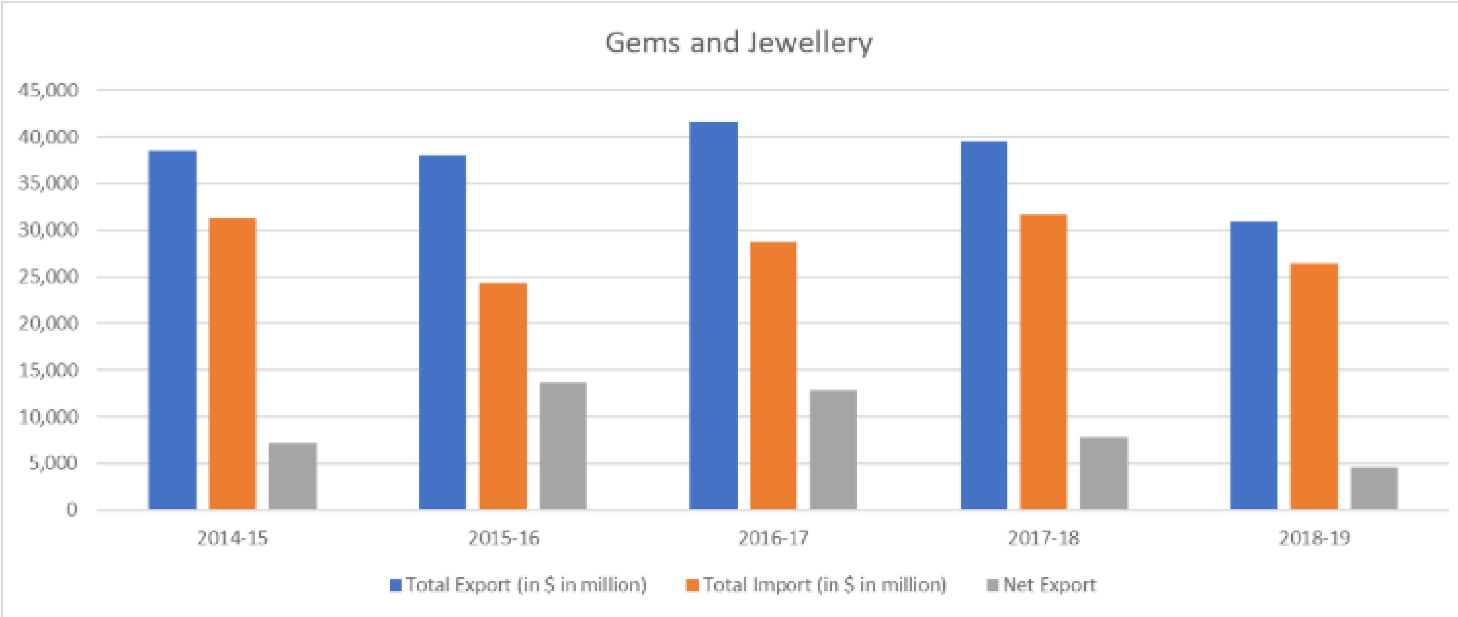
As you can see in the figure above (Fig. x.7), it is clear that the trend of steel trade is very different from that of oil and overall trade. There was a huge trade deficit in 2015-16 but the industry was able to cope up with it in the subsequent year. The fluctuations in exports is much more than in exports.In 2014-15, the imports rose by 71% and the period witnessed the highest amount of steel imported in the past 5 years.

The reason for this spike was the higher cost of domestic production of steel. The global price of the iron ore fell during this period but it didn't have much effect on the local market and it also contributed to higher cost of production. The exports dipped as there was only little increase in the production and consumption of finished steel in turn.It was found that GST (Goods and Services Tax) and delayed refunds under new tax policy were the main cause of widening of trade deficit.

The commodities that showed very high rise in imports were fertilisers, crude oil, metalliferous ores and minerals. The imports of gold declined. Overall, only 60% of major product groups showed positive growth.

2015-16 saw a huge trade deficit owing to the rise in imports due to two reasons. Firstly, prices of Chinese steel fell and India was also enjoying the exemption from import duty when it imported from the country which was not the case with other Asian countries such as Japan and South Korea. The price of Chinese steel was even lower than domestic steel. Secondly, Russia was going through the Russian Financial Crisis during this period because of which the prices of Russian and Ukrainian steel fell too.Both these reasons made Indian companies like Tata and SAIL lose their market share.

Gems and Jewellery trade



Source: GJEPC, Ministry of Commerce and Industry

Performance of Indian steel industry got better over the subsequent year 2016-17 and 2017-18 as it was able to maintain a trade surplus in both these years. It was able to keep its exports higher than imports and even the production and consumption of finished steel improved. The imports were maintained at a constant value from 2016 to 2019 but there was variation in exports in all three periods, dipping largely in 2018-19 despite the efforts of the government to remain the net importer of steel.

Foreign trade of gems and jewellery has been in surplus throughout the year 2014-2019. There have been variations in both exports and imports of all periods and the trade surplus too significantly increased in 2015-16 which was also the highest it had reached in the 5 periods. The reason for the high surplus was a fall in imports as evident from Fig, x.8. In 2018-19, both imports and exports fell significantly, leading to the lowest surplus in the last 5 year.

There has been a slight decline in exports in 2015-16, the reason being sluggish demand in many parts of the world like Europe, China and Japan and higher prices of rough diamonds. The import of rough diamonds has also declined for the first time due to low demand. The decline in international demand has led to build up of inventory. The gradual rise in demand of the USA has helped in narrowing the gap.

India was losing to China during this period due to lack of job work policy which drove many international diamond manufacturers to send their raw material to China, even when the labour was 20% more expensive than India.

Imports have been steadily rising from 2016 to 2018 as it can be seen in Fig. x.8. The reason for the sharp decline in exports in 2018-19 is slowdown in demand of major developed countries.

ENVIRONMENTAL KUZNETS CURVE

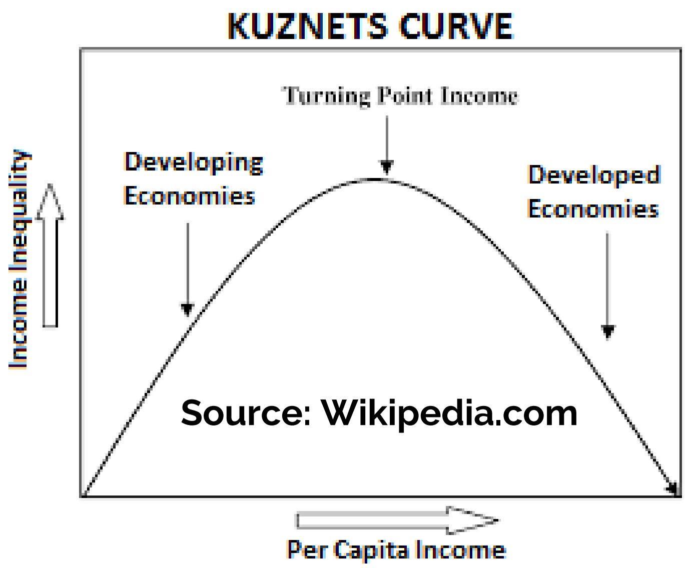
SARTHAK KWATRA

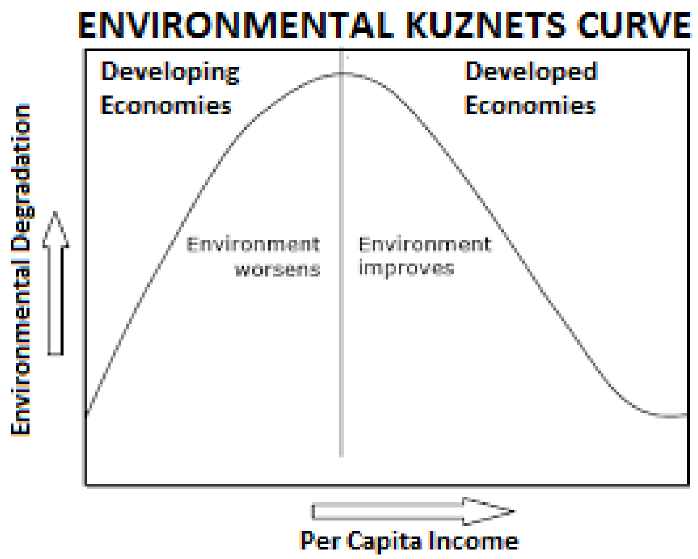
INTRODUCTION

Gene M. Grossman & Alan B. Krueger, in their paper titled Economic Growth and the Environment, established an environmental-economic fundamental, as well as what has been called a precarious justification for inexorable economic-growth.

The Environmental Kuznets Curve (EKC) is a hypothesized relationship between various indicators of environmental degradation and income per capita, which is the average income earned per-person.

In the early stages of economic growth, degradation and pollution increase, but beyond some level of income per capita, which will vary for different indicators, the trend reverses, so that at high-income levels, economic growth leads to environmental improvement.





Grossman and Krueger's parameters of environmental degradation were admittedly circumscribed due to the unavailability of data. They encompassed concentrations of urban air pollution; measures of the state of the oxygen regime in river basins; concentrations of fecal contaminants in river basins; and concentrations of heavy metals in river basins.

The Environmental Kuznets Curve relationship seems air-tight to the naked eye, but Grossman and Krueger's careful caveats posed flaws identical to the Kuznets Curve itself.

As beguiling as the idea of 'Use Energy, Get Rich and Save the Planet' was, this relationship could merely be condensed to a customarily - cited statistical phrase correlation does not imply causation.

That is to say, any number of conditionals could have suggested environmental improvement instead of increased income per capita, ncluding stricter laws and regulations, and cleaner fuels, among others.

Any relation that's tying any variable against an averaged, representative income will inevitably have starkly varying inferences for Developed Countries (DCs) as against Less Developed Countries (LDCs). Ergo, the Environmental Kuznets Curve yields independent and varying levels of income for Developed Countries and Less Developed Countries post which 'the growth will clean-up after itself.'

Cole and Neumayer's article (2015) although, while presupposing the Environmental Kuznets Curve relationship to be the best-case scenario, skepticize the sustainability of these income measures for Less Developed Countries.

They contextualize the correlation (for a range of pollutants) in Africa and India, among one of three regional groups, projecting no change in the EKC's curvature till 2100 and 2030, respectively. As a consequence of these findings, they credit that the estimated turning points may be overly optimistic, and it may be questionable whether LDCs will be able to reduce emissions to the same extent as the DCs.

This is a premise where trusting that growth would eventually lead us to a similar peak and decline - it would require the resource of at least three planet Earths.

If we sift through what we have gathered so far, the Environmental Kuznets Curves' accompaniment of inexorable growth, does not appear to be an executable solution.

These circumstances, however, seem less severe when Environmental Kuznets Curves are studied with Environmental Engel Curves (EECs) facilitating the backdrop.

Environmental Engel curves show the relationship between households' incomes and the amount of pollution embodied in the goods and services they consume Levinson and O'Brien's Environmental Engel Curves (2015) accredits an estimated quarter of the United States' pollution changes, for particulate matter less than ten microns (PM10), for the year 1984 against 2002, to the people's consumption of a combination of less pollution-intensive goods. These amends in the consumption pattern, illustrated by movement along an Environmental Engel Curve, represent the innate preferences ofwealthier households towards a less-pollutive mix of goods and services.

More notably, Environmental Engel Curves (2015), accredits a significant proportion of the pollution reduction to changing industrial production technologies. Quite intriguingly, it also corroborates Levinson's prior working-paper Technology, International Trade, and Pollution from US Manufacturing (2008), in its claim for this particular causation.

Manufacturing emissions, Levinson elicits, of the four common air pollutants examined, declined 25 percent collectively from 1987 to 2001, despite a 24 percent increase in manufacturing output. EECs, therefore, deem some degree of causation to EKCs, which had been the latter's primary criticism.

David Pilling's masterpiece, a book titled The Growth Delusion (2018), advocates for the folly of growth at all junctures, except one. Pilling records the towering ability of growth that is immediately transformative for the poor.

In Black Power, Green Power, while elucidating China's growth, he cites a report arguing that, 'Beijing has become a green energy juggernaut after designing renewables as a strategic industry.

China has more than a third of the world's wind capacity; a quarter of it's solar power; six of the top ten solar-panel makers; four of the top ten wind-turbine makers and more battery-only electric car sales last year than the rest of the world combined'.

Growth or the income per capita increase that is sustainable and conducive to improved production technology, may composite a piece, and not the whole, of a solution forpollution through environmental improvement, after all.

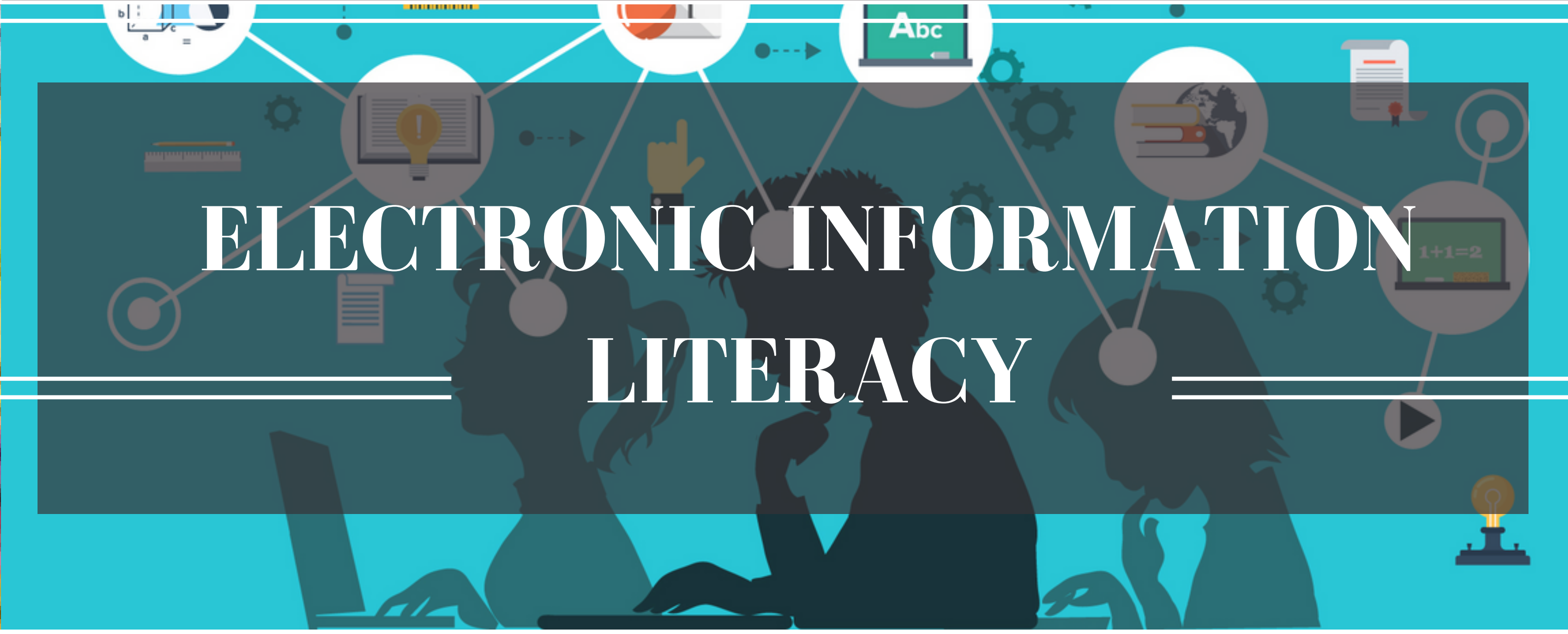
If this growth is married to Muhammed Yunus' paradigm of Social Businesses (YSBs), we have puzzled together a makeshift solution.

A Social Business, as Yunus addresses it, is a hybrid self-sustaining, yet socially-oriented non-loss, non-dividend company.

In this experimental business model, free from donor-dependence and investor-pressure, work towards solving social problems, Energy and Environment, in this case, thrives. It generates income employing low-income families and contributes - environmental improvement; the best of both worlds, if you may.

This facilitates an improved income per capita, along with all profits from Social Businesses circle back into the business. Take, for instance, Waste Ventures India in Yunus Social Businesses' recent Action Report that formalized a market for waste streams, all while providing high incomes to waste pickers. Quite similarly, in Brazil, Instituto Muda picks up recycled waste from high-income condos and donates it to waste recycling cooperatives. They employ low-income families, formerly homeless, and former drug addicts at the cooperatives .

Growth can be robust, provided its sustainable and not inordinate, attainment. When it facilitates technological improvements or stems from socially-oriented businesses, it tends to quite roughly mimic the essence of the Environmental Kuznets Curve; an increase in income, creating a drop in pollution. Conclusively, somewhere allying Grossman and Krueger's Environmental Kuznets Curve and Muhammad Yunus' Social Business, is the settlement between income per-capita and environmental degradation.



ELECTRONIC INFORMATION LITERACY

ANUSHI CHAUHAN

INTRODUCTION

Digital Literacy! It sounds simple and easy to decode. But guess what? It is a bag full of new concepts and development which is limitless to explore. Let's dive in.

According to the **American Library Association (ALA)**- digital literacy is "the ability to use information and communication technologies to find, evaluate, create, and communicate information, requiring both cognitive and technical skills."

DIGITAL LITERACY

Digital literacy cannot be defined in a specific form as it is a relative concept. To be digitally literate has different meanings in various parts of the world.

The concept of digital literacy is a myriad of literacies, for example – computer literacy, cultural literacy, information literacy, print literacy, workplace literacy, alphabet literacy, network literacy, media literacy, agricultural literacy, geographical literacy, legal literacy, empowering literacy, scientific literacy

These **"multiplicities of literacy"** are used to indicate either the presence of the more than rudimentary knowledge in a particular knowledge domain or a level of competence or maybe an indication of the user's particular position on literacy promotion.

TIME - LINE

This article is focused on the “evolution of computer literacy” also known as “information technology” or “electronic information literacy.”

Computer literacy is a skill-based literacy and refers to the amalgamation of practical knowledge and technical skills required for work and indeed daily living or in other words, “development of skills to use technology”. This is a subset of digital literacy.

In 1983, computer literacy was widely defined as “whatever a person needs to be able to do with computers and know about computers in order to function in an information-based society.

”In 1985, “the compendium of knowledge and skills which ordinary educated people need to have about computers in order to function effectively at work and in their private lives” was considered electronic information literacy.

In 1989, according to Tuckett, computer literacy had three components: a general understanding of what computers can do; the skills necessary to use them as an effective tool and the demonstration of self-reliance in the use of computers.

In 1991, computer literacy was recognized as an important literacy for information and library literacy workers.

In 1994, computer literacy was considered “anything from the ability to do word processing to fluency with network applications”.

In 1996, computer literacy was considered to be based upon seven dimensions, namely, tool literacy, resource literacy, social-structural literacy, research literacy, publishing literacy, emerging technology literacy and critical literacy.

In 1997, computer literacy was largely seen as to be focused on hardware and software tools.

Since 1980’s, computer literacy has been the second leading literacy after information literacy. Library literacy, network literacy, media literacy and digital literacy follow.

In this dynamic environment, both the technology and the literacies have upgraded and evolved resulting in the discovery and invention of new skills. Nevertheless, the basic condition of earning a living through these literacies remain constant over the years.

The new skills incorporate creating digital content. Earlier the skills under computer literacy comprised of word processing, ability to create spreadsheets, copying the data from one disk to the other, generating hard copy printout etc.

But the current scenario the skills required are the ability to work with the operating systems, communication and collaboration tools, network and troubleshoot diagnosis, search engines, virus scanning, common keyboard commands and security and privacy settings

Furthermore, the evolution also involves the extensive use of technology in the devising of new user-friendly soft-wares and producing digital content in the form of graphics and infographics. Computer literacy plays a vital role in professional and personal lives.

CONCLUSION

We are surrounded by this form of literacy at our workplaces, leisure places and homes.Over the decade, the literacy has become more vibrant and incredibly vital beyond the horizons. Information technology has minutely branched into numerous opportunities resulting into innovation and creativity based on information literacy.

The premise of information technology is widening with time and the spectrum of core skills, knowledge, understanding and attitudes is also expanding and serving the purpose of this skill based literacy’s emergence with justice.

Skills and literacies have a positive relationship. Undoubtedly, information literacy lays the foundation to each and every literacy along with other literacies. Lifelong learning, knowledge management, skill development and growth has no limits or boundaries to achieve, they are like a shadow to anyone.

However, to cope with the momentum of the development of literacies and the complexities of the information environment, we require a wide and a broad form of literacy which is not restricted to any particular technology but constitutes the actual understanding, meaning and context of the core principles and practices of the information sciences.

REFORMS IN THE INDIAN BANKING SECTOR

KHUSH V.DEMBLA

The Indian Banking System has been in a topsy-turvy state for the past few years. However, recent reforms have started the process of normalising the situation.

INTRODUCTION

The banking sector is the backbone of any economy- they help combine savings of the general public and divert them to where they are needed so that they can be used efficiently. However, in India, this sector has suffered greatly over the past few years.

A large number of defaults, corruption and non-performing assets that were covered up led to a situation where banks could simply not lend money anymore. For any economy, credit availability is probably the most crucial thing when it comes to growth. This unavailability of credit led to a huge downturn in economic performance.

Since 2015, various measures have been taken to fix the banking system, from recapitalisation to asset quality reviews and restrictions on lending.

MEASURES

Firstly, over the past year, the government has taken steps to merge various public sector banks. In 2017, there were twenty-seven banks in which the government-owned a majority stake.

Now, there are twelve, with the reduction coming from mergers of banks or disinvestments (like IDBI).

These mergers are supposed to be beneficial in various ways, with benefits accruing in the form of enhanced lending capacity, increased outreach, and operational efficiency in the form of reduced costs.

PUBLIC CREDIT REGISTRY

Secondly, the RBI has been working on establishing a Public Credit Registry, which will be an extensive database of borrower information- including not only borrowing contracts and how they're carried out but also information from Securities and Exchange Board of India (SEBI), the Corporate Affairs Ministry, Goods and Service Tax Network (GSTN) and the Insolvency and Bankruptcy Board of India (IBBI).

This registry will be available to all stakeholders and will enable lenders to have a better knowledge of who they're lending to, this leading to lower chances of fraud on the part of the borrower.

It will also help them in pricing credit adequately and help the Central Bank study properly the monetary transmission in the economy. The USA (obviously), however, has expressed concerns over this move, referring to how the establishment of a Not-for-Profit registry will impact for-profit Private Credit Bureaus.

OTHER MEASURES

Along with that, over the past few months, the RBI has taken several measures, some of them unorthodox, to assist borrowers and lenders in the credit market. Over the past one year, the RBI has cut repo rates drastically, from 6.25% in February last year to 4% right now.

However, it was observed that the commercial banks were not passing on the benefits of these rate cuts to the consumers. As a result, in September, the Reserve Bank made it compulsory for banks to link the interest rates for loans to retail borrowers and MSMEs to an external rate, mostly the repo-rate.

This move was expected to enhance transparency and reduce the cost of borrowing to the borrowers, thus encouraging additional investment.

While this move increased the amount of rate cuts that the banks were passing on to the borrowers, it still wasn't enough. As a result, the RBI adopted a measure called Long Term Repo Operations, in which funds were lent to banks at the repo rate, but for longer durations. With this measure, the central bank lent over Rs. 1 lakh crore to banks.

The logic is that even with rate cuts, banks were reluctant to lend due to liquidity crunches, however, with additional long term liquidity at low rates, banks will be able to give home and car loans more easily and at potentially lower rates.

PUBLIC CREDIT REGISTRY

Along with this, the RBI has also implemented the Prompt Corrective Action framework. Banks are put under this framework when their asset quality, profitability or capital adequacy is outside permissible limits.

This framework restricts them from lending to corporates, paying dividends or opening new branches. This framework has certainly been seen to work, with IDBI bank reporting a Rs.135 crore profit for Quarter four of the Financial Year 2020, the first time it has announced a profit since the first quarter of 2016.

CONCLUSION

The Indian Banking Sector was in shambles for the past few years, but policies adopted by the government and the Central Bank over the past few years have certainly helped improve the conditions of this sector.

This turnaround was necessary and continued success in this regard is needed to ensure that India can recover from its economic slump and become a "Five Million Ton" economy (quoting the Home Minister).

THE FALLING SKYLINE: INDIA'S REAL ESTATE SLUMP

NIKHILESHWAR

India's real estate slump is only likely to get worse, with stakeholders and rating services, downgrading the outlook for the rest of the year to 'pessimistic'.

INTRODUCTION

India's housing crisis is coming and although it would not be anything like the 2008 Great Recession, that would not make it any less stressful and painful. Even though there has been no quandary speculation or subprime mortgage fraud, housing is still overvalued.

And the dearth of stock that plagued the current cycle will back in a violent fashion, once the deplorable effect of the virus has passed as financially strapped homeowners seek to raise cash.

And as affordability gets fired with few buyers eligible to purchase a home, the only way to rectify the mismatch between supply and demand will be via reducing the prices.

Severe cash crunch in the real estate industry could spread fresh strife for the banks.

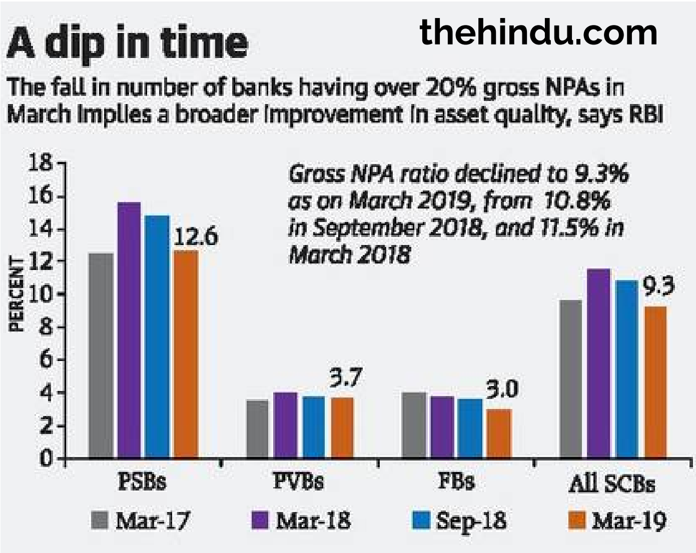
A slump in the residential property market is leaving many builders and contractors, struggling to repay loans to Non-Banking Financial Institution commonly known as the shadow lenders - housing finance firms outside the regular banking sector that account for over half of the loans to developers and contractors.

DEEPER INSIGHT

According to the Reserve Bank of India (RBI), banks' gross non-performing assets slump to 9.3% of total loans as of March 2019, from 11.5% a year earlier, the improvement was bigger than the RBI's prediction, having forecasted a drop to 10.3% by March.

The central bank said in June 2019 that it expected bad loans to continue to fall in throughout the financial year, both the ratio and the net sum.

But India still has the top most bad-loan ratio among major economies; by comparison, Italy, which created a major banking crisis, had a ratio of 9% at the end of the last year.



The luxury housing fragment, where investors used to derive demand, is in the doldrums because of uncertainties in the market with the real estate sector going through a downturn since the past 3 years, and is now hinging largely on sales to end-users.

Around Rs. 1.59 lakh crore worth of luxury housing stocks remained unsold at the end of the financial year 2019, contributing nearly 34% to the total value of all the unsold homes across the top residential markets in tier-1 cities. (NPA in estate)

This increase in unsold inventory on the upper-end marks a big U-turn in the economy, since luxury housing bounced back quickly after the demonetization shock when the stock market recovered and padded the pockets of the wealthy.

Now that the stock market has been up and down and all over the place, the top of the market has become the weakest housing sector. Moreover, crony capitalised foreign demand too, appears to be backing off.

If the real estate industry continues to slow down, according to a Moody's analysis in mid-September, Indus Land Bank and Yes Bank have the largest direct exposure to the residential real estate sector and would be susceptible to "asset-quality difficulties", which also makes other banks such as the ICICI Bank and the Axis Bank take precautions, which may be likely to feel the pinch.

The country needs a sustainable economic and employment growth—rebooting the real estate sector will serve both the needs, killing two proverbial birds with one stone. But to follow, we will need immediate action, as the crisis is based on an oversupply of homes by overleveraged developers, and aggravated by regulatory changes.

The NBFCs' meltdown, has now reached menacing proportions.

CAUSES OF DOWNFALL

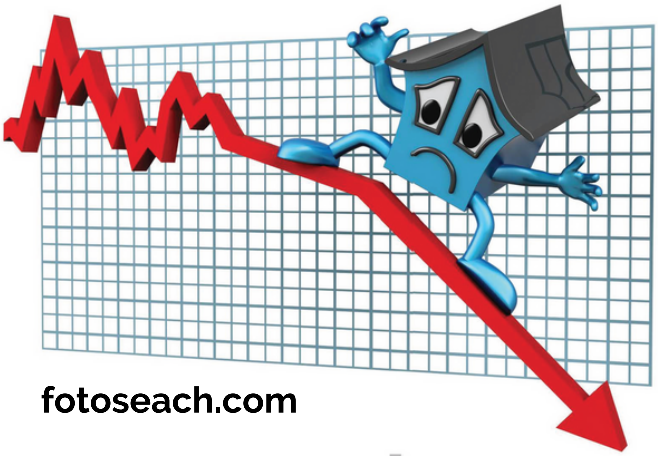
"The real estate industry has been witnessing a tough sales environment which is only expected to continue in the future," said the Knight Frank India chairman.

This takes us to the analysis that the force of nature is always greater than the combination of the forces of science and technology. The uncertainties of the market can be seen due to the following reasons-

NEGATIVE ROI

The returns on investments in residential real estate have been slumping from two or even three-digit values to low single-digit or, in a few locations, even negative returns over the last few years.

This naturally keeps investors at a perplexing situation - and investors need to be in the driver's seat for the market to revive. The ROI from housing currently lies in at a meagre 2-3% even in the most favourable markets across Indian cities.



ECONOMIC SLOWDOWN

This has a direct linkage to employment creation and job security in India. Cash-conservation is the order of the day in a country where citizens are unsure of getting jobs or job- continuity. Torpor in the economy and the ensuing job insecurity is a sure- consumption killer.

LACK OF CONSUMER FAITH

Lack of Faith in Under-construction Properties shows that the massive burden of heavily delayed and terminally standstill housing projects on the market is both a cause and effect, when it comes to low homebuyer sentiment.

Under-construction homes were previously Indian homebuyers' default choice due to the wide competitive pricing structure.

DEMONTIZATION

In earlier years, real estate was the preferred means for parking unaccounted wealth (say black money). The possibility of involving large cash components was a very big factor that drove housing sales to investors.

Demonetization has not eliminated this practice as intended at the time of launching.

However, the predominantly salaried middle-class does not generate black money and now prefers to transact via transparent official channels - and end-user sales alone are not enough to revive the housing sector.

CONTROL MEASURES

Lower interest rates alone will not work nor will the mere reduction of GST on under-construction residential sites. The current slowdown in the housing market is the result of a combination of factors, which are intertwined problems. Consumption sentiment itself has been deeply affected.

People will not buy property or residential house - or, for that matter, even automobiles - if renting a home and using ride-hailing services are more cost-effective and will circumvent long-term financial commitments in an economy where sustained job security and career growth are in a dubious structure.

Certainly, it makes little sense to hold developers - automobile manufacturers solely responsible for the slowdown in their respective fragments.

For better or worse, they are doing what they have always done – if anything, it is the customers who have changed since quarantine has taken place, the human mindset has emerged to be rational to an extent, that marketers will now find it difficult to get their customers to behave irrationally.

CONCLUSION

The stuck projects are also challenged by inadequate residual cash flows for servicing the existing lenders. Many projects have reached a stage where residual project cash flows and assets are only a fraction of the outstanding debt and interest.

Further, the value at which future sales will happen is also lower than the current prices, propped up by the developer. For sales to happen to go ahead, the prices of inventory also have to be brought in sync with market realities.

So, the stakeholders of standstill projects have to recognise deep losses. That is crucial if we want fresh capital to enter in and complete the sea of standstill real estate projects.

INDIAN BANKING SECTOR AN OVERVIEW

CREAMY GARG

“When banks came into pictures, trouble came with them” claims Cecil B. DeMille in The Lost World of DeMille as his worst fear got confirmed.

INTRODUCTION

Banking sector constitutes one of the most important gears of a running economy. Along with the basic functions of accepting deposits and lending loans, they perform many complex tasks like creation and holding of financial assets, facilitating import-export transactions, managing leverages, etc

Moreover, banking companies such as Goldman Sachs, JP Morgan, AmEx etc. come in the list of top profitable firms across the world.

In capital-oriented countries such as the USA, the banking industry comprises 64.48% of the GDP, clearly pointing out the fact how banks play a pivotal role in any economy. Banks also act as intermediaries between various countries facilitating trade on a global level and thus adding to the developmental index.

A LIGHT ON THE PAST

If we trace the banking activities to the past, we see that the industry has faced problems in terms of credit, liquidity or interest rates from time to time. Talking of India, at the time of partition, the modern banking industry got paralysed as the economies of Punjab and Bengal were adversely owing to a number of socio-political factors.

At the same time, Indian Banking lost its freedom as the government started paving the road for a mixed economy by playing an active role in the economic matters of the nation in order to restore public’s confidence in the industry. The first such action was taken in 1969 when 14 major private banks were nationalized, making a majority of the banking industry public.

NATIONALIZATION

This culminated in 1980 in the second phase of nationalization when another 6 private banks got nationalized. Many economists believe that this step was extremely effective and it has benefited us in the long run.

Moreover, former finance minister P. Chidambaram opines that India could recover from the 2007 financial crisis faster because of the nationalised banks. But at the same time, a number of weeds such as red tapism, lack of competition, and inadequate internal control, among others, crept into the system.

A number of reforms have been taken up by the authorities in order to strengthen the structure and functioning of the banking industry. The first phase of reforms were directed towards improving the policy and institutional framework, competition and financial health.

It included reports by the Narsimham committee which focused on the economic liberalisation of India in 1991, the size and capital adequacy of banks, the reduction of the cash reserve ratio and the statutory liquidity ratio and the need for zero non-performing assets (NPAs) in 1998.

The second phase of reforms aimed at the foundation of the system through reforming the structure, technological upgradation, and human resource development. On recommendations of Narsimham committee-II, a set of prudential norms were undertaken, imposing a minimum limit on the capital levels of banks to avoid the undue risks of NPAs.

Banks also diversified their activities in newer areas such as mutual funds, venture capital funding, hire purchase factoring etc. One of the most recent reforms is the merger of 10 major PSBs into 4, in order to improve the efficiency of banks which were facing losses owing to a number of factors such as liquidity crunch, bad loans, etc.

ADDRESSING THE CRISIS

“In a country so dangerous for banking as India, it should be conducted on the safest possible principles”, writes John Maynard Keynes in his survey of Indian currency and finance in 1913

His words have proven true a number of times, if we have a look at the kinds of crisis that Indian banks have gone through. Between 1935 and 1947, nearly 900 banks failed followed by 655 banks in the period from 1947 to 1969.

There were stock market scams in 1992 and 2001 arising out of fraudulent banking. The most recent failures accounted for are the PMC bank collapse, IDBI’s bad loans and the collapse of Yes Bank. Such bank crises have always created a lot of burden on the Indian exchequer by demanding bailouts owing to the fraud practices which directly impact the economic condition of India.

THE BREAKUP STORY
RBI AND THE GOVERNMENT

ROHITASHVA BHARTI

Democracy with its whole grandeur and vibrancy is meaningless without the pillars of the institutions on which it nurtures its core democratic values.

INTRODUCTION

The autonomous nature of these extremely crucial institutions gives practicality to the whole concept of a ‘democratic set-up’.

It is not that these institutions are completely independent and encompass tremendous autonomy but the powers are checked among different institutions and it is ensured that concentration of power does not take place.

A lot of problems arise when the autonomy of these institutions is eroded for political gains, resulting in a consequential shrinking of democracy
.
Many significant groups in India, opposition political parties and civil society insinuate the possibility of such a 'weakening of institutions' in India and it is hotly debated among common citizens, including the intellectual class.

PREVIOUS TUSSLES

If any of these apprehensions is true about the question of autonomy, then it is pertinent to scrutinize these claims in a neutral way.

The tussle between the government and the Reserve Bank of India is not something new and differences have happened in the past.

It perhaps started in 1937 itself, when Sir John Osborne Smith resigned his governorship following differences with the colonial government over the interest rate and exchange rate, but it doesn't mean that these differences cannot be diluted. But in the past four years, we have seen a widening of this gap and then ultimately the resignation of the RBI governor, after which both the involved parties reconciled.


Discord

➤ **Sir Benegal Rama Rau** was 4th RBI guv. He resigned in Jan 1957 after Nehru's prodding

➤ Nehru had sided with finance minister TT Krishnamachari in a tussle over a budgetary proposal, saying RBI was part of "activities of govt"

What Nehru Wrote

"I pointed out to you that it was for the govt to lay down policies and the RBI could not have policies contrary to those of the govt... That would be completely absurd

Monetary policies must depend upon the larger policies that a government pursues. RBI cannot challenge the main obje[...] policies of government"

The opposition political parties (especially Congress), intellectuals and many public figures like Amartya Sen and Y. V. Reddy are claiming that the central government has exercised its power slightly close to authoritative way, ultimately diluting the RBI's autonomy.

They argue that the laws have been changed to ensure the RBI is on-board or with so-called public policy and the RBI is forced to consult the government on more and more matters, even when issues are non-negotiable as the RBI has chief powers on some core issues.

A similar kind of tussle was seen in Nehru's tenure too, when Sir Benegal Rama Rau resigned in January 1957. Nehru sided with the finance minister TT Krishnamachari and made it clear that the RBI was a part of the "various activities of the government", further quoting "the RBI cannot challenge the main objectives and policies of government"

The October 26, 2018 speech of Viral Acharya (deputy governor of the RBI till 23 June 2019) at the AD Shraff Memorial, many claim was in reference to this rising tussle.

Acharya presents his disagreements while quoting - "Governments that do not respect Central Bank independence will sooner or later incur the wrath of financial markets, ignite economic fire and come to rue the day they undermined an important regulatory institution", as reported by Raghuvir Srinivasan, 'Little Surprise in Acharya's resignation', in the Hindu on 24 June 2019.

Acharya also compared the situation of India with Argentina. This comparison was brutally criticized as India never defaulted on its debt, India Today reported on November 19, 2018. It is assumed that Acharya's views were in accordance with the then governor, Urjit Patel.

The resignation of governor Urjit Patel declares the seriousness of this tussle, because if a nation wants to achieve any of its economic goals, then both the institutions have to work harmoniously.

The resignation presents both the government and the governor in a bad light, as this gives a glimpse of the government's authoritative power and the stubbornness of the governor. Manmohan Singh (PM for ten years) believed that: 'the finance minister is always superior, the RBI governor cannot defy him', according to a 'Times of India' report (Nov 7, 2018), substantiating the government's superiority theory.

SEQUENCE OF EVENTS

Now, it becomes inevitable for us to critically analyse all the events to get the real picture. Urjit Patel (the then RBI governor) and his governors were vocal on their divergent stance on extending more grace period to stressed companies which were facing liquidation for loan defaults.

Patel also pressed on the point that the RBI is hobbled by a lack of adequate powers in regulating public sector banks to handle the non-performing asset crisis though the RBI does have nominee directors on bank boards, which leads to physical inspection and financial audit at banks (during the PNB scam).

On February 12, 2018, the RBI issued a circular redefining NPAs— the circular directed the banks to start liquidation proceedings even if there is a day's delay in defaulting companies failing to meet their obligations. It simply means that if borrowers delayed payment for even a day, he/she should be dragged to the insolvency court and the asset classified as NPA.

THE NEW YORK TIMES

According to a 'The Wire' report on December 10, 2018 by Anuj Srivas, the government wanted to give more time to these companies to repay their loans as this measure will particularly affect India's power sector, which is dominated by politically connected business houses. Patel, like his predecessor Raghuram Rajan had made it clearer than crystal that the only way forward is to maintain a tough stance on NPAs, rejecting easing NPA norms, as reported by Sangita Mehta in the 'Economic Times' on April 12, 2018.

In the PNB fraud of Rs. 14,000 crore, Prabhash K Dutta of 'India Today' reported on October 31, 2018 that the government openly criticised the RBI arguing it was lax in supervising the banking operations that resulted in the PNB scam.

Patel junked the charge saying that the government shields the PSU banks, as per the report.

Another point of dissent was that of the payment regulator. The Modi government wanted a government-led "payment regulator board" which would see all the payments outside the jurisdiction of the RBI.

The Central Bank condemned the act in its four-page dissent note writing- "There is no case of having a regulator for payment systems outside the RBI".

The Modi government also wanted to cut interest rates which will help pump the much-required vigour in the economy, since a significant economic slowdown is enveloping the globe.

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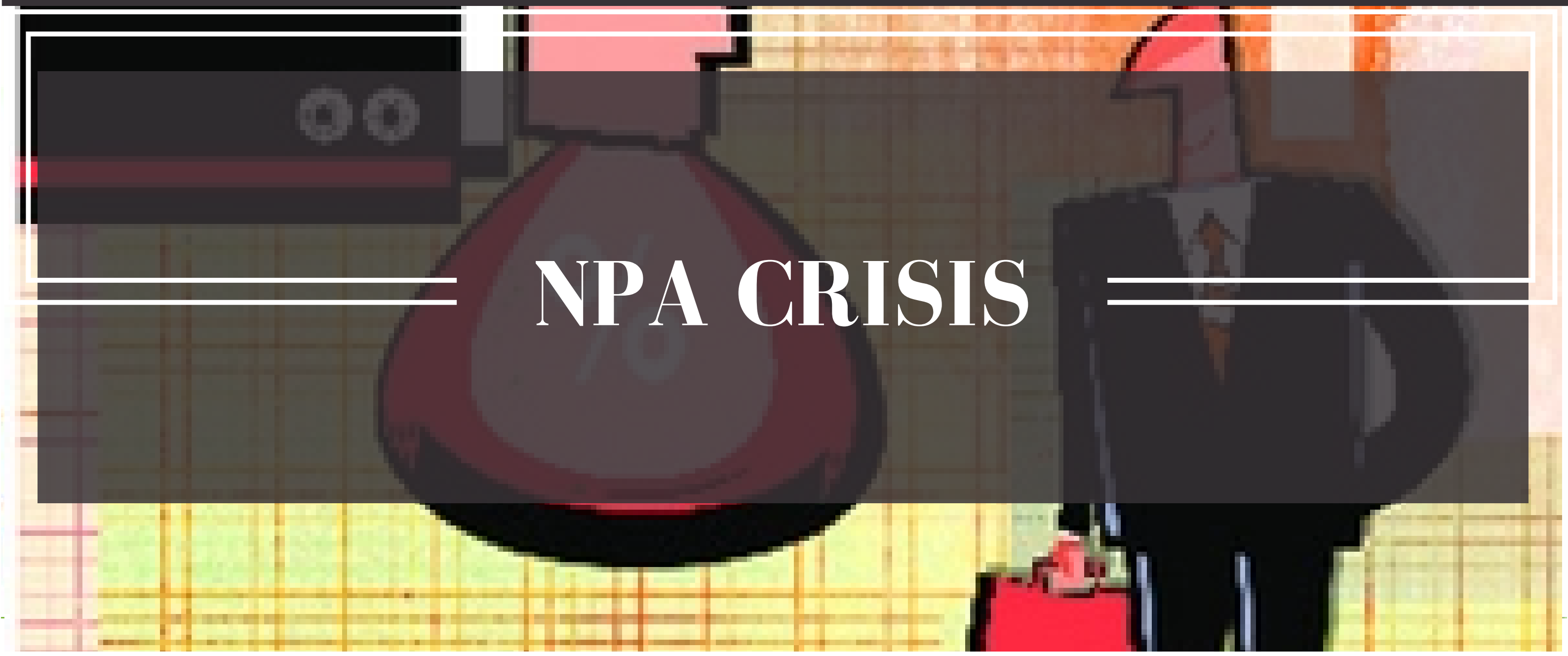


NPA CRISIS

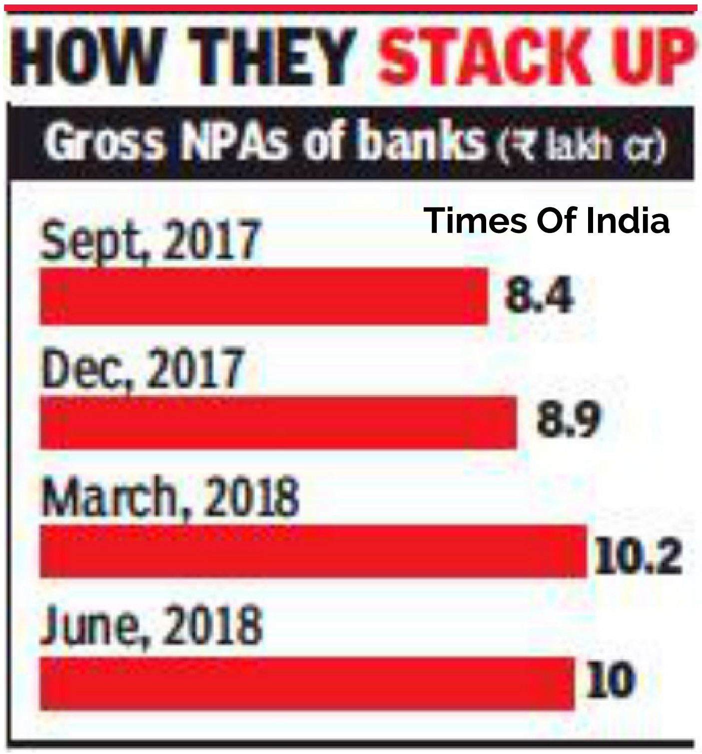
SHRUTI BHARDWAJ

'NPA'- this abbreviation has appeared in the headlines of India's newspapers too many times in this last year.'

INTRODUCTION

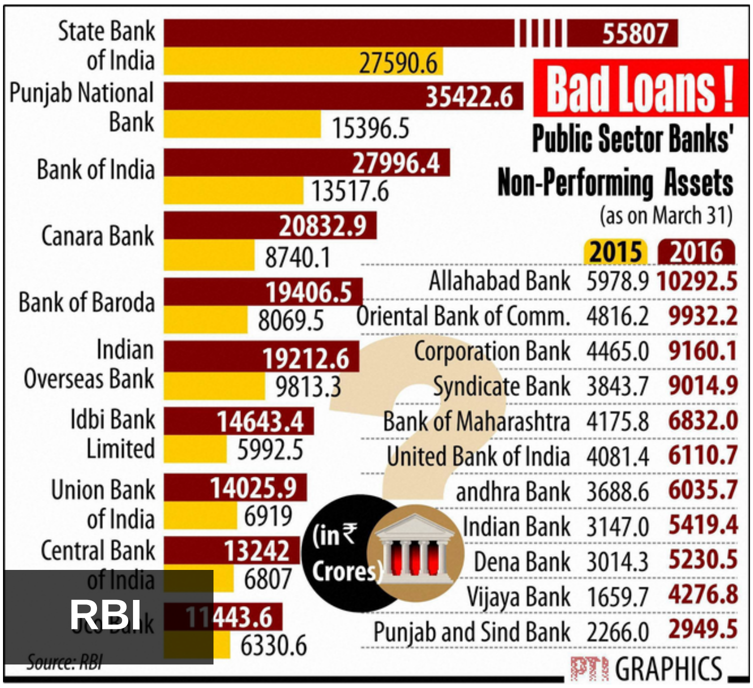
'NPA'- this abbreviation has appeared in the headlines of India's newspapers too many times in this last year. NPAs or Non-Performing Assets have been a major feature of India's Banking crisis for the past few years.

A non-performing asset (NPA) refers to a classification for loans or advances that are in default or arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations.



India's bad loans were the fifth highest in the world and surged dramatically after March 2015. As of March 31, 2018, the total volume of gross NPAs in the economy stood at Rs 10.35 lakh crore.

About 85% of these NPAs were from loans and advances of public sector banks. For instance, NPAs in the State Bank of India were worth Rs 2.23 lakh crore. Till then the percentage of gross NPAs had already risen to 9.3%.



NPA CRISIS CAUSES

The NPA crisis is more deep-rooted than it seems at face value and the main causes for the rise of this problem are spread over several years starting from the early 2000s.

During the credit boom of 2003-04, the world economy, as well as the Indian economy, was booming; and hence, multiple Indian firms borrowed a lot to avail of the growth opportunities. Large corporations were granted loans for projects based on extrapolation of their recent growth and performance.

With loans being available more easily than before, corporations grew highly leveraged, implying that most financing was through external borrowings rather than internal promoter equity.
Following these developments, the RBI put forward a tightened monetary policy, increasing the repo rate and the reserve repo rate. However, even after that, there was a credit expansion that led to a rising NPA ratio.

The judgments given by courts at the time were not in favour of businesses; and had an adverse impact, especially on the mining, power, and steel sectors. Moreover, businesses faced problems in acquiring land, which led to many projects getting stalled. A combination of all these factors led to a long-lasting unsolved burden of NPAs on the banks.

An addition of generalised issues like maladministration by corporates, natural disasters, policy paralysis and misgovernance, severe competition and slowdown in several industries only made it worse.

Existing solutions to this issue included, The Debts Recovery Tribunals (DRTs) were set up under the Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993 to help banks and financial institutions recover their dues quickly without being subject to the lengthy procedures of civil courts.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 went a step further by enabling banks and some financial institutions to enforce their security interest and recoverdues even without approaching the DRTs.

Yet the amount banks recovered from defaulted debt was both meagre and long delayed. The amount recovered from cases decided in 2013-14 under DRTs was Rs. 30590 crores while the outstanding value of debt sought to be recovered was a huge Rs 2,36,600 crores.

After a low phase of various banking frauds like the PNB-Nirav Modi and Mehul Choksi case in February 2018 and the IDBI bank case of 2019, the RBI decided to make certain reforms to the existing structure of identifying and dealing with the banking crisis focusing on NPAs.

There was a massive gap between the borrower - lender with dissatisfactory analysis and uninformed lending on the banks' side causing promoters to have leverage over lenders.

Not only could they play one lender off against another by threatening to divert payments to the favoured bank, but they could also refuse to pay unless the lender brought in more money.

The measures taken can broadly be classified into two kinds,first, regulatory means of resolving NPAs per various laws and second, remedial measures for banks prescribed and regulated by the RBI for internal restructuring of stressed assets.

RBI's guideline on increasing the NPA recognition time to 180 days from the previous 90 days for banks and 120 days for NBFCs called the Insolvency and Bankruptcy Code (IBC) was enacted in May 2016 and aimed at giving much need boost to the MSME sector post the launch of GST.

Over the years, the RBI has issued various guidelines aimed at the resolution of stressed assets of banks. These included the introduction of certain schemes such as (i) Strategic Debt Restructuring (which allowed banks to change the management of the defaulting company), and (ii) Joint Lenders' Forum (where lenders evolved a resolution plan and voted on its implementation).

CONCLUSION

But what were the key aspects of India's banking sector that were highlighted through this prolonged issue?

Shortcomings both on the side of the government and RBI as a central authority came into question because as a regulator the RBI failed to monitor macro-prudential indicators such as overall credit growth and also to spot excesses, if any, to certain sectors, and groups especially while altering the monetary policy and the government failed to resolve and consciously make use of remedial measures.

The government may ensure that banks are run in the larger national interest but commercial decisions are best left to bank boards. Improvement in governance of the boards has been talked for long, but much needs to be done.

A more empowered, independent yet accountable financial sector which can identify its risk appetite is required and although reform is paving its way slowly and steadily glitches may prevail.

YES BANK CRISIS

AUNGSHULA

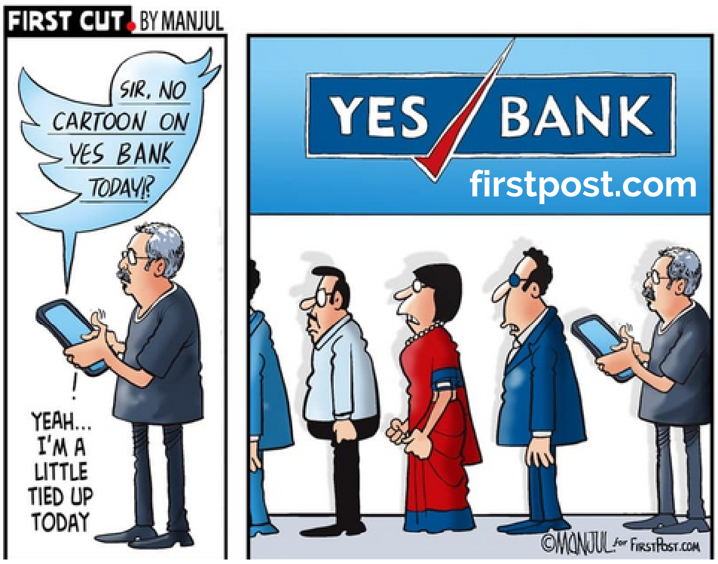
"What led to the fall of one of the most successful banks of India?"

INTRODUCTION

Yes Bank was once the country fifth-largest private lender and was ranked number 1 in the Business Today-KPMG Best Banks Annual Survey, 2008. It was the first institution globally toreceive funding through IFC's or the International Finance Corporation's managed Co-Lending Portfolio Programme and the first Indian bank to raise loan under IFC's A/B loan facility.

In September 2014, the lender announced it had received a ratings upgrade from Information and Credit Rating Agency (ICRA), an Indian independent and professional investment rating agency, for its various long-term debt programs.

Despite a number of achievements, what led to the fall of one of the most successful banks of India?



RED FLAGS

UBS (Union Bank of Switzerland), a multinational diversified financial services company headquartered in Zurich and Basel, raised the first red flag back in 2015 about its asset quality. Its report stated that the Bank had loaned more than its net worth to companies that were unlikely to pay back.

Despite the warning, Yes Bank continued to extend loans to major firms. The Bank went on a lending spree between the years 2014 to 2019. The amount lent, as on 31st March, 2014, was ₹55,633 crore and its deposits were ₹74,192 crore.

Ever since, the amount lent saw a four fold increase, leaping to about ₹2.25 lakh crore as on 30th September, 2019. However, the deposits were unable to keep up with the growth and witnessed an approximate 3-fold increase, rising to about ₹ 2 lakh crore.

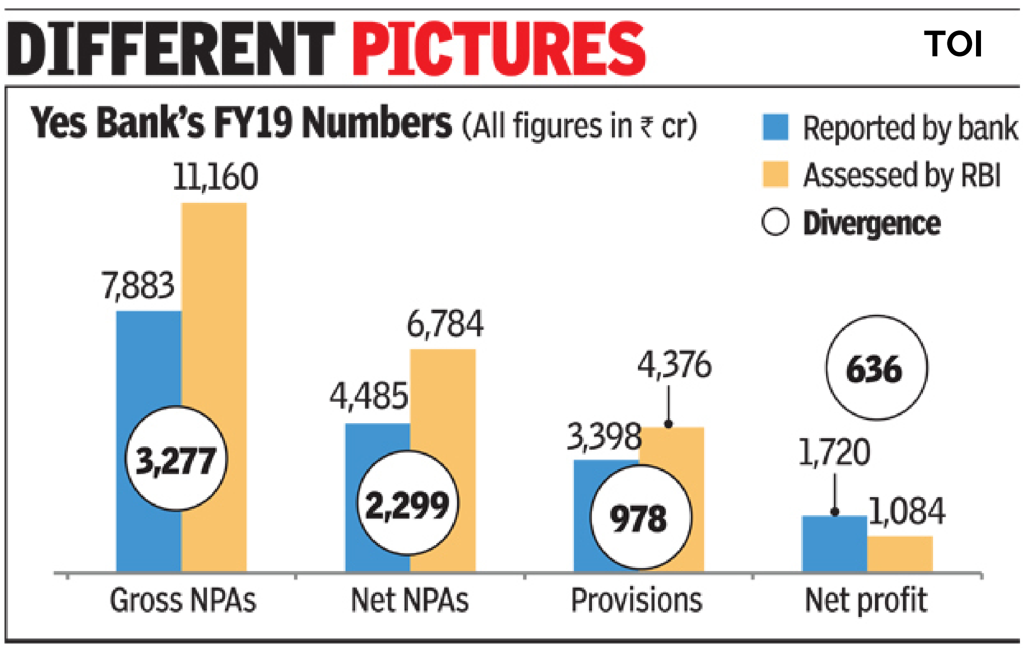
There was an evident gap between the amount lent and the deposits received as the credit-deposit ratio expanded by 100%, which meant that people were depositing less and the bank was lending more.

Overtime, the Bank's asset quality worsened as the gross Non-Performing Assets (NPA's) witnessed a steep increase from about0.31% as on March 31st, 2019 to 7.39% as on September 2019. Thus,the lender quickly came under the RBI's scanner.

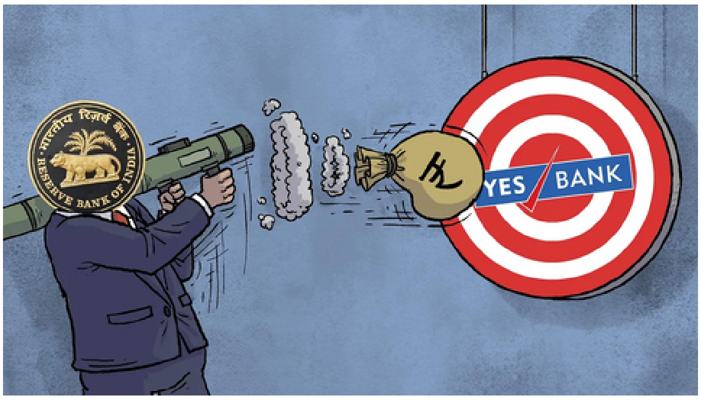
The bank, along with these issues, also has a history of troubled borrowers such as Anil Ambani-led Reliance group, DHFL and IL&FS. The lender had major exposure to the IL&FS and DHFL, which stood at 11.5 per cent as of September 2019.

In April 2019, the bank had classified about ₹10,000 crore of its exposures, representing 4.1 per cent of its total loans under watch list, as potential NPA's over the next 12 months. In addition to the mounting NPA's, the bank did not earn enough provisions in profits. Provisions can be understood as funds set aside by a company or a bank as assets to pay for anticipated future losses, i.e. in cash of non-payment of dues by an availing debtor.

There was another reason leading up to the issue – governance. On January 10th, 2020, independent director Uttam Prakash Agarwal quit stating "deteriorating corporate governance standards and compliance failure at the lender" as his reason. An amalgamation of all of these issues led to the steady deterioration of the financial condition of the lender



RBI TO THE RESCUE



The worsening condition of the lenderprompted the central bank to impose a moratorium, temporarily suspending its operations and putting caps on withdrawals, prohibiting them to withdraw more than ₹50,000. The central bank also announced that it would be superseding the board of directors for the duration of the moratorium.

The RBI stated that it had "no alternative but to place the Bank under moratorium in the absence of a credible revival plan, and in public interest and the interest of the bank's depositors". The moratorium was put in place on 5th March,2020 and was imposed for a period of 30 days, but was lifted on 18th March, 2020, to the relief of depositors and investors.

In order to revive the lender, the central bank came with a reconstruction plan approved by the Union Cabinet, wherein HDFC and ICICI Bank each will invest ₹1,000 crore and own about 6%, while Axis Bank will put in ₹600 crore and own about 3-4% stake. SBI will be the anchor investor, holding on to about 49%, by investing ₹7,250 crore, and gradually reducing its stake to about 26% in a course of 3 years.

As for the other investors, 75% of their holdings will be locked in for 3 years. Kotak Mahindra Bank is set to infuse an equity capital of ₹ 500 crore under the bailout plan. Damani and the Premji trust are expected to invest nearly ₹500 crore each and will own about 3% each.

The SBI added that this will be the first round of investment and once the board of directors is constituted, more equity will be raised.

The scheme also recommends reconstitution of Yes Bank's board of directors with a new chief executive officer and managing director. While SBI will have two nominee directors on the board, RBI may appoint additional directors as well

IT HAS 29L SB A/CS, DEPOSITS WORTH ₹2.09L CRORE TOI

WHAT DOES THE MORATORIUM MEAN?
Withdrawals have been restricted to ₹50,000 per customer. Higher amounts for emergencies including medical requirements, higher education and marriage and other ceremonies will be capped at ₹5 lakh

WHY THE MORATORIUM?
Yes Bank has a high level of bad loans and not enough capital to cover the losses. RBI had given it time to raise fresh capital which did not materialise. Bulk deposits continued to be withdrawn, putting the bank at risk

HOW BIG IS THE BANK?
The bank has deposits of ₹2.09 lakh crore. Going by the number of debit cards, which is a proxy for savings accounts, it has

around 28.6 lakh SB accounts

WHEN WILL WITHDRAWALS BE FREED? WILL DEPOSITORS LOSE THEIR MONEY?
Withdrawals will be relaxed after a revival plan. Deposits up to ₹5 lakh insured. Also, RBI working on revival or merger

WHAT ABOUT SHAREHOLDERS?
Going by the experience of banks placed under moratorium earlier by RBI, shareholders are unlikely to be compensated

As suggested in the scheme, Prashant Kumar will be the Chief Executive Officer and Managing Director of Yes Bank. Sunil Mehta, former non-executive chairman of PNB, will be its non-executive chairman. Mahesh Krishnamurthy and Atul Bheda would be non-executive directors as well.

The board members will be in office for a period of 1 year until an alternative board is formed by the bank under the memorandum of association and article of association, which form a document that specifies the regulations for a company's operations and defines the company's purpose and comprises of rules and regulations that govern the company's internal affairs.

AT- 1 BOND CRISIS

The RBI, along with the proposals mentioned in its reconstruction plan, intends to write-off a select group of bonds – AT-1, additional tier-1 bonds.

These bonds were used to ensure that the lender had a strong credit base to meet the Base III norms, a set of international banking regulations setting the guidelines around risk-weighted assets or off-balance-sheet exposures.

In India, one of the key rules is that banks must maintain capital adequacy ratio or CAR of 11.5 % of their risk-weighted assets. CAR is the minimum amount of capital a lender is required to posses in the sheer possibility of loss of business or non-payment of the amount lent.

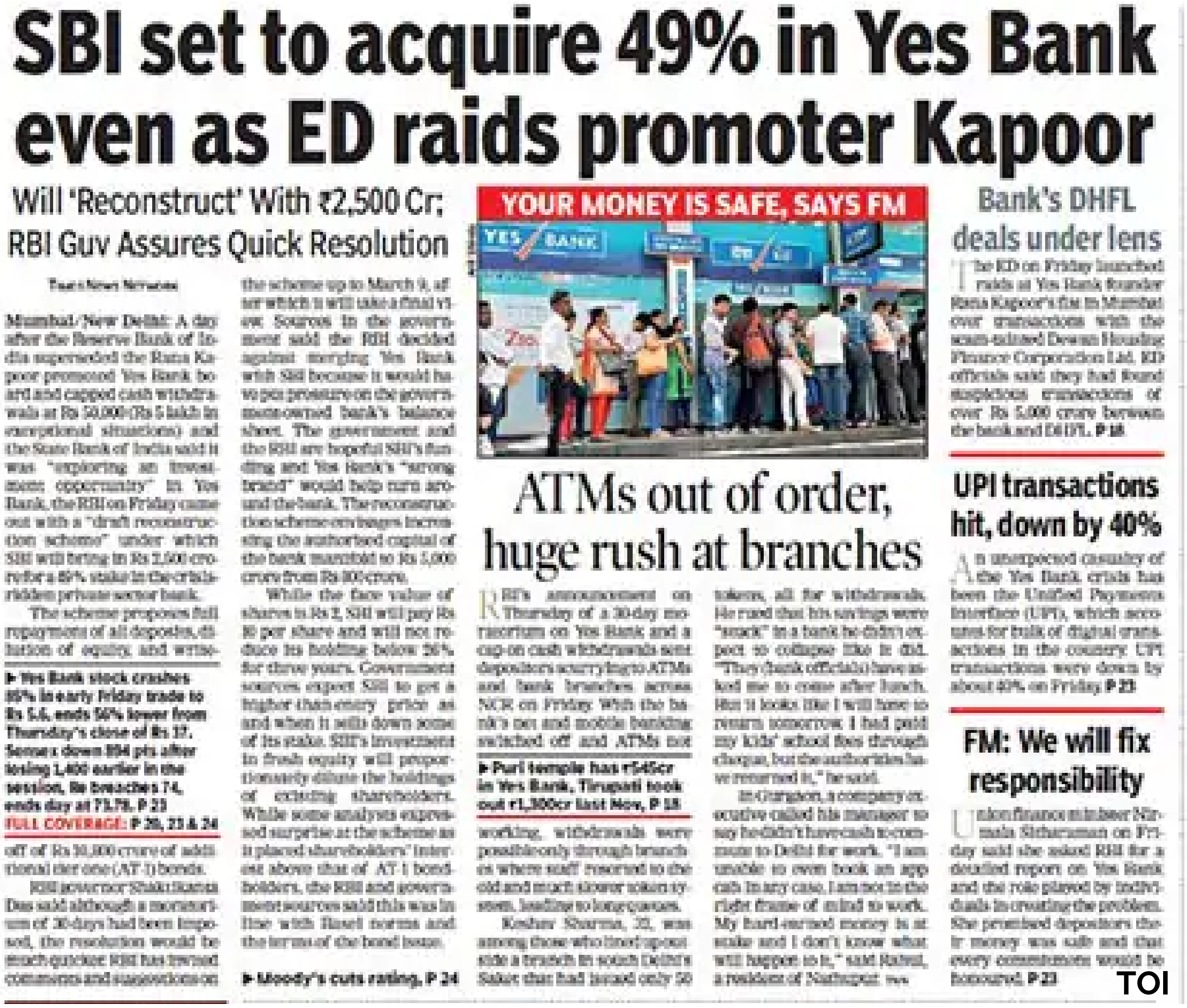
Of this, 9.5 % needs to be in Tier-1 capital and 2 % in Tier-2. Tier-1 capital refers to equity and other forms of permanent capital that stays with the bank as deposits come and go, and may consist of shareholders' equity and retained earnings. These are also known as core capital. Tier-2 capital, also known as supplementary capital, consists of subordinated debt and undisclosed reserves.

KEY BONDHOLDERS (₹ cr)

Nippon MF	2,483
Indiabulls	662
Franklin MF	590
Retail holders	466
UTI MF	405
Barclays Bank	372
Chanakya	302
Reliance Nippon Life	244
Bajaj Allianz Life Insurance	240
Kotak MF	130
HDFC Life	105
L&T	100
Reliance Industries	100
Others	2,216

Total Axis Trustee exposure **8,415**

Source: Petition



SBI set to acquire 49% in Yes Bank even as ED raids promoter Kapoor

Will 'Reconstruct' With ₹2,500 Cr; RBI Guv Assures Quick Resolution

YOUR MONEY IS SAFE, SAYS FM

ATMs out of order, huge rush at branches

Bank's DHFL deals under lens

UPI transactions hit, down by 40%

FM: We will fix responsibility

TOI

AT-1 bonds are unique and distinctive as they don't have a specific maturity date.

The banks which have issued these bonds can opt not to pay the interest liable on them for a year or even reduce their face value, given their capital ratios fall below certain minimum levels.

However, the banks can redeem the bonds by exercising a call option, but are not obliged to use it and can choose to pay interest on these bonds for eternity. Thus, these bonds are meant for investors who can read between the lines and analyse whether the higher interest rates are worth the risk or not.

The decision risks nearly ₹9,000 crore worth of AT-1 bonds, affecting bondholders including Nippon Life India AMC, mutual fund house Franklin Templeton, Larsen and Toubro Limited,UTI Mutual Fund and Indiabulls Housing Finance, and a fair number of retails investors who were sold these bonds as fixed depositor Non-convertible debenture substitutes.

The bondholders had earlier moved the Bombay High court in wake of this decision seeking remedy against the RBI's decision to completely write-off these bonds. Legally, writing-off these bonds under such a circumstance is under the jurisdiction of the lender, but it will impact a lot of investors financially.

SEVENTY-SIX RUPEES AND 6500 CRORES: COOPERATIVE BANKING IN INDIA

ISHAN HAZARIKA

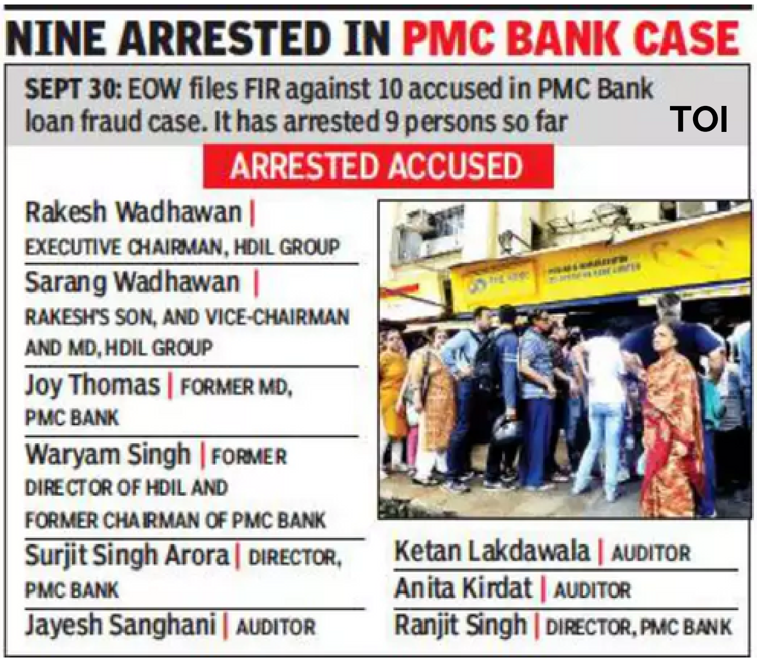
"Just a year ago, in 2019, Joy Thomas, the managing director and Waryam Singh, former chairman of (PMC) were among those accused in a scam of Rs. 6500 crore"

INTRODUCTION

The cooperative bank was involved in dubious activities related to the accounts of a realty company, called the Housing Development and Infrastructure Limited (HDIL), whose details wer conveniently hidden from the RBI.

But unlike numerous other frauds, this was committed not by greedy capitalists and large corporates, but by a cooperative, whose existence is pledged on the principle of common merit and customer satisfaction.

The history of cooperative banking in India has humble beginnings however, far removed from the gigantic eye catching sum of 6500 Crores-- twenty three members and seventy six rupees, that is how the Anyonaya Sahayakari MandaliCooperative Bank Limited, the oldest cooperative bank in Asia, started in Baroda in 1889.



NINE ARRESTED IN PMC BANK CASE

SEPT 30: EOW files FIR against 10 accused in PMC Bank loan fraud case. It has arrested 9 persons so far

TOI

ARRESTED ACCUSED

Rakesh Wadhawan | EXECUTIVE CHAIRMAN, HDIL GROUP

Sarang Wadhawan | RAKESH'S SON, AND VICE-CHAIRMAN AND MD, HDIL GROUP

Joy Thomas | FORMER MD, PMC BANK

Waryam Singh | FORMER DIRECTOR OF HDIL AND FORMER CHAIRMAN OF PMC BANK

Surjit Singh Arora | DIRECTOR, PMC BANK

Jayesh Sanghani | AUDITOR

Ketan Lakdawala | AUDITOR

Anita Kirdat | AUDITOR

Ranjit Singh | DIRECTOR, PMC BANK

In its formative years, and even now, cooperative banking has leveraged the savings of the middle to low income strata.

Such organisations grew organically, supported by the promotion of savings by salary earners' societies and organised labour associations.

This organic development was augmented by local and regional leaders sympathetic towards the socialistic pattern of society.

Customers coming together, to fulfil their own credit needs, fuelling consumption and small-scale industries—as envisioned—is in fact, deeply reminiscent - Gandhian Swawalamban and his experiments with the “Tolstoy Farm” in South Africa.

With the Cooperative Credit Societies Act (1904) and further legislations, cooperative banking grew leaps and bounds even before the independence of India, the Bombay Urban Cooperative Credit Society being one of the prominent cooperative banks of that era.

In the banking crisis of 1913-14, large sums of deposits flew from joint-stock banks to cooperative ones.

The Saraiya Committee in 1948 noted the importance of the cooperative movement in the democratisation of planning in India.

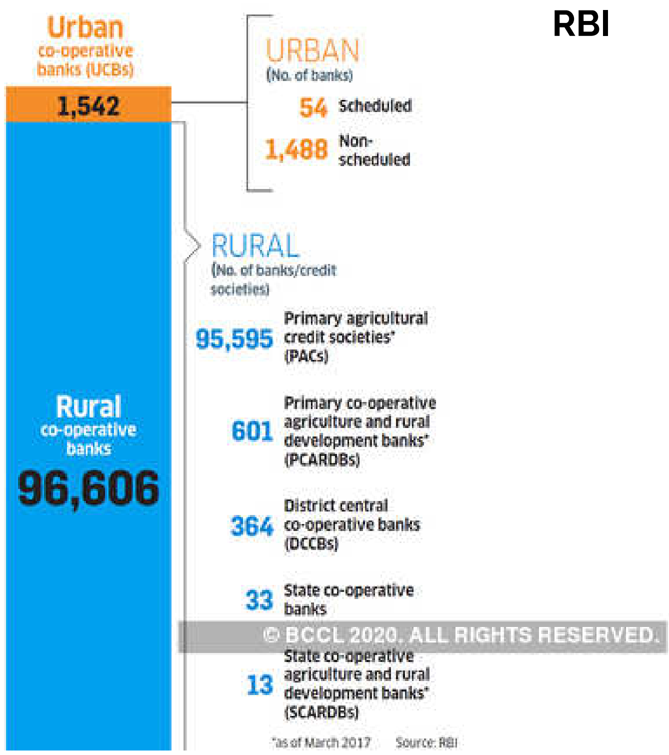
With rising prominence, the laws currently governing the cooperative banks came into being in 1949—the Banking Regulations Act, 1949 and 1955—the Banking Laws (Cooperative Societies) Act, 1955. At present, the cooperative banks are further registered under the States Cooperative Societies Act, amounting to what is now called the ‘dual regulation of cooperative banks’ in India.

In a society, gripped by the dearth of loans from formal commercial banks and the fear of the exploitative moneylender and the never-ending debt trap he may push the borrower into, the cooperative banks have played a major role in extending banking services to the poor and marginalised.

Based on the principles of customer ownership and democratic member control, these banks have explicitly considered financial inclusion an objective. Moral duty, at least in principle, takes precedence for them over the narrow pursuit of profit.

With an extended role, the cooperative banks have taken two forms— urban and rural, with further classification such as the Long Term Structure and the Short Term Structure in rural areas. The cooperative banks in the rural areas, around 96000 in number, have helped finance activities such as farming, cattle, hatchery etc.

RBI



In the urban areas, numbering around 1500— have helped small scale industries, home finance, self-employment etc. Cooperative banks have encouraged investment rather than hoarding money at home, accelerated the adoption of newer agricultural techniques by providing cheap loans and have also played a role in discouraging unproductive borrowing.

Their contribution to the Indian economy at thegrass-root level is thus, undeniable.

In the midst of this spectacular performance—where does the problem begin then? Firstly, there is the argument that cooperative banks have probably outlived their relevance. While they continue to be effective, their role seems to have been declining.

The long term credit extended has been falling in the recent times. While lending for agricultural practices is still important, in the urban areas, the cooperatives are increasingly facing competition from the payment banks, small finance banks and the NBFCs.

The 'democratic nature' of many of the cooperative banks is also open to scrutiny, and some argue, that it has in fact posed problems for the RBI. As many cooperative banks accept deposits from non-members, the concern of the depositors are often left unrepresented in the elected board of directors.

The creditors, on the other hand, have a major say in the constitution of the board. In addition to that, the election is overseen by the Registrar of Cooperative Societies, and the RBI has little direct control over it.

These factors, some argue, may mean that elected directors may not have to face the consequences of fraud.. Recently, a committee under H. Malegam recommended the constitution of a board of fit and proper persons, in some ways, parallel to the board of directors

This board can then have the actualcontrol in opposition to the elected directors, to ensure proper functioning.

In addition to that, in line with the recommendations of a high-powered committee chaired by R. Gandhi, former deputy governor of the RBI, the RBI had announced a scheme for the voluntary transition of urban cooperative banks to small finance banks, subject to certain conditions.

Converting is expected to enable a bank to have certain products accessible to the commercial banks.

The opportunity to transition voluntarily, however, primarily has another important purpose.

This helps urban cooperative banks solve another of their problems—the shortage of capital. Once they convert, they will be able to issue shares at a premium, akin to the commercial banks, and raise capital.

This of course, would on the otherhand, lead to the erosion of the democratic principle governing the cooperative banks. In fact, both the constitution of a board of fit and proper persons, and their conversion to small finance banks appear to have a detrimental effect on the democratic setup of the cooperative banks

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Is this cost high enough in comparison to the efficiency in regulation and capital gained?

The political economy of the cooperative banks offers another perspective into the issue. While the cooperative banks have benefitted people and helped agriculture and industry, we must look into the composition of beneficiaries.

The benefits have largely been accrued by large farmers in the western states.

Small farmers and tenants have been left out. The functioning of such banks in the eastern and north-eastern states has not been impressive either. The banks, in addition, have been used as power-seeking devices at the behest of the politicians, who often use their influence to get their preferred candidates elected in the board of directors.

The problems of electing directors, lack of capital and political interference aggravate another major problem— the overdue of the loans of the cooperative banks, which ultimately hampers their ability to recycle the funds, as the cooperative banks, even when under dual control, have to abide by the ratio requirements of the RBI.

This limits the cooperative banks from expanding, and also makes them vulnerable. In the case of the PMC Bank for instance, 73% of its assets were extended to HDIL.

While this definitely involves monitory oversight and fraud, which is not only limited to the cooperative banks- but also most other banks, the alarmingly high percentage is perhaps also indicative of the considerably low volume of assets cooperative banks have.

Many more solutions to the problems have been proposed by many commentators. The institution of an umbrella organisation, promoted by the cooperative banks themselves has been suggested, to raise capital as a joint stock company to tackle the issue of the lack of capital.

The question of its transparency and responsibility remains open however. An extended role of the RBI has also been suggested, such as allowing it to conduct liquidation and winding-up, without excessive interference of other regulators under the cooperative society laws, but its effect on the cooperative spirit, is still debatable.

CONCLUSION

To conclude, the performance of the cooperative banks has been impressive on the whole, but due to their unique setup, they do face a unique set of problems.

Many of their problems, from the lack of regulatory power of the RBI to the shortage of capital and political interference, may have stemmed directly from the nature of their setup, as seen in the case of the election of directors.

This setup, however, is a fruit of substantive political ideals and vision, and any solution proposed, must balance ideals with efficiency, and the judgement,may not be always clear

THE INDIAN BANKING INDUSTRY CONCLUSION

PRANAV MANIE

"The banking industry in India has seen nothing short of a rollercoaster ride this year".

CHEIF EDITOR'S MESSAGE

The cooperative bank was involved in dubious activities related to the accounts of a realty company, called the Housing Development and Infrastructure Limited (HDIL), whose details. Before the unfortunate pandemic this year, banks were seeing a high proportion of non-performing assets. The economy was hit with two big scandals in YES Bank and IDBI Bank.

The aftermath of the Punjab National Bank scam is yet to be truly settled. When the pandemic started, it became more and more difficult for the Reserve Bank of India to spur more aggregate demand using the interest rate tools at their disposa wer conveniently hidden from the RBI.

For the time being, there seems to be very little relief for the banking ecosystem, and for the financial industry of India at large; the Bombay Stock Exchange has already seen its circuit-breaker being triggered at least once in this lockdown. The government has already released a fiscal package in the hope of rebooting our MSMEs and consumer spending.

We understand that we don’t discuss these measures in our series, but it wasn’t what we set out to do when we began making this magazine. However, as I write this conclusion, I feel the need to address this conundrum.

In our series on the same, we have analyzed not just the status quo of the ecosystem, but also the history behind it and the structure that allows it to function. We also analyzed the interplay between the executive and the central bank, and how that plays out in the current age and what it means for the average Indian consumer, both rich and poor.

The fact that we, the editors of this magazine, had an incredibly tough time trying to get industry experts to provide us with some perspective should be impact enough for you, the reader, to understand how busy they may have been at work.

We had absolutely no idea that the scope of the theme for our cover story would increase so much. When we had chosen it, we intended to just focus on structural problems, and not use it as a cheap attempt to capitalize on writing about the pandemic.

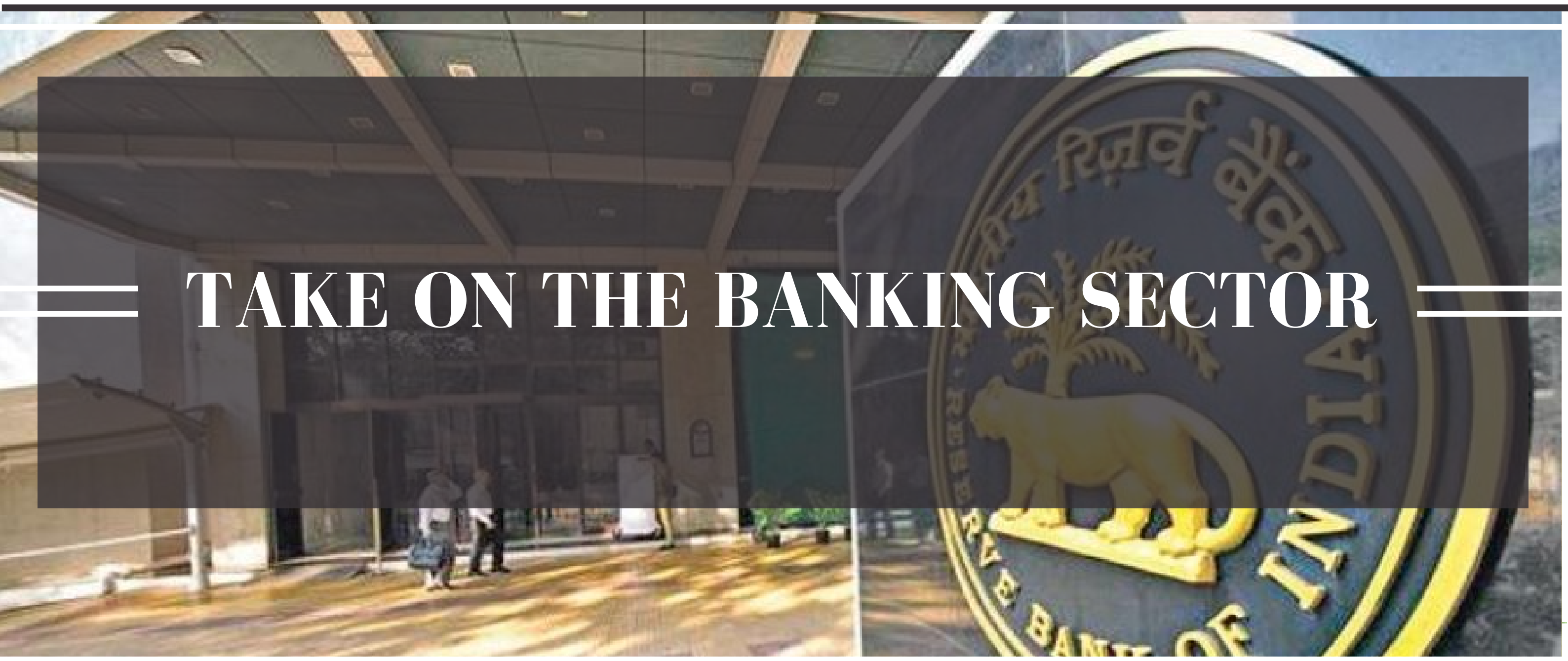
Our focus remained to explain how macroeconomic trends would affect the Indian individual. However, we eventually realized that it had become incredibly difficult for us to write with that viewpoint without even remotely talking about the most life-altering event that our generation has seen so far.

Nevertheless, we have still tried to be independent of the pandemic, in the hope of isolating certain issues that would have existed nevertheless. We have also covered other aspects of the Indian economy in this segment, in order to provide you with a more-or-less wholesome picture of what it looks like right now.

What we have understood from our research, and from all the guest pieces and interviews we have received, is that any solutions currently in the sphere of discussion look bleak. This is not to highlight the inefficiency of any existing structure, or to doubt the expertise of the people currently working on repairing the system.

Rather, it is to exemplify how we are headed at apoint of impasse, where we might just be boxed in and unable to escape.We believe that as students of economics, the banking crisis needed immediate addressing. So we set out to explain it in the most layman terms possible. I hope that you, the reader feel more informed in terms of having a general picture of things.

TAKE ON THE BANKING SECTOR



ABOUT THE INTERVIEWEE

Dr. Barendra Kumar Bhoi had served as the principal advisor and the Head of the Monetary Policy Department of the Reserve Bank of India, the Chief General Manager and the Head of the Research Department at the Securities and Exchange Board of India and as the Economic Policy Expert at the Central Bank of Oman.

Dr. Bhoi is a visiting fellow at the Indira Gandhi Institute of Development Research.

Dr Barendra Bhoi is a visiting fellow at the prestigious Indira Gandhi Institute of Development Research.

He served the Reserve Bank of India (RBI) for more than three decades since 1984 and held several responsible positions, including Principal Adviser and Head of the Monetary Policy Department at RBI during 2014-2016.

Dr. Bhoi holds a Ph.D. in Economics from the Indian Institute Technology (IIT) Bombay. His main areas of interest include monetary economics,international trade, and macroeconomics.

DR.BHARENDRA BHOI

He served as Chief General Manager / Head of the Research Department at Securities and Exchange Board of India (SEBI) during 2005-2007 and as Economic Policy Expert at Central Bank of Oman during 2009-2012.

'Do you think that the current banking crisis in India has somewhere its roots connected in the way the banking industry was initially conceived in India?'

"The current banking crisis can be attributed to several factors such as imprudent lending immediately after the global financial crisis (GFC), too many exposures to the infrastructure sector due to a near absence of investment banking in India, and the failure to ensure the end-use of funds borrowed. These reasons are of recent origin rather than connected to the purpose for which the banking industry was set up in India".

"Our banking industry was initially conceived to serve the economy through the dispensation of credit to all productive sectors with some social responsibility like priority sector lending. Imperfections in the credit market developed in the regulated regime have been largely removed through pursued since the early 1990s based on recommendations of the Narasimha Committees (1991, 1998)".

"Are the recent strict measures of the RBI such as Prompt Corrective Action for banks and emphasis on inflation etc. justified or it is that there is merit in asking for leniency?"

"Prompt Corrective Action (PCA) is a regulatory issue triggered by weaknesses in the balance sheet of a commercial bank. Asset-criteria have been put in place, any bank that falls into that category will automatically attract penal actions under the PCA. The balance sheets of banks under PCA are reviewed regularly and corrective actions are taken when warranted. It is most unlikely that a large number of banks would fall in this category at a time unless there are serious lapses in the supervision in detecting such weaknesses.

Despite prudent supervision, if the balance sheets of many banks are weak at a time, there might be a systemic problem in the industry, which needs to be resolved not through PCA but by alternative methods like recapitalization, securitization, mergers and consolidation, change in the management/ownership to ensure good governance, etc.

The outcome is less effective if the regulation is more lenient. Inflation control falls in the domain of monetary policy, which has been handled reasonably well in the flexible inflation targeting regime since 2016.

The decision making on policy rate is now vested with the Monetary Policy Committee, which takes a nuanced view in every two months based on the evolving situation. Inflation harms growth if it remains at a high level, say above 6% in India.

However, pursuing a tight monetary policy when the CP Inflation is below 4% can be debated. Similarly, liquidity management should be in sync with the stance of monetary policy failing which the objectives of monetary policy cannot be achieved."

"In light of COVID-19, how big of a problem is the existing base of NPAs going to affect Indian banks? How can that be mitigated?"

"The NPA problem has been a legacy issue, existing before the outbreak of the Covid-19 pandemic. The origin of the NPA problem can be traced to the ever-greening of non-performing loans by commercial banks, which received a major boost due to regulatory forbearance granted by the RBI by allowing restructuring of NPAs in the aftermath of the GFC. The NPA problem remained hidden until such time asset quality review (AQR) was introduced in FY16. Going by the lessons learned, the RBI has not gone for the restructuring of loans in the wake of the Covid-19 pandemic.

Nevertheless, the NPA problem is likely to aggravate due to contraction of the economy in FY21 following lockdown. If the economy records a V-shaped recovery and remains vibrant thereafter then the NPA problem may remain under control.

The resolution mechanism put in place under the Insolvency and Bankruptcy Code (IBC) is likely to take care of willful defaulters going forward.

If loans currently given to MSMEs become NPAs, then it will be mitigated by the government guarantee."

"Do you feel that the recent slump in real estate in India has affected the banking sector? Given the current scenario, what is the best mode of recovery for the same?"

"Due to large capital expenditure by the government, the construction sector has been doing reasonably well before the outbreak of the Covid-19 crisis. After the structural reforms like GST, RERA (Real Estate Regulatory Agency), and IBC there has been a move towards transparency.

The real estate sector, which has been thriving under non-transparent transactions, has to fall in line and has become consumer-friendly under RERA.

Slump in the real estate sector could be due torelatively low returns following compliance under RERA. Moreover, the government policy has been to promote affordable housing for the middle class through fiscal incentives and shelter for the poor people under the Pradhan Mantri Awas Yojana.

While government-sponsored schemes will continue, mostly under public-private partnership (PPP) mode the real estate sector has to adjust to the new normal to do business transparently.

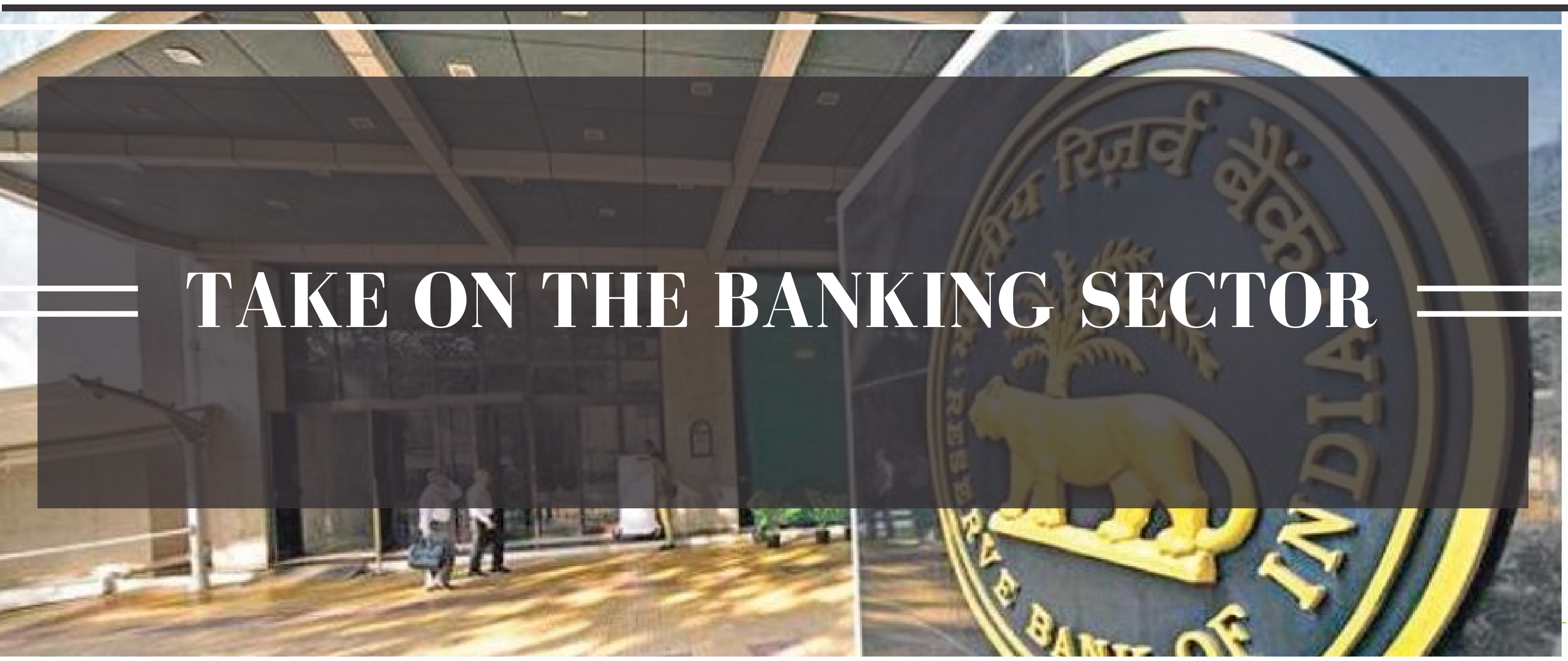
Unlike developed countries, Indian banks’ exposure to the real estate sector is not very high as individual housing loans fall in the category of retail loans. While individual housing loans are linked to the salary or the repaying capacity of borrowers, the NPAs in this segment is relatively low."

"Do you feel the current legislative framework lacks in making the banking industry foolproof? Why or why not?"

The current legislative framework for the banking industry is based on the global best practices, mostly prescribed by the Bank for International Settlements (BIS). Hence, India's legislative framework for the banking sector is robust. Banks have been asked to achieve global standards when their balance sheets are fragile. The legacy issue of large NPAs has to be resolved at the earliest failing which banks will continue to remain risk-averse.

The resolution mechanism under the IBC is a game-changer to differentiate between willful and non-wilful defaulters.

The RBI is also trying to improve governance standards through asset quality review, risk-based supervision, off-site monitoring, and separation of ownership and management.



TAKE ON THE BANKING SECTOR

ABOUT THE INTERVIEWEE

Dr. Rajat Kathuria is the Director and Chief Executive of the Indian Council for Research in International Economic Relations.

He has years of experience in academia and in policy, having worked with the World Bank, the International Labour Organisation, the UNCTAD, the Asian Development Bank and other organisations.

DR.RAJAT KHATURIA

"What is the infrastructural feasibility of launching 5G in India?"

"5G is essentially going to be a quantum jump from the previous generation. In fact, I believe that the incremental improvement in performance in the move from 4G to 5G will be far superior to the corresponding improvements due the evolution from 2G to 3G and 3G to 4G.

This non linearity will be due to the possibility of adding several dimensions beyond traditional voice and data through enabling technologies like Internet of Things (IoT), Artificial Intelligence (AI), Augemented Reality / Virtual Reality (AR/ VR).

New business models will emerge and use cases will also multiply beyond just driverless vehicles that has become common in the popular discourse.

Thus precision farming, smart grid management, smart factories could become a reality with 5G that offers massively increased data speeds and very low latency.

But there is no free lunch. To enjoy these benefits, we need resilient and pervasive infrastructure, especially fibre that connects geographies and homes, a debt liberated and truly competitive telecom sector and accommodative regulatory policy, including towards spectrum assignment - management.

An extractive spectrum assignment policy for 5G will defeat the purpose of the technology and we might just be better off sticking to the old.Z

The government knows this, and has to fight the battle within itself to ensure that assignment of 5G spectrum is done fairly and at reasonable prices, else 5G and its benefits will remain elusive"

"Experts are pointing out that the levels of NPAs are likely to double owing to increase in loans to stressed MSMEs as announced in the economic package. How can this problem of rising NPAs be solved by the govt.?"

This is a tricky issue. Even before the pandemic, demand was down due to falling growth. The introduction of GST in 2017 also impacted the MSME sector more than others. The pandemic has worsened the situation and the credit guarantee and liquidity support announced as part of the economic package will address the credit problem but not the demand slowdown. Until demand picks up MSMEs will struggle and therefore the best way to address the challenges for MSMEs will be on the back of a rising economy.

Adverse selection and NPAs are more widespread in the MSME sector. Both banks and businesses will become more risk averse and thus less willing to lend and borrow respectively. As it is often said the bad often drives out the good from the market. The riskier firms will wish to borrow more and the NPA situation might worsen. On the supply side of loans, it is the public sector banks that get more affected, because their exposure to MSMEs in particular is more due to various reasons.

So structurally, a few things need to be done in the banking system over the medium to long term. In the first place, government should focus on improvement in corporate governance. It should consider the suggestions of several committees that have recommended ways to ensure good governance by bringing transparency in allocation of loans so that it benefits the whole system. In addition, India needs to see increased private participation and expertise, in the banking industry to make it more efficient.

The public sector, which accounts for 70 % of the industry, should gradually be shrink but not at the expense of regulation, in fact we would need improved regulation of private banks.

These structural changes will help because often incentives in public sector are not only economic and that leads to NPAs..

"Which is a better method for the government when it comes to recapitalization of banks- direct infusion or equity sales by banks as public sector banks constitute a major chunk of the Indian banking market."

I suggest it should be a combination of both. One is a stock problem and the other is a flow problem. Giving capital infusion will make for a good beginning, but it should be accompanied by structural and governance reforms as I mentioned above. We have come to that state in the banking industry where we need capital infusion and it has been done. At the same time, it is desirable that the government start withdrawing from the industry slowly, and simultaneously strengthening regulation.

Regulation should uniform and a level playing field provided to everyone. If there are both private and public sector entities in a system, it is important for regulation to be unbiased.

Priority sector lending, for example, should be mandated for each and every bank. Naturally structural reform doesn’t happen overnight but we have a tried and tested recipe-start with disinvestment and gradually increase the withdrawal overtime.

"Given the increased popularity of work from home, online classes etc., we have seen a spur in demand of telecom and internet services, do you believe that it may have significant impacts on the economy, particularly the telecom sector? Is the effect going to be lasting or transient?"

The telecom sector, even before the pandemic had started, was creating large impacts on GDP. The reason for the high impact of the telecom sector on the GDP of India is that it cushions the deficiencies in other forms of infrastructure that either do not exist or are still weak.

Because telecom is fairly advanced in India and is at almost the technology frontier, it was able to create the GDP impacts. Many studies show that every 10% increase in telecom investments could potentially boost GDP in the range between 1.5% 3.2%.

At the micro level, these gains manifest in businesses becoming more efficient and competitive, increasing markets and improving backward and forward linkages.

It also helps create new business models. Much like roads and electricity before it, telecom infrastructure in modern economies has characteristics of a public good that produces substantial economic and social benefits.

For example, greater information access is a big benefit of the digital revolution. Asymmetric information was a massive problem for India but with digitalization, information problems have reduced, although not eliminated! Digitalization helped in overcoming some of the problems that asymmetric information created.

The pandemic has intensified the digital shift. Demand for online services has surged due to work from home, social distancing and immobility in general. By and large the networks have been coping and are running at 100 percent capacity, up from around 75 percent at normal times.

Amazon is hiring more staff, Netflix has seen a surge in share price and has added more than 6 million subscribers globally this year and Zoom has become a household name just like Google before it. If 'to Google' means to launch a web search, to Zoom is now a verb indicating the conduct of an online meeting or webinar.

This should have spelled good news for the sector and indeed, it did to some extent because more revenues are coming in because of increased demand for some services.

Meanwhile it is also well known that the telecom sector is reeling under a debt burden on account of license fees payable to the government. But not only, some of it are due to its own indiscretions. That is another story, though.

The cost of purchasing spectrum in the auctions, setting up towers and getting clearances from State governments continue to be challenging for the sector.

The damage due to technological change, what Schumpeter called creative destruction, has happened apace but that's a business risk that needs to be accommodated and not a reason for bail out. For example, SMS revenue streams got disrupted because of the emergence of the app economy, long distance calling and roaming similarly died because of WhatsApp and Skype to name two.

What will happen over time? I would like to compare what is happening now in the telecom sector with the shift that occurred in 2016 due to demonetization. The immediate aftermath of demonetization was that there was a spike in digital financial transactions.

When cash came back into the system, the digital transactions fell back to ground zero, but if one takes a longer term view, there was behavioral change happening unnoticed. People had become more aware and more amenable to use digital financial transactions.

There are a lot of reasons people do not use the digital transactions, such as risk or illiteracy. But once you are forced to use it, people adapt and learn.

Overtime once the vaccine is developed and things limp back to normal, there might be a greater willingness to work from home and some of these changes could have a lasting effect. Coming back to the sector, it is facing challenges and there is likely to be consolidation.

Telecom is not going to be a market for weaker players anymore, it is the big boys that compete. It might not be bad for the system but we need to ensure that it does not become an unfettered monopoly".

"Having studied the economics of the G20, there has been a rise of protectionism in the recent past and now during the ongoing pandemic, everybody is talking about self-dependence. Do you feel that global economic cooperation is required for recovery from this pandemic?"

"I feel looking inwards and becoming closed during a pandemic is a natural and obvious response from national governments, but not necessarily the optimal one.

For example, developing a vaccine will require collaboration rather than antagonism. From India's perspective, if we wish to make India globally competitive and participate in regional or global values changing, more openness and more certainty will be the right response.

At the global level, I think G20 is the right forum to discuss and push back on protectionist policies.

A collective global problem like the pandemic needs a collective global response and I think the G20 is the perfect global institution to put something into place so that the countries do not become unreasonably protectionist. That would create more harm than good."

"Moody’s has downgraded India’s rating for first time in 22 years. On other hand, Fitch has specifically targeted the top Indian banks like SBI, Axis bank, ICICI bank under its downgrading. Is it really a matter of worry for India to receive such ratings and if yes, how is this going to affect the interests of depositors in banking sector?"

The rating game is part subjective. In 2017, the Economic Survey of India took a swipe at rating agencies for their bias.

For example, countries like Greece were given very high ratings despite fudging figures and having an abysmal growth outlook. Having said that, there are different estimates of the potential growth of India post COVID-19

If the estimate of the new normal is much lower (it will be lower no doubt, but how much is the question) than what it was pre pandemic, then there will be a difference in rating.

A higher potential growth will earn India a better rating.As I have mentioned it earlier, the banking system needs structural reforms. Some have begun, but structural changes take time.

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A higher potential growth will earn India a better rating.As I have mentioned it earlier, the banking system needs structural reforms. Some have begun, but structural changes take time.

Other related changes such as the Insolvency and Bankruptcy Code (IBC), creation of RERA (Real Estate Regulatory Agency), will help banks if they work well.

Right now because of the pandemic we are troubleshooting i.e. trying to adjust to the immediate challenges. The stabilization phase and the transformation phase of the economy will come much later.

Going back to the downgrade question, I feel it is temporary and one agencies view. Given the domestic risk aversion in the regulatory process, I don't think depositors need to be worried.

And once economic revival begins, it will calm everybody!"

"In the future, we can see that there will be a tremendous shift towards digital banking because it is a safe mode of making transactions without the need for physical presence. What kind of technological and procedural steps need to be taken to facilitate this transformational change?"

"As far as India is concerned, there are still a number of people who are outside the banking sector. Digitalization helped tremendously to make banking more inclusive. The JAM trinity (Jan Dhan accounts, Aadhar, Mobile) was designed to help the poor open bank accounts. Aadhar provided biometric-authentication, and mobile phones helped increase the reach of services.

On both the demand and supply sides, digitalization has provided an opportunity to make the banking sector much more inclusive. Technological developments like the United Payment Interface (UPI) has pushed the system along. UPI is a very good example of something that has been developed in India and is beginning to be exported to other countries.

India has become a role model. UPI allows is an app that allows you to transfer money between bank accounts without the need to provide sensitive information like bank details each time you make a transaction.

The digital system will always be subject to vulnerabilities and therefore we need safeguards to protect the customers. Our approach to banking and finance has more often than not been risk averse. For example, India introduced a two-factor authentication procedure for making digital transactions. A lot of people were against it in the beginning but now it has become normal.

At a macro level, digital transactions are a necessity in India given lack of access to physical banks in remote areas. Even otherwise it makes the system so much more efficient. Other countries are looking at India to learn how to run a complex system like UPI with safeguards for such a large population.

It could earn India some export revenue but much more that, it could earn India a lot of goodwill that we could do with."

TAKE ON RBI MONETARY POLICY

ABOUT THE INTERVIEWEE

Karan Bhasin is a consulting editor for Economics at Swarajya Magazine, and actively writes for Mint magazine.

He has done his Masters' in Economics from the prestigious TERI School of Advanced Studies, New Delhi. His interests include monetary economics, institutional economics and analysing financial crises.

"The RBI has been incredibly active in cutting interest rates over the past year. However, borrowers haven't benefited at all the same, since the Weighted Average Lending Rate for Commercial Banks was constant throughout 2019. What could be the reasons for the same?"

"So, I disagree with the first part on RBI being active in cutting rates. One of the key issues I have been highlighting has been the slow pace of rate cuts.

Consider the rate cuts announced last year, they were broadly consistent with the fall in inflation (on an average) and therefore, the real repo rate remained constant.

Macroeconomics is about real variables, but somehow the focus in India has been on the nominal rates.

The key issue has been with regards to the conduct of monetary policy under the new framework and there are two reasons why the cost of borrowings has been high.

First is the slow pace of money supply growth, RBI’s balance sheet grew 10.8% between 2014 to demonetization while from demonetization to now it grew by 8.6 per cent. In contrast, our nominal growth between 2014-demonetization grew at 11.2% while post demonetization it has been 10.3%

The other issue has been of small savings rates which were significantly high compared to the moderation of inflation. Both of these factors combined with government borrowings and limited yield curve management throughout 2019 are in my view responsible for high cost of capital."

"In the past year, several banks have also cut interest rates on term deposits, considering the lack of credit demand and how people are more likely to save in the current situation. In a situation where banks potentially lower interest rates on loans, do you see that changing?"

"So, I have been advocating for substantial moderation in interest rates for many reasons. But first on the savings side of it—savings depend on two things, income and interest rates.

I think the moderation in rates has more to do with the high output gap and the reduction in repo rates. The present COVID-19 situation could result in more companies seeking finance to restart their business and therefore, lower cost of capital will be of essence here.

Also, lower rates of loans reduce the burden on even households that have borrowed or are planning to borrow, especially for mortgage loans to finance purchase of real estate.

Therefore, I think lower rates are essential at the moment to our economic recovery."

"How would you weigh the recent Long Term Repo Operations done by the RBI against cuts in the interest rate? Why is the Central Bank now resorting to these unconventional tools?"

"So, LTROs are important as transmission has been broken over the last couple of months and therefore, through LTROs, RBI is providing low cost capital to banks.

These measures are essential because rate cuts without transmission won’t be of any help. It is precisely this reason why the LTROs are an important weapon in the arsenal of the RBI.

Now even the small savings rates have been cut, however, we still may need some Open Market Operations and LTROs over the coming few months.

Essentially, the growth of the monetary base may have to be marginally higher going forward."

"Given the fact that credit demand was already unaffected by cuts in interest rate, what is the point of cutting rates further due to coronavirus?"

"One of the reasons why the demand was low was because of transmission issues. One of the factors worth reiterating is that India's real rates were negative till 2012 when inflation was exceptionally high. Since then, there has been a serious moderation in inflation while the rates have been sticky. This resulted in one of the highest real costs of capital. Besides, Covid – 19 and the subsequent lockdown has resulted in a cash-flow mismatch where firms are shut so they don't have cash inflow but their commitment in terms of salaries, fixed costs etc continue.

Therefore, lowering the cost of capital will reduce the cost of past borrowings for those with floating rates of interest.

Many firms will borrow to finance some of the cash outflow as they have limited savings and low cost of capital will be critical in reviving economic activity."

"Is the Monetary Policy Committee's prioritisation of inflation over growth valid? What needs to change?"

"Price stability is important. However, the current Monetary Policy Framework has revealed problems associated with inflation targeting in India.

More than the framework, it has been the interpretation of it which focused on 4 per cent inflation as the ceiling rather than the mid-point of the 2-6 per cent band which has been problematic.

Moreover, conventional monetary policy revolves around the neutral real rate of growth which the MPC indicated to be 1.25%, however, despite inflation being below 4 per cent, the real rates were higher than 1.25.

The solution has been to shift to a dual mandate for growth and for inflation while prioritising growth.

The RBI at present has indeed shifted to prioritising growth over inflation and the MPC too seems to be changing its stance, however, a review of the MPC framework would be needed and appropriate changes must be made."

"Do you see banks which are under the Prompt Corrective Action framework contributing to improved credit flow due to the rate cuts, considering the restrictions on lending imposed on them due to PCA?"

"Two issues are important here. First is the Asset Quality Review, Basel norms and the eventual PCA framework. These norms need to be revisited for India and especially for public sector banks which perform several functions.

Restricting banks from lending will not help improve their capital adequacy over time and this is precisely the reason why several banks have been in the PCA far longer than needed.

The second issue is of credit flow, and I'd argue that credit offtake from banks has been poor even as the demand for debt was there as companies borrowed nearly 3 trillion rupees through the ECB window.

Banks had parked the surplus liquidity in the reverse repo window, especially the PSBs while most banks had been pushing for personal loans over the last couple of weeks.

The reverse repo cut announced recently by the RBI will be significant in improving credit flow.

However, we do need to revisit some of our banking regulations in order to strengthen India's financial system which depends heavily on its banking and non-banking finance sector"

TAKE ON THE LENDING SYSTEM

ABOUT THE INTERVIEWEE

Dr Santosh Mehrotra is a Professor of Economics at the Centre for Informal Sector and Labour Studies, School of Social Sciences, Jawaharlal Nehru University. He was Director-General of the Institute of Applied Manpower Research, as part of the erstwhile-Planning Commission of India.

He has spent 15 years with two major UN agencies, and was Chief Economist of the UNDP’s global human development report. He has done his PhD from Cambridge University. His expertise lies in the areas of poverty, skill development, labour and employment.

"Would you relate the current banking crisis with the initial conception of banking in India or its history in India?"

"The banking sector in India from 1947 to 1969 was largely in the hands of the private sector. In was in 1969 that an act to nationalise the banks was passed in the parliament, which led to the conversion of a majority of the banks into scheduled commercial banks under the public sector.

You are right in saying that the roots lie there, as the banks were asked to open new branches and engage with more customers—with many people who till then had no bank accounts, for example in rural areas.

The number of banking centres expanded in the rural areas as a result. That was, without a question, a good thing. The share of the population with bank accounts expanded and the share of institutional credit in total credit also increased.

What do I mean by that? Private Banks would usually lend to customers they felt were profitable. On the other hand, an objective of the public sector banks was to extend credit to people who would not have been otherwise able to borrow from the banks and borrowed instead from the moneylenders.

They became more corporate-oriented, and the expansion of branches reduced. The share of institutional lending started falling as well. The point is, as the banking sector remained in the hands of the public sector even as the growth rate of the economy increased dramatically and the demand for credit grew, more so, after 2000.

It increasingly came under political influence. As is implicit in your question, the way the banking sector has been organised has played a role.

So, there are problems, and I have certainly argued in the recent times that there has to be much greater divestment into the private sector of the public sector banks, in other words, the shareholding of the public sector banks needs to move to people like you and me and private investors.

That will make them much more competitive. Unfortunately, the banking sector is too much under the control of the Ministry of Finance, and somehow, there is also a tussle between the RBI and the ministry over who has the control over public-sector banks.

Thus, the public sector sought to extend services to rural areas and also the medium and small scale enterprises, which were earlier mostly reliant on non-institutional sources.

The share of institutional lending rose considerably after 1969 and reached about 62% by 1990. After the reforms of 1991 however, banks were no longer expected to remain instruments for development or social service only, but to generate profit too.

This is not the first time that the NPAs have risen; they were very high in the beginning of the 2000s too. The dream-run of the economy began from 2004, India growing at around 8% per annum from 2004 to 2014, which was unprecedented in Indian history and banking also grew.

Under political influence, however, some people, especially corporates were given loans much more than they deserved, and there was gold-plating.

This is a real issue. The Jayendra Nayak Committee has recommended some governance reforms four-five years ago.

So, you are right that the way the banking sector is organised has in part, a role in the NPA problem, which is likely to get worse in the aftermath of the pandemic."

"Do you believe the banks should be lenient when lending into the poor, say, for small scale businesses etc. in the presence of added risk?"

"They are already lenient when itcomes to, say, the MSMEs, in the sense that there is a requirement for the public sector banks, to ensure, through the modality of ‘Priority Sector Lending’, priority to the agricultural sector and the MSMEs. Agriculture has 22% (points) out of the 40%, and the remaining 18% (points) is for the MSMEs.

So, these sectors are already prioritised. But having said that, within the SMEs, the banks tend to lend the comparatively larger ones more.

The micro-enterprises, as a result, get ignored altogether, for the obvious reason that the banks do not seek to incur the transaction-cost of dealing with too many customers.

So they would give more to the medium ones compared to the small ones, and more to the small ones compared to the micro ones. It is for this reason, that about 6-7 years ago, the Nachiket Mor Committee, if I remember correctly, recommended that out of the 18%, about 8% should be allocated specifically for the micro sector. Whether that has been implemented is a different question.

A real consequence of the situation is that, of all the lending, only about 23% goes to the MSMEs, which is a bit problematic because they account for a lot of jobs, and I am told, for about 40% of the exports and 45% of the GDP.

The 23% figure for the public sector banks does appear to be less in this context, also noting that even within the MSMEs the larger one receive more. But the government has developed other institutions such as the Small Industries Development Bank of India (SIDBI).

So while there is no question that more is to be lent to the MSMEs; that can be done through the SIDBI—the SIDBI needs to be strengthened because it knows and understands the issues of the MSMEs, that is its function.

Perhaps one or two of the ordinary banks can be made to specialise in the MSMEs. This is in fact, one of the reforms that can be undertaken."

"What are the most urgent banking reforms do you believe must be taken, regarding the current problems, say the NPA issue?"

The first reform I believe is that the public sector, meaning the government, should shed some of its shareholding in public sector banks. Do not misunderstand me— I am not talking about privatisation, but a larger shareholding of the private sector and ordinary individuals who are retail investors.

Because while public sector banking is a strength of our economy, it is also a weakness as it tends to be subjected to political pressure, which is absolutely unacceptable in the banking system. Secondly, governance reforms within the banks must take place before the Ministry of Finance puts in more taxpayer money to recapitalise the banks.

"Do you believe the banks should be lenient when lending into the poor, say, forsmall scale businesses etc. in the presence of added risk?"

There is no point in putting good money into the bad because if they do not change their behaviour and do not investigate people who try to borrow large sums of money with more diligence, you will continue to see the kind of phenomena that is exemplified in the large NPAs on the one hand (about 12 companies accounted around 4 lakh crores) and that you get frauds of the of kind Nirav Modi and Mehul Choksi have committed on the other. Why is it that not many such incidents are seen in the private sector? So, while I am not making the case for selling our banks to foreign banks or similar things (our private sector banks such as ICICI and HDFC already have significant foreign shareholding), while I am not asking to sell our public sector banks to foreign banks, they should behave and compete with the private sector banks apart from competing with each other.

A certain amount of corporatisation of the banking sector needs to be done and unless this happens, no more recapitalisation should be there. I would say that these would be the two most significant reforms. Thirdly, months ago, the government merged several of our banks, so the total number of banks fell from something like 24 to 12. The mergers might have been a good thing, but the timing was wrong. What has resulted is that the banking management is now more concerned with ensuring convergence of culture of different banks which have worked in different areas and have had different areas of advantage, coping etc.

While their focus should be an expansion in lending because unless lending increases, the banks will themselves not make profits. The falling growth rate of the economy will also not revive because investment has been falling consistently over the last 5-6 years. The fact that banking reforms have not taken place in the last 5-6 years is a great tragedy as we have a slowing down of investment, slowing down of the economy and joblessness. Job growth has been very slow while young people like you are entering the labour force.

The fact that banking reforms have not taken place is very unfortunate for all of us ordinary citizens. Because the banks have been provided with high liquidity and corporates are not borrowing, they started lending to the NBFCs, which in turn lend to the construction sector.

The construction sector was not doing well as the economy was not doing well, and the NBFCs began to come apart. As this happened, you have an even greater crisis in the financial sector.

The banks suffer from extremely high levels of NPAs, at the same time, as the NBFCs which had been lending to the MSMEs could not lend anymore, the problem was doubled. This posed a serious constraint to the growth of the economy.

"As someone who has worked on conditional direct cash transfers, do you feel direct cash transfers are a better way to stimulate the economy and relieve the poor than going through conventional financial institutions in this crisis?"

No question about it! There is a major problem with the so-called 20 Lakh Crore stimulus—20 lakh crore amounts to a lot of money, about 10% of the GDP, but only about 1% is in the form of a fiscal stimulus to deal with perhaps the most severe crisis in the history of independent India. The government hopes that banks will lend and that by taking supplyside measures, enhancing the liquidity of the banks further, MSMEs will suddenly start borrowing more. Why will they borrow if there is no demand? This is a very poor understanding of macroeconomics on the part of the government.

Let me contrast this with 2008, when I was a part of The government initiative, the Planning Commission, in fact, we came up with a fiscal stimulus of around 3-4% of the GDP.

That was not even as great an economic crisis for India as the current one. Yet, the size of the fiscal stimulus is only 1% now, and in that, there is hardly any cash transfer.

I have authored a paper, in which I have argued for cash transfer to about 70% of rural households and about 30% of urban households, who can be easily identified.

The number of households who have bank accounts has increased significantly in the last 10 years, partly but not entirely on account of Jan Dhan, the number of bank account holders was rising already, as I told you earlier, on account of say nationalisation and also later on due to the MNREGA, which enabled the opening of about 100 million bank accounts among the poorestpeople, these were landless labourers etc. They worked under MNREGA, they were likely to have not had bank accounts at all, and then they started getting their wages through direct cash transfers.

The point is, we currently have the infrastructure in place for direct cash transfers. We also have universalised AADHAR now.

About half the people of the country (around 600 million) had already got AADHAR by 2014, and now we have almost universal AADHAR card holding.

Therefore it is now possible to use AADHAR, bank accounts and identify the households using the Socio-Economic and Caste Census to make cash transfers.

The cash transfer would serve the following purpose—they would increase demand immediately, which is what we need to recover from the current crisis. You can provide 2000-3000 Rupees per month for a few months and then reduce the amountonce the economy revives.

I have argued for this in a long paper for ICRIER, which will appear, actually, tomorrow (the interview was conducted on the 16th of May). This is a very important means for increasing demand, especially as a part of a fiscal stimulus.

People will start spending money and as they start spending, especially the poor, the demand for the products of the MSMEs will grow, they will produce more than what they have been able to (as unemployment has risen very sharply after the pandemic, which was already a 45 year high in 2018.

Youth unemployment has tripled in fact from 6% to 18%, and for graduates like you, it was about 33% and I believe it can be higher now). It is thus critical to initiate cash transfers as early as possible."

"As an expert who has influenced policy regarding SHGs, what changes regarding the functioning and administration of SHGs and Cooperative Banks would you suggest to strengthen their role in this crisis given the reach they have among the poor?"

"SHGs play an extremely important part in the rural economy. Please appreciate that until 2008-09, there was the Sampoorna Grameen Swarozgaar Yojana, but very little lending was taking place via the SHGs, across the country, except two places—Kerala and undivided Andhra Pradesh.

In Andhra Pradesh, there was a programme called the Indira Kranthi Patham and in Kerala, there was the Kudumbashree.

SHGs were present across all the rural areas in Kerala and Andhra Pradesh. That was an excellent model. As someone who headed the Rural Development Division of the Planning Commission, I was a member of an expert group which recommended that we should follow a revised national programme for SHGs akin to the Kudumbashree model.

That is exactly what was implemented in the National Rural Livelihood Mission, which came into existence in about 2010.

The point is, the NRLM has done extremely well and is playing an important role especially in the light of the following situation—we live in a country where the women’s labour force participation rate is declining for a long time. Most of the women in past had worked in agriculture.

When the poorly educated adult women left agriculture, they started to work with SHGs in non-farm work. This helped enhance the livelihoods of their families. As agriculture is getting more and more mechanised, the activities in which women were engaged, such as winnowing require less manual labour, the women are losing work. Thus, the SHGs must be strengthened without a doubt.

It is good that in the post-pandemic stimulus package, there is some element of support for the SHGs. They must certainly grow.
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Coming to the cooperatives, they have not had a considerably good history in our country. They can be provided with more support, but we would not want to support them in a manner that leads to, say, more NPAs. Who will support the cooperatives in such a case? The cooperative banks are essentially subsidiaries of the public sector banks.

o first of all, we have to reform the public sector banks, and only then can we proceed to reform the cooperative banks.

o,my take is, the focus should be more on the SHGs and to an extent, lesser on the cooperative banks, until and unless the public sector banks are themselves reformed."

"Moody's has downgraded India's rating for the first time in 22 years. On the other hand, Fitch has specifically targeted the top Indian banks like SBI, Axis Bank, ICICI bank under its downgrading. Is it really a matter of worry for India to receive such ratings and if yes, how is this going to affect the interests of depositors in the banking sector."

"If it comes to things that may affect the interests of the investors and depositors, we should worry more about getting our economy going again. There should be a proper fiscal stimulus, even if that means a wider fiscal deficit.

What matters is the economy, if the economy revives, rating agencies such as Moody's will themselves change their mood. It is necessary to do everything possible to revive the economy at this point.

There in fact, are not many corporates who want to borrow internationally at this point—they are not even borrowing domestically, borrowing internationally is the last thing to do.

This is particularly the case as the Indian Rupee seems to be weakening and the repayment costs for those who borrow internationally today will get worse. That is not a good idea in any case."