DECCAN HERALD AUGUST 29 2015

"Act Fast for Gainsa" by SLRAO

Our political masters assure us that India is in a sweet spot despite the meltdown in China and consequently in globa stock markets. Oil prices areat record low levels and there is now speculation that they might drop from $40 to 20 a barrel.For a country whos main import is oil and gas this is obviously good news, though it might badly hurt many producing countries. Commodity prices have fallen sharply though gold has not (nor onions!). This is to our advantage. We have already borne the brunt of decline in iron ore exports after the extra profits made illegally by exporters and consequent suspension of exports from some centres. Another of our important imports in recent years, coal, has also deopped in price and there is ample stock in the world.

Consequent to fall in crude prices, Indian retail prices of petrol, dieswel, and cooking gas have fallen to levels not seen for years. At the same time the government has wisely not passed on all the decline in crude to retail prices to consumers but kept a good portion to augment its budgets. Fiscal deficits are under control. Our power situation despite the apparent failure of the monsoon, would be good. Steel and aluminum prices have also dropped. Indian producers are cutting production. But our balance of payments has improved. Though the Rupee has fallen to the dollar due to

the collapse of the Chinese curency, the fall is marginal in comparison with other currencies.

Thus India isan attractive market for others and a safe investment destination. The currency is relatively stabe, the economy is in good shaoe on most parameters, and returns on investment are good.

So are our masters correct that India is in a sweet spot? They would be if they used the opportunity. But this government has not shown the boldness to do so. Thus this is a good time to reduce and eliminate expensive subsidies on kerosene, cooking gas, diesel, and fertilizers. As the UPA did when it reversed its policy on administered pricing for petro products, this is a good time to reverse on these subsidies. Ceertainly they have been misused. For example, cheap kerosene has been used to adulterate diesel for trucks in a big way. The beneficiaries of the cooking gas subsidy are not the poor but the better-off. Low prices of diesel have added to urban pollution and distorted the market for cars. Fertilizer subsidies with imbalance in prices between urea and others has led to excessive consumption of urea and falling yields.

Domestic markets for agricukltural peroduce have been distorted by government interference in markets. Of course this comes under the state governments. But the centre could use its influence to correct them. In past years, the UPA during failure wroie off farmer loans. (The last Prime

Minister regarded the write-off of Rs 76000 crores of farmer loans as one of the achievements of his government).

There is another opportunity to reform the system to take advantage of our “sweet spot”. That is the governance and process of giving loans by nationalized banks. Many nationalized banks are on the verge of collapse. “Sticky loans” also called Non Performing Assets (NPA's) are very high. Some reported examples from recent newspapers: Union Bank of India provisioning is Rs.1,009 crores while net profit is Rs.444 crores; Bank of Baroda provisioning Rs.1,491 crores, net profit Rs.598 crores; Bank of India provisioning Rs.2,255 crores, net loss of Rs.56 crores; Punjab National Bank provisioning Rs.3,834 crores, net profit Rs.306 crores. Most other state owned banks are no better. And these numbers are after ingenious accounting and sales of loans to Asset Reconstruction Companies to avoid further provisioning. All banks together have over 5% of all advances as sticky.

The present government has announced significant recapitalization of their banks. This does not tackle the basic issues of crony lending, poor diligence and follow-up. Bank management is to be strengthened by outside recruitment and better remuneration. But there are other problems for resolution.

The global financial system is over stretched. High perfoprmance rewards to managers has propelled excessive lending without adequate confidence in lenders’ ablity to repay. The situation is said by many to be close to 2008 collapse when loans were packaged andf mortgaged with little idea about the contents of the mortgages nor

knowing enough about the viability of the loan components in the mortgages.

The Indian problem is similar. Nationalized banks are directed to lend to political cronies, debt to equity ratios are as much as 80-20 on infrastructure loans and public private partnership projects, while the projects are delayed by interminable delays in government clearances over which the controlling Ministry has no authority. Unlike global private banks, the Indian managers got no official rewards for showing high lending. This is now being corrected. But government ownership and control remain bugbears for the proper operation of banks. Autonomy of banks and strict regulation are vital. Politicans and burweaucrats must have no role in lending decisions.

If we are to seem welcoming t foreign investment, we must improve the ease of doing business. While there is talk, little has been achieved. Restrictions on foreign investment must go. At the same time the *havala* routes enabled by Mauritius and other countries with special agreements with India, and participatory notes, msut go. We need more FDI; not FII.

We must act soon to benefit from the global trtends.

(914)