Planning Commission
Government of India

PART A: News pertaining to Planning Commission

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[Note : Now the Daily Digest is divided into two parts: Part A contains News pertaining to Planning Commission and Part B contains general News and Views]

1. Planning Commission's replacement must lay out vision with strategy

Pronab Sen, Live Mint: 01.10.2014

Pronab Sen, former **principal** adviser at Planning Commission, shares his perspective on the issues involved in replacing the panel

Pronab Sen says the new institution should comprise a core cadre of economists and public policy specialists who can provide the continuity and the institutional memory. Photo: Mint

This is the fourth part of the series "In lieu of the **Planning Commission**", as part of which we are presenting **views** of experts from various stakeholder groups—academia, private sector, media, government and civil society—on some of the issues involved in replacing the Planning Commission of India.

Pronab Sen, former principal adviser at Planning Commission, shares his perspective on the issues involved in replacing the plan panel.

In his address to the nation, from the ramparts of the Red Fort on India's 67th Independence Day, Prime Minister Narendra Modi announced his government's decision to abolish the Planning Commission:

“I believe that when Planning Commission was constituted, it was done on the basis of the circumstances and the needs of those times…but the prevalent situation in the country is different, global scenario has also changed, governments are no longer the centre of economic activities, the scope of such activities has broadened... therefore within a short period, we will replace the Planning Commission with a new institution having a new design and structure, a new body, a new soul, a new thinking, a new direction, a new faith towards forging a new direction to lead the country based on creative thinking, public-private partnership, optimum utilization of resources, utilization of youth power of the nation, to promote the aspirations of state governments seeking development, to empower the state governments and to empower the federal structure.”

The Planning Commission performed the following functions:

a. Preparation of the plan document

b. Allocation of funds between: (a) states and Centre; and (b) central ministries

c. Appraisal of all expenditures of the central ministries

d. Mediating between states and **central government**

e. Providing independent **opinion** on all project/programme proposals of central ministries

f. Monitoring progress of central government schemes

g. Mediating between central ministries on issues of a cross-cutting nature

In view of the above,

Which of these functions are obsolete and could be dispensed with, and why?

None of the functions listed are entirely dispensable for any central government in a federal democratic system. The issue is the manner in which they are performed and who performs them. Consider, for example, the preparation of the plan. It does not matter whether it is called a plan or a poverty reduction strategy paper (PRSP) or a reform agenda or anything else for that matter. Every country, especially developing countries, needs a medium- to long-term vision document which outlines the measures necessary to attain the vision, and the roles expected to be played by the various agents in and outside the country.

It does, however, matter a great deal who prepares this document. For such a document to be effective, it not only has to have ownership at the highest political level, it must be seen to consider and reflect the diversity of interests that exist within any democratic polity. At a technical level, the function can indeed be performed by a non-governmental entity such as the World Bank (which does PRSPs for a number of countries) or high quality think-tanks. But in neither case will the document possess the same cachet as one produced within the government with direct and visible involvement of the political leadership.

Insofar as the other functions are concerned, a prime consideration governing who carries them out needs to be objectivity and avoidance of conflict of interest. Most democratic governments also work on the basis of a healthy system of checks and balances which prevents excessive concentration of authority. This problem is particularly acute in the case of the allocation and mediation functions.

Of the functions which need to continue to be performed, which should be retained in the new institution and which can be located in other existing bodies? Reasons may please be provided.

Clearly, the core function of the new institution must be the vision-cum-strategy role. In order to perform this function, it must have three attributes: (a) high level of intellectual and technical expertise; (b) no administrative or delivery responsibility whatsoever in order to avoid any conflict of interest; and (c) an economy-wide mandate. Given these attributes, and the fact that the skill sets necessary to carry out this function are not very easily available, it appears natural that the mediation functions, whether between the Centre and the states, or between central ministries, should also be located in this institution. The reason is that these functions require an economy-wide perspective that is usually not available in any other body.

The appraisal and monitoring functions can easily be located elsewhere, assuming of course that the outputs arising from these activities are readily available to the new institution for its strategizing purposes. For instance, the main customer of the appraisal function is the department of expenditure in the ministry of finance, which is responsible for according financial approval to all proposed government expenditures. A unit can easily be created within the department itself for this purpose.

The monitoring function is a little trickier since the principal responsibility for monitoring vests in the concerned line ministry itself, and the arm’s length monitoring is carried out primarily because there is a potential conflict of interest in having the same body doing both implementation and monitoring where public funds are involved. Such oversight is therefore hugely resented by the line ministries.

The entity carrying out this function will thus have to be one which either has a status that overrides individual ministries or has a direct locus standi in the effective implementation of all government schemes. The only two entities which meet either one or the other of these characteristics are the Cabinet Secretariat and the Department of Expenditure, respectively.

The really problematic function is allocations. There is a view that this function can easily be carried out by the finance ministry, which is after all the custodian of the budget. A little thought should convince one, however, that there are problems of both conflict of interest and absence of checks and balances in this view. The primary responsibilities of any finance ministry are: (a) fiscal rectitude; and (b) short-run macroeconomic stabilization. Both these responsibilities can potentially be in conflict with the needs of growth and development, and there is thus a need for an institutional mechanism through which a balance is maintained. Moreover, since the finance ministry is the final authority on the contents of the budget, it is probably preferable for it to be an appellate body for allocations rather than the principal allocator. This does not, of course, mean that the allocation function should then naturally devolve on the new institution, but it is hard to see which other body can take up the role.

Are there other (new) functions that should be performed by the new institution? Please specify with reasons.

One of the biggest problem areas in government is that every line ministry tends to have tunnel vision, and is incapable of realistically assessing the economy-wide ramifications of its policies and programmes. This is entirely apart from issues of inter-ministerial dispute, which is covered in the mediation function. The new institution should therefore be empowered to assess all policy proposals of government in terms of their broader implications and to suggest alterations and/or complementary measures for consideration of the final decision-making authority—the cabinet.

Another new function, in some sense related to the first, would be for the new institution to be charged with assessing the impact of any government decision on the state of competition in the economy. India is already in the process of formulating a competition policy, but a major stumbling block has been to identify the right institution for implementing the policy. The new institution is a natural choice.

Similarly, there is no agency today which is charged with assessing the impact of international developments on the country. This includes not only external developments, but also of international treaties and agreements that India is considering. At present these functions are carried out by 'nodal' line ministries, which rarely have the economy-wide vision to do justice to these issues. The new institution could weigh in on these.

In order to perform the functions envisaged for the new institution, what should be its legal position, character and structure?

There is a strong view that the new institution should be a statutory body, if not a constitutional one. This is, however, problematic. Consideration of the functions that are being proposed for the new institution suggests that this body's principal role is to assist the cabinet in taking reasoned decisions and to exercise some limited delegation of the cabinet's powers. A statutory character would run contrary to this intent, and would introduce a rigidity that would not be desirable in a democratic system. The mode of creation of the Planning Commission through a government resolution has much to commend itself in this context. This method creates a direct link between the cabinet and the new institution, which can help the system evolve through changes in government. Whether it should be headed by the prime minister or by any other cabinet minister is open to question, and may be left to the best judgement of the government of the day.

What should be the composition and staffing of the new institution?

Given the functions being proposed, the new institution will have to be a highly professional and independent body. It should also have a judicious mix of continuity and change. Keeping this in mind, it is clear that it should not be manned at all by career government servants who carry with them the baggage and loyalties of their previous postings within the larger government. There should be a core cadre of economists and public policy specialists who can provide the continuity and the institutional memory. This would be overlaid with high calibre subject area specialists who would be recruited for fixed-term appointments for addressing specific areas of concern. At the very top, there would be a small group of experts who would be in tune with the political leadership of the day, and whose term could be co-terminous with the government.

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2. PM Narendra Modi to US Inc: Come soon to 'Make in India', before it's too late, The Financial Express: 01.10.2014

PM Narendra Modi and President Barack Obama at the Martin Luther King Jr. Memorial in Washington. (PTI)

SUMMARY*PM Narendra Modi asserted that India is on the move and US businesses should move fast...*

Asserting that India is on the move to becoming a country with a business-friendly environment, Prime Minister Narendra Modi has exhorted top US corporates to establish and expand their base in India before it is too late.

"Take the benefit of the fast paced development and changes in the Indian economy," Narendra Modi said in his address yesterday to American businesses urging them to take advantage of India's growing economy to foster mutual prosperity.

"Together we will reach new heights of development and growth," Modi said at the event organised by the US-India Business Council (USIBC).

"I invite you all. I invite you all for 'Make in India'," he added.

Referring to a speech he made to the business community in the 2009 Vibrant Gujarat Summit, he said, "At that time, I had said that do not delay (in coming to Gujarat), the queue might be too long too soon and you might be left behind".

"Today I am saying the same thing with confidence – that the queue would be too long too soon," Modi said.

Among those present at the meeting were World Bank President, Jim Yong Kim, External Affairs Minister, Sushma Swaraj, and several top corporate leaders from both the US and India, including Mukesh Ambani.

USIBC chairman, Ajay Banga, who is also MasterCard CEO, said India under Modi is experiencing a new chapter of growth.

And encouraged by the steps taken by the new Indian government in its first three months, the USIBC has identified upwards of USD 41 billion slated for investment from members over the next two to three years, he said.

"The best days of US-India relations are coming," Banga said.

"What a difference one election can make," Banga added.

The US Chamber of Commerce President, Tom Donohue, in his brief remarks welcomed Modi's commitment to replace "red tape with red carpet".

In his speech, which he delivered in Hindi with simultaneous interpretation in English, Modi said even if there is no red carpet, he would ensure that there is no red tape in his country.

He assured American investors and businesses that in the next six months, he would implement all the things necessary for ease of business in the country.

"With its full force, India is vowing to make its presence felt in the economic world and is moving ahead with a new confidence, he said, adding that in less than three to four months of his government, he does not see any reason whatsoever for India lagging behind in the global economy.

"There is no need to waste time in finding an answer to the question – why we are lagging behind," he said.

"We need to make only one small decision: 'Chalo, Nikal Paro (Come Let's Move)'," he said adding that India is now on the move.

"Now I can say with confidence that there is a new faith and aspiration towards India the world over," he said.

Business and corporate world, he said based on his experience, need effective governance, easy governance and ways to avoid red-tapism, even if they do not get red carpet.

Modi said it is a responsibility of his government to provide a development-friendly environment.

People should be assured about the security of their investment, be given proper infrastructure and require a peaceful neighbour, in addition to adequate human resources.

The Indian government has made a road map keeping this in mind, he added.

He also called for a vibrant economy for a country, otherwise no one would come.

"Fiscal deficit should be less. There should be no existence of tax terrorism. There should be simplification of taxation system. After coming to power, we have given priority to these things," Modi said.

Modi said he has established a committee to remove obsolete and outdated rules and regulations.

"The less the regulations and law, the more fresh air," he added.

Reiterating that the government 'has no business to remain in business', Modi said his government has taken decision of a record disinvestment of USD 10 billion.

"Our job is to facilitate things and not run a business," he said.

The Prime Minister said he has instructed his officials to take steps towards ease of business.

"Today, I can say with confidence that within six months, we will implement and enforce all parameters of ease of business," Narendra Modi said adding that "Make in India" campaign is being connected with the digital world.

3. Cleanliness next to godliness

Sidharth Mishra, Millenium Post: 01.10.2014

What plans does the government have to process garbage it proposes to mobilise.

Thus said Mahatma Gandhi in an essay published in Harijan issue dated 28 December 1947. Mahatma was a communicator extraordinaire and made his point effectively using pithy expressions and suitable quotes. Mahatma could do so because there was clarity in his thought and he could afford to express his thoughts without any inhabitation because he did not have an electoral constituencytoaddress.

After his death, Mahatma's name and quotes in the **nation** he created has been variously used to perpetuate ideas, thoughts, schemes and scams, which would have never passed his scrutiny. The UPA government launched a most ambitious village rejuvenation programme and managed to win a second term on the basis of this scheme. When the programme came under cloud for financial irregularities, it was named after Mahatma lest a successor government decide to scrap it.

The successor government is no less. While it has been in power for too short a period to sire any financial impropriety as yet but it is for certain indulging in intellectual dishonesty to propagate its schemes tagging symbolisms associated with Mahatma. The cleanliness drive which the Modi government plans to undertake from Mahatma's birthday on 2 October this year is Gandhian just in word and not in spirit. The Swachh Bharat Mission, according to a government statement, aims at fulfilling the dream of clean India of Mahatma Gandhi by his 150th birth anniversary in 2019.

The reason to contest the government's mission statement is that it comes on the heels of 'Make in India' declaration. One would have to understand, the context of Mahatma's famous statement of cleanliness is next to godliness. It certainly doesn't endorse the idea of making India into a manufacturing hub. Compendium of Gandhi's writings in 'Young India' and 'Harijan' and his speeches elsewhere were published on the eve of independence in 1947 and was titled as 'India of My Dreams'. It was later expanded after Mahatma's death and it's in this compendium that the quote finds mention under the chapter titled 'Village Industries' and sub-section 'Compost Manure.'

Gandhi writes, 'Given the willing co-operation of the masses of India, this country can not only drive out shortage of food, but can provide India with more than enough. This organic manure ever enriches, never impoverishes the soil. The daily waste, judiciously composted, returns to the soil in the form of golden manure causing a saving of millions of rupees and increasing manifold, the total yield of grains and pulses. In addition, the judicious use of waste keeps the surrounding clean. And cleanliness is not only next to godliness, it promotes health.'

These lines are preceded by his thoughts on how mindless industrialisation, as Make in India propose to do, would harm our economy. 'I would say that if the village perishes India will perish too. India will be no more India. Her own mission in the world will get lost. The revival of the village is possible only when it is no more exploited. Industrialization on a mass scale will necessarily lead to passive or activeexploitationandmarketing.

Therefore we have to concentrate on the village being self-contained, manufacturing mainly for use. Provided this character of the village industry is maintained, there would be no objection to villagers using even the modern machines and tools that they can make and can afford to use. Only they should not be used as a means of exploitation of others,' he first wrote in Harijan in issue dated 29 August1936.

Before I am charged of dismissing a good idea that's Swachh Bharat Mission even before it's even been launched, I would come forward to say that India does need to clean itself of all garbage which lies strewn on streets, nook and crannies especially in the urban areas. However, those who have planned the Swacch Bharat Mission have failed to take into account that urban filth is largely because of unplanned industrialisation and outward migration from the villages.

Will it be limited to one event with the Prime Minister walking with children the way Mahatma used to do and visit Rajghat, Valmiki Basti and India Gate? There are plans to inaugurate lavatories with the mission that every school and home of the country should have a lavatory. Towards this end Rural development ministry has been asked to contribute Rs 134000 crore and Urban Development MinistryRs62009crore.

The states will share 25 per cent cost of this while Jammu & Kashmir and North-East states will bear only 10 per cent of the amount. The Gandhi Jayanti holiday has been cancelled as all the offices would remain open and the government employees will be administered oath of cleanliness. So would be the poor children attending the government schools.

Prime facie such plans need to be applauded. But there is need to ask questions too, to save it a few years down the line from being another case of squander of public money. If garbage and sewage is to be mobilised, what plans the government has for its disposal? Let's forget of the whole nation, what plans the government has to overcome the challenge in the national Capital.

The two landfill sites of Delhi at Ghazipur in East Delhi and Mukarba Chowk in North-West along with one in Okhla are long overdue for closure but as no option is available with civic bodies to dump the garbage they are still being used and they have reached a height of 40-50 metres beyond their sanctioned limit. What plans the government has to find new garbage dumps and use processed garbage. This would be something which would interest a reader more than just seeing a photo with officials and ministers with a broom in their hand.

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4. Columns: Top 10 reasons for inflation decline

Surjit S Bhalla, The Financial Express: 01.10.2014

SummaryThere are at least 10 reasons why it is likely that RBI will be forced...

Bankers rule out cut in deposit ratesCentral bank able and willing on wilful defaultKudos to RBI for moving ahead with effective communicationCeteris paribus: Appreciating a regime change

There are at least 10 reasons why it is likely that RBI will be forced to cut repo rates well before the market expects. Most market participants do not believe that RBI will cut rates at all until late-2015. In this article, I present evidence (yet again!) that the Indian economy can absorb (needs) rate cuts without any danger of generating inflation. Hence, either I will be gloriously wrong, or several market experts (including the IMF) will be. RBI, a major actor in this duel, has decided to plead something akin to the Fifth Amendment of the US Constitution (right to remain silent, in order to prevent self-incrimination). In the monetary policy statement released yesterday, RBI concludes: "... future policy stance will be influenced by the Reserve Bank's projections of inflation relative to the medium term objective (6% by January 2016), while being contingent on incoming data". In other words, RBI cannot make a mistake because it will cut rates, when it will cut rates!

The top 10 reasons, in increasing order of importance, of why one should expect RBI's 6 % target for January 2016 to be reached:

10) MGNREGA: This rural employment program is inflationary because its operation pushes wages up beyond productivity growth. I have never been a believer in this way-out-of-the-box reasoning for the simple reason that even in the best of times, MGNREGA never provided wages for more than 1% of rural workdays. But believers please note: the R33,000 crore of expenditure budgeted for FY15 is worth half (in real terms) of the R40,000 crore level of expenditure in FY10.

9) Rainfall: Around June 2014, we were talking of a drought situation with its attendant effects on food inflation. Again, precious little evidence exists that droughts have any impact on inflation, or food surplus causes disinflation. The two years, 2012 and 2013, were in the top third of rainfall for India since 1871—and they were among the two best years of agricultural production—and the two worst years for food inflation. So much for that idea, Sirji.

8) Expectations: Thankfully, the September monetary policy statement does not mention the phrase "inflation expectations" even once. If there is a departure from RBI statements for the last six years, it is this. I guess RBI must have concluded that its inflation expectations survey is worse than junk. This is significant progress.

7) World growth: Unlike 6 months ago, the world GDP is on the brink of a recession (measured as 3% growth). Certainly, the US is doing very well, but it may not do so for very long. Growth in the rest of the world, including Europe, Japan, China and India, is not burning any decks with scorching pace. Indeed, these economies are screeching to a relative halt, i.e., decelerating. Add to this the multitude of political problems worldwide—not a recipe for either growth or inflationary pressures.

6) End of quantitative easing in the US (and England): This is another one of the great falsehoods propagated by the inflation bulls. Let me see if I get this right—the end of the QE will dampen growth, slow down already-low inflation, and this will cause prices to rise in India?

5) Persistence: Instead of inflation expectations, we now have a new "explanation" in town—persistence of inflation. Whether persistence is present or not is an empirical matter, and something that can be derived from past data. What does one mean by persistence? Habit, i.e., inflation stays high because I continue to expect it to be so. However, in India, empirical estimates of "persistence" in CPI inflation converge around 5 quarters i.e., there is hardly any persistence in annual inflation data. Got to look under some other rocks to find persistence of inflation in India.

4) FAO world food prices: Meat prices are at their all-time peak but with Hindutva and vegetarianism rising, this "inflation" is no threat to India. But indices for dairy, and edible oil (and sugar) are all down more than 40% from their 2011 peak, around the same time when RBI (and the IMF) began screaming "protein inflation". And cereal prices are down 32% in the same time-period. I guess we should soon see the food ministry arguing for a minimum of 20% reduction in the minimum support prices (MSP) for wheat and rice, especially since the rise in world food prices was the reason offered by the ministry to raise the MSPs sky-high over the last six years.

3) MSP inflation: The UPA government increased the MSP by only 6.7% in 2013 and 4.2% in March 2014. As I have argued several times in these columns for the last three years, the key driver of inflation in India is food inflation (food accounts for 50% of the CPI) and the key driver of food inflation is the MSP set by the government. Unless the Modi government decides to learn nothing from the past (little chance of that), it is unlikely to raise average MSP by more than a few percentage points in October 2014. Which means that a CPI inflation figure of 5%, or less, is baked for next year.

2) Developing country inflation: Maybe inflation can intrude from outside since India is now integrated with the world economy. But, world growth is down, as is world inflation. The median developing country CPI inflation for the last three years has averaged 3.8%, the fifth-lowest such increase since 1975. Further, world crude oil prices (Brent) are now more than 15% below their peak of 115 just three months ago.

1) Inflation targeting: RBI is “comfortable” with reaching the inflation target of 8% in December 2014, but less sanguine about reaching the 6% target by January 2016. Because of so many known unknowns over the next year? Indeed, Governor Raghuram Rajan stated that there are still significant risks towards achieving the 6% target! In December 2013, yoy CPI inflation in India was 10%, and RBI targets for 2014 and 2015 can be seen as a drop in inflation of 2 percentage points (ppt) per year. For all the reasons stated above, it is likely that December 2014 will see a handle much closer to 7% than 8%. (Oxus’s forecast for yoy CPI inflation for September 2014 is 7.2%—or less). Thus, if the 8% December 2014 RBI forecast can be bettered by 1 ppt then why not the same for the 6% December 2015 forecast, a year for which the conditions for inflation decline will be even more propitious? (For starters, the persistent habit of expecting high inflation will be less!)

Of course, the monetarists and those destined to be wrong can merrily point out that all of the above conditions could reverse and we may be back with high inflation; hence, one can never be too careful. Unfortunately, Black Swan events cannot be predicted with any accuracy. ‘Build no roads and there will be no accidents’ has been the overriding motto of the Indian bureaucrat. And yes, while we are being risk-averse, we should also remember that pigs may fly in 2015 and thereby, cause inflation to spike.

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5. Ceteris paribus: Appreciating a regime change

Sajjid Z Chinoy, The Financial Express: 01.10.2014

As we head towards year-end, commentators will inevitably begin to assess what reforms the new government has embarked upon, and what needs to be done in the coming months. And, inevitably, discussion on the goods and services tax, coal and land policy, cash transfers will figure on everyone's list. But, in all probability, most analysts will not include RBI's move to inflation targeting in this list of reforms. And while this may not be surprising, it will certainly be puzzling. Because, in my view, RBI's pivot to flexible inflation targeting in January has been perhaps the most important reform of 2014, as I explain below.

Unfortunately, it's been a regime change that most markets participants have not fully internalised. Therefore, every two months markets live in the belief that—with growth still weak—a rate cut is just around the corner. And, every two months, RBI has to remind markets, that we live in a new world. That the main objective of the central bank is to reduce headline CPI inflation to 8% by January 2015 and 6% by January 2016 (which, in turn, cannot rule out more monetary tightening in 2015). And that other objectives, like growth, are secondary to this primary objective.

So, why this disconnect? Why have some market participants not fully appreciated the regime change? Perhaps, we human beings operate with more inertia and stasis than economic models presume. Therefore, fundamental reforms take time to be internalised. Perhaps we have lived with such elevated inflation for so long that cynicism has set in, and we refuse to believe that the inflation monster can be overcome. Both explanations reinforce the need to persist with the regime change.

But first, some context. Why was there a need to break away from RBI's multiple indicator model and pivot decisively to inflation targeting. This is not hard to explain. CPI inflation (proxied by CPI-Industrial Workers) averaged 10.4% between 2009 and 2013. And, contrary to popular belief that this is entirely food inflation everywhere and all the time, core CPI (non-food, non-fuel) inflation averaged 9.4% during this period.

The consequences of this were not hard to fathom. Household inflation expectations have been stuck in double-digits for the last five years, real policy rates were largely negative from 2009 to 2013 (deflated by the CPI-IW), and household financial savings bled, as households rationally fled to physical assets. Consumption suffered as urban wages did not keep up with inflation and, therefore, real purchasing power was squeezed and the investment climate suffered as input costs surged, monetary tightening (which was warranted to curb inflation) squeezed growth, pricing power and margins. The rupee ratcheted down 40% between 2011 and 2014 to compensate for inflation differentials and preserve competitiveness of the tradable sector. No modern economy can experience sustained growth or macro stability if it is bedevilled with sustained, elevated inflation and the associated loss of macroeconomic stability.

Against this backdrop, a decisive move to target inflation—and making that the overwhelming priority of monetary policy—was unsurprising and inevitable. RBI indicated that it would tailor monetary policy to dis-inflate the economy to 8% CPI by January 2015 and 6% January 2016. Why the magic number of 6%? Because there is enough research to suggest that the damaging consequences to the macroeconomic environment rise disproportionately when inflation is above this level.

Also, the choice of CPI was understandable. No household in India consumes the WPI. And the WPI does not cover services, which account for more than 60% of the economy. So any move to anchor expectations had to involve the CPI. Previous regimes were unable to do so, because of a data lacuna. No all-India CPI existed. But with one coming into force from 2011 and having a few years of history, the move to CPI was now possible.

So what does this mean for monetary policy in the coming months? Quite simply, that given RBI's target of 6% in 15 months, any monetary easing is very unlikely. Instead, RBI's model forecast suggests in a do-nothing scenario, headline CPI will slowly drift down to 7% by the end of 2015—100 bps above the target. The implication is that more tightening cannot be ruled out, though the Governor clarified that this is not a given, and much would depend on the incoming data.

Will softening oil prices help achieve the target? RBI's models suggest they will help but cannot do the heavy lifting. A $10 reduction in oil prices will only bring down headline inflation by 20 bps, so oil prices will have to collapse to help the disinflation meaningfully.

But how can RBI control food inflation? It certainly cannot, and this falls squarely under the domain of the government. With inflation being the number one voting issue in the general elections (as well as in the four states that went to vote last year) dis-inflation from these levels is not just good economics but, in our view, good politics. To be sure, RBI cannot control a food or oil shock. But what it can do is control the propagation mechanism and ensure the shock does not spread into a generalised inflation.

So what then happens to growth? As alluded to earlier, bringing down inflation is the best contribution RBI can make to India's medium-term growth cause. But, in the near term, the government will have to take on the growth mantle. Our estimates suggest 40-45% of the growth slowdown over the last four years is on account of implementation bottlenecks. If reversed by the new government, it is likely that growth can accelerate back to the 6%-plus levels even if nominal rates are held at current levels.

Most of all, we are about to enter a new era. One in which the Fed will tighten rates and normalise policy. Emerging market currencies are likely to come under (potentially severe) pressure. And the economies that will get rewarded/least affected are those with the most sound fundamentals: low and stable inflation, contained fiscal and current account deficits. If investors believe RBI will give up on its fight against inflation, they will necessarily impute a much weaker rupee as being fair value, and the currency is expected to come under much more pressure. For this, and all the aforementioned reasons, RBI is likely to stick to its guns. Markets need to get used to this new reality.

Sajjid Z Chinoy is Chief India Economist for JP Morgan and served on RBI's Expert Committee to revise and strengthen the monetary policy framework

PART B

NEWS AND VIEWS

Wednesday, 1st October 2014

Polity	: It'll Be Modi Everywhere in Maha
Economy	: Govt touches 75% of FY15 fiscal deficit target by Aug
Planning	: Taskforces set up as per FSLRC proposals
Editorial	: Focus on structural change

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It'll Be Modi Everywhere in Maha

BJP plans door-to-door campaign highlighting Centre's achievements in 100 days

Krishna.Kumar@timesgroup.com

Mumbai: The Uttar Pradesh experiment that fetched the BJP more than 70 Parliamentary seats is to be replicated by the party in Maharashtra as well. The BJP has planned a grand campaign in the state that will be centred around Prime Minister Narendra Modi and his achievements in the first 100 days in office.

Just like in UP, the party will carry out an aggressive door-to-door campaign in the state. Around 600 vehicles are being booked by the party that will travel the rural regions of the state and feature 'clips' in a loop showing how Modi has been able to make a difference in the first 100 days in office. The BJP's game plan is to use the tried and tested formula of development and how Modi is going to transform Maharashtra if BJP is voted to power.

"The main aim is to reinforce that the state and its people would benefit more if a government of the BJP is voted to power, as it would lead to better co-ordination as there is a BJP government in the Centre too," said a senior BJP functionary.

Similar to how the party used Varanasi as a launching pad for the party's campaign in Uttar Pradesh, Pandharpur in Solapur which is known for having one of Maharashtra's famous Vithal temple. Vithal is considered to be a reincarnation of Lord Krishna and lakhs of devotees from the state come to visit the temple each year.

The same day the party is planning for Modi to address three more meetings, besides Pandharpur, Modi is likely to address another rally at Kolhapur, followed by another one at Beed. The Mahalaxmi Race course where Shiv Sena President Uddhav Thackeray addressed a rally recently would be the fourth rally that Modi would be addressing.

"Right now there is a schedule of 15 meetings, if the party feels that the party is still not doing well in certain regions, then we have a kept window for organizing more public rallies of Modi," said a BJP functionary.

Modi in Front

AROUND 600 vehicles will travel the rural areas featuring Modi govt's achievements

BJP TO FOCUS on development and how Modi is going to transform state if the BJP is voted to power

IF NEEDED, PM could address more than the 15 rallies planned for him in state

THE BJP IS planning one Modi rally for 12 assembly seats

The Financial Express

Date: 01/10/2014
Page No. 02

Govt touches 75% of FY15 fiscal deficit target by Aug

fe Bureau
New Delhi, Sept 30

The April-August fiscal deficit was Rs 3.98 lakh crore, or 74.9% of the FY15 target of 5.31 lakh crore. In the same period last year, fiscal deficit had touched 74.6% of the FY14 target. The government, buoyed by the moderation in crude oil import bill and the virtual linking of diesel prices to the market, is confident of meeting the annual deficit target. It is also pinning hopes on an ambitious disinvestment plan.

The government has used its FY15 borrowing target by Rs 8,000 crore last week.

The full year deficit target is Rs 5.31 lakh crore, or 4.1% of gross domestic product.

Revenue receipts (tax and non-tax) for April-August was Rs 2.7 lakh crore, or 22.7% of the full year budgeted estimate of Rs 11.90 lakh crore compared with 23.9% for the same period last year. Including non-debt capital receipts, April-August total revenue was Rs 2.74 lakh crore, 21.7% of the FY15 budgeted estimate of Rs 12.64 lakh crore.

Non-plan spending for the period was Rs 4.95 lakh crore, or 40.6% of the FY15 budgeted estimate of Rs 12.20 lakh crore. For the same period last fiscal, non-plan spending was 43.2% of FY14 target. Plan expenditure for April-August was Rs 1.77 lakh crore, or 30.9% of the FY15 target of 5.75 lakh crore and compared with 33% for the same period last year.

Government spending, by its nature, is front-loaded, and most revenue collections are mopped up in the last two quarters. In fact, the last quarter of a financial year usually shows a fiscal surplus. Moreover, lower crude prices, and gradual de-control of diesel means the centre will be able to cut some of its oil and fertiliser subsidies.

The Indian Express

Date: 01/10/2014
Page No. 22

Panels to prepare report on cost-benefit analysis

Taskforces set up as per FSLRC proposals

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 30

FINANCIAL SECTOR REFORMS

- Taskforces on four new agencies include a Public Debt Management Authority, a unified Financial Sector Appellate Tribunal, a Resolution Corporation as well as a Financial Data Management Centre
- Each of the panels have been given a one year period to finalise their reports that would include best international practices and required physical infrastructure
- The task force on the PDMA, which will help the Centre raise debt, will be headed by ex-PFRDA regulator Dhirendra Swarup
- Justice NK Sodhi, former chief justice of high courts of Kerala and Karnataka will chair the taskforce on setting up the Financial Sector Appellate Tribunal

TAKING forward long pending reforms of financial sector regulators, the finance ministry has now set up taskforces on four new agencies including a Public Debt Management Authority, a unified Financial Sector Appellate Tribunal, a Resolution Corporation as well as a Financial Data Management Centre.

The move follows the recommendations of the Financial Sector Legislative Reforms Commission that had called for a non-sectoral, principle-based, legislative architecture for the financial sector by restructuring existing regulatory agencies and creating new agencies for better governance and accountability.

"As recommended by the FSLRC, the government has set-up taskforces to lay the roadmap for the upgradation of existing agencies and establishment of new agencies," said a finance ministry release on Tuesday. Each of the panels have been given a one year period to finalise their reports that would include international best practices, an administrative plan on the required physical infrastructure, a transition plans as well as a cost-benefit analysis.

The taskforce on the PDMA, which will help the government raise debt and support cash management function will be headed by former PFRDA regulator Dhirendra Swarup. Meanwhile, Justice NK Sodhi, former Chief Justice of high courts of Kerala and Karnataka and a former presiding officer of the Securities Appellate Tribunal will chair the taskforce on setting up the Financial Sector Appellate Tribunal.

The FSAT is envisioned as an appellate court for all financial sector matters with a well designed registry and international best practices in court management.

Former RBI deputy governor Subir Gokarn will head the taskforce on Financial Data Management Centre that is proposed to be a depository of all financial sector data.

Former Sebi chairman M Damodaran has been appointed as the chairman of the committee on the Resolution Corporation that would resolve financial firms before they reach the stage of insolvency.

The finance ministry and financial sector regulators had decided to move ahead with recommendations of the FSLRC in October 2013 at a meeting of the Financial Stability and Development Council.

The Hindu

Date: 01/10/2014
Page No. 16

Reserve Bank keeps policy rates unchanged

'There are risks from food price shocks'

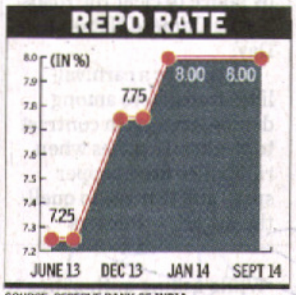
Special Correspondent

MUMBAI: Continuing the effort to fight "persisting inflation" and inflationary pressures, the Reserve Bank of India (RBI) Governor Raghuram Rajan, on Tuesday, maintained the policy rates at the current levels.

The central bank kept the short-term policy indicative rate (Repo rate) unchanged at 8 per cent while keeping the Cash Reserve Ratio (CRR) at 4 per cent.

The repo rate is the rate at which the central bank lends money to banks. The CRR is the portion of total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank.

"With international crude prices softening and relative stability in the foreign exchange market, some upside risks to inflation are receding. Yet, there are risks from food price shocks as the full effects of the monsoon's passage unfold, and from geo-political developments that could materialise rapidly," said Dr. Rajan, while addressing a press conference to announce the



SOURCE: RESERVE BANK OF INDIA

fourth bi-monthly monetary policy here.

Medium-term objective

Turning to the medium-term objective — inflation target of 6 per cent by January 2016 — Dr. Rajan said the balance of risks was still to the upside, though somewhat lower than in the last policy statement.

This continued to warrant policy preparedness to contain pressures if the risks materialised.

Therefore, he said, "policy stance will be influenced by the Reserve Bank's projections of inflation relative to the medium-term objective (6 per cent by January 2016), while being contingent on incoming data."

"Clearly", said Dr. Rajan, "there is more confidence in achieving 8 per cent target (by January 2015) than to achieve than the 6 per cent target. Policy will depend on data and broadly we have reiterated the guidance from the August policy but said that the data has been better since then given good monsoons."

Post-monsoon revival in construction activity and the likely strengthening of momentum in business and financial services should sustain the recent signs of expansion in the services sector. Dr. Rajan said that in pursuance of the Urjit R. Patel Committee's recommendation to move away from sector-specific refinance, the access to the Export Credit Refinance (ECR) was is being brought down to 15 per cent from 32 per cent of the eligible export credit, "thus continuing to give banks room for manoeuvre.

"This will be in effect from October 10."

He also said that with liquidity conditions easing, the recourse to ECR hads fallen off substantially to about 10 per cent of the outstanding export credit eligible for refinance.

The Hindu

Date: 01/10/2014
Page No. 05

Smriti focuses on digital India campaign

Central Universities, IITs, IIMs to have scholarship programmes

Vijetha S N

NEW DELHI: The lead in every newspaper when board exam results are announced is how girls outshine boys yet again.

However, in reality, a majority of these girls do not manage to achieve bigger things simply because of financial constraints or social challenges — a situation Human Resource Development Minister Smriti Irani wants to set right with use of information technology.

All this and more was announced to more than 35,000 students, who were jointly addressed by the Minister as well as Microsoft CEO Satya Nadella on Tuesday, at the "Microsoft Talent India 2014," the company's initiative to use its resources to help Indian youth succeed in the new digital economy.

While Mr. Nadella, who is on his first trip to the country after becoming the CEO, spoke about the importance of doing what you love and looking at every opportunity as a learning experience, Ms. Irani spoke about the importance of IT as a key factor in providing a better tomorrow for India's youth as promised by her government.

"Soon, every Central University, Indian Institute of Technology, and the Indian Institute of Management will have scholarship programmes. And we are focusing on the Northeast too. We will facilitate 2,000 students and 500 faculty members to travel to these institutes and see the technology used there, as well as other things that they could use in their own institutes. This will go hand-in-hand with scholarships for 10,000 students," she said, adding that another feature she would introduce is a council for academic and industry interface, which will have a placement cell at all Central Universities as well as IITs and IIMs.

"We have managed to get details of 50,000 meritorious students who cannot study further because of financial constraints," said Ms. Irani, while talking at length about the "digital India campaign," which she wants to promote as a national agenda along with the other agendas of her government.

"The mygov.in is an initiative where citizens have not just commented on politicians, but also given concrete ideas about policy which the government can use," she said.

Students asked questions that ran from how soon technology would be made available to those in small towns to how a person could move with the times in spite of working for decades in the same industry.

The importance of continuous "learning" and not just continuous "employment", as well as the ability to listen, change with the times and experiment, and learn to move on from failure were listed as the key factors for professional success.

Human Resource Development Minister Smriti Irani with Microsoft CEO Satya Nadella at the Microsoft Talent India 2014 in New Delhi on Tuesday. — PHOTO: R.V. MOORTHY

Fall in love with what you do: Nadella

Yuthika Bhargava

NEW DELHI: "Live every day as if it is your last day, but learn as if you are going to live forever." This quote by Mahatma Gandhi is what Microsoft CEO Satya Nadella chose to inspire thousands of students across India via web-link.

Mr. Nadella, Microsoft's third CEO after Bill Gates and Steve Ballmer, said one should be passionate about what he or she does and should never stop learning irrespective of the heights they scale. On a two-day visit to India, he was interacting with students in person and through web-link.

He advised youth that they should "fall in love with what they do. Then it doesn't feel like work. Everything becomes easy".

The CEO of the technology giant told his young audience that the opportunity before them as they prepare to change the world "is unparalleled".

"In the long run, EQ (emotional quotient) trumps IQ (intelligence quotient). Without being a source of energy for others very little can be accomplished," he said.

Describing his journey as "surreal", Mr. Nadella said, "When I was growing up, I had not anticipated that I would even go west of Mumbai... and then I landed in Wisconsin. Believe me, my journey has not been simple. There have been many ups and downs and it is the choices that I made, which have helped shape what I have achieved."

The Financial Express

Date: 01/10/2014
Page No. 13

US nod to build LNG plant that will ship fuel to India

Washington, Sept 30

AHEAD of Prime Minister Narendra Modi's meeting with President Barack Obama, the US has approved construction of a liquefied natural gas project that will ship the fuel to India.

US regulators gave the final approval on Monday for Dominion Resources to build the east coast's first natural gas liquefaction plant at its Cove Point site on the Chesapeake Bay.

State-owned gas utility GAIL India has taken 40% of the project's capacity to liquefy 5.75 million tons a year of natural gas for export in ships. The $3.8 billion project is likely to be completed in June 2017.

The US Federal Energy Regulatory Commission (FERC) issued the permit for the Cove Point terminal in Maryland, Dominion Resources said in a statement.

"We are pleased to receive this final approval that allows us to start constructing this important project that offers significant economic, environmental and geopolitical benefits," said Diane Leopold, president of Dominion Energy.

Modi on the last leg of five-day US visit will meet Obama here to reinvigorate an economic relationship between the two nations.

The US Energy Department has approved Cove Point's exports to both free-trade and non-free trade agreement countries, according to FERC's statement.

India does not have a free-trade deal with the US. LNG exports from US is allowed only to countries with which Washington has a free-trade agreement. Some terminals like Cove Point have however been exempted from this condition. GAIL in April last year signed an agreement with Dominion for booking 2.3 million tons per annum liquefaction capacity in the Cove Point LNG liquefaction terminal project located at Lusby in the state of Maryland. Cove Point would be the nearest export terminal to the Marcellus Shale, the most productive US natural gas deposit.

Under the agreement with Dominion, GAIL will procure its own natural gas and deliver it to the Cove Point pipeline for liquefaction at the terminal and loading into ships brought to the facility on the Chesapeake Bay.

GAIL already holds a 20% stake in Carrizo's Eagle Ford Shale acreage. It also has a deal with Cheniere Energy Partners to buy 3.5 million tonnes per annum of LNG from Sabine Pass Liquefaction, a subsidiary of Cheniere, from 2017-18.

Dominion's waterfront site, about 96-km, southeast of Washington, has already imported liquefied natural gas and requires minimal construction for beginning exports, Dominion said in the statement. *PTI*

The Financial Express

Date: 01/10/2014
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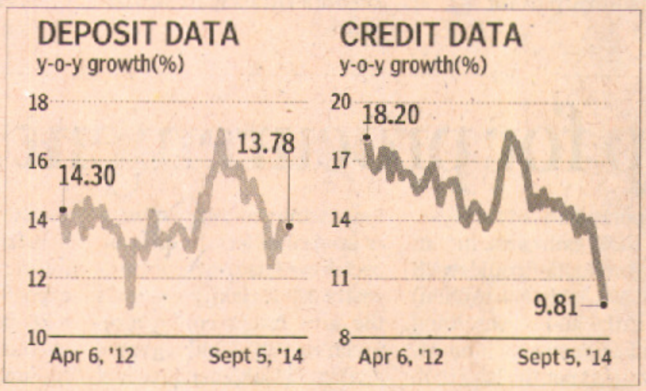
'RBI will cut rate at right time'



New Delhi, Sept 30: With the RBI keeping its short-term lending rate unchanged citing inflation risks, financial services secretary GS Sandhu on Tuesday said the central bank understood the needs of the market and would cut interest rate at the right time.

"RBI... fully understands needs and expectation of markets, so they will take a view (on cutting policy rates) when the time is right," Sandhu said at an event when asked to comment on RBI's continued status quo on policy rates at the bi-monthly monetary policy.

Reserve Bank governor Raghuram Rajan left all key rates unchanged, citing continued risks to inflation and difficult external situation especially on the geopolitical front.

This is the fourth consecutive time that the RBI has kept key interest rates unaltered despite clamours from the industry to cut rates to boost economy. The short-term lending rate (repo) rate remained at 8% and the cash reserve requirement of banks at 4%. The statutory liquidity ratio (SLR) has also been retained at 22 per cent.

Explaining the rationale for status quo policy, Rajan said though WPI inflation has ebbed to levels consistent with 8% inflation by January 2015, "there are risks from food price shocks as the full effects of the monsoon's passage unfold, and from geo-political developments that could materialise rapidly."

He said there are "uncertainties" over food inflation even though 6 per cent retail inflation target by January, 2016, remains a possibility."

The future policy stance will be influenced by the RBI's projections of inflation relative to the medium term objective of 6% by January 2016, while being contingent on incoming data," Rajan said. *PTI*

The Economic Times

Date: 01/10/2014
Page No. 02

Come Let's Clean, Modi to tell India

Swachh Bharat campaign to start from Boat Club area on Rajpath in New Delhi tomorrow

Our Political Bureau

New Delhi: Prime Minister Narendra Modi will launch his pet Swachh Bharat campaign from Boat Club area on Rajpath in New Delhi on Thursday morning where he will also flag off a road walkathon.

Five thousand school children, college and university students, government officers, diplomats and expats and representatives of corporate houses and chambers of commerce are expected to attend the programme.

Modi is expected to also speak at the programme and administer the Cleanliness Pledge to children and other persons attending the event there. The entire Rajpath till India Gate and Rafi Marg will be closed from 5 am till noon on October 2. Sources said Modi will take part in the walkathon with school children.

Modi will begin his day by visiting Raj Ghat and later take part in a programme at Valmiki Sadan, a Dalit colony at Mandir Marg. "The PM wanted a place associated with Gandhiji. Since the basti was where Gandhi had lived for many days, it was considered appropriate," an official said. The colony is said to have preserved and maintained the small room where Gandhi lived and has hosted crucial meetings of the Congress. Modi is also expected to inaugurate new toilets in the colony, besides picking up the broom to clean a public place.

In the afternoon, Modi is expected to record his first radio address, which will be broadcast by All India Radio. He has already sent instructions to government officers to work on Mahatma Gandhi's birth anniversary, a national holiday, to clean ministries — including toilets — as part of the project. Ministers such as Uma Bharati and Ravi Shankar Prasad will travel to different cities to promote the campaign. Government offices located in buildings on Raisina Hill will close early on October 1 at 1 pm and after 10:30 am on Thursday for the launch. The government has instructed all its offices to administer the cleanliness pledge at 9.45 am on Thursday.

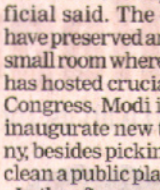
NO LEAVE ON OCTOBER 2

PM Modi has already sent instructions to government officers to work on October 2

Aides of Modi recall that even as the CM of Gujarat, Modi has celebrated Gandhi Jayanti in Porbander, the birthplace of Mahatma Gandhi, and had urged people to maintain cleanliness in their surroundings and buy 'Khadi' clothes for Diwali.

Swachh Bharat was one of the first schemes that the new government had announced, and it has since featured in almost every major Modi speech — from Red Fort in Old Delhi to Madison Square in New York.

Metro's 'Clean & Green Delhi' Drive



NEW DELHI: Delhi Metro will plant saplings and focus on cleanliness at its stations and surrounding areas as part of 'Clean and Green Delhi' drive in line with the 'Swachh Bharat' campaign. "DMRC will be undertaking a special 'Clean & Green Delhi' drive from Oct 2." – PTI

Business Standard

Date 01|10|2014

Page No. 10,19

Petrol is cheaper by 65p/litre

Oil market companies pass on the benefits of falling global crude prices to consumers, cut non-subsidised LPG price by ₹21 a cylinder, jet fuel by 3%

BS REPORTER
New Delhi, 30 September

SOME MORE RESPITE

	Old price	New price	Change
Petrol (₹/litre)	68.51	67.86	0.65
LPG* (₹/cylinder)	901.00	880.00	21.00
ATF (₹/Kilolitre)	69,603.25	67,525.63	2,077.62

*Non-subsidised; ATF: Aviation turbine fuel

Source: Indian Oil Corp

In line with the continuing fall in global crude oil prices, oil marketing companies (OMCs) on Tuesday cut petrol prices by 65 paise/litre, prices of non-subsidised cooking gas by ₹21 a cylinder and aviation turbine fuel (ATF) by ₹2,078/kilolitre. Following the revision, the price of petrol in the national capital stands at ₹67.86/litre. Petrol prices were earlier revised on August 31, when these were cut by ₹1.5 a litre, excluding state taxes.

"Since the last price change, petrol prices have continued to show a downward trend. However, the rupee-dollar exchange rate has been depreciating. The current levels of international oil prices and the exchange rate warrant a decrease in the selling price of petrol in the domestic market," Indian Oil Corporation, India's largest fuel retailer, said in a release.

Against ₹71.51/litre in June, the price of petrol has fallen a cumulative five per cent so far. In June 2010, the government had decontrolled petrol prices. Since then, prices have moved in line with global rates.

The ₹20/cylinder cut in the price of non-subsidised liquefied petroleum gas (LPG), which accounts for about 20 per cent of overall LPG sales, is the third price cut since July. A non-subsidised 14.2 kg LPG cylinder will now cost ₹880 in Delhi, against the subsidised cylinder's cost of ₹414.

ATF prices were cut by ₹2,077.6 a kilolitre, or three per cent, the third cut in the price of the fuel since July. Now, the price of ATF in Delhi stands at ₹67,523.63 a kilolitre.

Though many had expected OMCs to announce a cut in diesel prices, too, this wasn't the case. These companies' over-recovery on diesel sales, which stood at 35 paise/litre a fortnight ago, has now crossed ₹1/litre.

Railway freight traffic growth lags expectation

ANUSHA SONI
New Delhi, 30 September

CHUGGING SLOWLY

Commodities	April-Aug (mt) 2013-14	2014-15	Growth in volume*
Coal	210.73	215.10	2.07
Raw material for steel plants	7.09	6.56	-7.48
Pig iron & finished steel	14.90	16.39	10.00
Iron ore	49.03	48.90	-0.27
Cement	42.13	47.87	13.62
Container services	17.73	20.35	14.78

*Note: Growth in volume in % y-o-y

Source: Indian Railways

In the first five months of this financial year, Indian Railways (IR) carried 446 million tonnes (mt) of goods across its network, 4.6 per cent more than the 426 mt carried during the same period last year. Freight revenue earned was ₹40,358 crore, a little over a tenth higher than last year's collection.

However, according to the official position paper and experts, the growth elasticity for railway freight movement in relation to overall change in gross domestic product (GDP) is 1.25. Meaning, IR freight volume should grow by 1.25 per cent for every one per cent growth in GDP. Railway volumes should, therefore, have grown 6.9 per cent so far this financial year, not only by 4.6 per cent.

Senior railway officials say the core sectors could take a while to pick up. "The services sector can hope for nearly recovery but our traffic reflects the core sectors, directly linked to manufacturing and production. It will take time before these sectors pick up. At least for this financial year, we are not expecting any major revival," said a senior IR official, on condition of anonymity.

A rise in freight rates happened in June, by 6.5 per cent under the Fuel Adjustment Component (FAC). The next FAC rise will happen in December. Coal, which accounts for about 40 per cent of the overall traffic, grew at a mere two per cent, compared to about six per cent growth in the same period last year. In the current financial year, coal carried for washeries showed a sharp decline of about 51 per cent and that for public use declined nine per cent. It was only coal carried for steel plants and thermal power houses that saw a rise, of 4.75 per cent and 6.43 per cent, respectively.

Similarly, owing to the ban on mining in several states the volume of iron ore carried for export had come down by 35 per cent. It was a similar trend last year, when the volume of ore for export dropped 40 per cent. Domestic users had pushed the overall share of iron ore in rail traffic last year with a 20 per cent annual rise but this has been sluggish since. Ore carried for steel plants and domestic users saw a rise in volume by a mere 1.7 per cent and 0.2 per cent, respectively.

Some other commodities showed positive signs. Cement grew 13 per cent. There was 18 per cent growth in export-import container traffic and three per cent in domestic container traffic.

IR's share in overall freight carried has come down to about 31 per cent, compared to over 90 per cent during the 1950s.

Business Standard

Date 1/10/14
Page No. 2

Only 3 projects are NPAs, says NHAI

Total outstanding is ₹164 crore, though many projects are delayed

MAMUNI DAS
New Delhi, September 30

Drowning out the noise about road projects being under stress, the National Highways Authority of India (NHAI) has announced a proud achievement. Only three national highway projects have turned non-performing assets (NPAs), it has said, adding that the total outstanding loan is ₹164 crore.

The highway projects that have been declared NPAs are the Gwalior Jhansi Expressways (₹92.75 crore outstanding loan with Punjab National Bank as lead banker), Raipur Expressway (₹36.91 crore outstanding with State Bank of Travancore as lead banker) and Abhijeet Hazaribagh Toll Road (₹ 34 crore outstanding with State Bank of India as lead banker).

This, however, does not mean that the remaining projects are in the pink of health. Several face time and cost over-runs for various reasons, including promoters not being able to put in equity, delayed land acquisition or environment clearance, toll revenues being lower and the ban on mining.

Toll revenues for some projects have been hit as coal was not mined as per the developer's expectation. One project was affected by the recent Kashmir floods.

Some schemes are being prevented from turning NPAs by allowing the developer to defer premium payment to the NHAI — a step that also allows developers to prioritise repayment of loans to certain lenders.

As on date, the NHAI has allowed 11 project developers to defer premium payment. These are for the following stretches: Walajapet-Poonamallee, Belgaum-Dharwad (Ashoka Buildcon), Hosur-Krishnagiri (Reliance Infrastructure), Indore-Dewas (Gayatri-DLF), Tumkur Chitradurga (IRB Infrastructure), Ahmedabad-Vadodara(IB Infrastructure), Samakhiyali-Gandhidham (L&T), Hyderabad-Yadgiri (Sadbhav Engineering), Rohtak-Panipat (Sadbhav Engineering), Beawar-Pali-Pindwara (L&T)and Godhra-Gujarat/MP border (BSCPL).

There is also an instance of a non-NHAI road project turning an NPA — the Kundli Manesar Palwal Expressways, with ₹135 crore as outstanding loan. The Chennai Elevated Tollways project, to be implemented by Soma Enterprises, is also "on the verge of being declared an NPA".

Reviving many of these projects requires a call by all stakeholders, including NHAI and other Government officials, involving negotiations and relaxation of the original project norms — something the officials are unwilling to do.

For instance, the decision to permit premium payment deferment was taken with dissenting notes. "The present Government will have to take steps to ensure that bureaucrats take decisions," NHAI Chairman RP Singh said.

The Financial Express

Date: 1/10/14
Page No: 2.

8 core sectors grow 5.8% on higher steel & coal output

fe Bureau

New Delhi, Sept 30: The growth in the output of eight core sector industries—with a combined weight of 38% in the Index of Industrial Production (IIP) — recorded a 5.8% growth in August against 4.7% in August last year, thanks to a robust growth in coal, steel, cement and electricity sectors. In July, it had slowed down to 2.7% from 5.3% in July last year.

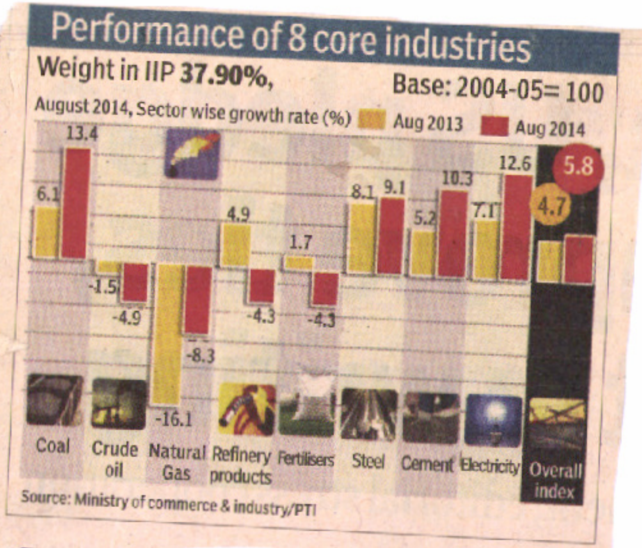
The data released by the ministry of commerce and industry on Tuesday showed that the coal production increased 13.4 %, while steel production rose by 9.1 % in August. Cement production and electricity generation increased 10.3 % and 12.6%, respectively, in the month.

However, crude production declined 4.9 %, natural gas production fell 8.3% and petroleum refinery production went down 4.3 %. Fertiliser production fell 4.3 % in the month.

Since May 2013, the highest growth rate was 8% in September, while the lowest was minus 0.6% in October, last year. During April-August period, the eight sectors grew 4.4%, against 4.2% in the year-ago period.

The August figures are likely to have a positive impact on overall industrial production. Manufacturing activity had contracted 0.7% last fiscal and shrank by 1.2% in the April-June quarter of 2014-15. The government recently launched a 'Make In India' campaign to transform India into a global manufacturing hub. The aim is to take the share of manufacturing in the country's GDP from a stagnant 15-16% currently to 25% by 2022 as stated in the National Manufacturing Policy as well as to create 100 million new jobs by 2022.

The country's GDP growth rate had touched a two-and-half year high of 5.7% in the first quarter of 2014-15 thanks to better performance of manufacturing, mining and services sectors.



Source: Ministry of commerce & industry/PTI

The Statesman

Date: 01/10/2014
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RBI CAUTIOUS OVER INFLATION

FOOD PRICES CONTRIBUTED 60 PER CENT TO HEADLINE INFLATION IN AUGUST

STATESMAN NEWS SERVICE
Mumbai, 30 September

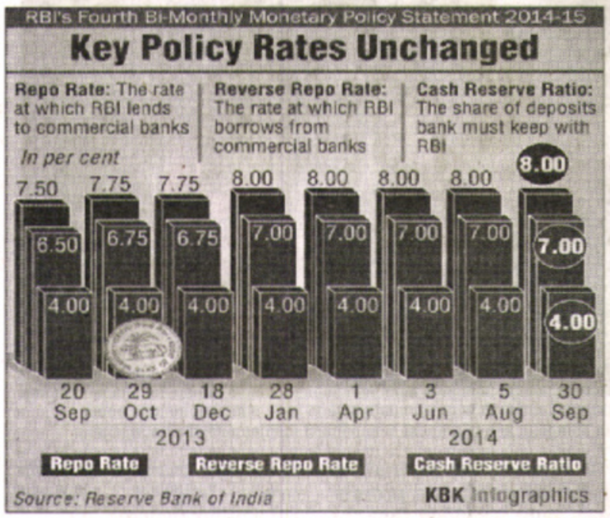
After announcing the RBI policy here today, the Reserve Bank Governor, Mr Raghuram Rajan, explained to reporters why the central bank apprehends upside risks to its targeted 6 per cent CPI-inflation in January 2016.

He pointed out large and persistent pressures on food prices have contributed almost 60 per cent to headline inflation in August. This apart, the full impact of skewed rainfall distribution carries risks to future path of food inflation. Future food prices and the timing and the magnitude of held back administered price revisions impart some uncertainty to an otherwise improving inflation outlook.

The RBI is comfortable with achieving 8 per cent first inflation target (it slowed down to 7.8 per cent in August). If the CPI-inflation moves towards 7 per cent then we expect a gradual pace of rate cuts and if inflation moves closer to 6 per cent target then we can probably expect a more aggressive rate cuts.

The policy explains momentum of activity in all sectors of the economy is yet to stabilise. Agriculture should shed the effect of recent shocks and pick up in Q4 of 2014-15. Industrial activity will await improvement in business environment and resumption of consumption and investment demand before gaining sustained speed.

The key to a turnaround is revival of investment activity in greenfield as well as brownfield stalled projects, supported by fiscal consolidation, stronger export performance and sustained 'disinflation'.



Lowering of SLR has been paused because banks have plenty of liquid securities. SLR cut, the policy statement say, will be a measured processed. As government finances improve SLR will be brought down. The RBI policy highlights loan growth to the real estate sector describing "it is quite strong." Lenders' exposure to coal and energy sector finds mention in the policy which seeks major reforms in coal sector which could pave way for its higher availability. Impact on banks of coal block cancellations has to be worked out. The real issue is keeping assets healthy.

The central bank is satisfied with the current account deficit (CAD) position. Incoming data suggests CAD at 1.7 per cent of GDP for Q1 may remain contained in Q2. The improvement in trade balance has benefited from the fall in gold imports.

Even as external financing requirement stays moderate all categories of capital flows remain buoyant and this has resulted in accretion to the country's international reserves. Changes in forex reserves, according to the RBI, are due to fluctuation in dollar price and not due to selling of American currency by the central bank.

Business Line

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Huge population puts India in WWF's top emitters' list

OUR BUREAU
New Delhi, September 30

Indian policy-makers may lose a strong bargaining point with the new Living Planet Report by the World Wide Fund for Nature (WWF), which was released on Tuesday.

Carbon footprint

While India's per capita carbon footprint is relatively low, as contended by policy-makers on the global stage repeatedly, India's massive and ever-growing population puts it on the back-foot. When per capita demand is multiplied by the population, India becomes the third-largest contributor to global ecological footprint producing 7.1 per cent of the total – behind China (19 per cent) and US (13.7 per cent). India is followed by Brazil and Russia (both at 3.7 per cent). Interestingly, the developing countries featured in the top five contributors list have higher per capita footprint on the basis of which India ranks 136, while China stands at 76, Brazil at 53 and Russia at 42.

WWF says the ecological footprint reflects "the goods and services used by an average person in that country, and the efficiency with which resources, including fossil fuels, are used in providing these goods and services."

The report goes on to state, "Not surprisingly, of the 25 countries with the largest per capita ecological footprint, most were high-income nations; for virtually all of these countries, carbon was the biggest footprint component." The biggest concern highlighted in the WWF report is the rate at which the world as a whole was consuming goods it can ill-afford. The demands on renewable resources for food, fuel and fibre, land, and forests needed to absorb carbon emissions would need more than "1.5 Earths." Simply put, to adequately fulfil our demands, to renew what we use, and to absorb what we waste, Earth would need to be bigger by more than 50 per cent.

A globe shown in a climate change march in New York. REUTERS

For the naysayers there is a disturbing finding. The overshooting demand has resulted in the wildlife population decreasing by half over the last 40 years. The report notes that the undeterred profiting of the earth's natural resources by humans have resulted in a situation where it is all set to change, for the worse, if immediate action is not taken.

"Given the pace and scale of change, we can no longer exclude the possibility of reaching critical tipping points that could abruptly and irreversibly change living conditions on earth," WWF report said.

Editorial

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Focus on structural change

Reserve Bank of India takes regulatory steps forward

As expected by virtually everyone, the Reserve Bank of India (RBI) decided to maintain the *status quo* on policy rates. The rationale for this was articulated by Governor Raghuram Rajan several days ago. Notwithstanding the recent moderation in inflation, the RBI still sees upside risks as being significant, particularly from food. The monsoon was below normal, resulting in a possible slowdown in growth of *kharif* output. Although prices have not spiked across the board yet, the likelihood that they might as the harvest comes in is significant. Until that threat abates, Governor Rajan believes that it is better to be safe than to flip-flop on the policy rate. Importantly, though, this concern is not just about the immediate future; the inflation projections reported in the policy statement indicate upside risks to the March 2016 target of six per cent consumer inflation. The implicit, but clear, message to the government is that the space for monetary stimulus will only expand when robust long-term measures to reduce and contain food inflation are implemented.

With the monetary policy announcement being essentially a non-event, attention must inevitably turn to the regulatory component of the policy statement. Several potentially significant initiatives have been announced. Under the pillar of financial market development, the RBI is continuing down the path of reducing the held-to-maturity (HTM) proportion of the government securities portfolios of banks. This component will go down in stages from 24 per cent of net demand and time liabilities to 22 per cent. The exemption that banks have been provided from mark-to-market requirements on the HTM portfolio is a major deterrent to the development of a genuine secondary market for government securities. Steadily eliminating the exemption is a critical requirement for market development, and the step is, therefore, welcome. However, the concern is that in its anxiety not to be disruptive, the pace of adjustment is just too slow. Another important step is to bring urban co-operative banks, which fulfil certain requirements, into the ambit of liquidity adjustment facility (LAF). This will enhance the stability of this segment of the industry, which plays an important role in the financial inclusion mission. Innovations in the repo market, which will permit a secondary market to emerge in repo-ed securities, will add to the efficiency of banks in meeting their prudential requirements.

As regards financial inclusion, the statement commits to the issue of licences for payments banks and small banks in a few weeks. Time will tell whether these new segments offer attractive business opportunities. More concretely, though, some flexibility has been introduced in the always onerous know-your-customer (KYC) process; no dilution of requirements, of course, but imposing a one-time-only requirement across the banking system as opposed to each bank doing its own due diligence. On financial stability, the most significant problem that the banking system faces is that of asset quality. While better growth prospects – the RBI projects growth during 2015-16 to accelerate to 6.3 per cent from 5.5 per cent this year – will relieve some of the stress, more rigorous mechanisms relating to early warning, more granular supervision of stressed banks, a centralised database of defaulters and so on should enhance stability.