THE WEDNESDAY INTERVIEW | SANJEEV SANYAL

'Our calorie-oriented approach to agriculture is no longer sustainable'

The Principal Economic Adviser to the Ministry of Finance on rural distress, the GDP back series data, NPAs, and slow GDP growth in the second quarter of this FY

T.C.A. SHARAD RAGHAVAN

The government has come under a lot of criticism over its estimates for economic growth during the United Progressive Alliance years and for the slowdown in GDP growth in the second quarter of this financial year. Sanjeev Sanyal, Principal Economic Adviser to the Ministry of Finance, argues that even though the GDP back series lowered growth for previous years, the growth rates were still "decent" if seen in isolation. The real concern, he says, was that macro stability indicators fared much worse during that time. Excerpts from an interview on the non-performing assets (NPA) situation, the IL&FS crisis, and meeting the fiscal deficit target this year:


V.V. KRISHNAN

The question of the day is to do with the GDP back series data. What are your key takeaways from the new data?

■ We shifted the calculations to a new 2011-12 base in 2015. This is done periodically to realign national accounts to the changing structure of the economy. All new GDP data are done on this basis but we needed to extend it backwards to provide a longer series. This is what was announced last week. The CSO (Central Statistics Office) is a professional body and the methodology is as per internationally accepted standards.

Some insinuations have been made that these revisions are politically motivated. In fact, when this series was originally introduced in 2015, one of the results was that the growth rates for 2012-13 and 2013-14 were revised up very significantly. In the case of 2012-13, it was revised up significantly [twice], from 4.7% to 5.1%, and then further to 5.5%. So, the new series increased the growth rates for certain years of the previous government and was welcomed. If the same methodology now lowers the growth rates of earlier years, that is how it is.

Do the new numbers change the way we look at the economy in the recent past? Did we never really hit a high-growth phase of over 9%?

■ The revised back series growth rates would still count as decent growth rates in isolation. The real issue, I would argue, were the macroeconomic stability numbers. There was a spike in inflation to double digits and a large and irresponsible expansion in credit which later led to banking NPAs. Current account and fiscal deficits widened sharply. Thus, India was marked out as one of the 'Fragile Five'. So, while the new GDP growth numbers for 2005-06 to 2011-12 are somewhat weaker than previously calculated, the real problem was in macro stability.

What's your outlook going forward on the NPA situation? Do you think we need one more round of recapitalisation, more than what was already promised?

■ We introduced, in the last few years, much more stringent recognition norms for NPAs and capital requirements for banks. Recognition is now done strictly, and NPAs have been mostly taken into account. We are using the Insolvency and Bankruptcy Code to resolve/liquidate/auction NPAs. In this way, we are making our way through the old problem loans. Meanwhile, as a part of a revival plan, ₹2.11 lakh crore was earmarked for recapitalising banks. This is being deployed in a calibrated fashion. More will be made available if necessary.

What's the lesson on regulation in light of the IL&FS crisis in the NBFC (non banking financial company) sector?

■ The NBFC sector is now a much more significant part of the economy than it used to be. We need to pay attention to regulating it and, in particular, pay special attention to larger institutions by taking into account their systemic importance, their asset-liability mismatch, and so on.

The other lesson is that the credit market needs to be kept flowing during periods of stress. Otherwise it freezes up and causes a liquidity contagion of its own. In India, everybody pays attention only to the stock market whereas it is the credit market that is at the heart of the financial system.

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With the rise of the NBFC sector, aren't banks less important? Will there be a problem now with NBFCs slowing?

■ When we cleaned up the banks and slowed their expansion, the space was taken up by NBFCs. But now NBFCs themselves will go through a period of consolidation. The immediate credit market roll-over problems have been eased but many of them will now have slower growth. Parts of the economy, particularly some of the SMEs (small and medium-sized enterprises), have experienced a credit squeeze. So, we need to make sure that adequate credit reaches them. The good news is that mainstream bank credit has revived and is growing at over 14% year-on-year.

We also have the problem that real interest rates are very high, especially for SMEs. If you are borrowing at 12% (not uncommon for SMEs), when inflation is at 8%, that's one thing. But it's quite another when inflation is at less than 4%. A real rate of 800bps (basis points) is very high by any standards. The Monetary Policy Committee (MPC) has brought down structural inflation by some 500 basis points. That's a good thing, but we now need to take step two, which is to structurally lower interest rates in real terms so that it is compatible with the new level of inflation.

Economists often ignore the long-term, second-order effect of high interest rates. High interest rates may lead to low inflation in the short to medium term. In the long term, however, high interest rates have a supply side impact such that capacities are not created, infrastructure is not built, and the economy gets indebted. The riskiness of the financial system increases, and fiscal burden rises. Thus, higher interest rates in the long run actually lead to higher inflation. This is not a case for arbitrarily bringing down interest rates suddenly. But once we have anchored lower inflation, there is a case for systematically lowering real interest rates.

What is your take on the government meeting its fiscal deficit target this year?

■ This government is committed to fiscal responsibility. The fact that we are debating a fiscal deficit of 3.3% or 3.5% of GDP is in contrast to when we used to debate 5% or 6%. It is true that disinvestment of Air India is delayed. Monthly GST (Goods and Services Tax) collections are a bit lower than the target rate, but remember we are getting higher collections in others areas – customs collections will benefit from a weaker rupee; direct tax collections have improved from better compliance. Even in disinvestment, we have raised much more through recent ETFs (exchange traded funds) than people realise.

In light of the ongoing tussle between the Reserve Bank of India (RBI) and the Finance Ministry, what is your take on central bank autonomy?

■ Every Finance Ministry and central bank in the world debates these issues. The question is, what is the institutionalised way of doing it? We value RBI autonomy, but this autonomy is within the framework of the RBI Act. Greater autonomy also means greater accountability. To whom is the RBI accountable? As per the RBI Act, it is accountable to its Board. Just as we institutionalised monetary policy decisions by creating the MPC, in the same way we have institutionalised our relationship with the key regulator through its Board. In fact, as a result of this precedent, we have effectively institutionalised our relationship with every regulator.

Why has GDP growth slowed to 7.1% year-on-year in the July-September quarter?

■ Part of the decline in the year-on-year growth rate from 8.2% to 7.1% is due to a higher statistical base. This was anticipated. However, part of the decline is due to factors such as the spike in energy prices, disruptions in NBFC credit and the impact of global liquidity tightening. These factors had an impact from end-August to end-October, but have substantially abated since. Latest bank credit data suggest that more funds are flowing to the commercial sector, albeit the net impact after the NBFC slowdown is unclear. Similarly, global oil prices have dropped and the U.S. Fed's tightening cycle is likely to be less steep. Manufacturing PMI readings for November were also strong.

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We have seen major reforms like the MPC, GST and the Insolvency and Bankruptcy Code in the last few years. What should we expect next?

■ The last 25 years of reform were about the withdrawal of the Indian state from things it should not do and creating transparent policy frameworks for the private sector. This is why the words 'reform' and 'liberalisation' are often used interchangeably. This is still unfinished business but we have made substantial progress over several governments. The next 25 years of reform, however, must focus on getting the state to deliver on the things it should do. This will mean reforming the legal system, streamlining the administrative system, delivery of municipal services, and so on. This will require thinking about reforms in a very different way.

What is the way forward to tackle the various issues facing our agriculture sector and the farmers?

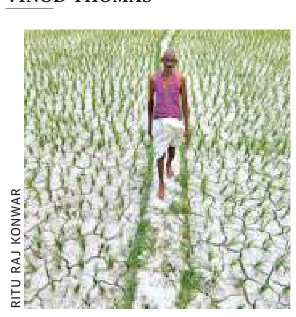
■ The immediate strategy is to make sure our MSP procurements go through and that reasonable incomes reach farmers. But there is a longer-term debate to be had about our agricultural policy as a whole. In this context we have to look at the fact that our agricultural policy framework was set up in the 1960s in a period of scarcity, so it is aimed at producing ever more calories. Our population growth has radically declined and is now growing at less than 1%. In such an environment, our calorie-oriented approach to agriculture is no longer sustainable. We need to rethink farm policy: how to produce more proteins, more cash crops, more investment in cold-chains, preservation of indigenous varieties, and so on.

SINGLE FILE

Shift to low carbon

India's stakes in a low carbon world economy are among the highest as it is on the front line of climate disasters

VINOD THOMAS


RITU RAJ KONWAR

Both rich and poor countries have faced extensive damage from storms and heatwaves this year. As climate representatives meet in Poland for the Conference of the Parties 24, the crucial question is whether carbon emissions will be reined in to avert further damage due to climate change.

In India, rains, floods and landslides in Kerala have killed 373 people since May 30. Uttar Pradesh, Karnataka and Assam were battered by floods this year, as was Chennai in 2015. Meanwhile, Delhi, Rajasthan, Andhra Pradesh, and Telangana, among other States, experienced heatwaves.

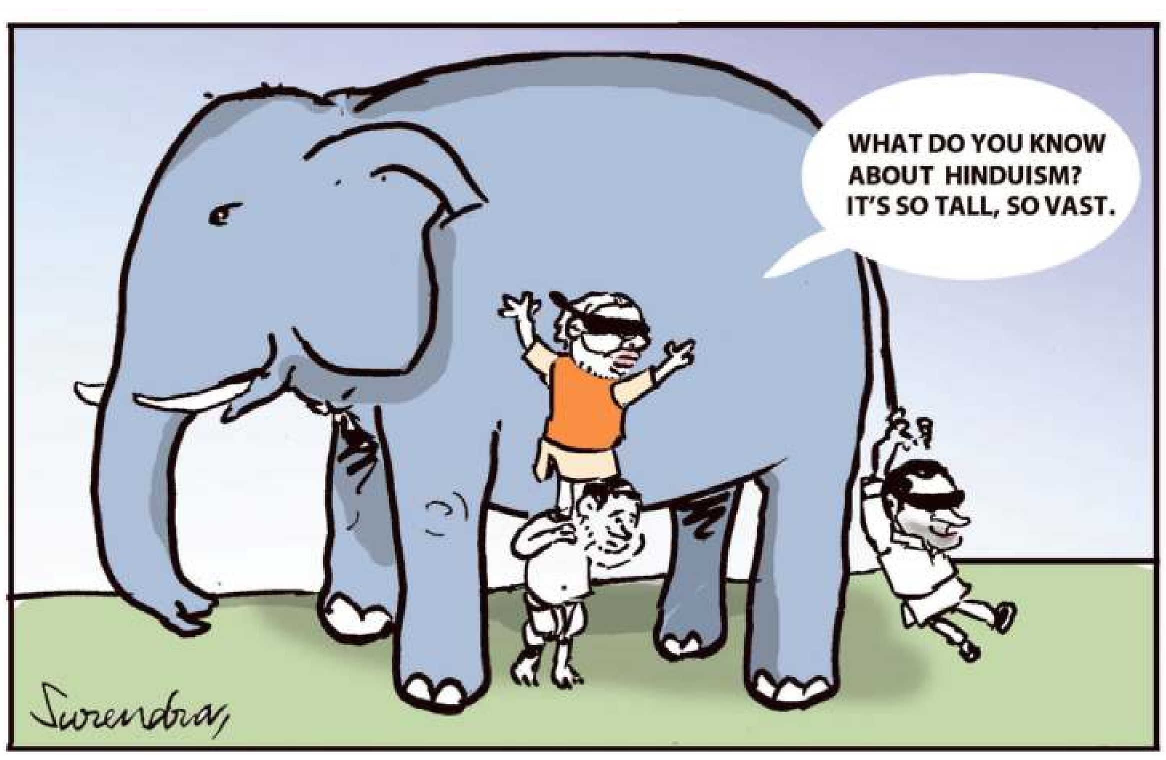
Greenhouse gas emissions, of which carbon dioxide is the biggest component, make the earth warmer and lead to more heatwaves. A study in the journal *Scientific Reports* found that the decadal mean of daily maximum temperature for April and May in the 2010s is 40-42°C over large parts of India. Warmer air holds more moisture, which results in more intense rainfall and provides more energy for storms. Climate scientists attribute the rising trends in flooding and heatwaves to human-induced climate change.

In the absence of a shift to a low carbon economy worldwide, the average temperature could rise by more than 2°C by the end of this century. Hotter, longer summers and excessive rainfall in some areas and droughts in others will damage crops. Warm coastal waters will turn unsuitable for certain species of fish.

Adapting to a changing climate is one part of the agenda. Japan has invested a lot of money on coastal defences. It has built the world's largest underground flood water diversion facility. But with a coastline of about 7,500 km, most of which is low-lying, India cannot make such colossal investments. Better early warnings and timely evacuations have had huge pay-offs, the most striking example being the massive relocation of people from the coasts of Andhra Pradesh and Odisha before Cyclone Phailin struck those areas.

But adaptation will not suffice unless mitigation takes central stage among the world's leading emitters, including India. The country has committed to cuts in carbon emissions consistent with a 2˚C temperature rise. But plans to build new coal-fired power plants need to be abandoned and replaced with a massive ramp-up of wind and solar power. India's stakes in a low carbon world economy are among the highest as it is on the front line of climate disasters and is also a leading contributor to greenhouse gas emissions. Apart from taking steps to adapt to climate change, India's voice in decarbonising the world economy is vital.

The writer is Visiting Professor, Asian Institute of Management, and author of 'Climate Change and Natural Disasters'.

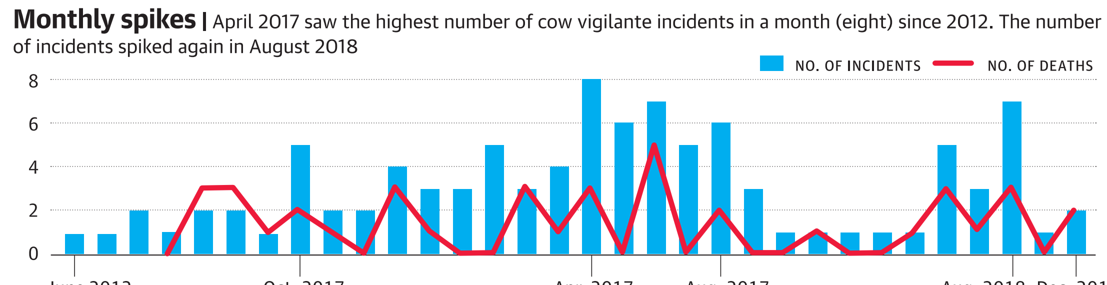


DATA POINT

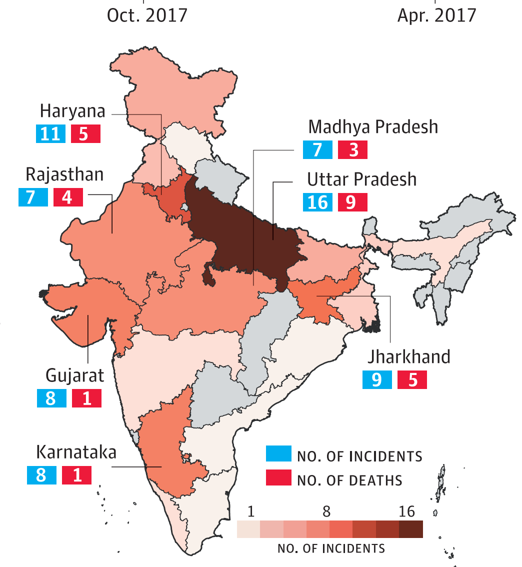
The vigilante menace

A police officer and a youth were killed in cow vigilantism-related violence in Uttar Pradesh on Monday. The data journalism website IndiaSpend has tabulated 99 such incidents and 39 deaths based on verified news reports since 2012. **Varun B. Krishnan** analyses the data

Monthly spikes | April 2017 saw the highest number of cow vigilante incidents in a month (eight) since 2012. The number of incidents spiked again in August 2018

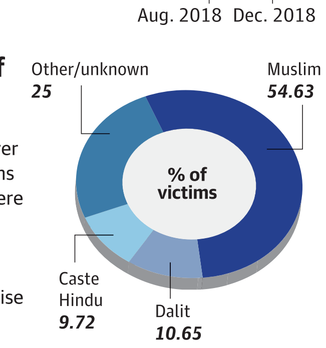


Higher in the north
Reports of cow vigilantism came from 19 States, with Uttar Pradesh registering the highest number of such incidents as well as deaths due to violence. A look at the trend across States



Source: IndiaSpend database

Targets of violence
The database shows that over half the victims of violence were Muslims. One in ten victims was a Dalit. A community-wise break-up



Community	No. of victims
Muslim	118
Dalit	23
Caste Hindu	21
Unknown	41
Others	13

FROM The Hindu. ARCHIVES

FIFTY YEARS AGO DECEMBER 5, 1968

PMs agree to continue talks on Kachchativu

The Prime Ministers of Ceylon and India have agreed that discussions on the sovereignty over Kachchativu and connected matters in the Palk Strait and Gulf of Mannar should continue. They exchanged views on a number of issues, including territorial waters, delineation of median line and fishing rights. A joint communiqué issued at the end of the visit of the Ceylon Prime Minister, Mr. Dudley Senanayake said 'they formally explored the possibilities for fruitful collaboration between the two countries in this area and agreed that discussions of matters should continue.' The highlight of the communiqué was the great satisfaction they felt over the increasing co-operation between their countries in regard to trade and economic matters. Among the subjects discussed by the two Prime Ministers were the bilateral relations between their countries including the progress made in the implementation of the Indo-Ceylon Agreement of 1964 and matters of common interest in the Palk Strait and Gulf of Mannar.

A HUNDRED YEARS AGO DECEMBER 5, 1918.

Dacoity in Attock.

A gang of five dacoits comprising it is believed, four notorious outlaws, have been busy in Attock district lately, and however enterprising they may be they are somewhat monotonous in their methods of procedure as shown by the details of two episodes enacted on the evenings of November 2nd and 27th at Nalhad and Minawala (near Pinur Gobya) respectively. In each case the dacoits posted one of their number on the roof of the victims' house and he by firing his rifle intimidated the villagers (who were unarmed) while his colleagues dealt with the householder. At Nalhad the son of the householder was seized and not released till the raiders had received about Rs. 5,000 of which Rs. 500 was collected by despoiling further from his neighbours as his house apparently did not provide sufficient treasure.

CONCEPTUAL

Sure thing principle

DECISION THEORY

This refers to a logical principle which states that it is unnecessary to consider uncertainties while making a decision if these uncertainties will not affect the eventual decision taken by a person in any way. If an investor, for instance, will buy a stock regardless of the earnings of a company, it makes no sense to worry about whether it will report a profit or a loss. It is used to emphasise the point that it may be a waste of effort to consider the probability of various uncertain events if these events are effectively irrelevant to the final decision. The principle was proposed by American statistician Leonard Jimmie Savage in his 1954 book *The Foundations of Statistics*.

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