

THE NEEDLE'S EYE Does this festive season herald fireworks or damp squibs?

Aal Izz Well — So They Say


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It is amazing how things come around. I was listening to Prime Minister Narendra Modi's Houston speech. After speaking in several Indian languages, Modi said, "Maine itna hi kaha hai: Everything is fine." Suddenly, I remembered the theme song from 3 Idiots. Eight years have gone by and the lyrics could have been written today. What are the chances? 'Solution mile to saala question kya tha patana hain.'

The question is: are we sure 'Aal izz well' with the economy?

The Reserve Bank of India (RBI) has cut its key interest rate five times since February to a nine-year low, and vowed it will continue to do so until the flat-lining economy begins to resuscitate. But it slashed its GDP forecast for 2019-20 to 6.1% from 6.9%. If growth in July-September drops below the first quarter's 5.0%, GDP would have to spring by about 8% in the second half to reach RBI's figure.

A recent Nomura report is sceptical. It says its monthly activity index, an average of 19 high-frequency indicators, fell to -0.9% year-on-year in August from 1.5% in April-June, lower even than during the global financial crisis. It sees its own forecast of 6.0% GDP growth in FY20 at risk. Weaker global demand is one reason, but our slowdown is largely home-grown.

The mega bank mergers announ-

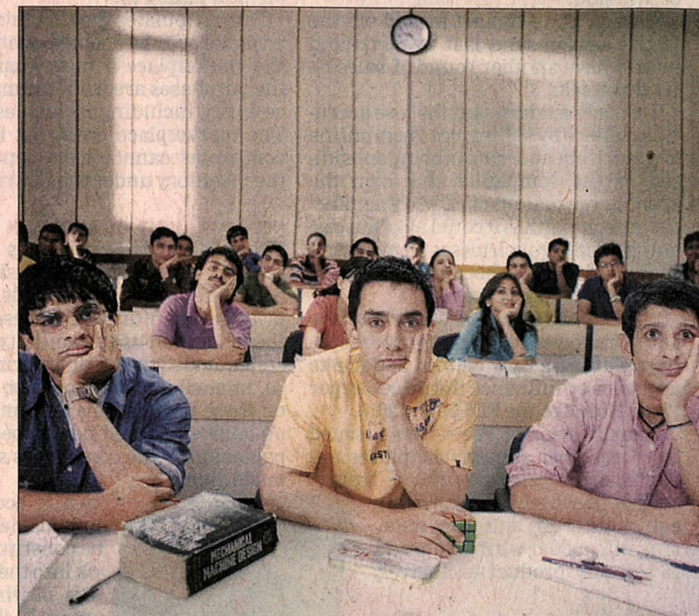
ced by finance minister Nirmala Sitharaman on August 30 only applied ointment to third-degree burns: the banks will spend much of the next two years figuring how to meld their IT systems, which branches to close, ATMs to rationalise, and how to trim their bloated workforces, instead of focusing on reducing their soured loans and nursing their bankrupt borrowers back to their feet. This was like going for a swim in quicksand after the Bank of Baroda lesson.

We don't know if the public sector banks (PSBs) will emerge healthier in the long run. How can we be sure, when 18 PSBs were hit by 2,480 cases of fraud totalling more than ₹31,000 crore in the April-June quarter alone? And what about the shadow banking crisis, with the RBI rejecting the Indiabulls/Lakshmi Vilas merger on Wednesday? After the PMC (Punjab and Maharashtra Cooperative) Bank meltdown, the RBI's assurance that the banking system is "safe and stable and there is no need to panic" sounds too pat.

The Carrot Works

Ever hopeful, banks see retail loans growing smartly this festive season, and are dangling bait like easy EMIs, extra reward points and cashbacks to spur consumer spending. Flipkart and Amazon sold ₹19,000 crore of merchandise in six days; Xiaomi sold 525 devices every minute during the sale frenzy. But lending to businesses is still in a trough — foreign borrowings shot up to \$4.98 billion in August alone. The signals were garbled: Maruti slashed production for an eighth straight month, and we heard what can charitably be called the Marie Antoinette explanation — car sales may have fallen because millennials are riding Uber or Ola.

I love it when extraconstitutional


Awaiting results patiently

authorities, especially if they have a direct line to a supreme being, weigh in on matters temporal. On Vijaydashami, Rashtriya Swayamsevak Sangh (RSS) supremo Mohan Bhagwat, in his annual state of the union speech, said he had been assured by an economist that a recession meant growth below 0%. 5% growth should cause concern, but we should stop debating it. Now you know why it is called sage advice.

Bhagwat, who elsewhere in his speech declared lynchings were a western coinage, part of a conspiracy to defame Bharat in general and Hindus in particular, said too much charcha over the economy created a negative atmosphere that influenced business and consumer behaviour and fed into the slowdown. Our micro, small and medium enterprise (MSME) sector, our self-employed were strong, he said. Even foreign direct investment (FDI) was palatable so long as fundamentals were strong. "If employment rises, money comes

into people's hands. With that money, people buy things. That propels the economy."

Situations No Longer Vacant

If only it were so easy. Mahesh Vyas, managing director of the Centre for Monitoring Indian Economy (CMIE), says the number of people employed in India shot up by seven million in September, to 410 million, the best it has been in three years. At least six million of those new jobs were in rural India. Vyas says September's rise could have been seasonal, fuelled by a lengthy monsoon. Unemployment, which fell to 7.2% in September from a high of 8.2% in August, could well rise again in October or November.

"If you want to invest in a market where there is scale, come to India," Modi told CEOs in New York, arguing we have the 'rarest of rare' combination of democracy, demography, demand and decisiveness. Can they overcome the fifth D of deceleration?

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