

Everything is Hunky-dory, Don't You Agree?

TheNeedles Eye



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The prime minister's speech at the World Economic Forum was sweeping and aspirational (one observer said he was "preaching to the choir"). He presented India as the most attractive investment destination in the world, with its democracy, its young population, its diversity and the headroom it has in catching up with the West's levels of consumption. He also defended globalisation, saying protectionism cannot be considered a lesser threat than terrorism or climate change.

I don't know if he had watched former US President Barack Obama's interview with David Letterman a few days earlier. Letterman, known for his irascibility during his Late Show years, lobbed softball questions at the former president. Yet, the conversation was thoughtful and engaging.

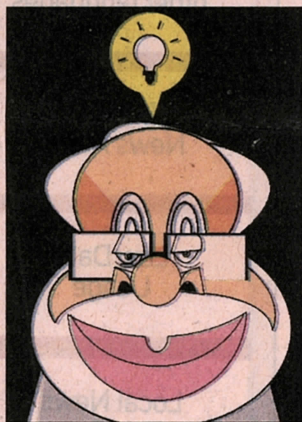
During the past week I watched three interviews on television. Besides the Letterman interview, two with Prime Minister Narendra Modi. All three were touchy-feely and velvet-gloved. There was something else in common: the interviewers had all sheathed their claws. Especially the Indian ones: they were literally purring.

Many of the questions to Modi, who has not held a press conference in his 44 months in power, had me clutching my head (this is the Fourth Estate we are talking about, remember?). Among other things, the prime minister was informed that there was a New World Order called PTM - Putin, Trump, Modi. No mention of China's Xi Jinping, who has just tightened his grip on power for the next five years at the head of the world's second-largest economy. Modi was told that the opposition was needlessly dragging the government into the

controversy gripping the Supreme Court. To this, he replied: "The opposition has made several attempts to finish Narendra Modi. I wish them all the best." To which the journalist responded: "But they keep at it. It doesn't end."

Modi should have been pressed on why, despite his talk of inclusive growth and the good of the common citizen, he does not speak out strongly against caste and religious violence, or use his power to steer the national discourse towards the development theme he says is his lodestar.

You had to trudge through the treacle to find the odd policy statement or insight from the prime minister. For instance, he spoke persuasively about his wish for simultaneous elections to the Lok Sabha and state assemblies. Administrative machinery is frozen while officials are diverted to election duty, tho-



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usands of crores are spent on campaigns, and police and paramilitary forces are deployed to poll security, away from their real functions - all good arguments for one big election every five years. That is a huge ask and will need the cooperation of every state. Look at the Bharatiya Janata Party-ruled states that, sensitive to the Vidhan Sabha elections strung out through this year, would rather keep the voters and law and order on a slow burn with the faux rage over 'Padmaavat' in defiance of the Supreme Court's order. On the day Modi spoke at Davos, mobs were attacking malls and burning cars in Ahmedabad.

Presaging Davos, Obama talked about the things that worried him. "You still have growing inequality," he said. "The combination of technology and globa-

lisation means that entire industries and categories of jobs are being eliminated ... in that environment, if all the money is going to a handful of people at the top, and they are investing in all kinds of stuff because they want to maximise their return, that's how you start getting bubbles, that's how you start getting an overheated financial system. The challenge we still have to address is, how do we make an economy in this globalised, technological environment, that's working for everybody?"

That question ought to preoccupy our policymakers as we head into an eventful year. Trade and development topped the agenda at Modi's summit on Thursday with leaders of the Association of Southeast Asian Nations. ASEAN is dominated by authoritarian members who couldn't have been too pleased with the violence and intimidation triggered by Padmaavat's release, including the reprehensible attack on a school-

bus in Gurgaon not far from the airport where the VIPs were flying in.

Is the glass half-empty or half-full? The global economy is doing remarkably well. In 2017, there was an

acceleration in the growth rates of three-quarters of the world. India was among those countries whose growth rate shrank. Global trade is also growing in value and volume. This trend is spreading to India's exports; but oil prices are also rising, putting an end to more than three years of low import bills. At the same time, the oil price rise is benefiting India's exports of oil products - take a look at Reliance Industries' latest profit figures.

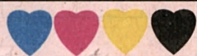
The disruption caused by demonetisation and the introduction of the Goods and Services Tax is starting to dissipate. The bad news is that India is not heading back into a boom in a hurry. This is mainly because of our Twin Balance Sheet problem - over-indebted companies (causing the continuing atrophy in investment) coupled with banks burdened with bad

loans. Both are being addressed: creditors may have to take a haircut, but there are bidders for the stressed asset that will be sold off.

These remedies are going to take a couple of years to take effect. This means the patient will be out of the ICU, but linger in the recovery room, when general elections roll around next year (that is if Modi does not club major state elections late this year with early Lok Sabha polls). Finance Minister Arun Jaitley will not have room to present a populist budget next Thursday. He will have to contend with a revenue crunch. The clamour from businessmen is that he needs to trim corporate tax rates urgently. It is clear that Jaitley will not be able to hold to his fiscal-deficit target of 3.2 percent of GDP in 2017-18. Modi told one of his interviewers that his government was hopeful of creating many new jobs by boosting infrastructure spending on highways and railways. Where will that money come from?

The government also announced reforms in state-owned banks and a Rs 88,000-crore capital infusion, adding a huge slab of expenditure. It will have to move forward purposefully on consolidation. That process seems to have already begun in the private sector, with the proposed merger between Capital First and IDFC Bank. Capital First is a non-banking financial company with a strong base of retail credit, caters mainly to small and medium businesses as well as individual borrowers, and has an enviable low bad-loan ratio. IDFC Bank has been struggling to 'retailise' since it obtained a banking licence in 2015.

There are reports that the government may loosen foreign investment rules to allow 100 per cent foreign equity in Indian private banks, and up to 49 per cent foreign ownership in state-owned banks. That move would catapult the banking sector into positive-sentiment territory. The privatisation of Air India will also send a strong signal that India means business. For the moment, though, we have to wait and see if the floodgates of investment open up. Don't expect much bravado in this government's final full budget. Everything is not hunky-dory yet.



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