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State of Economy-I: Vital Economic Indicators Suggest a Longer Slowdown

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MONEYLIFE

The political discourse this election season has grabbed the attention of the voters, but it offers little to soothe them as the Indian economy is far from being in good shape.

The economy, which braved a global slowdown and recovered from the pangs of 2016 demonetisation to stage a recovery in early 2018, is in the midst of yet another threat of a slowing GDP growth rate with an ever growing population.

The vital macro-economic data suggests the new government after polls will inherit an economy slipping downhill.

The latest shocker for the economy has come by way of third quarter GDP growth (FY18-19) numbers. In the October-November period, growth slipped to 6.6% of GDP, slowest in the last six quarters. What is worrying is the downward revision of the growth forecast for the fourth quarter.

The government's Central Statistics Office (CSO) has already trimmed its 2018-19 growth forecast to 7% from 7.2% estimated in the previous month.

An indication that current slowdown in growth rate is here to stay, international agencies such as Asian Development Bank (ADB) and International Monetary Fund (IMF) along with country's apex bank, the Reserve Bank of India, have also cut the GDP growth forecast.

A Kotak Institutional Equities report has even pointed towards growing unease in the corporate sector over the prospect of the economy to provide them returns over sudden deterioration in the short-term demand narrative.

"We see a major shift in tone (for the worse) on short-term demand narrative in the management commentaries of the companies that have reported thus far. When a generally-measured management like (Hindustan Unilever) HUVR's uses the term 'recession' in its comments in the post-results presser, it generally isn't a one-quarter blip," the report has said.

This also indicates that growth is not the only factor. Along with slowing GDP, private consumption appears to have declined in the first three months of 2019 and it is the government spending that is preventing a faster slide.

"There is a lot of probability that the rural distress has caused a slowdown in consumption. Consumption propensity is very high in the rural income and rural areas. I think rural distress and disruption of the informal sector have affected consumption and brought down GDP growth," said Montek Singh Ahluwalia, former deputy chairman Planning Commission.

Echoing similar sentiments, CRISIL's chief economist DK Joshi said that current slowdown is more broadbased as it is affecting both urban and rural areas. "Though it is affecting everyone, the slowdown is more prominent in rural areas. The growth has also slowed down primarily due to rural distress. Rural income is not growing and this is reflecting in the slowdown in consumption," he said.

However, he also said the slowdown that we are seeing is 'cyclical'.

Agriculture sector will throw up fresh challenges for the new government as not only the promised doubling of farmers income is nowhere near, faulty procurement policy and bumper production have depressed prices pushing farmers into abject poverty.

"While it is well known that the resilience of crop yields, one of the success stories of Indian agriculture, along with a poorly executed procurement policy have led to depressed crop prices, it is not so widely known that the "informal" sector in many parts of rural India is yet to recover from the multiple disruptions over the past several months," said a report by JM Financial.

"A reflection of a decline in private consumption is also reflected in the steep decline in the growth of two-wheeler sales, towards the end of the year. The expected firming up of government consumption expenditure in Q4 of 2018-19 is on course as growth in cumulative revenue expenditure of the Central government has been higher in recent months," as per the finance ministry report.

Two-wheeler sales, for instance, contracted by around 20% in February.

Combine the slowing growth with rising fiscal deficit that already ended up higher than budget estimates and increasing current account deficit on rising oil prices, the economic situation is expected to remain stressful even in FY20.

The government has already acknowledged the stress. The finance ministry in its latest Monthly Economic Report for March 2019, has said that Indian economy seems to have slowed down slightly in 2018-19 due to muted exports, declining growth of private consumption and tepid increase in fixed investment.

Though the exports logged a 9% growth in FY18-19, it is not in proportion to the growth of the Indian economy. Exports still stands lower at 11% of GDP in FY18-19, down 5 percentage points from 16% in FY13-14.

The odds are also stacked against exports growth in the coming months, as projections of global economic growth has been cut by multilateral agencies such as the International Monetary Fund (IMF). This would mean that that even if Indian exporters are pushing up overseas sales through various initiatives, they would find it difficult to woo buyers as they would not be interested over their shrinking purse size.

The easy run of current account deficit (CAD) could also be under pressure in FY19-20, if Iran situation escalated and current oversupplied oil market ends in a deficit. India reduced its import bill substantially in past few years due to lower oil prices.

If this advantage is lost, that looks a possibility with crude already rising over 30% this year (since January), it becomes a problem for country's balance of payment. It is estimated that with every $10 per barrel rise in oil prices, the CAD gets impacted by 0.4% of GDP.

While its true that although the extent of the current account deficit (expected at around 2.6% in FY18-19) is not as large as the one that was seen in 2012-13, a widening gap tends to push up the inflation rate and impose checks on the economy's growth potential.

To bridge CAD, capital inflows from abroad or foreign direct investment (FDI) plays a key balancing act. Though FDI inflows have been under stress for few years, investments have not come capital intensive and manufacturing sectors that have a multiplier affect in the economy and have big contribution in job creation.

The ongoing trade war, between the US and China, is affecting global trade in general and undermining India's exports recovery prospects. And if the global economy remains troubled, India may not receive steady inflows of FDI.

Corporates are the ones suffering poverty in more ways than one

Swami Agnivesh

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Corporates owe banks, and the public, crores. They're the ones suffering poverty in more ways than one.

Language is a unique gift, and it needs to be used with care and integrity. We use words as clichés by habit, without paying any heed to the reality we seek to denote. We refer, say, to some people as very “rich” — our list of billionaires is growing by the day. In the near future, India is slated to sport more billionaires than any other country, including the US.

But a billionaire need not be rich. As things stand, most of our billionaires are, factually speaking, the poorest in India. We do not know the extent of debt that our corporate giants owe individually to banks. Now, banks don't produce money. The people of India do. It is our money parked with banks that the corporates siphon away. As per the latest count, the gross volume of non-performing assets stands at Rs 120,00,00,00,00,000!

You and I, and a billion others like us, cannot come anywhere near this Himalayan amount. Just imagine, only a handful of our billionaires are carrying all this burden. You and I would have been crushed under it. But they go on merrily, living like old time potentates at dizzying summits of insanely wasteful opulence — with our money. Each day, their indebtedness to us is increasing. No one gives a thought to their mounting misery. You and I would have gone mad. Farmers would have committed suicide in tens and thousands, like so many of them have done for indebtedness that is laughably meagre.

But our long-suffering corporates live cheerfully under astronomical debt without a thought on their minds. That's fortitude of mind, folks.

This mythological resilience, this supernatural capacity for cheerful endurance in the face of gigantic adversity, is assuredly to their credit. For that, let us call them brave. Let's call them men of stoic fortitude. But let's not call them "rich". No, they are poor. They are the poorest in India! You'd agree that if I owe you a thousand rupees and someone else owes you only a hundred, I am poorer than him. Then how come we are unfair to these hapless fellow Indians, crushed under mind-boggling amounts of debt? It is only because these amounts are too big to be stated precisely, that the Reserve Bank of India is finding it difficult to comply with the Supreme Court directive to reveal details pertaining to NPAs. How do you count these amounts? Have you ever thought of that?

To get an idea of the brain-scattering magnitude of these numbers, consider the plight of Arun Jaitley, the finance minister. He was denouncing the promises in the Congress manifesto to set apart six per cent and three per cent of our GDP for education and health, respectively. Together, they comprise nine per cent of the GDP. Jaitley went on to say that our GDP stands at Rs 27 lakh crore. Nine per cent of the GDP is already 18 lakh crore, said Jaitley. Then what is left for anything else? It is tempting to ridicule Jaitley; but I won't. The sums are so astronomical. But, let that be. Let's return to our billionaire mendicants.

Forget about the debt burden they struggle under. Ask, "what does it mean to be rich?" What is the yardstick we should use for measuring richness? The king of Bhutan would say, "use the happiness yardstick". Is there a positive correlation between wealth and happiness? Will you be happier if tomorrow, instead of being a millionaire now, you find yourself, thanks to the politically-induced profligate generosity of our banks, a billionaire? How much more will you eat? (Already you resemble the inflated bull-frog that figures in Aesop's Fables) How much will you spend on your wardrobe and costumes? Do you think gilding your coat with your name a thousand times will make you feel richer? Or being carted around, like a piece of dressed turkey, in an obscenely expensive car? Or, a battery of a thousand servants showering attention on you? Or a bevy of flatterers fawning on you? Or, "your" money, stolen from the poor of this country, affording you endless forays into the dark corners of sensual and criminal delights? Have you seen anyone lost in mazes of sensual indulgences looking other than blasé and weary; at best, lugubriously effete and hollow?

It is a downright folly to equate the richness of life with material possessions and conspicuous consumerist excesses. If you stand gaping when told that the annual electricity bill of a particular fellow Indian is Rs 70 lakh, kick in the pants to bring you to terra firma. What you are gaping at is not a display of wealth, but the naked dance of poverty. Not just poverty, but poverty compounded with criminal dishonesty, crass selfishness and a sub-human incapacity to feel any sense of shame. Can you imagine a model of poverty worse than this?

Given the way things are, it is futile to expect that governments will bell these corporate cats. They have outgrown governments. Politicians have become their vassals and courtiers. If anything is to happen to remedy the situation, and to save the country from economic ruin, the people of India have to wake up to an ethically enlightened idea of human richness and poverty. When a society makes it clear that stolen wealth — irrespective of how indirect the theft is — makes a man repugnant and that he is not entitled to respect and depravity at the same time, there will be a change. The ongoing worship of wealth — which has peaked under Narendra Modi's watch — is a disaster waiting to erupt. India is on the brink of an economic crisis. Corporate covetousness has taken an insufferably huge toll on our economy. Our national debt stands at over Rs 80 lakh crore. No number-crunching, data-dressing and propagandist flourish can window-dress the stark reality. The truth remains that we, who readily equated human richness with material wealth alone — not any less than our unconscionable corporate giants and their political collaborators — are to blame for nudging this country closer and closer to the brink, in the name of development.

Amid flight of executives, SBI may seek court-appointed receiver to run Jet Airways

K Ram Kumar/Forum Gandhi Mumbai |BUSINESSLINE May 16, 2019

With the top management of Jet Airways resigning en masse, State Bank of India, the lead lender to the airline, may seek to appoint a court-appointed receiver to manage the affairs of the debt-ridden company.

"As bankers do not have the capability to run the airline, there has been a request to appoint a receiver. For this, the lenders will have to approach the NCLT (National Company Law Tribunal) or the High Court. SBI may come up with a list of two or three aviation experts to be appointed as a receiver, who will look after the interests of the airline," said a banking industry source.

Earlier this week, Jet Airways CEO Vinay Dube, CFO Amit Agarwal, Company Secretary and Compliance Officer Kuldeep Sharma and Chief People Officer Rajhul Taneja quit the company, citing personal reasons. Whole-time director Gaurang Shetty has also resigned.

The airline temporarily shut operations on April 18. It is estimated that Rs.8,000 crore will be needed to resurrect the airline, whose total debt stands at over Rs.14,000 crore.

Day-to-day operations

Another banking source said the lenders have to ensure day-to-day issues — including engaging with employee unions — are being taken care of.

"The new manager will have to be given legal backing to function effectively; hence, court approval would be needed. Even if the airline is not operational, the company needs to be preserved during the hibernation period," said the source.

Also read: IndiGo CEO writes to staff, says growth strategy is unchanged

So far, more than half of the airline's fleet has been de-registered and the slots have been temporarily given to other airlines. Jet's earlier employee base was 22,000, but many have subsequently resigned. The airline had also terminated 50 employees across its international destinations.

A case is being heard by the Labour Commission on non-payment of salary dues, which could get stalled without any management representation during the hearings.

Meanwhile, SBI has approached the unsolicited bidders — London-based AdiGro Aviation, UK-based entrepreneur Jason Unsworth and Mumbai-based Darwin Platform Group — to explore the possibility of finding an investor for Jet Airways.