AIBEA's Banking News

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How deep is India's economic mess?

The biggest analytical challenge right now—for policymakers and investors—is to separate the transient from the structural

live mint

The heads of two companies that are considered yardsticks of the broader economy have recently spoken out about the problems they are facing. Hindustan Unilever chief executive Sanjiv Mehta said in a presentation to investors that rural demand for its products has been weak because of the lingering effects of demonetization as well as the farm crisis. Larsen & Toubro group executive chairman Anil Naik said that private sector companies are not in a position to launch new projects because of the excess debt they have on their balance sheets.

Meanwhile, from within the ruling Bharatiya Janata Party, Subramanian Swamy has warned that the Indian economy could be heading for a crash, while Yashwant Sinha has written a scathing article on Union finance minister Arun Jaitley.

The narrative on the Indian economy has definitely taken on a darker hue ever since it was revealed that economic growth had unexpectedly slumped to 5.7% in the first quarter of the current fiscal year, the slowest pace of expansion in three years. The biggest analytical challenge right now—for policymakers and investors—is to separate the transient from the structural.

One part of the sharp slowdown in quarterly growth has been explained by the inventory destocking by companies before the implementation of the goods and services tax (GST) while another part has been ascribed to the technical problem of the deflators used by government statisticians to convert nominal output growth to real output growth.

Is a cyclical bounceback round the corner once the effects of these two transient factors go away? The sense we get from high-frequency data is mixed.

The manufacturing purchasing managers index (PMI) moved into expansion territory in August after the slump in July. The services PMI has been more sticky. There is some good news in high-frequency indicators such as cars, two-wheelers, tractors, air traffic and railway freight. The data for cement, coal and steel continues to be disappointing. Foreign trade offers a ray of hope. These high-frequency indicators suggest that economic growth in the second quarter could see some recovery from the disappointing levels of the first quarter.

Yet, that still leaves the question of whether India is in the midst of a broader economic slowdown. Remember that growth has been sequentially coming down for six quarters—from much before the Narendra Modi government decided to go in for demonetization in November 2016. Growth in gross value added has come down from 8.7% in the quarter ended March 2016 to 5.6% in the quarter ended June.

The new update released by the Asian Development Bank (ADB) this week offers some clues on the current state of the Indian business cycle. The multilateral lender has used statistical filters to measure cyclical fluctuations around the trend—and thus the time from the trough to peak of a business cycle. The Indian economy bottomed out in the third quarter of 2013, according to ADB. The subsequent upturn in the business cycle has lasted 14 quarters, higher than the average business cycle upturn of 12 quarters but lower than the maximum of 18 quarters.

The upshot: High-frequency data suggests that the Indian economy could see a small recovery in the second quarter of the current fiscal year while business cycle data shows that the cyclical expansion could be running out of steam.

There is also the related issue of whether potential growth—or the rate at which the Indian economy can expand without sending inflation too far away from target—has declined over the past few years. These are the technical questions that economists in the finance ministry, the Reserve Bank of India and the new economic advisory council will have to grapple with.

The Modi government has till now done well to secure macroeconomic stability as well as push through the unfinished reforms agenda that it inherited from the Manmohan Singh regime. The economic slowdown over the past six quarters as well as structural challenges like the banking crisis need the sort of clear economic thinking that this government has not believed in till now. The risk of an economic collapse seems far fetched, but an inability to deal with the ongoing slowdown could come back to bite the ruling party in the next national election.

Reduction in clerical staff hiring in banks is part of a design: AIBEA

Venkatachalam said 13 public sector banks have indented a total of 7,883 clerical staff while some banks have not asked for any.

By: IANS | Chennai | September 27, 2017
FINANCIAL EXPRESS

Central government owned banks' plan to hire 7,883 clerical staff next fiscal is inadequate when compared to the growth in business and the number of accounts, said a top leader of All India Bank Employees' Association (AIBEA). (IE Photo)

Central government owned banks' plan to hire 7,883 clerical staff next fiscal is inadequate when compared to the growth in business and the number of accounts, said a top leader of **All India Bank Employees' Association** (AIBEA).

"This seems to be a part of a design to reduce the intake of clerical staff. Despite growth in business (deposits and advances) since 2013-14, the recruitment of clerical staff in government owned banks is coming down," C.H.Venkatachalam, General Secretary told IANS.

Venkatachalam said 13 public sector banks have indented a total of 7,883 clerical staff while some banks have not asked for any. He said in 2013-14 the government banks hired 84,680 clerical staff and this number has been going down over the years.

When pointed the reduction in manual work with computerisation of operations, fall in branch footfalls due to automatic teller machines

(ATM), growth in digital payments he said: "We have opened around 30 crore Jan Dhan accounts which has added workload."

"The banking transaction time for customers has increased which results in branch staff leaving at around 7 p.m. Though the operations have been computerised, the systems are slow. It takes long time to close the day's ledger accounts," Venkatachalam said.

"No bank is willing to issue a circular that staff need not stay in the branch after office hours," he added.

According to him, many of the regular bank jobs are being outsourced which needs to be stopped.

Battling black money is a dicey business

But with the economy reeling currently, Modi's re-election depends largely on how this short-term fallout is managed

REUTERS

THE HINDU BusinessLine

Narendra Modi is walking a tightrope with his fight against black money. The Prime Minister has unleashed a wave of bold, and sometimes brazen, initiatives to root out income that has been illegally obtained or not declared to the taxman. But that has chilled the economy. Managing the short-term fallout is key to smoothing the path to his re-election.

Soon after the BJP took over in 2014, businesses noted it was harder to win special favours from New Delhi. A new bankruptcy law has also started to shift the balance of power from tycoons to lenders. These are significant changes, given a series of crony capitalism scandals turned voters against the previous government.

Over the past year, New Delhi's focus has shifted from elite corruption to dealing with the next layer down: ordinary taxpayers. The country has more citizens who go overseas on holiday than taxpayers who declare income of more than Rs. 1 million Modi grumbled in a recent address to accountants, urging them to take less pride in helping clients dodge their dues.

Tax avoidance is deeply entrenched: middle-class Indians and small businesses are reluctant to hand over money to a corrupt system. Public services received in return are also dismal. Many rely on private schools and healthcare. In Mumbai, a few hours of rain can result in deadly flooding. Wading through waterlogged streets last month, one of the city's top doctors disappeared down an open manhole. Such stories feed the perception that taxes will be wasted.

Hoarding cash

Modi has done a number of things to try force a change in collections. A controversial ban on big banknotes last year made people less comfortable hoarding undeclared cash. The goods and services tax (GST) is based on electronic invoices, forcing small traders to enter the formal economy to claim back tax credits. New real-estate regulations mean it is harder to park illicit cash in property.

Individuals, meanwhile, are banned from making cash purchases over ☐200,000, and must link biometric identity numbers to income-tax filings. All of this will make it easier for New Delhi to track who is spending what and where. That's already yielding ground-level results. For example, it is no longer quite as easy or socially acceptable to brag about cheating. And even corporate lawyers say clients are no longer interested in using funky structures to minimise tax bills, preferring to play by the book.

But Modi may be trying to do too much at once. India's economy was already suffering from low private investment and high bad debts, before demonetisation sparked a sharp contraction in the amount of money in circulation. There was no time to recover before the July rollout of the complex GST, with minimal preparation. Serious glitches mean claims for rebates are already much higher than expected.

As a result, GDP growth has declined for six consecutive quarters to 5.7 per cent in the three months through June. The pain will have been more pronounced in the part of the economy that is not taxed. Saurabh Mukherjea of Ambit Capital reckons that tax-evading companies have driven growth in employment and might account for 80 per cent of jobs.

That's potentially dangerous for Modi since he promised to create work opportunities, not destroy them.

Ballot-box test

To support the economy and square the funding circle, New Delhi is now considering relaxing the fiscal deficit target from 3.2 per cent. Low inflation, a narrow current-account deficit, and large foreign-exchange reserves would make a limited adjustment manageable. As long as the pain can be contained, the black money crackdown will continue apace.

An official report last year noted India's tax-to-GDP ratio hovers at around 17 per cent, just half the 34 per cent average of the mostly prosperous countries that make up the OECD. Even Vietnam, which is roughly as rich as India on a per-capita basis, collects 22 per cent.

Moving the needle isn't easy: India's tax-to-GDP ratio increased only 10 percentage points over the past six decades. It will take time to bed down recent changes, but if India can in time match Vietnam's ratio , that would give the Government an extra $120 billion each year to spend. The absolute size of the economy would also grow if more people are inside the tax net.

If Modi can put growth back on track, he can claim to have delivered on at least one key promise. While the Opposition remains in disarray, he knows that a weak economy and its negative impact on jobs is no small threat to his position.

EA THIS DAY – 30 SEPTEMBER	
1957	Calcutta Compensatory Allowance Struggle-Solidarity strike actions at Madras & Delhi.
1980	Officers observe Protest Day against Pillai Committee Recommendations. AIBEA supports.
1998	AIBEA Delegation visits Germany (Tarakeswar Chakraborti, Eknath Pai & C H Venkatachalam)

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