CHANAKYA
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Growth turnaround story is unconvincing

The economy is doing well, our chief statistician tells us, and we are happy. But to paraphrase Oliver Twist, I could have well said, “Sir, can I have some more?”

The CSO estimates are from a new base, 2011-12. Likewise, the growth rate of the manufacturing sector, as per IIP, shows a substantial pick-up from the earlier estimates (see table).

The highest revision upwards was for 2016-17, when the earliest estimate of IIP at 2004-05 prices at minus 0.7 per cent, went up to 4.9 per cent. In the case of national accounts, the current estimates are in 2011-12 prices and past data are not available. The estimates are available from 2014-15.

Huge discrepancy

The growth of gross value added at constant prices of the manufacturing sector was 10.6 per cent in 2015-16 and 7.7 per cent in 2016-17. It was 1.2 per cent in the first quarter of 2017-18, but rebounded to 7 per cent in the second quarter.

This compares with the growth of the index of industrial production of 2 per cent and 0.4 per cent, respectively. This discrepancy is truly extraordinary. (Of course, there is also the difference arising out of change of base year within IIP and CSO numbers.)

Assuming for the present that both figures (CSO and IIP) are correct and that one measures output and the other value added, there is indeed a great consistency problem. Even if we assume that the national income figures consist in the main in technological advance leading to value added rising even when the physical output is not rising, the gap is just too large.

Incidentally, in the same period gross capital formation or investment in the economy has collapsed. Gross fixed capital formation as a percentage of GDP which had crossed 32 per cent, fell to 31.8 per cent in 2015-16 and stood at 29.2 per cent in 2016-17.

It has further fallen to 29.4 per cent in the first half of 2017-18. This figure fell in every quarter of 2016-17. It was estimated at 29.7 per cent in the first quarter of 2016-17, falling to 28.9 per cent in the second quarter and was 29.1 per cent in the third quarter.

These estimates were in constant prices. The turnaround in the manufacturing economy in terms of physical output and robust investment is not happening. (I remain Oliver Twist.)

It would be useful if economists who advise governments accept this. Since the low growth period of 2012, there has been a repetitive pattern, of being told that a recovery is round the corner, or six months away.

The PMI is rising but output and employment is not.

Without making a political issue out of this, let us begin with arguments given by advisers to the UPA government just before it lost the elections. The chairman of the Economic Advisory Council of the Prime Minister, making his analysis of the slowdown, sagely said capitalists were not investing. In addition, he delivered a neat classroom lecture on ‘sources of growth’.

We were not told that public investment fell two years ago by a little less than 2 per cent of GDP, and then corporate investment fell. The entire edifice of PPP infrastructure was punctured.

The differences between the ruling party and the agenda of the official advisers in that period was much too striking to pass over in terms of propaganda.

There was a commitment to raising investment levels with a clear statement that a PPP strategy would be followed in a time-bound manner. Despite a view within the party that the national manufacturing policy would work best when supplemented by mild tariff support, accredited advisors made statements to the contrary.

The same sort of inconsistency is on display this time around.

States face revenue shortfall of Rs. 39,111 crore from GST: Mitra

Four months after the rollout of the Goods and Services Tax, States are facing a revenue shortfall of over Rs. 39,000 crore even as solutions are being worked out to address the problems of small and medium enterprises and ease the compliance burden.

States are facing a revenue shortfall of Rs. 39,111 crore from GST, and the Centre too is facing pressure on its tax collections, said West Bengal Finance Minister Amit Mitra on Thursday.

Addressing the annual general meeting of FICCI, Mitra said revenue collections under GST have become a matter of concern with collections between September and October dropping by Rs. 12,000 crore.

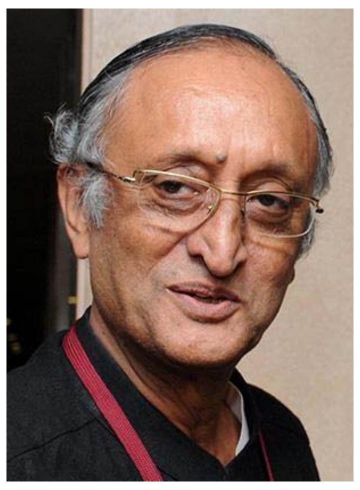
“For all States, for the first four months, Rs. 1.72 lakh crore is required for revenue protection. Of this States have received Rs. 1.33 lakh crore while there is a shortfall of Rs. 39,111 crore,” he said.

The revenue shortfall for the full fiscal could be closer to Rs. 90,000 crore, against the estimated Rs. 55,000 crore, Mitra said.

However, Jammu and Kashmir Finance Minister Haseeb Drabu and Bihar Deputy Chief Minister Sushil Modi expressed hope that revenue collections under GST would stabilise over the next few months.

At a panel discussion on GST, all three State Finance Ministers noted the challenges being faced by the small and medium enterprises under the new tax regime and agreed that more needs to be done.

Drabu suggested that the composition scheme for small businesses with an annual turnover of up to Rs. 1.5 crore should be tweaked to allow some input tax credit. “The larger companies are not buying from small businesses



due to lack of ITC,” he noted.

He also called for bringing back the reverse charge mechanism under GST that has been deferred till March. Significantly, Drabu also proposed doing away with the MRP (maximum retail price) under GST.

“MRP is from a pre-liberalised era…We need to now abolish MRP to allow market forces and differently priced goods,” he said.

Sushil Modi also called for changes to the invoicing mechanism and said the tax break-up should be visible in bills.

While the West Bengal Finance Minister said that SME hubs in Tirupur, Maharashtra and Surat have been hit badly by GST, Modi said their compliance burden needs to be lowered.

Petroleum products

Laying out a roadmap for GST, he said rates will be rationalised further to three to four slabs and efforts will be made to include electricity, real estate, stamp duty and petroleum in the new levy.

“The idea is that items from 28 per cent slab should be brought to 18 per cent and eventually the 18 per cent and 12 per cent slab should be merged into a single rate at 14 per cent or 15 per cent,” he said.

He, however, cautioned that petroleum products, if and when they are included in GST, will be taxed at the highest slab of 28 per cent and States will also have the power to levy additional taxes over GST.

E-Way Bill

Modi also said the E-Way Bill is likely to be rolled out across the country in a staggered manner from January 1.

GSTN

Both Mitra and Drabu blamed the lack of IT preparedness and the GSTN for some of the difficulties during the rollout of GST.

But Modi, who chairs an expert committee on IT infrastructure, defended the GSTN. “We have hired the best IT company – Infosys. The IT network is robust,” he stressed.

Terming the experience of GST as “very interesting”, Finance Minister Arun Jaitley said the GST Council will in the next phase take up measures to reduce the compliance burden, invoice matching and implementation of E-Way Bill. “This will make sure that tax evasion becomes more difficult,” he said.

“The Council has also taken a decision with regard to a time-frame for the E-way Bills. That will help bump up collections,” he said.

Modi calls for ‘constructive’ Winter Session

The Centre has listed 41 pieces of legislation, including the Financial Resolution and Deposit Insurance (FRDI) Bill, for the consideration of the Winter Session of Parliament, which will have 14 sittings starting on Friday. .

The Opposition has demanded discussions on the situation in Kerala and Tamil Nadu following Cyclone Ockhi, and ‘growing unemployment and rising prices’ in the wake of GST and demonetisation.

They also want a discussion on the increase in incidents of violence by fringe groups and cow vigilantes.

Addressing leaders of all parties in the Rajya Sabha and the Lok Sabha at a meeting convened by the Parliamentary Affairs Ministry, Prime Minister Narendra Modi said it is important that all parties support the conduct of business in both the Houses, and that constructive discussion takes place on issues of national importance.

A release from the Parliamentary Affairs Ministry further said that Modi urged all parties to form a national consensus on the issue of simultaneous elections for State Assemblies and Parliament.

Tata, GE to make aircraft engine components in India

GE Aviation and Tata Advanced Systems Ltd (TASL) are partnering to manufacture, assemble, integrate and test aircraft components. They will jointly manufacture CFM International LEAP engine components in India, for the global supply chain, Tata Sons said in a press release.

The two companies also announced their intention to pursue military engine and aircraft system opportunities for the India market. The LEAP engine is the world’s leading jet engine for single-aisle commercial jets.

The press release also said that a new Centre of Excellence will be established to help develop a robust ecosystem for aircraft engine manufacturing in India and build related capabilities.

“We look forward to working with GE to build more expertise and strengthen India’s defence manufacturing capabilities,” said N Chandrasekaran, Chairman, Tata Sons. “Tata group’s partnership with GE will help drive synergies in defence manufacturing and focus on innovation to support our armed forces.”

Rebooting coal block auctions

Black matter Coal sector requires policy and pricing reforms

India’s coal sector remains under stress despite a raft of policy changes in the past three years, including the introduction of e-auction for captive blocks in early 2015.

Of the five rounds of auctions held till date, response to three has been tepid, with the last one (or Tranche V) getting cancelled.

Also, of the 72 coal blocks auctioned and allotted so far, only a handful have started operations.

Of the mines allotted to government undertakings on nomination basis, many are still finalising mining plans and appointment of developers-cum-operators.

Many cases have also been filed in courts on the auction method, the compensation to be paid to prior allottees, and modification of auction rules after bidding.

So far, policy focus has been to get the allotted blocks on stream at the earliest, and increase production by allotting more coal blocks for both captive and commercial mining.

Wrong kind

The current design of coal-block auctions for the non-power sector is an ascending system where the government sets a floor price and bids escalate in the wholesale price index.

The first two auctions saw exorbitant bids and then the price of imported coal plunged, which rendered these mines unviable — even as the process of transferring the mines to new allottees ran into glitches.

Contrastingly, in the power sector, a reverse auction method was followed. It saw negative bidding whereby the allottee bears the mining cost and also pays a forward premium, which means that the energy charges at which power is sold to discoms do not allow for recovery of such costs.

Blended under-recoveries on that account are 50-80 paise per kWh. And this increases as mining costs and forward premiums rise along with the wholesale price index.

Yet another impediment has been the lack of power purchase agreements.

All this casts doubt on the Government’s target of producing 1.5 billion tonne per annum (btpa) of coal by 2020. Of this goal, 1 btpa was to be produced by Coal India, 0.1 btpa by Singareni Collieries (SCCL), and the remaining by captive and commercial mines.

The Coal India factor

Coal India’s production grew just 3 per cent to 554 million tonnes last fiscal, compared with 7 per cent and 9 per cent in 2015 and 2016, respectively, as inter-alia plant load factors (PLFs) at thermal plants plunged to 60 per cent

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NPA mess: Govt asks banks to reveal asset quality review impact

The government has signalled that it will leave no stone unturned in cleaning up the banking system. It has now asked banks to disclose the variations between the non-performing asset levels in their balance sheet and the levels arrived at following the asset quality review.

Railway Minister Piyush Goyal, stepping in for Finance Minister Arun Jaitley, who was busy at another event, said,

“We are asking banks to show the deviation between their balance-sheet, the audited balance-sheet and the AQR numbers, which has put pressure on the banks to show the correct picture and not indulge in ever-greening.”

Goyal said this at a hurriedly convened press meet to counter Congress allegation that Prime Minister Narendra Modi had used an industry function on Wednesday to attack the Opposition on the eve of elections.

Goyal said the identification of NPAs and clean-up of the banking system have been going on since the Modi government came to power. Goyal said, “NPAs are a legacy issue that are being recognised only recently as per Reserve Bank of India Governor Urjit Patel.”

Pointing to the discrepancies during loan disbursement, Goyal said, “In March 2008, total lending of banks was Rs. 18.16 lakh crore; this grew to Rs. 52.15 lakh crore in March 2014. This reflects indiscriminate corporate lending during the Congress-led UPA regime.”

“It was unfortunate that earlier NPA accounts were not shown, ever-greening was done and NPAs were hidden by restructuring mechanisms such as corporate debt restructuring,” he added.

“In March 2014, 36 per cent of stressed assets were identified as NPAs; in June 2017, this jumped to 82 per cent,” he said.

Goyal said the government is working to ensure transparent proceedings against defaulters. “In June 2017, the RBI had identified 12 of the biggest loan defaulters. Their collective borrowings amounted to Rs. 1.75 lakh crore, or one-fourth of total NPAs. Legal processes have been initiated and the cases have been referred to the National Company Law Tribunal,” he added.

Asked about concerns relating to the use of deposits to “bail in” lenders, Goyal reiterated that “depositors’ money will be safe within the banking system. No public sector bank has failed...but if there are any loopholes in the Financial Resolution and Deposit Insurance Bill, 2017, it can be plugged.”