

OPEN SESSION

ECONOMIC SURVEY

2019-20 & ANALYSIS & INSIGHTS



**5th, 6th, 7th, 10th & 11th FEB.
5:30 PM**

AGENDA

2



EXTERNAL SECTOR – CHAPTER 3, VOL II

01



EXPORTS IN NETWORK PRODUCTS, CHAPTER 5, VOL I

02



TARGETING EASE OF DOING BUSINESS, CHAPTER 6, VOL I

03



BANK NATIONALISATION, CHAPTER 7, VOL I

04



FINANCIAL FRAGILITY IN NBFC SECTOR, CHAPTER 8, VOL I

05



PRIVATIZATION & WEALTH CREATION, CHAPTER 9, VOL I

06

External Sector

Chapter 3 – Volume II

VISIONIAS
INSPIRING INNOVATION

BoP

Current account

Balance of Trade

Goods exports

Goods Imports

Balance of Invisibles

Services

Factor Income

Transfer payments

Capital Account

Foreign Investment

FDI

Portfolio

Loans

Assistance

Borrowings

Sl No	Item	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19	2019-20
							Apr- Sep	Apr -Sep
1	2	3	4	5	6	7	8	9
I	Current Account							
1	Exports	3,16,545	2,66,365	2,80,138	3,08,970	3,37,237	1,66,788	1,62,743
2	Imports	4,61,484	3,96,444	3,92,580	4,69,006	5,17,519	2,62,575	2,47,037
3	Trade Balance (1-2)	-1,44,940	-1,30,079	-1,12,442	-1,60,036	-1,80,283	-95,788	-84,294
4	Invisibles (net)	1,18,081	1,07,928	98,026	1,11,319	1,23,026	60,931	63,673
	A. Services	76,529	69,676	68,345	77,562	81,941	38,932	40,474
	B. Income	-24,140	-24,375	-26,302	-28,681	-28,861	-14,363	-14,739
	C. Transfers	65,692	62,627	55,983	62,438	69,946	36,362	37,938
5	Goods and Services Balance	-68,411	-60,402	-44,098	-82,474	-98,342	-51,240	-43,820
6	Current Account Balance (3+4)	-26,859	-22,151	-14,417	-48,717	-57,256	-34,857	-20,621

II Capital Account							
Capital Account Balance	89,286	41,128	36,447	91,390	54,403	21,391	39,935
i. External Assistance (net)	1,725	1,505	2,013	2,944	3,413	478	1,913
ii. External Commercial Borrowings (net)	1,570	-4,529	-6,102	-183	10,416	877	9,767
iii. Short-term credit	-111	-1,610	6,467	13,900	2,021	1,298	1344
iv. Banking Capital(net) of which:	11,618	10,630	-16,616	16,190	7,433	10,583	-5,702
Non-Resident Deposits (net)	14,057	16,052	-12,367	9,676	10,387	6,838	5,034
v. Foreign Investment(net) of which	73,456	31,891	43,224	52,401	30,094	9,040	28,646
A. FDI (net)	31,251	36,021	35,612	30,286	30,712	16,983	21,327
B. Portfolio (net)	42,205	-4,130	7,612	22,115	-618	-7,943	7,319
vi. Other Flows (net)	1,028	3,242	7,460	6,138	1,026	-885	3967
III Errors and Omission	-1,021	-1,073	-480	902	-486	259	-211
IV Overall Balance	61,406	17,905	21,550	43,574	-3,339	-13,206	19102
V Reserves change [increase (-) / Decrease (+)]	-61,406	-17,905	-21,550	-43,574	3,339	13,206	-19,102

Autonomous Transactions

Accommodating Transaction

Themes

accommodative monetary policy stance since 2019 in Global economies => Appreciation -> Cheaper imports

Growing trade protectionism- Steel, Aluminium, GSP

Spatial shift in the nature of BoP balances

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Why do we always crave for a better BoP

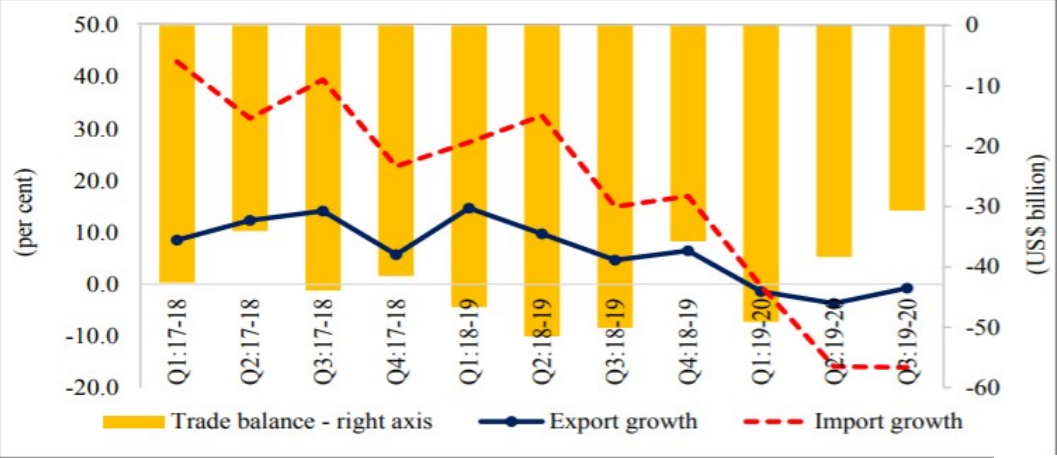
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Financing essential imports like crude, manufacturing inputs

Increased belief in India growth story

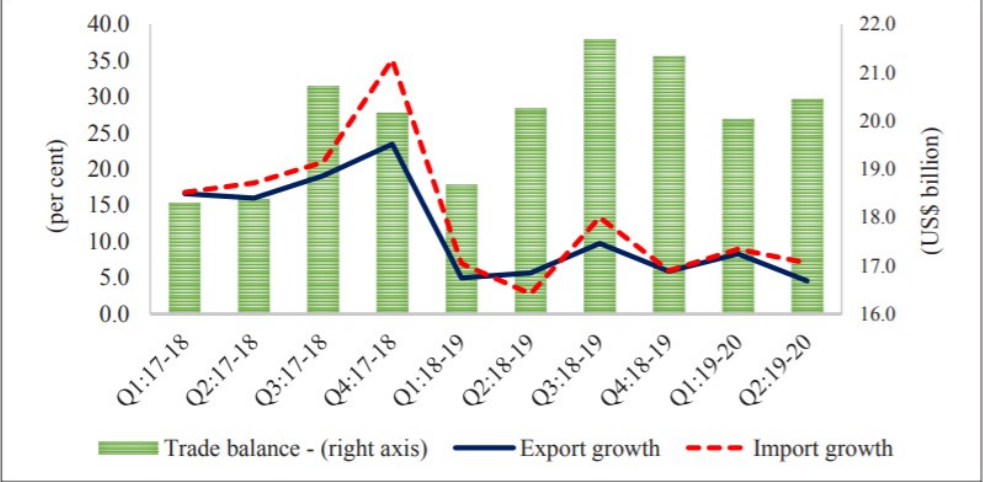
Investor confidence for investment requirements for \$5 Tn economy

Figure 16: Growth of merchandise exports and imports



Data Source: Department of Commerce, Ministry of Commerce and Industry

Figure 19: Growth of services exports and imports



Data Source: RBI

Table 3: Bilateral Trade Surplus/Deficit (Sorted on Year: 2018-19)

(Values in US\$ Billion)

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	Country	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 (April- November)
Trade Surplus Countries	U S A	20.63	18.55	19.90	21.27	16.86	10.91
	United Arab Emirates	6.89	10.87	9.67	6.41	0.34	0.25
Trade Deficit Countries	China PRP	-48.48	-52.70	-51.11	-63.05	-53.57	-35.32
	Saudi Arabia	-16.95	-13.94	-14.86	-16.66	-22.92	-14.32
	Iraq	-13.42	-9.83	-10.60	-16.15	-20.58	-13.98
	Germany	-5.25	-5.00	-4.40	-4.61	-6.26	-3.09
	Korea RP	-8.93	-9.52	-8.34	-11.90	-12.05	-7.80
	Indonesia	-10.96	-10.31	-9.94	-12.48	-10.57	-6.99
	Switzerland	-21.06	-18.32	-16.27	-17.84	-16.90	-11.97
	Hong Kong	8.03	6.04	5.84	4.01	-4.99	-3.88
	Singapore	2.68	0.41	2.48	2.74	-4.71	-3.15

Source: Computed from latest data available on Department of Commerce's website, '<https://commerce-app.gov.in/eidb/default.asp>'.

Top 4 trade partners:
USA, China, UAE,
Saudi Arabia

Exports: USA, UAE,
China and Hong
Kong

Imports: China, USA,
UAE and Saudi
Arabia

Exports: Petroleum products, precious stones, **drug formulations**, gold & other precious metals

Imports: Crude petroleum, pearl, precious, semi-precious stones and gold [**Electronics**]

Services Trade

Table 12: Net services as per cent of GDP

2009-14	2014-19	2018-19	2019-20 H1
3.3	3.2	3.1	2.9

Source: Reserve Bank of India.

Significantly financing the merchandise trade deficit

Steady decline in net services to GDP ratio=> Extent of financing falling

Figure 19: Net services and trade deficit

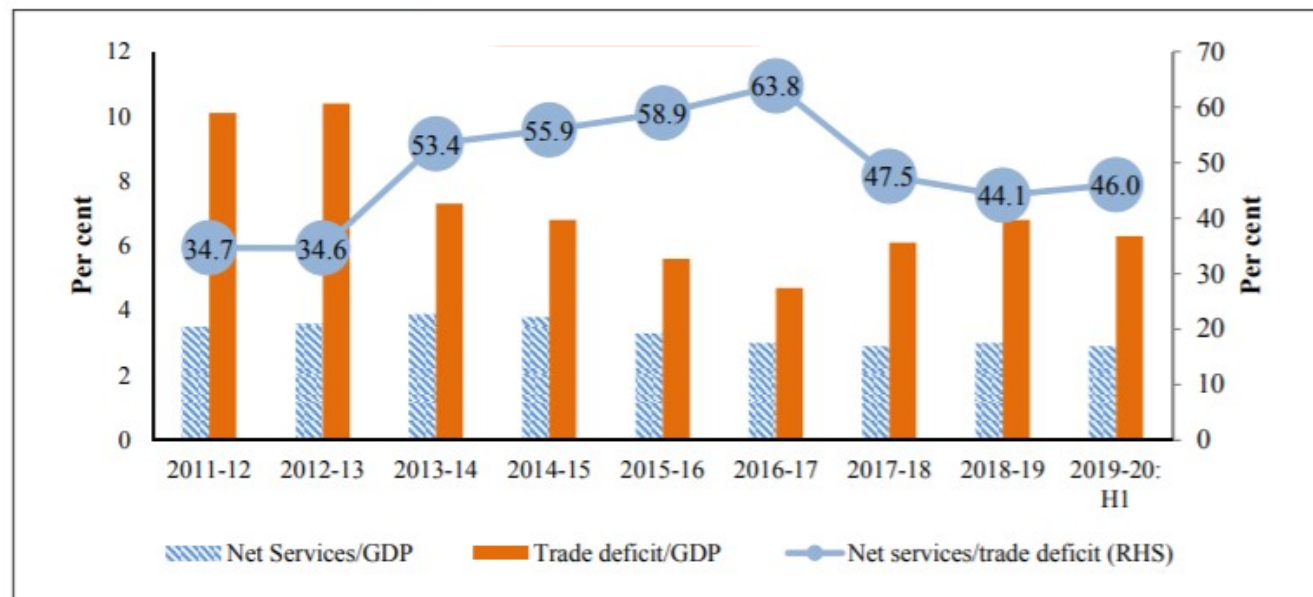


Table 13: Service Exports as per cent of GDP

2009-14	2014-19	2018-19	2019-20 H1
7.7	7.5	7.7	7.4

Source: Reserve Bank of India.

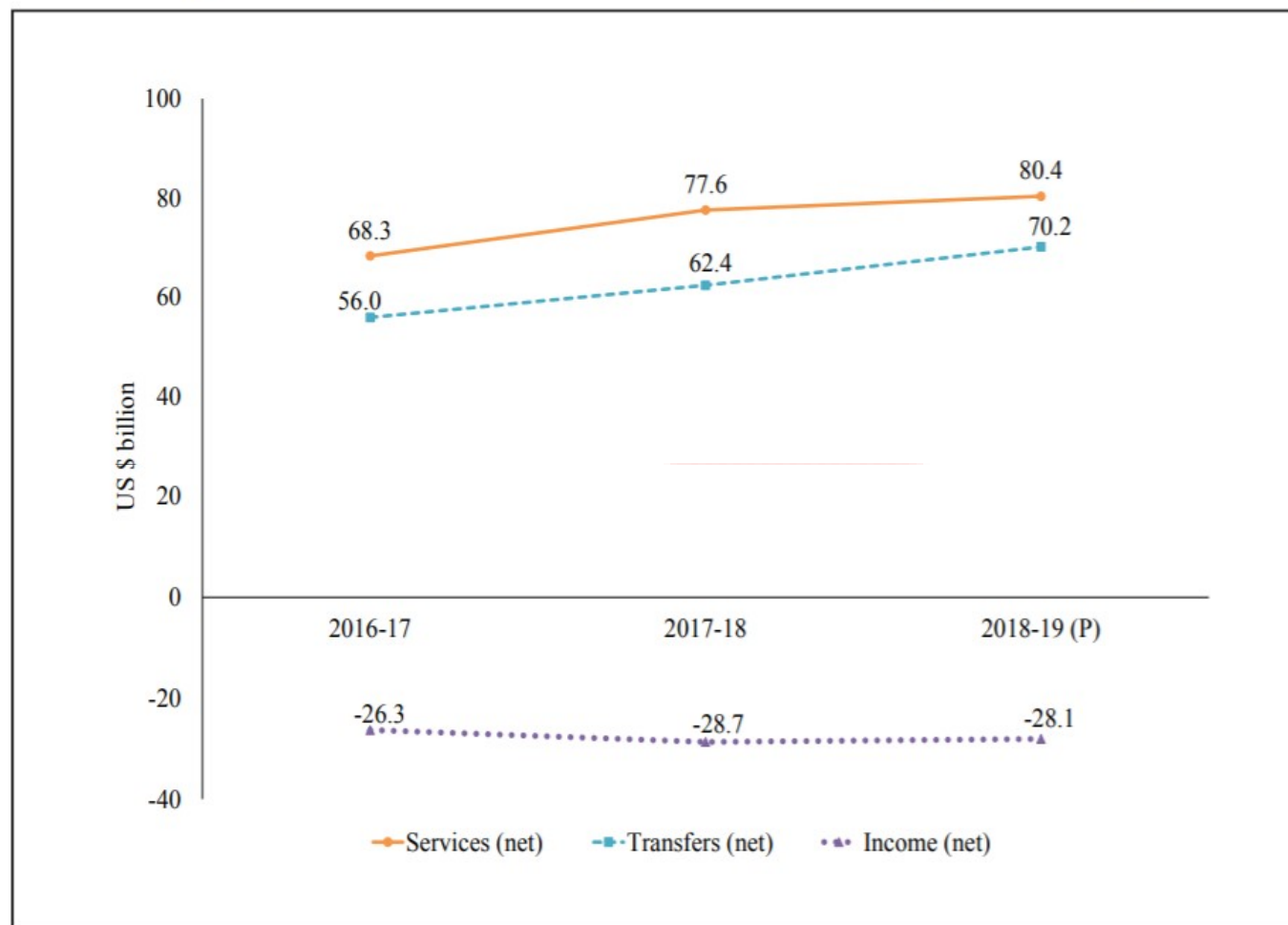
Table 14: Service Imports as per cent of GDP

2009-14	2014-19	2018-19	2019-20 H1
4.4	4.3	4.6	4.6

Source: Reserve Bank of India.

- Composition of service exports and imports has remained largely unchanged over the years.
- Exports: Software services - 40-45%; Business services - 18-20 %, travel at 11-14 per cent and transportation at 9-11 per cent
- Imports: Business services - 33%, travel at 19% and transportation at 17%

Figure 9: Net Services, Net Transfers and Net Income (in US\$ billion)

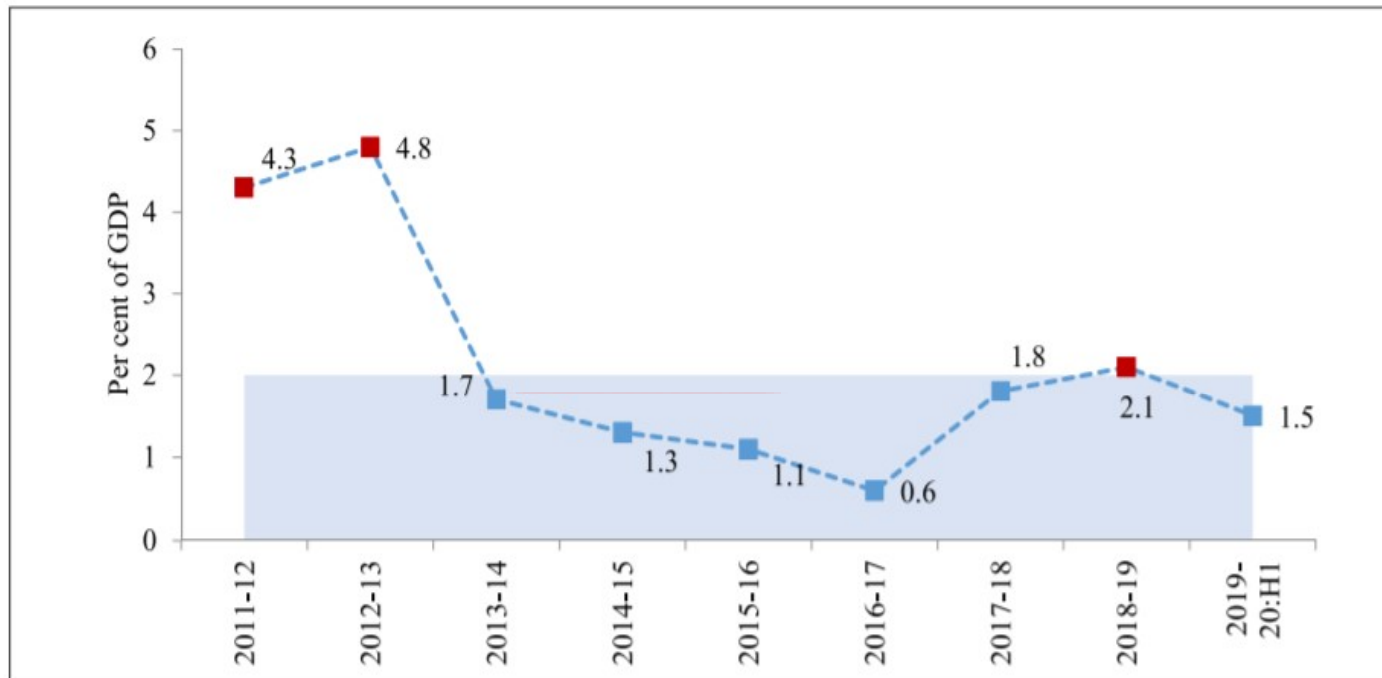


Source: Based on data of Reserve Bank of India and Ministry's projections.

Which of these contribute to India's current account deficit?

- a) Services
- b) Transfers
- c) Income

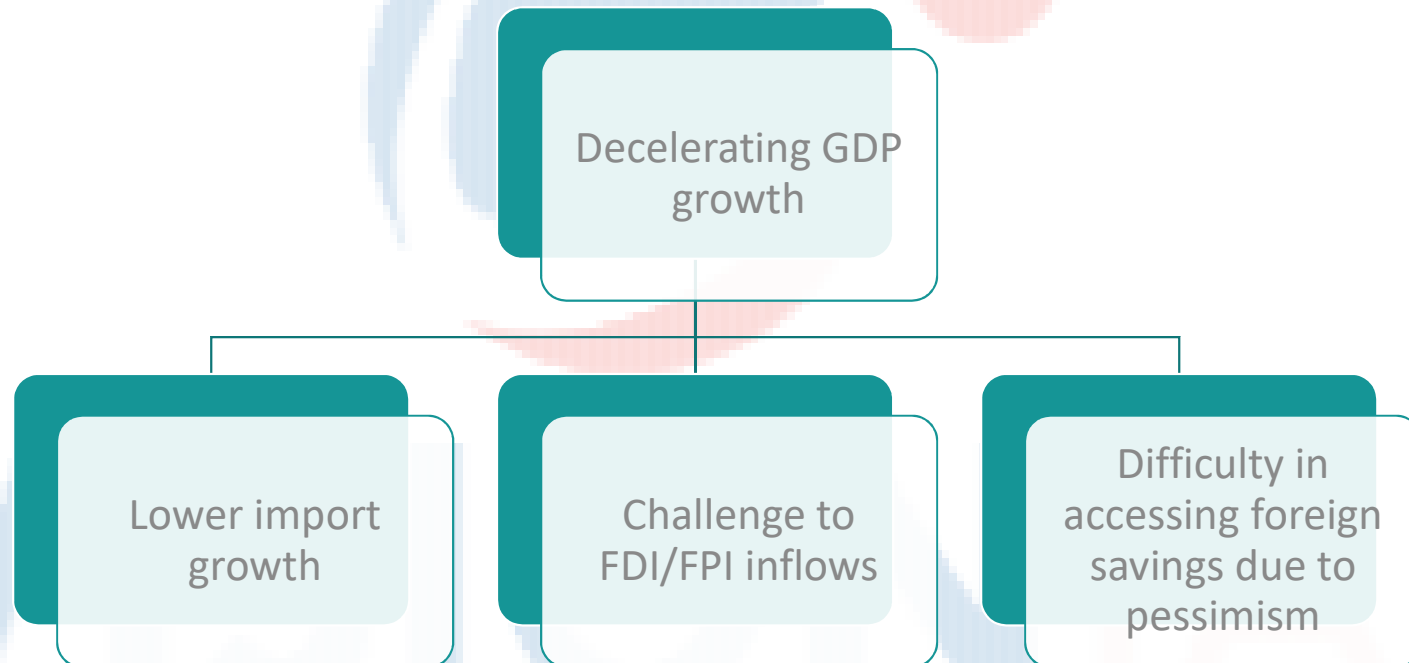
CAD as %age of GDP



Source: Reserve Bank of India.

- CAD/forex ratio reflects the decreasing strength of the backup.
- The decreasing strength spills into depreciating the currency.

UNDERCURRENTS OF VULNERABILITY



GLOBAL FACTORS: Easing Crude Prices
But what would be the Future trajectory?

Table 16: Net Remittances (US\$ billion)

2009-14	2014-19	2018-19	2019-20 H1
298.21	319.53	70.60	38.4

- Net remittances constantly increasing year after year
- Pro-cyclicality of remittances wrt crude oil price movements
- Migration Report 2019 released by the United Nations
 - Placed India as the leading country of origin of international migrants with a diaspora strength of 17.5 million.
- India remained the top remittance recipient country in 2018

FOREIGN DIRECT INVESTMENT – FDI

Doubling of net FDI
between 2009-14 to
2014-19

Continuous
liberalization of FDI
guidelines

Stable source of
funding the CAD &
Major cause of
impressive
improvement in BoP

FOREIGN PORTFOLIO INVESTMENT – FPI

“Hot Money” – tends to
flee on first sign of
trouble

FPI dependence in
financing CAD declining
– 17.1% (2014-19) vs
45.6 % (2009-14)

Change in the
composition towards
more non debt creating
equity and investment
funds

Significant growth in ECBs since 2017-18

External Reasons

Low global interest rates

Improved global liquidity

Internal Reasons

Liberalization of ECBs

Expansion of eligible borrowers

Removal of sectoral borrowing limits

OMCs can raise upto \$10 Bn for working capital

Table 19: Net ECB (US\$ billion)

2009-14	2014-19	2018-19	2019-20 H1
42.80	-4.24	9.77	9.76

Source: Reserve Bank of India

With easy availability of ECBs, can we still say that fiscal deficit crowds out private investment for want of funds?

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High Fiscal deficit

```
graph TD; A[High Fiscal deficit] --> B[Higher Domestic Cost of capital]; B --> C[Surplus invested in domestic with financing thru ECBs]; C --> D[CAD widens => Twin deficit challenge]; D --> E[Any capital flight and sharp depreciation can lead to a BoP crisis];
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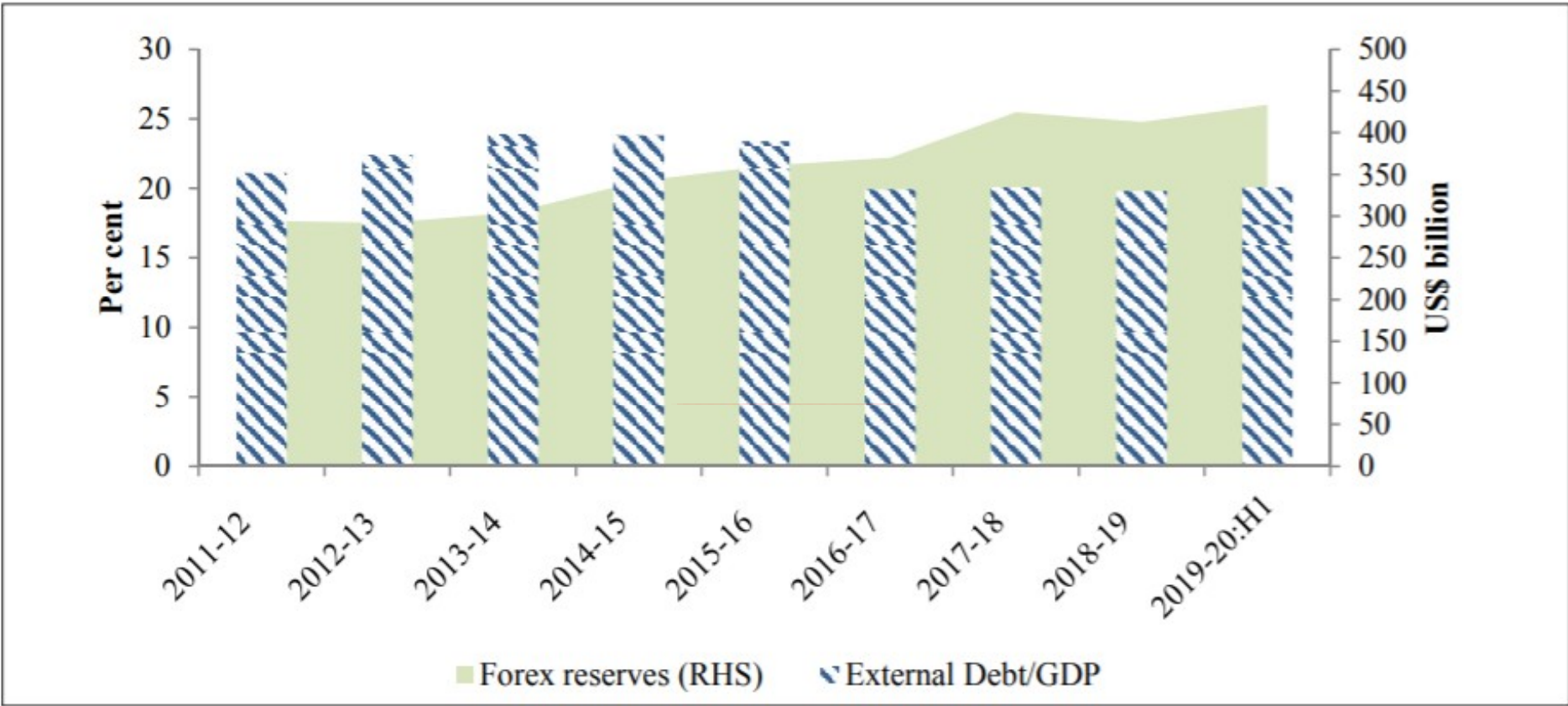
Higher Domestic Cost of capital

Surplus invested in domestic with financing thru ECBs

CAD widens => Twin deficit challenge

Any capital flight and sharp depreciation can lead to a BoP crisis

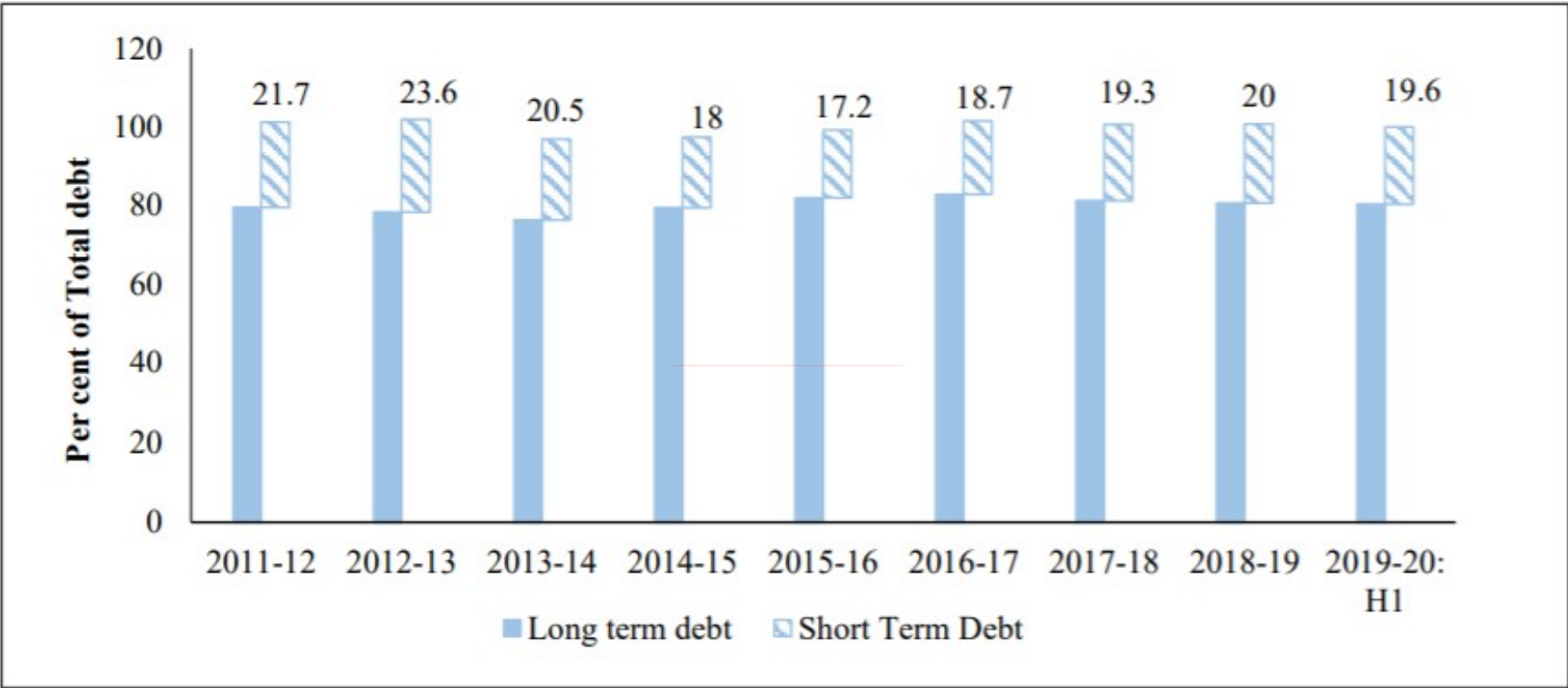
Figure 31: External debt/GDP and Foreign exchange reserves



Source: Reserve Bank of India Quarterly external debt report DEA M/o Finance

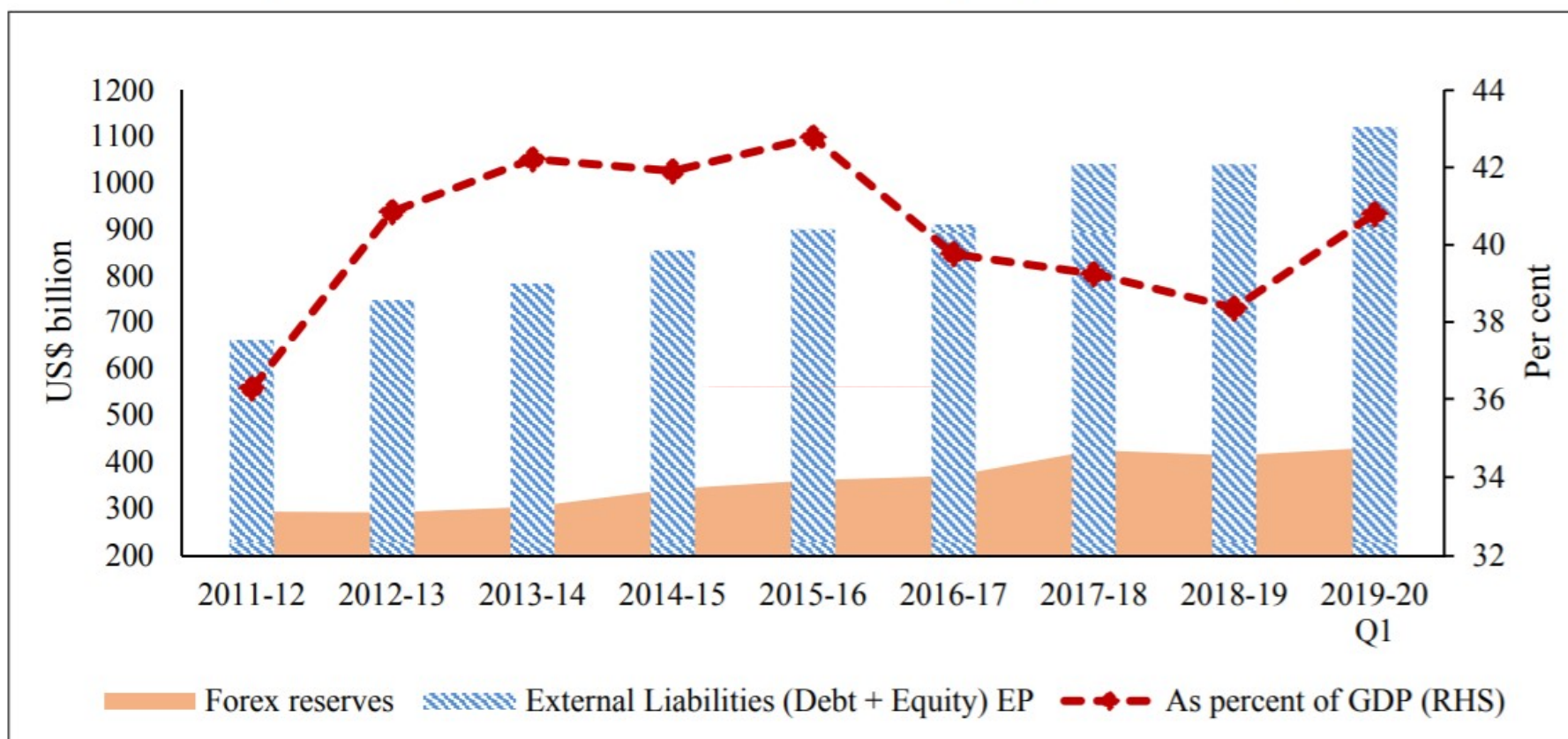
2009-14	2014-19	2018-19	2019-20 H1
23.9	19.7	19.8	20.1

Figure 32: Short term debt



Source: Reserve Bank of India, Quarterly external debt report, DEA, M/o Finance

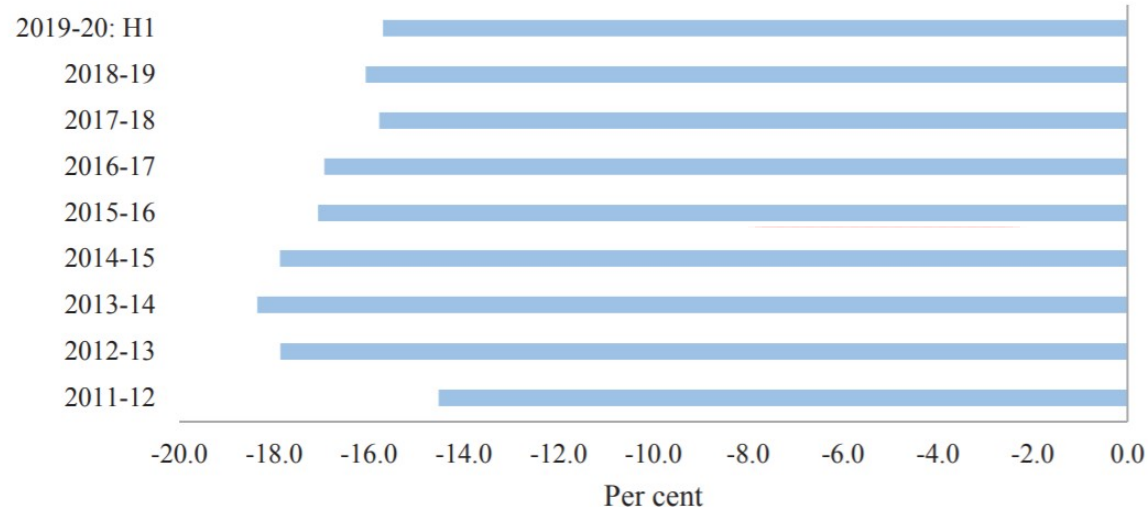
Figure 33: External Liabilities (Debt + Equity)-End Period (EP)



Source: Reserve Bank of India, IMF (based on latest data available)

Net International Investment Position (NIIP)

Figure 34: Net IIP/GDP



NIIP measures the gap between a nation's stock of foreign assets and foreigner's stock of that nation's assets at a specific point in time.

Table 22: Net IIP (End Period)

Item	2009-14	2014-19	2018-19	2019-20 H1
NIIP (\$US billion)	-340.8	-436.8	-436.8	-436.7
NIIP/GDP	-18.4	-16.1	-16.1	-15.7

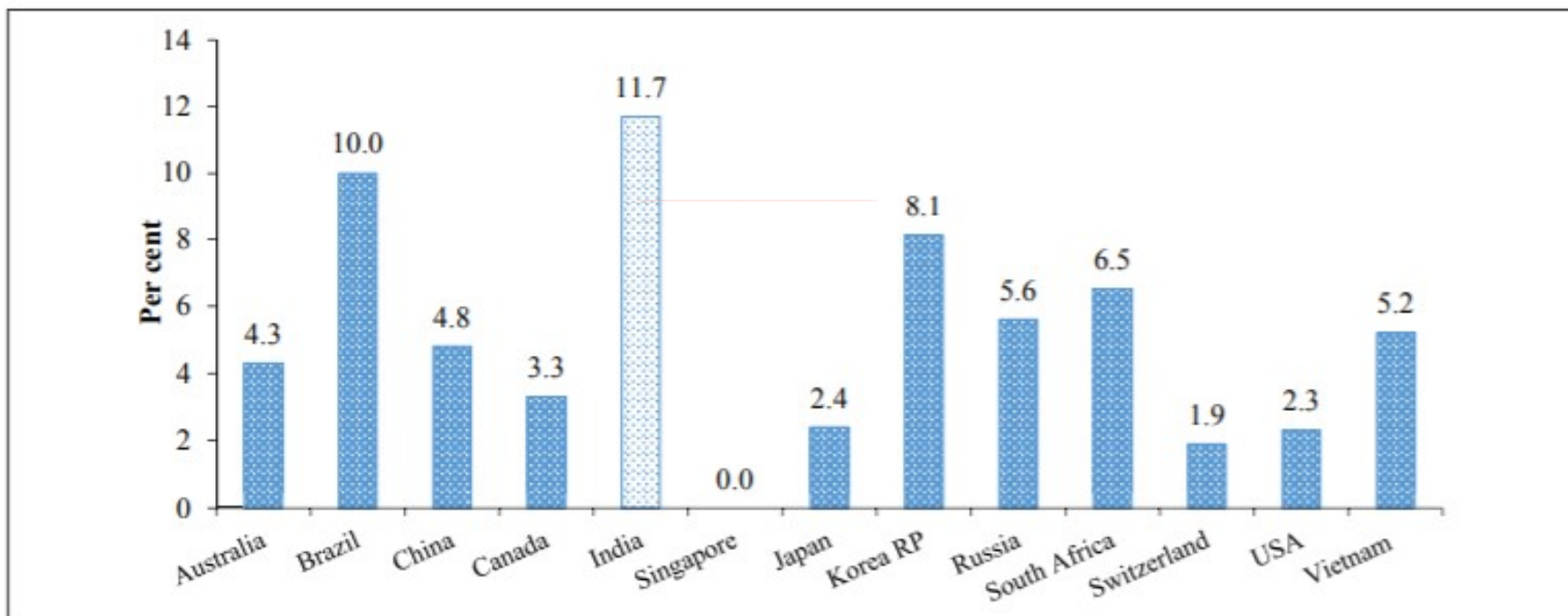
Source: Reserve Bank of India

Tariff regime

- Defending tariff regime stating that it is necessary for protecting the vulnerable businesses
- some reduction in tariff rates may have to be done in respect of intermediate inputs and raw material to correct the presently inverted duty structure
- Will create the right incentives for boosting manufacturing
- Will also increase the growth of exports of consumption goods that significantly use imported intermediate goods.

Tariff Comparison

Figure 17: Trade Weighted Average Import Tariff (Total) during 2017



Source: WTO Tariff Profiles database, 'https://www.wto.org/english/res_e/statis_e/tariff_profiles_list_e.htm'

India's WTO stand

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Preservation of core principles of the Multilateral Trading System

Resolution of the Appellate Body crisis

Addressing issue of unilateral actions

Permanent solution in public stockholding for food security programmes

Fisheries subsidies to safeguard interest of poor

Trade Facilitation

27

- Ratified the WTO Agreement on Trade Facilitation (TFA) in 2016
- Constituted a National Committee on Trade Facilitation (NCTF)
- “Trading across Borders”: ranking from 143 in 2016 to 68 in 2019

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Why 'Trading across Borders' rank has improved!

- New IT initiatives

- Single Window Interface for Facilitating Trade (SWIFT); Introduction of 'E-Sanchit' for lodging supporting documents online
- Tracking of imported cargo clearance time through Indian Customs EoDB Dashboard (ICEDASH)
- 24X7 online customs clearance facility; Atithi mobile App for international passengers

- Structural changes

- Self e-sealing through RFID tag by trusted exporters
- Only 3 mandatory documents for import/export
- Installation of drive through scanners.
- New schemes like Direct Port Delivery for imports and Direct Port Entry for exports
- Up-gradation of port infrastructure; introduction of new Port Community System

Major Schemes for Export Promotion



MEIS, SEIS, AA/DFIA, EPCG



Interest equalization scheme



SEZ/EOU/EHTP/STP/BTP



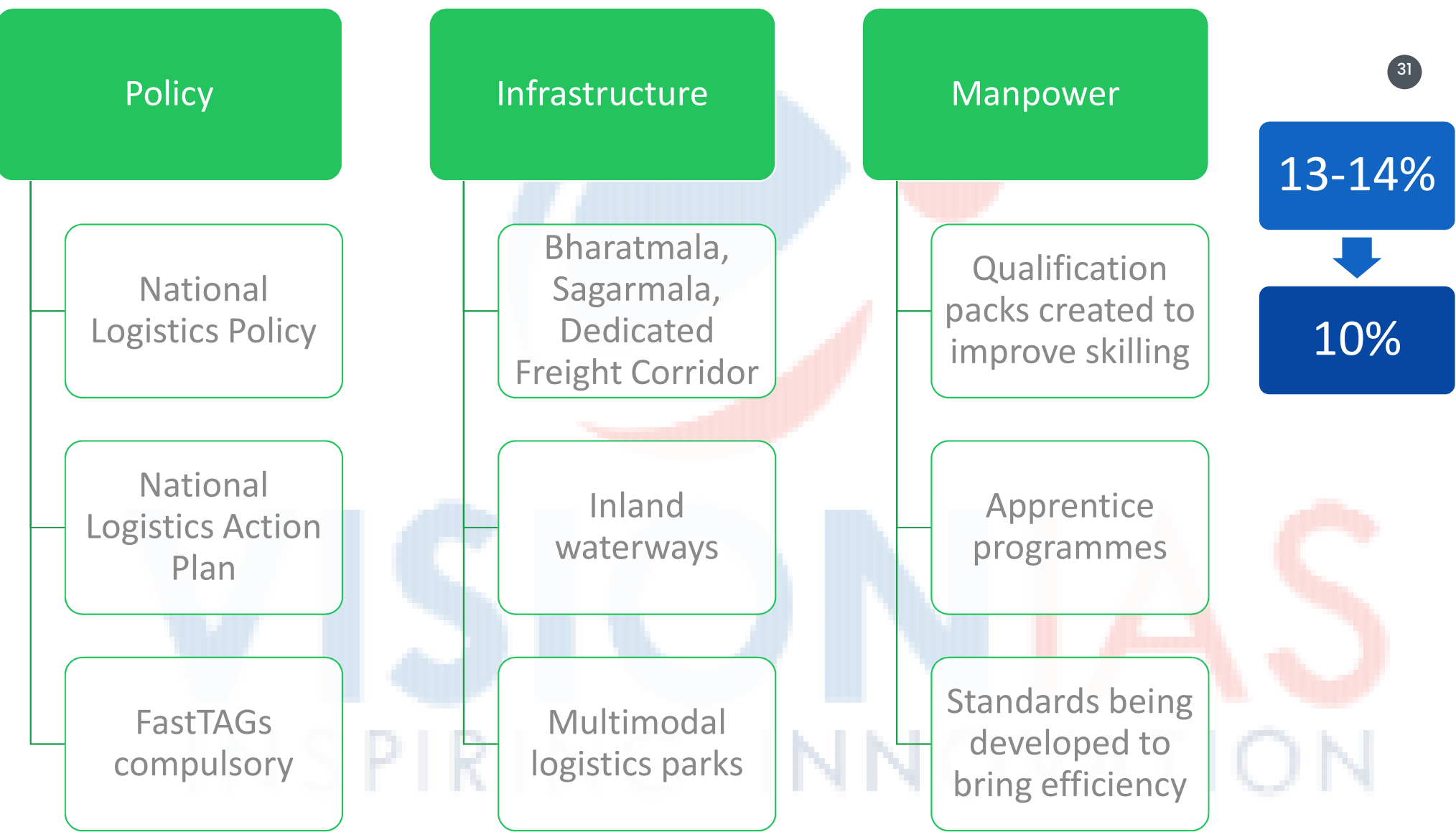
Transport and Marketing Assistance (TMA) for
Specified Agriculture Products Scheme



Trade Infrastructure for Export Scheme (TIES)

Trade related Logistics

- The Indian warehousing and logistic market received around US\$ 3.4 billion of institutional capital over the last few years
- Investments into the warehousing sector account for around 26% of the total private equity investments into real estate from 14-17
- Many new startups are coming up in logistics eco-system. Agri-logistics attracting attention. Solar powered micro cold stores are being developed and app based grading facilities are being created.
- DD side: reduction in truck turnaround time following GST is a major stimulus to logistics growth as also pick up in industrial production.
- SS side: outsourcing of non-core activities like warehousing is allowing main players to focus on improving efficiency of transportation. Automation of large warehouses is also adding to the efficiency of the logistics sector.
- According to World Bank's Logistics Performance Index, India ranks 44th in 2018 globally, up from 54th rank in 2014



With which of the following countries has India consistently maintained a trade surplus in last 5 years?

1. USA
2. Singapore
3. China
4. UAE

Select the correct answer using the code given below.

- a) 1 only
- b) 2 only
- c) 2 and 3 only
- d) 1 and 4 only

With reference to India's trade in services, consider the following statements:

- 1. India's net services surplus has been steadily increasing in relation to GDP.**
- 2. Business services constitute the bulk of India's service exports.**
- 3. Software services constitute the bulk of India's service imports.**

Which of the statements given above is/are correct?

- (a) 1 only**
- (b) 2 and 3 only**
- (c) 1, 2 and 3**
- (d) None**

Creating Jobs and Growth by Specializing to Exports in Network Products

Chapter 5 – Volume I

VISIONIAS
INSPIRING INNOVATION

The opportunity

- Labour-intensive exports enabled China to create 70 million jobs for workers with primary education in 5 years
- US–China trade war is causing major adjustments in Global Value Chains (GVCs)
- China's image as a low-cost location for final assembly of industrial products changing due to labour shortages and increases in wages.
- Grab the space getting vacated in labour-intensive sectors

VISIONIAS
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Who publishes the World Development Report?

What is the theme of the WDR 2020?

GVCs

- Powered the surge of international trade after 1990 and now account for almost half of all trade.
- This shift enabled an unprecedented economic convergence: poor countries grew rapidly and began to catch up with richer countries.
- Post-GFC: Trade growth has been sluggish and the expansion of GVCs has stalled.
- Meanwhile, serious threats have emerged to the model of trade-led growth.
- New technologies could draw production closer to the consumer and reduce the demand for labor.
- Conflicts among large countries could lead to a retrenchment or a segmentation of GVCs

CHINA-LIKE, LABOUR-INTENSIVE, EXPORT TRAJECTORY

Exports of network products can provide one-quarter of the increase in value added required for making India a \$5 trillion economy by 2025

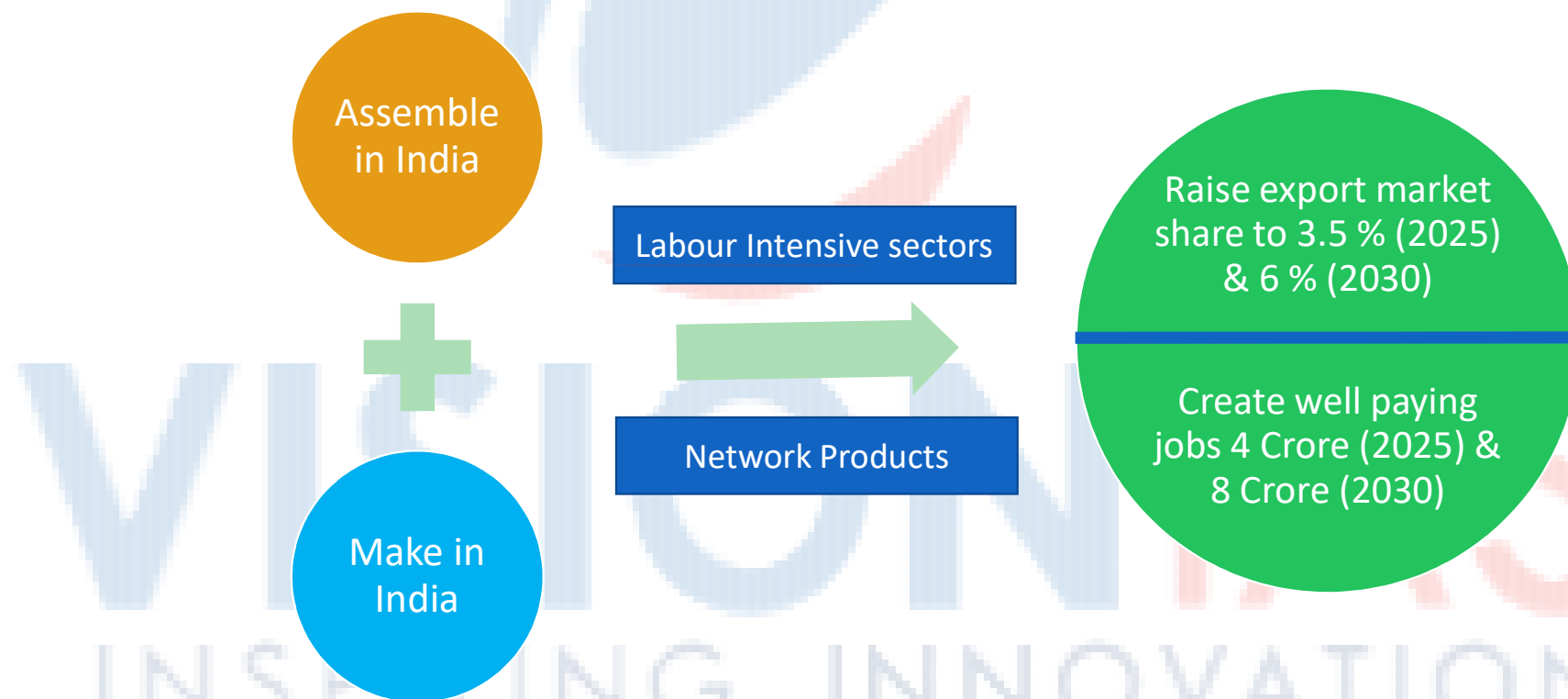
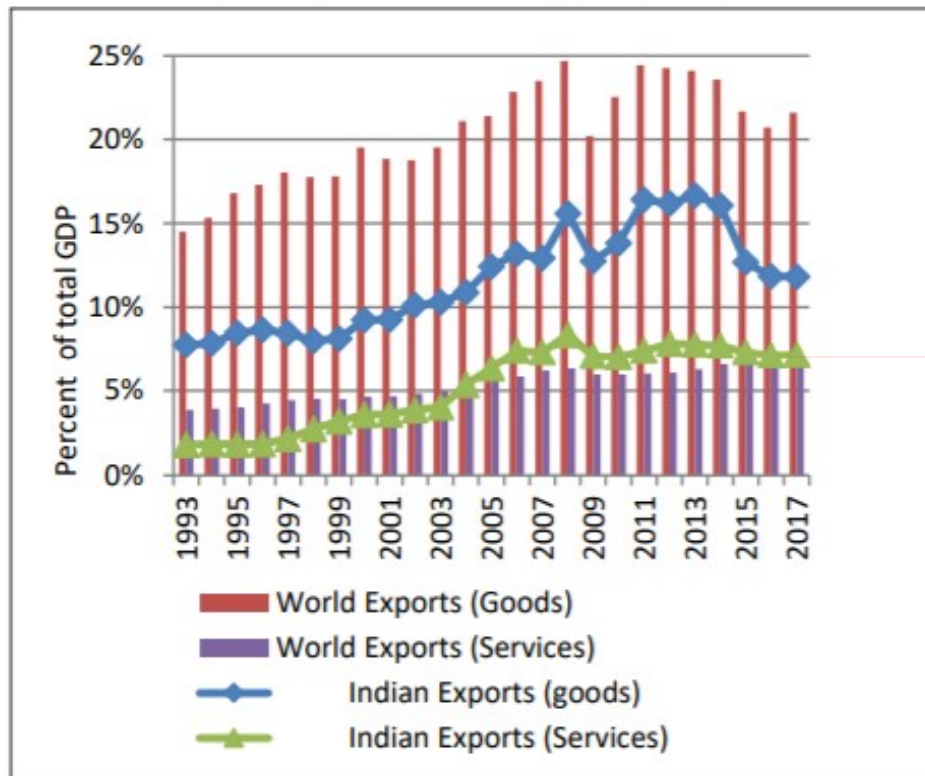
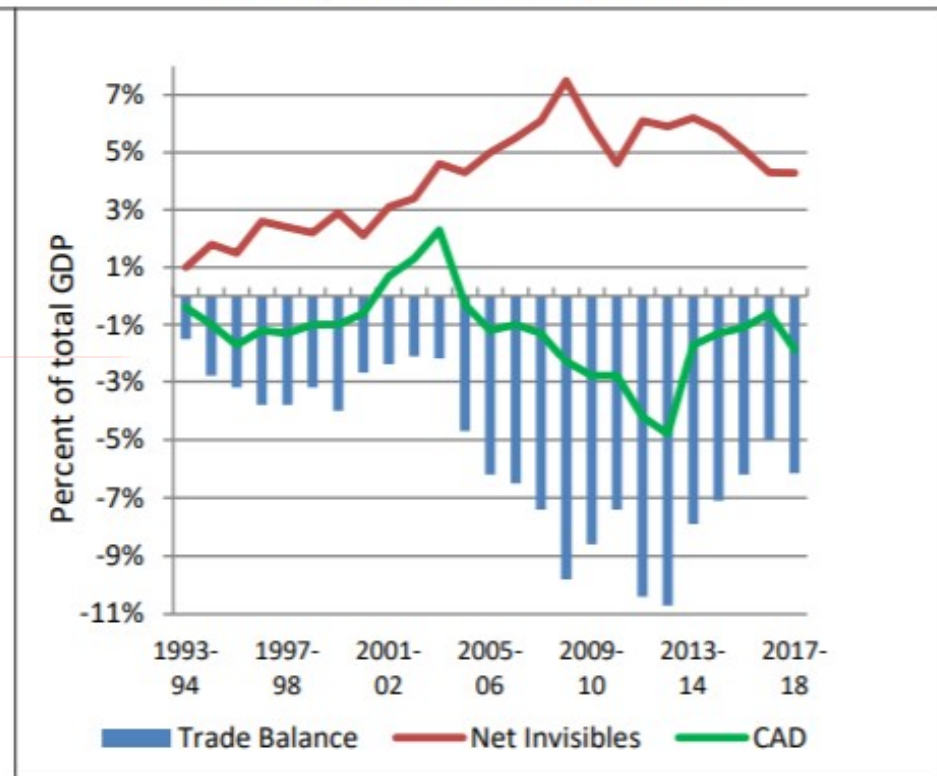


Figure 1(a): Share of exports in GDP, India versus World



Source: UNCTAD Statistics and Survey Calculations

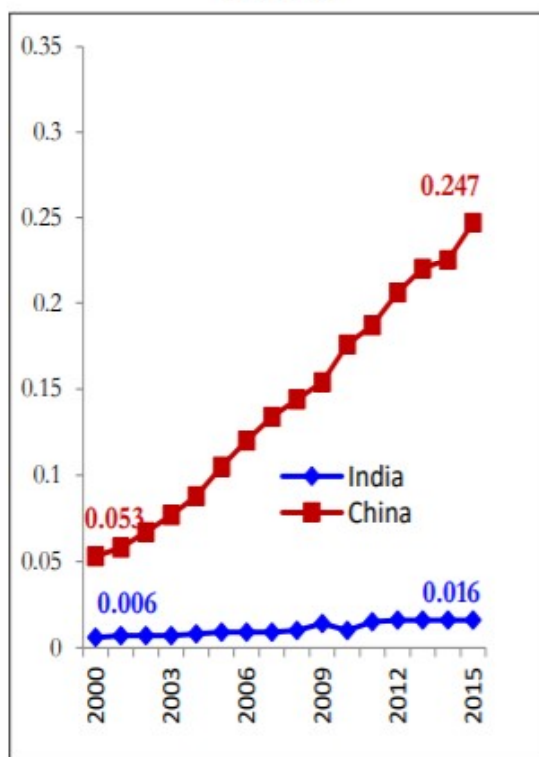
Figure 1(b): Share of exports in GDP, India versus World



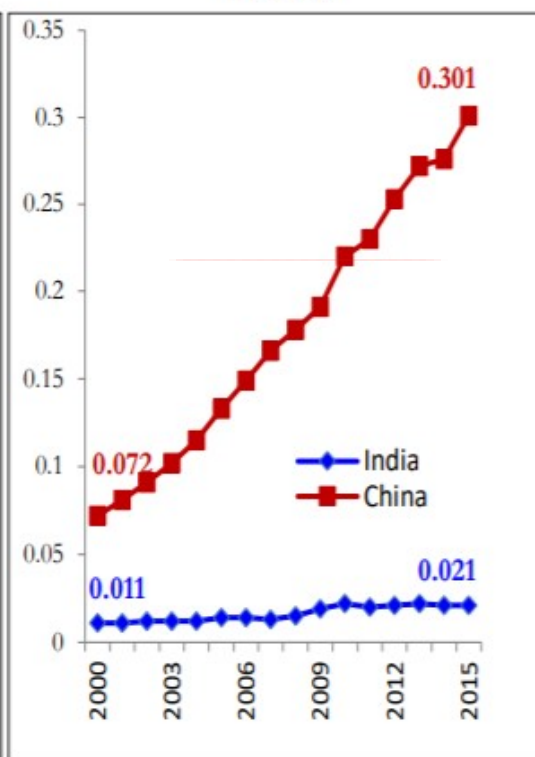
Source: Reserve Bank of India and Survey Calculations

Reasons for export under-performance

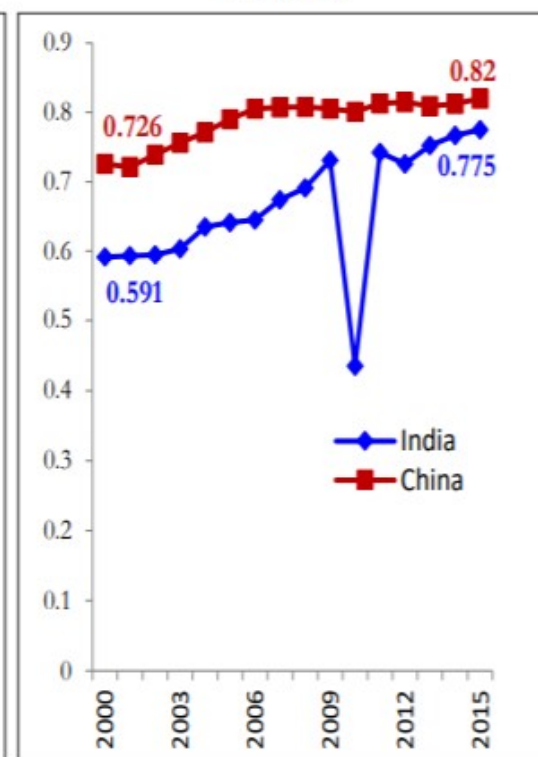
Panel(a): World Export Share



Panel(b): Specialization Effect



Panel(c): Diversification Effect



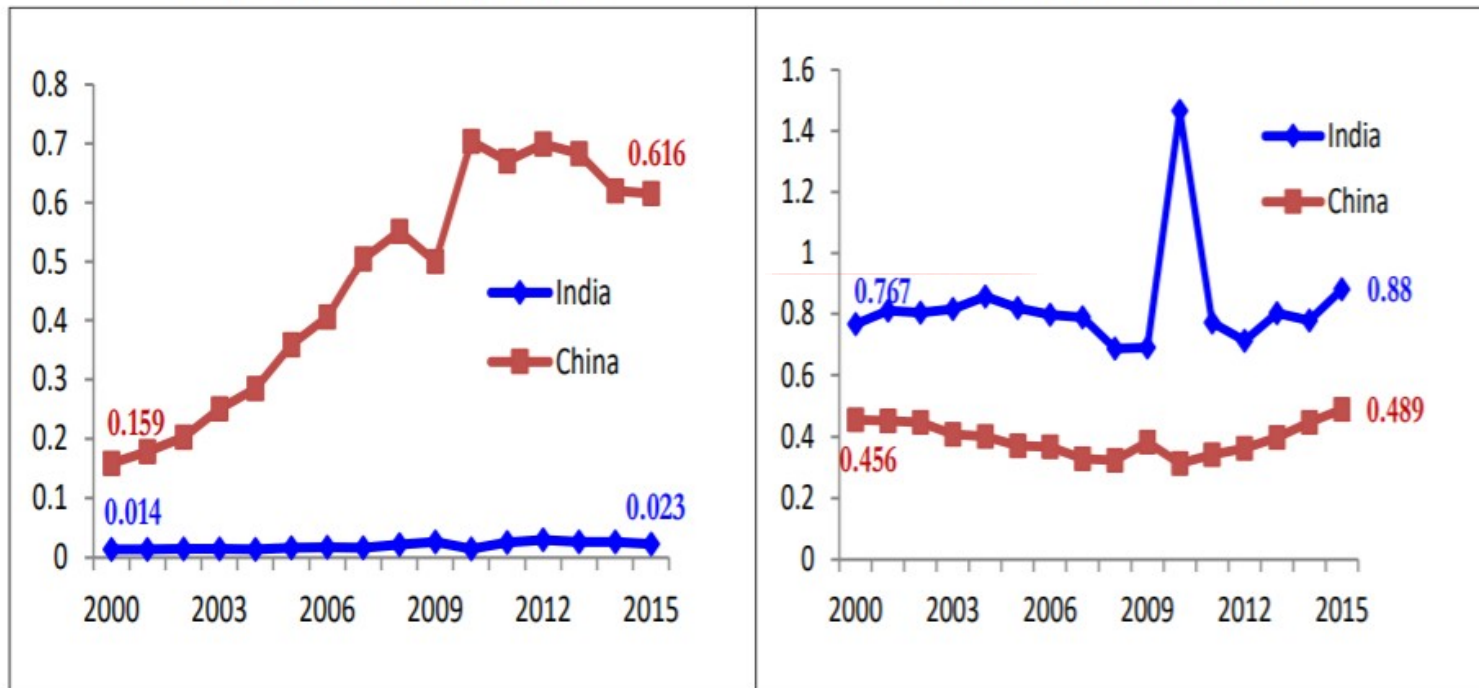
Source: Veeramani, Aerath and Gupta (2018) based on UN-Comtrade (WITS) database

Reasons for export under-performance

and China, 2000-2015

Panel (a): Quantity Effect

Panel (b): Price Effect



Source: Veeramani, Aerath and Gupta (2018) based on UN-Comtrade (WITS) database

Decomposition of specialization effect

Reasons for export under-performance

Figure 4(a): Composition of India's Non-oil Merchandise Exports

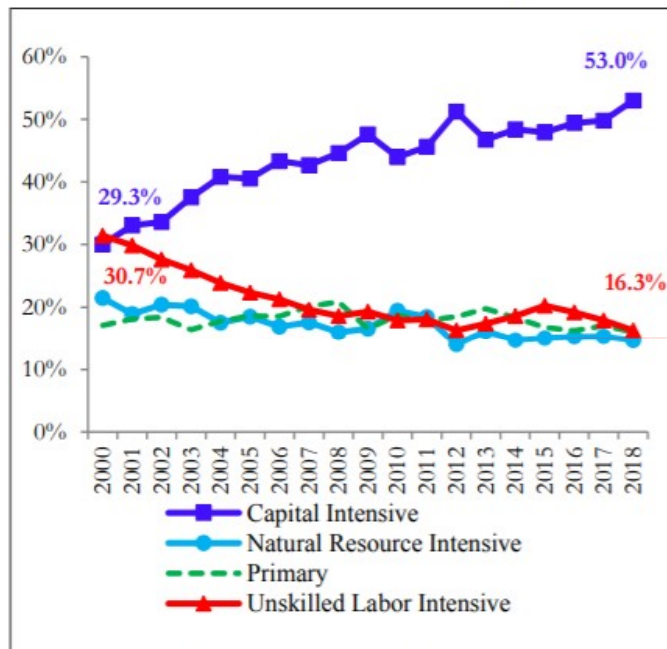
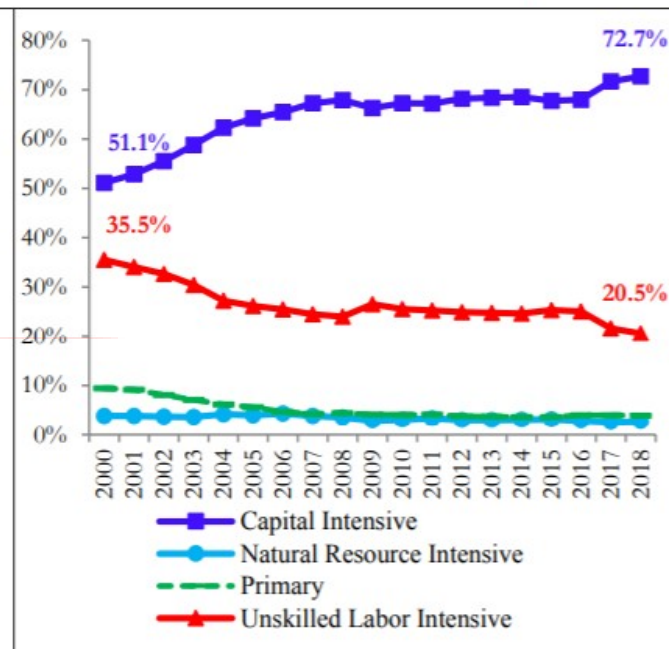


Figure 4(b): Composition of China's Non-oil Merchandise Exports



Source: UN-Comtrade (WITS) database and Survey Calculations

- Low Level of Participation in Global Value Chains
- Despite labour abundance, share in unskilled labour intensive declined
- Fast growing commodities in India's export basket are capital and skill intensive

Figure 5(a): Trading partners by income level, India

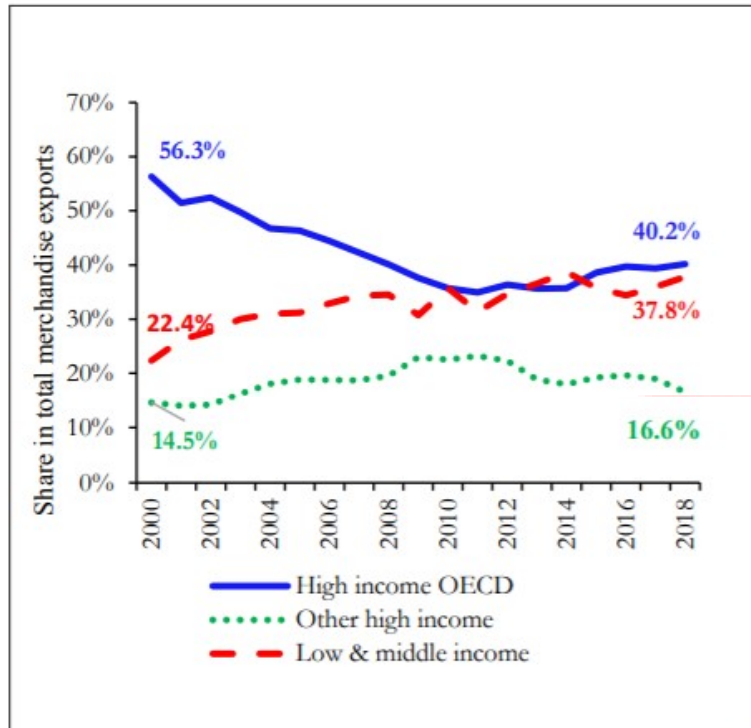
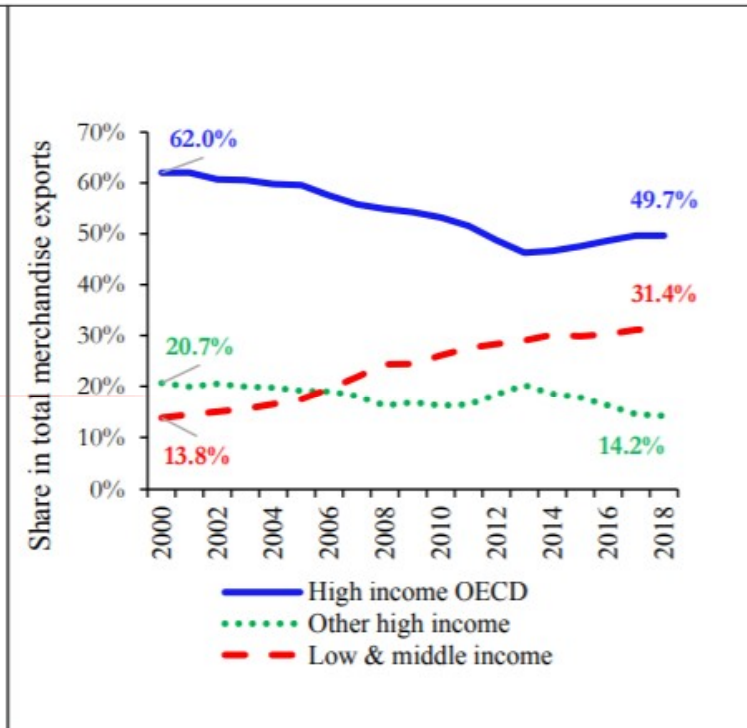


Figure 5(b): Trading partners by income level, China



Source: UN-Comtrade (WITS) database and Survey Calculations

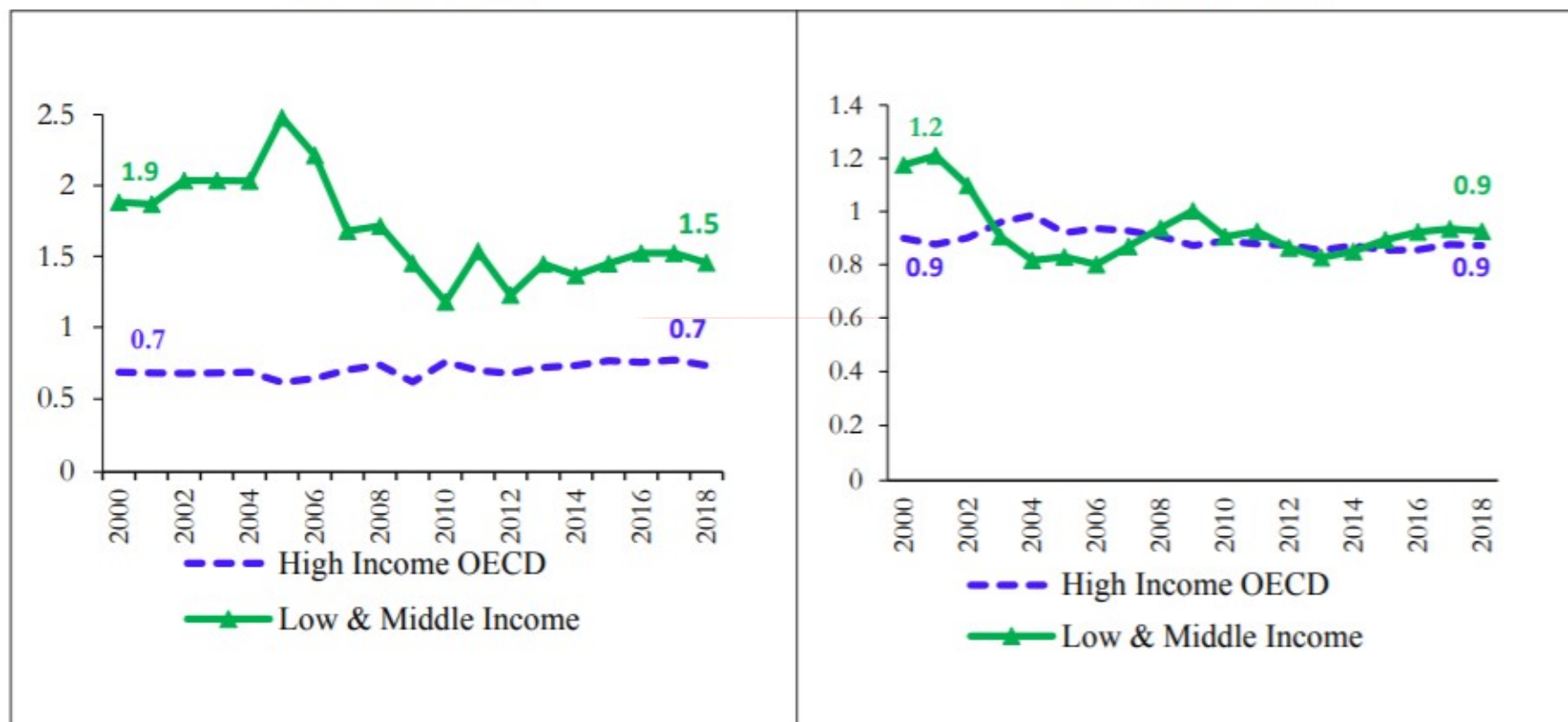
Low Market Penetration in High Income Countries

INSPIRING INNOVATION

Figure 6: Share of capital intensive exports as a ratio of the share of labour-intensive products across partner country groups

Panel (a): India

Panel (b): China



Source: UN-Comtrade (WITS) database and Survey Calculations

Figure 7(a): Estimates of China-India Gap (Per cent)

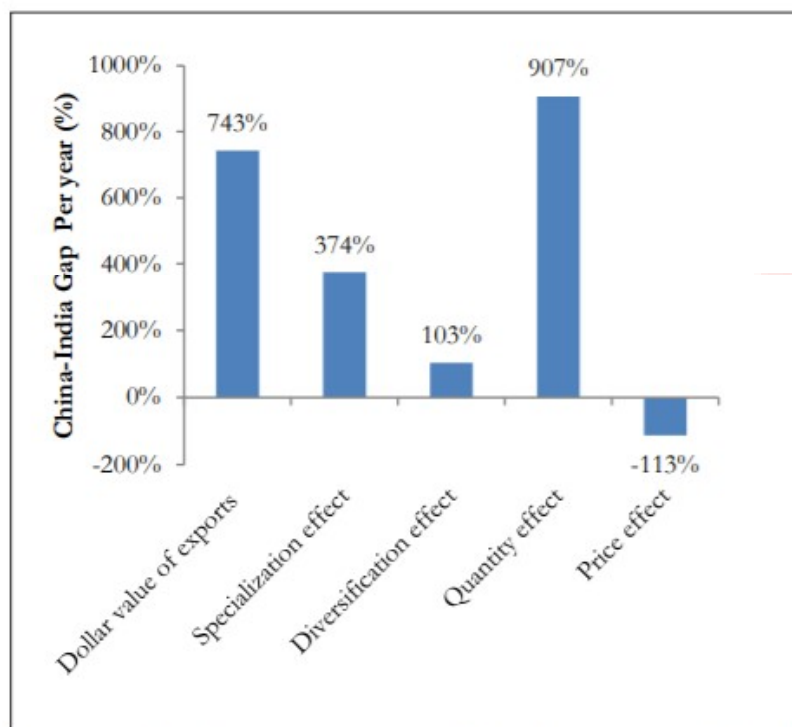
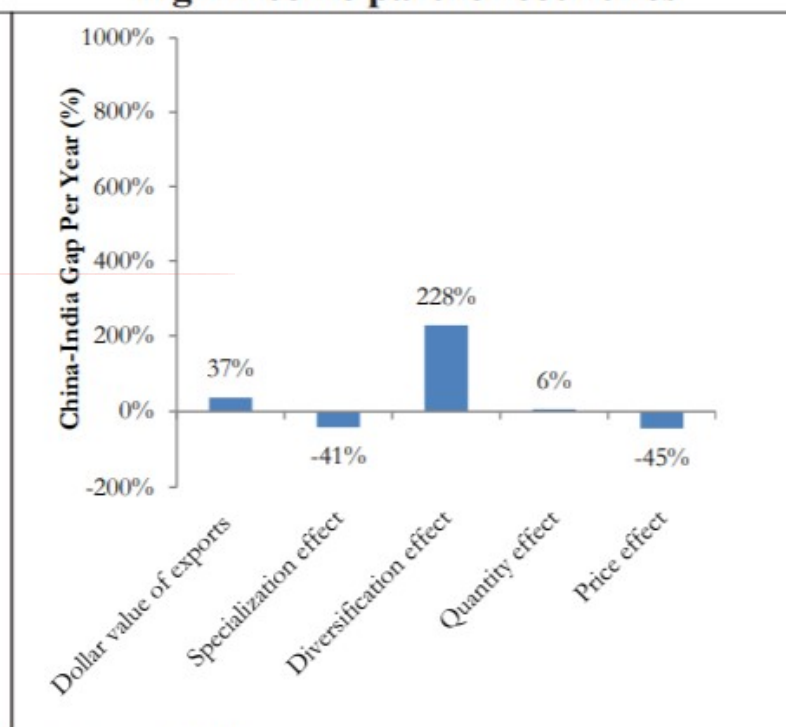


Figure 7(b): China-India Gap after controlling for China's exports to high-income partner countries



Source: Based on regression results in Veeramani, Aerath and Gupta (2018)

INDIA-CHINA GAP

India

- Distorted specialization as high capital intensive exports leading to lowered market penetration in high-income countries
- Competitive advantage in low and middle income countries
- Requires a reorientation of our trade specialization towards labour intensive product lines. Through selective focus on (i) traditional labour-intensive sectors (ii) increased participation in GVCs.

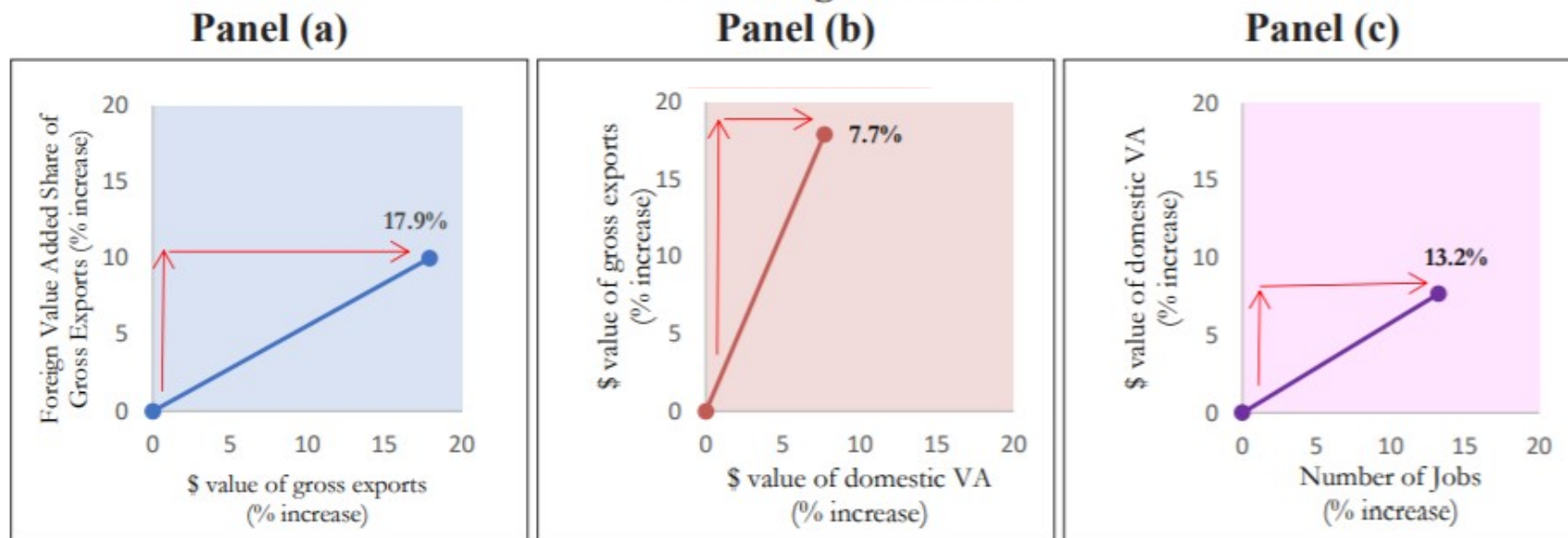
China

- High level of participation in GVCs
- High degree of specialization in labour intensive production activities
- Large scale in sectors of specialization
- High level of penetration in rich markets

Promote strong local linkages for domestic industries or to participate in GVCs

Which strategy would result in higher levels of aggregate value added and employment within the country.

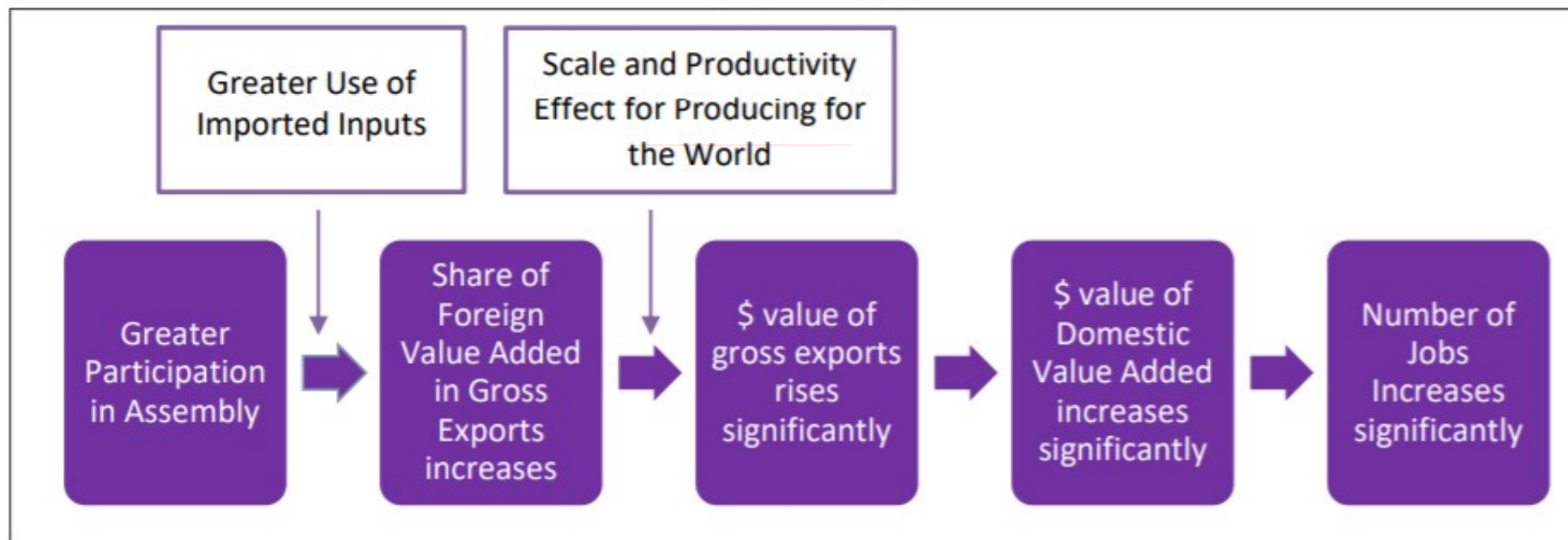
Figure 9: Gains from participation in GVCs, Empirical Evidence for India's Manufacturing Industries



Source: Based on regression results in Veeramani and Dhir (2019a) and Survey Calculations

“ASSEMBLE IN INDIA” MODEL

Figure 8: The Conceptual Framework for Gains from “Assembling in India” as part of “Make in India”



Industries that hold the greatest potential for export growth and employment generation

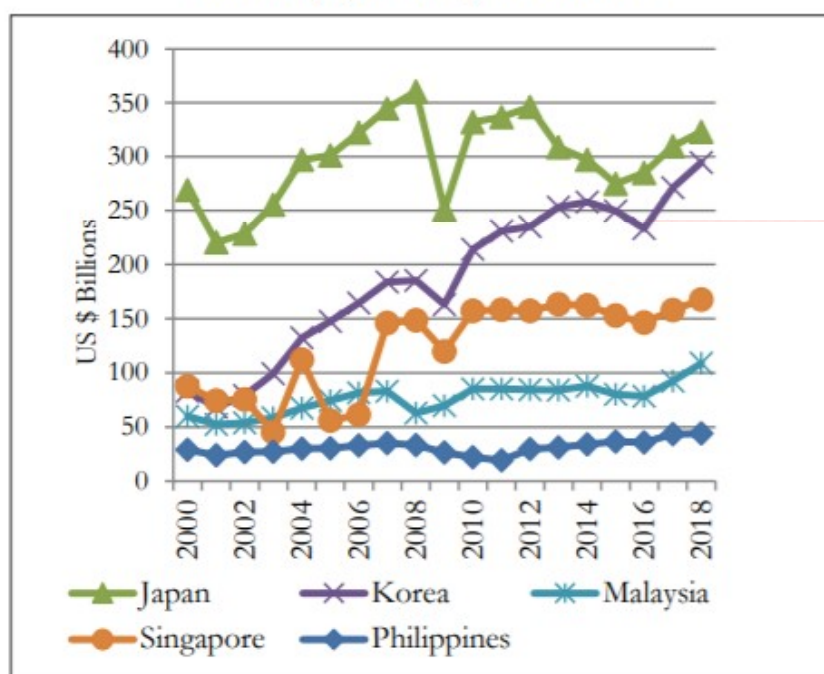
1. Traditional Unskilled labour intensive industries like textiles, clothing, footwear and toys
 - GVCs in these industries are controlled by “buyer driven” networks
 - Lead firms based in developed countries concentrate in higher value added activities such as design, branding and marketing- Walmart, Nike, Adidas
2. “Network Products” (NP) : GVCs in industries are controlled by leading MNEs within “producer driven” networks.
 - Apple, Samsung, Sony manufacturing model
 - Each country specializes in a particular fragment of the production process based on comparative advantage

Network Products

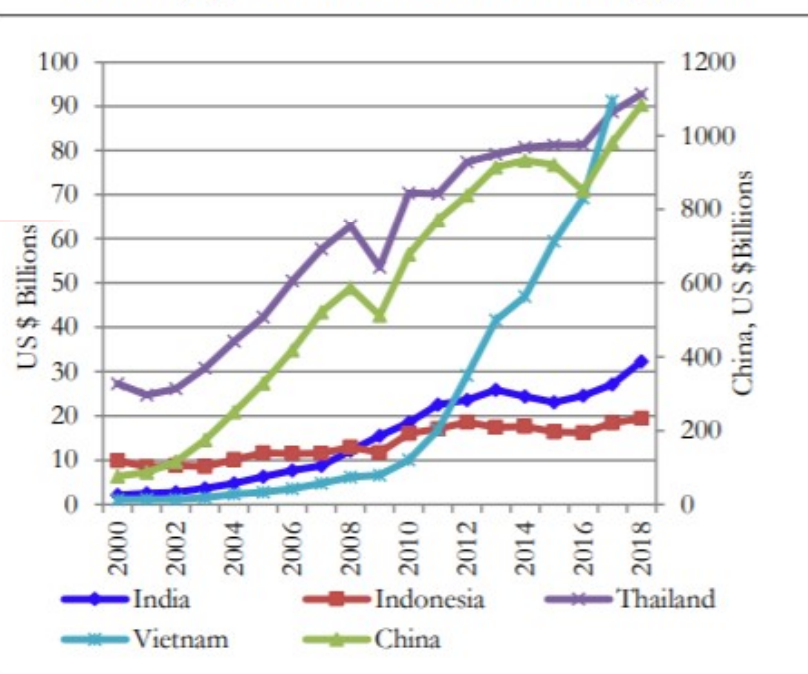
- Together, NPs accounted for nearly 30% of world exports in 2018, with the share of Electrical Machinery being the highest at 10.4 per cent.
- World exports of NP increased steadily from US\$ 2.01 Trillion in 2000 to US\$ 5.41 Trillion in 2018
- Increase was mainly driven by AEP whose value rose from US\$ 1.11 Trillion to US\$ 3.93 Trillion.
- On an average, NP accounts for about 42% of world manufactured exports

Figure 11: Exports of NP by Asian Countries, USD Billions, 2000 to 2018

Panel (a): Early entrants



Panel (b): Late entrants and laggards



Source: UN Comtrade (WITS) Database and Survey Calculations

Automobile case study

Learnings

1. Domestic firms graduate up the production value chain by first starting with low-technology operations such as assembly and then moving to manufacturing of components.
2. Imports of components increase in the short run. Following a policy of import substitution right from the outset does not enable the process of graduation up the production value chain.

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Mobile phone case study

- India – 2nd largest manufacturer – 11% world share
- India could manufacture around 1.25 billion handsets across various segments by 2025, firing up an industry worth around \$230 billion (ICEA-McKinsey report, 2018).
- Between 2013 and 2017, while India's import of telecom handsets declined from US\$4.47 billion to US\$3.31 billion that of telecom parts increased steadily from US\$1.34 billion to US\$9.41 billion.
- At the same time exports of telecom handset increased significantly during the last three years. This pattern is consistent with the emergence of India as an assembly centre for telecom handsets.

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Flying geese model

The pattern of entry, rise, survival, and relative decline of countries in the export market for NP is consistent with the “wildgeese flying model”

Japan, the lead goose, provided capital, technology and managerial knowhow to “follower geese” countries in East and Southeast Asia

China seems to have reached the inflection point of “inverted V” while Thailand and Vietnam are on the rising part of the curve.

Larger countries like Japan and China, which have survived in the market for longer periods of time, took off with an expansion of assembled end products (AEP) while parts & components (P&C) followed suit

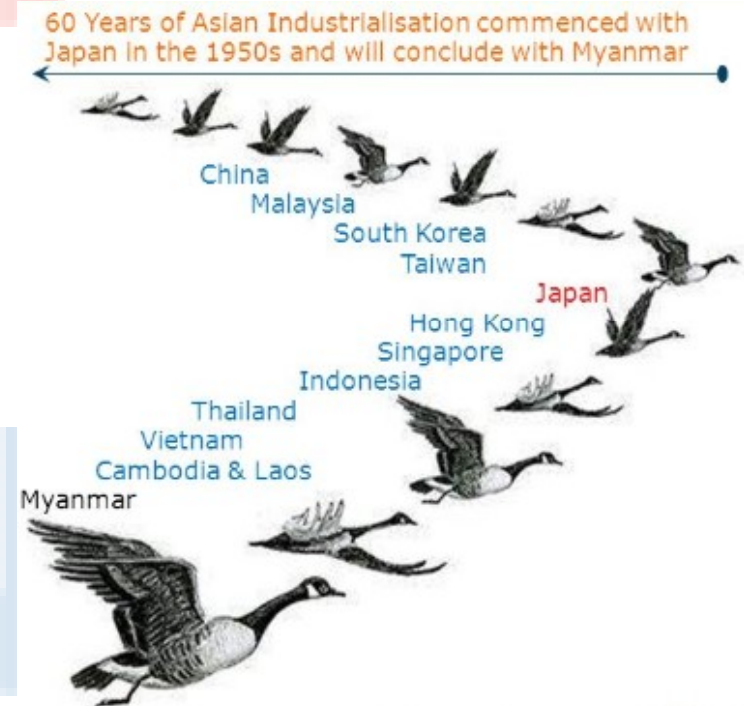


Table 2: Predicted values of NP exports for World and India, 2020-2030

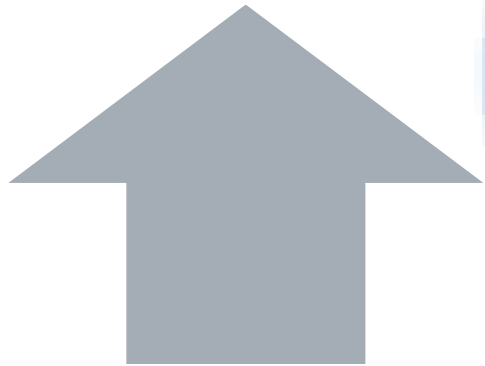
Year	World exports of NP (US\$ Trillion)	India's exports of NP (US\$ Billion)	India's Share in World Exports (per cent)
(1)	(2)	(3)	(4)
2020	5.94	69.4	1.2
2025	6.92	248.2	3.6
2030	8.06	490.7	6.1

Table 4: Overall Impact (First plus Second Order) employment and GDP

	# of Jobs (Millions)	Value added (US\$ Billion)
2020	30.1	168
2025	97.3	586.9
2030	173.5	1134.3

Source: Survey calculations

Are free trade agreements beneficial to India



Trade theory

Gains through more efficient allocation of resources

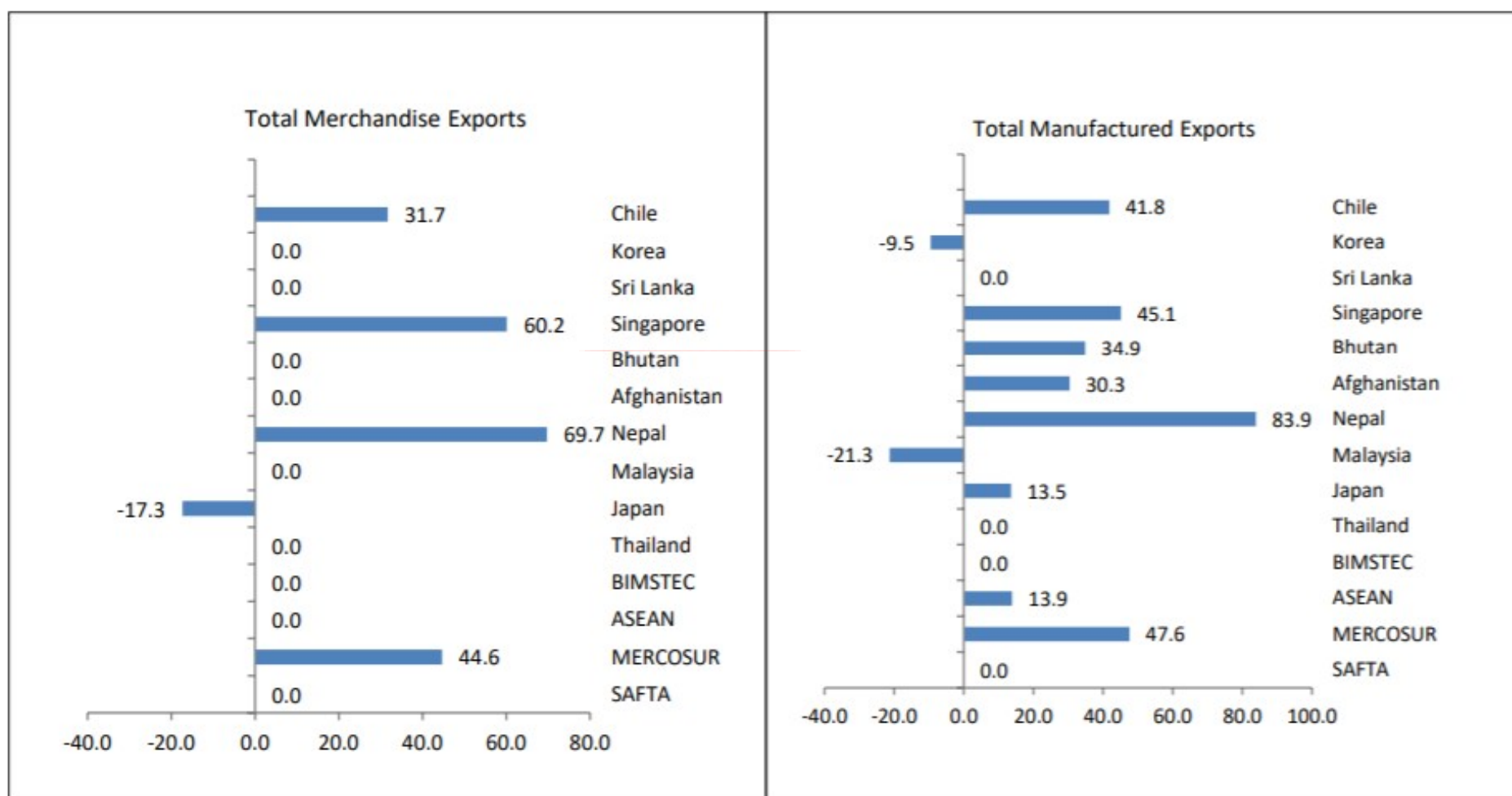


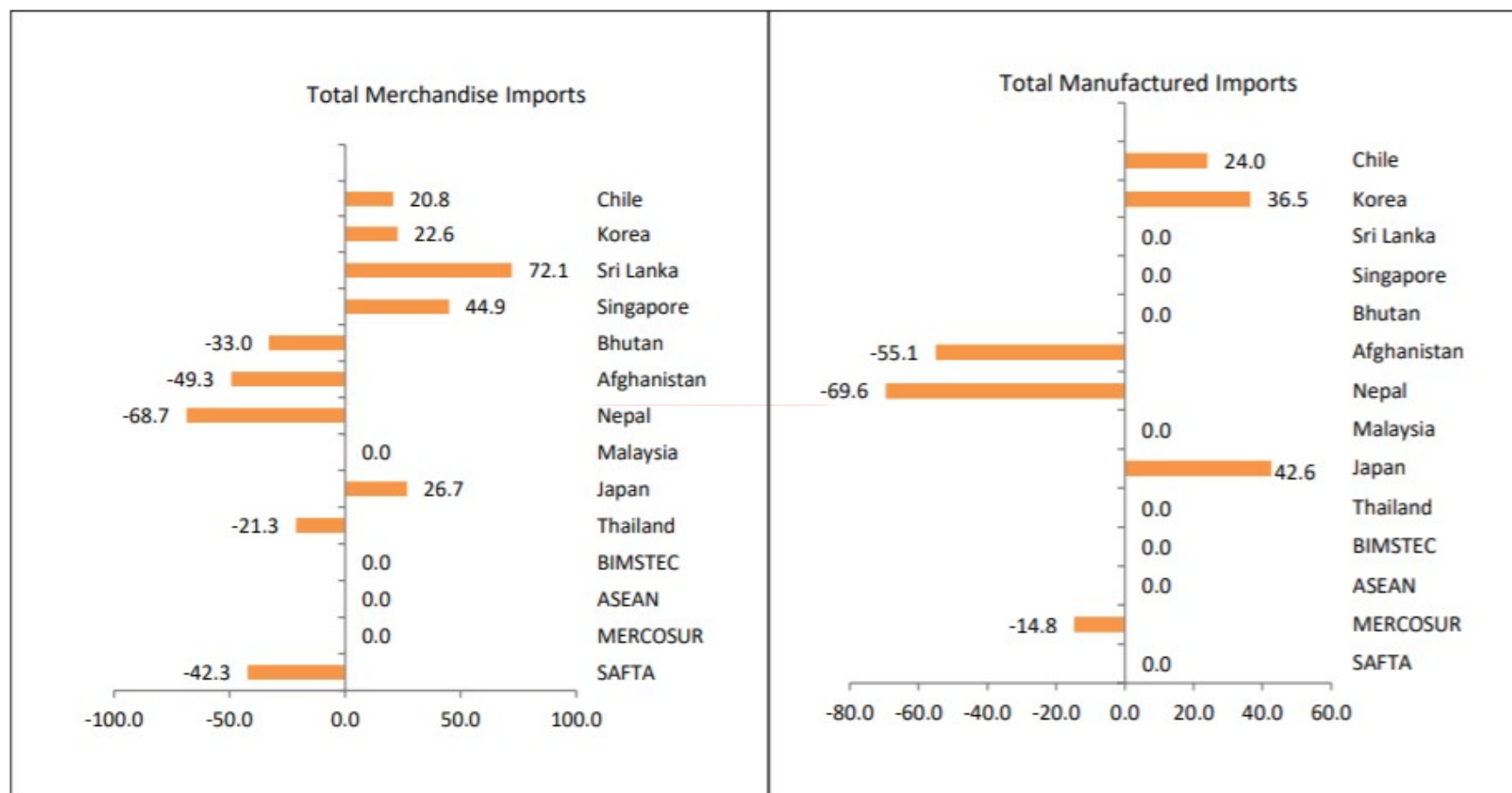
Mercantilist

Worsening of trade deficit

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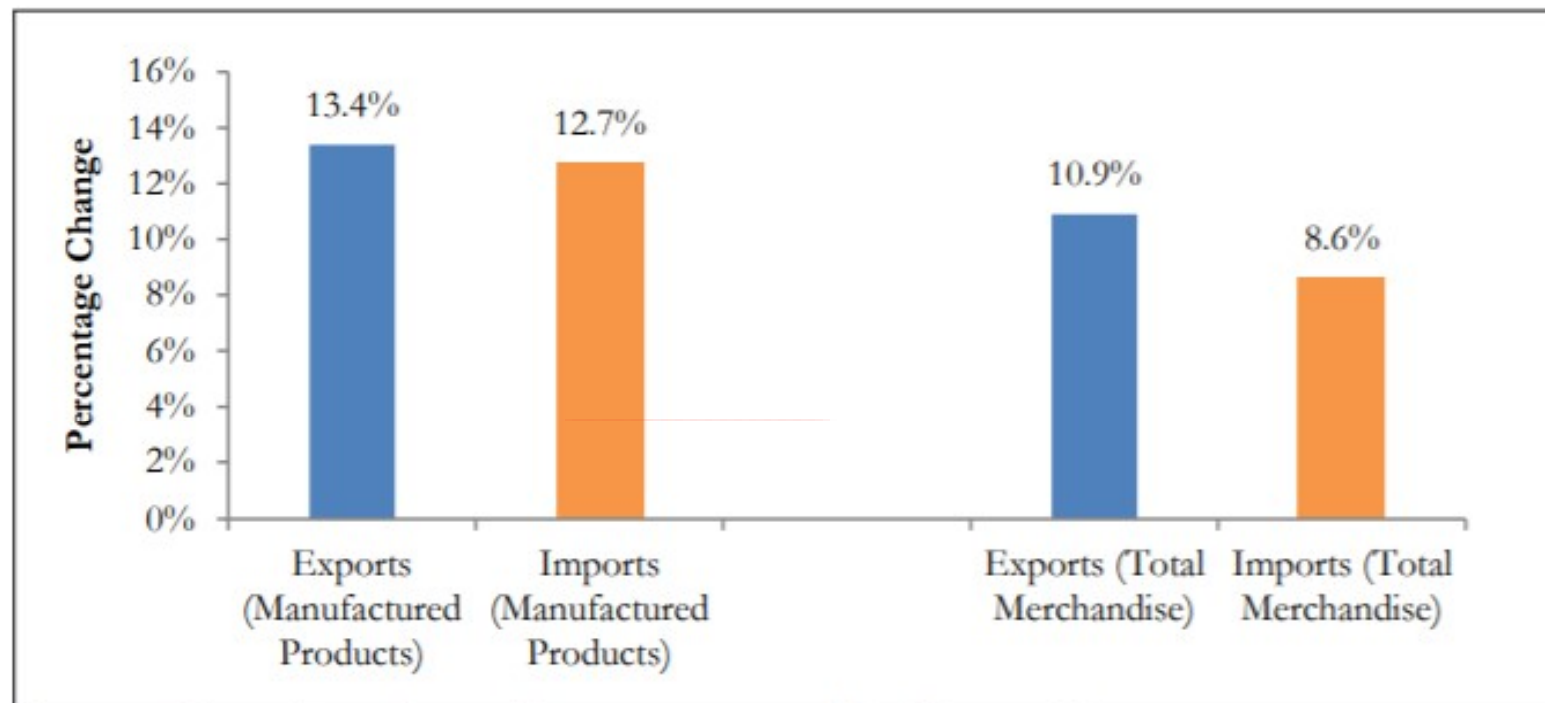
**Figure 16: Impact of Trade Agreements on India's Exports and Imports, 1993 to 2018
(per cent Changes of US\$ Values per Year)**





Source: Survey Calculations

Figure 17: Overall Impact of Trade Agreements on Exports and Imports



Source: Based on the estimates reported in Figure 16

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Summary

- Given our vast manpower with relatively low skill, India's current strength lies primarily in assembly of NP
- Short to medium term objective is the large scale expansion of assembly activities
- A highly feasible target of raising India's export market share to about 3.5 per cent by 2025 and 6 per cent by 2030
- Would create about 38.5 million additional jobs in the country by 2025 and about 82 million additional jobs by 2030.
- Incremental value added in the economy => 25% of increase required to make \$5 trillion economy by 2025

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Policy prescriptions



Reducing input tariffs



Implementing key factor market reforms



Providing an enabling environment for the entry of lead firms into the country



Reducing the service link costs

Which of the following factors gave China a comparative advantage in exports over India?

1. A more diversified basket of exports
2. Higher degree of integration with Global Value Chains
3. Deeper penetration in low and middle income countries

Select the correct answer using the code given below.

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Consider the following statements regarding India's foreign trade since 1991 economic reforms:

1. India's share in global merchandise exports has grown at more than 10% per annum.
2. India's Imports of goods and services have grown faster than their exports.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Targeting Ease of Doing Business in India

Chapter 6 – Volume I

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DATA

World Bank's Doing Business rankings
Improvement in 7/10 parameters

142
(2014)

79
places

63
(2019)



IBC

GST



Ease of Starting Business (rank 136)

Registering Property (rank 154)

Paying Taxes (rank 115)

Enforcing Contracts (rank 163)

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Parameters	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ease of starting a business	169	165	166	173	179	158	155	155	156	137	136
Dealing with construction permits	175	177	181	182	182	184	183	185	181	52	27
Getting electricity	-	-	98	105	111	137	70	26	29	24	22
Registering your property	93	94	97	94	92	121	138	138	154	166	154
Getting credit for your business	30	32	40	23	28	36	42	44	29	22	25
Protecting minority investors	41	44	46	49	34	7	8	13	4	7	13
Paying taxes	169	164	147	152	158	156	157	172	119	121	115
Trading across borders	94	100	109	127	132	126	133	143	146	80	68
Enforcing contracts	182	182	182	184	186	186	178	172	164	163	163
Resolving insolvency	138	134	128	116	121	137	136	136	103	108	52
Overall Rank	133	134	132	132	134	142	130	130	100	77	63

Source: Doing Business database, World Bank.

Table 3: India v/s Peers on EODB Parameters (2019)

	India	China	Brazil	Indonesia
Starting a Business				
Number of Procedures	10	4	11	11
Time – No. of days	17/18*	9	17	13
Cost (% of income per capita)	5.3/ 9.3*	1.1	4.2	5.7
Registering your Property				
Number of Procedures	9	4	14	6
Time – No. of days	49/ 68*	9	31	31
Cost (% of property value)	8.1/ 7.4*	4.6	3.6	8.3
Paying Taxes				
Number of Payments	10/ 12*	7	10	26
Time (hours per year)	250/ 254*	138	1,501	191
Total tax payable (% of gross profits)	49.7 [#]	59.2	65.1	30.1
Enforcing Contracts				
Time – No. of days	1,445	496	801	403
Cost (% of debt)	31	16.2	22	70.3
Overall Doing Business Rank	63	31	124	73

Source: World Bank Doing Business Report, 2020.

Note: India numbers are for Delhi/Mumbai respectively, as these are the two centres covered by World Bank for India.

[#]: Before India reduced its Corporate tax rate from 30 to 25 per cent.



The Maze

Setting up and operating a services or manufacturing business in India faces a maze of laws, rules and regulations.

Many of these are local requirements, such as burdensome documentation for police clearance to open a restaurant.

Number of document needed to obtain 'Police Eating House License'. from Delhi Police is 45 – while to procure new arms is just 19

Manufacturing units have to conform with 6,796 compliance items, which is a tedious and time consuming task.

This must be cleaned up and rationalized one segment at a time.

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Table 5: Licenses Required to Open a Restaurant

Country	Market Size (US \$ billion)	No. of licenses	Nature of licenses
India	61	12-16*	As detailed in Table 6
Singapore	8.3	4	Food shop License Liquor License Importing Food License Halal Certificate
China	815	4	Sanitation License Environment License Fire License Sales License

Source: National Restaurants Association of India (NRAI).

Note: * These are just key licenses. In practice, each city requires several more approvals as mentioned in the text.



Nhava Sheva Study

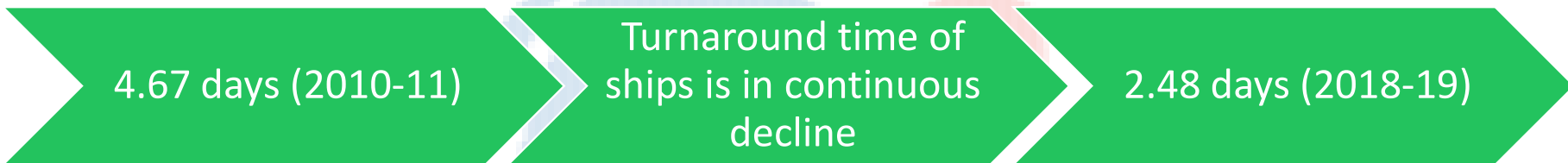
- India's largest sea port Nhava Sheva in Maharashtra
- handling more than half of the container cargo across all major ports in India.
- Shipment from Delhi to JNPT – 5 days
- 6 processes in Nhava Sheva can take up to 14 days

Partly due to insufficient port infrastructure to handle the inflow of containers, narrow roads and poor strength bearing capacity of the roads at the port.

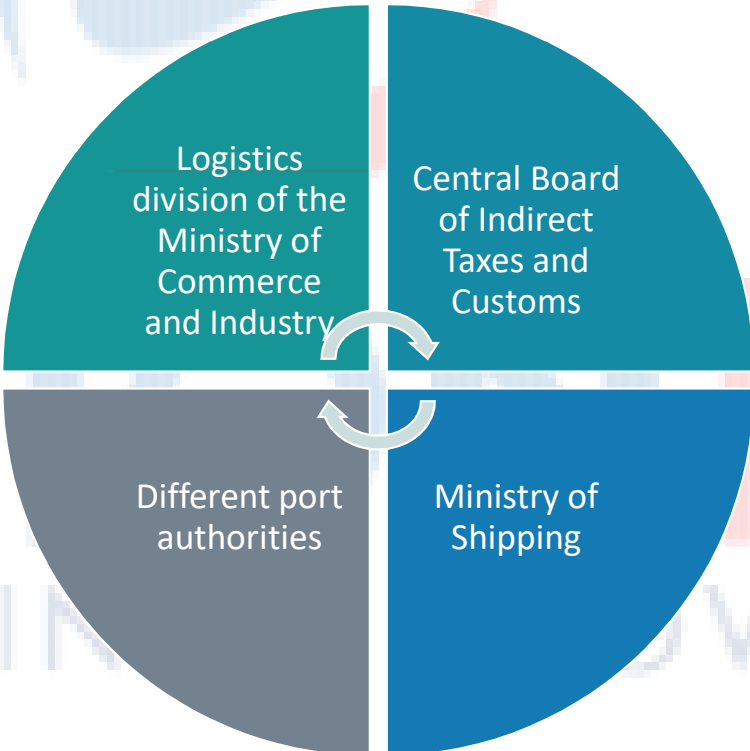
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Outcomes of the port study

- inordinate delays in loading and customs processes in Indian sea-ports
- processes for imports, ironically, are better than those for exports
- large variance in process time means that exports are forced to account for the uncertainty by padding extra waiting time.
- This means that it is not good enough to simply improve the “average” without improving reliability.
- Processes in Indian airports is vastly superior to those at sea ports for both imports and exports;
- AEO did significantly improve the process but it is reasonably smooth even for non-AEO operators importing/ exporting electronics
- Indian processes can beat international standards – Bangalore airport



Coordination



Authorised Economic Operator (AEO)


Aegis: World Customs Organization (WCO) SAFE Framework of Standards

Aim: Enhance international supply chain security and facilitate movement of goods

Voluntary:
Anyone in the international supply chain that undertakes Customs related activity can apply

Benefits: expedited clearance, fewer examinations, improved security and communication between supply chain partners

Issue of scale



	Bangladesh	China	India	Vietnam
Scale of Operations	80% large enterprises	80% or more large enterprises	80% small enterprises	80% or more large enterprises
Turn Around Time (in Days) (from order to delivery)	50	31	63	46
Time Taken to reach port (in Days)	1	0.2	7-10	0.3

Source: High Level Advisory Group (HLAG) Report, 2019.

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Which of the following parameters lags behind the overall ranking of India in Ease of Doing Business Index?

1. Ease of Starting Business
2. Registering Property
3. Dealing with construction permits
4. Paying Taxes
5. Enforcing Contracts

Select the correct answer using the code given below.


- (a) 1, 2, 4 and 5 only
- (b) 1, 2 and 4 only
- (c) 3 and 5 only
- (d) 1, 2, 3, 4 and 5

With reference to Authorized Economic Operator (AEO) Programme, consider the following statements:

1. It seeks to enhance international supply chain security and facilitate movement of legitimate goods.
2. Anyone involved in the international supply chain and undertaking customs related activity can apply for AEO status irrespective of size of the business.
3. It is an initiative of World Customs Organization

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3



Golden Jubilee of Bank Nationalisation: Taking Stock

Chapter 7 – Volume I

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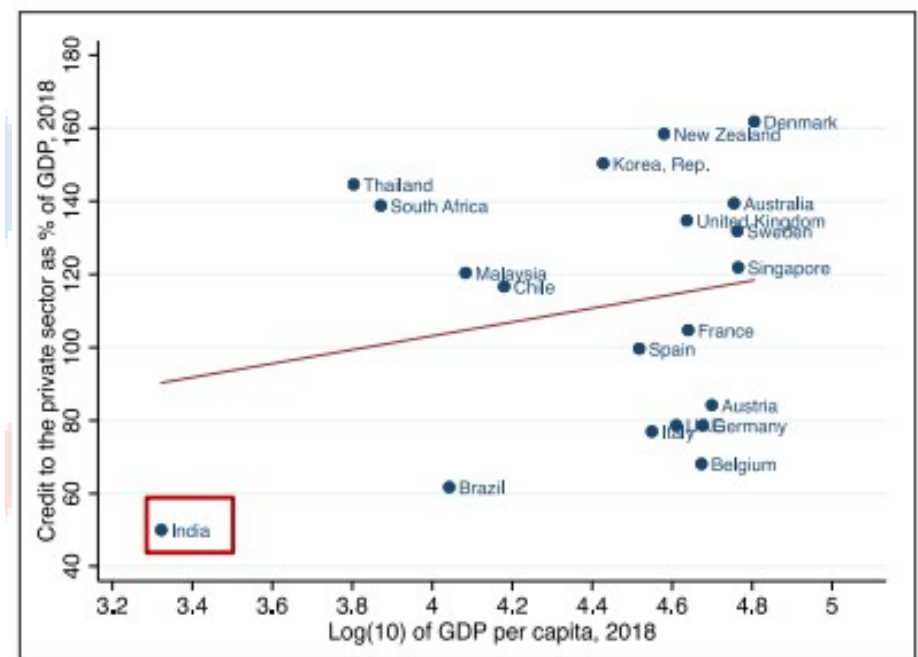
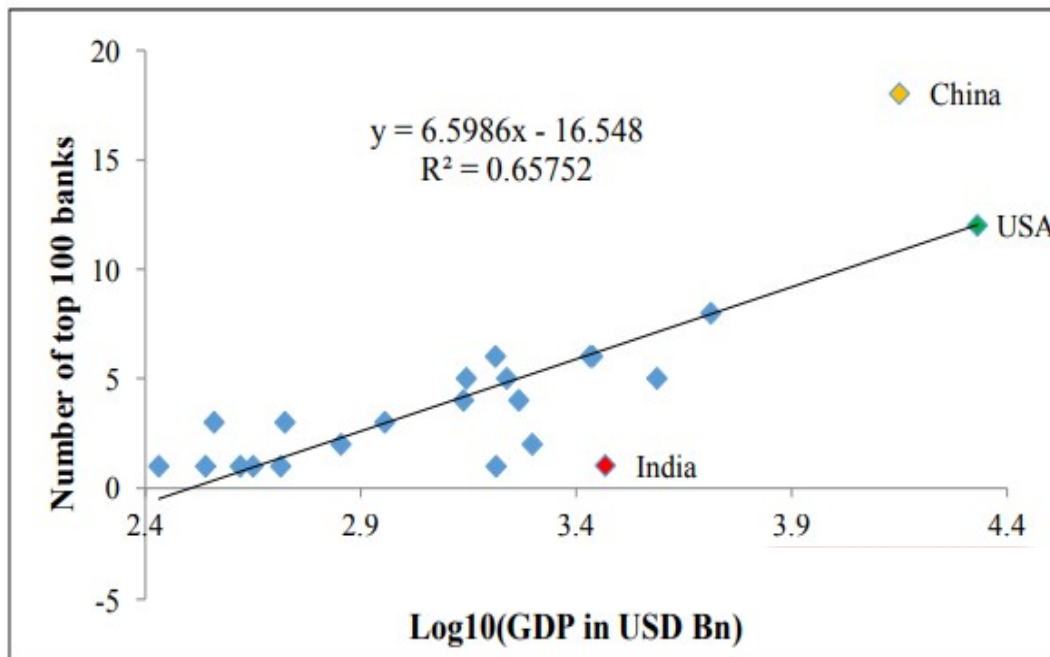
Brief facts

- Narasimhan Committee (1991, 1997), Rajan Committee (2007) and P J Nayak Committee (2014) have provided several suggestions to enhance the efficiency of PSBs
- In 2019, when Indian economy is the fifth largest in the world, our highest ranked bank—State Bank of India— is ranked a lowly 55th in the world and is the only bank to be ranked in the Global top 100.

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P.J Nayak committee (2014)

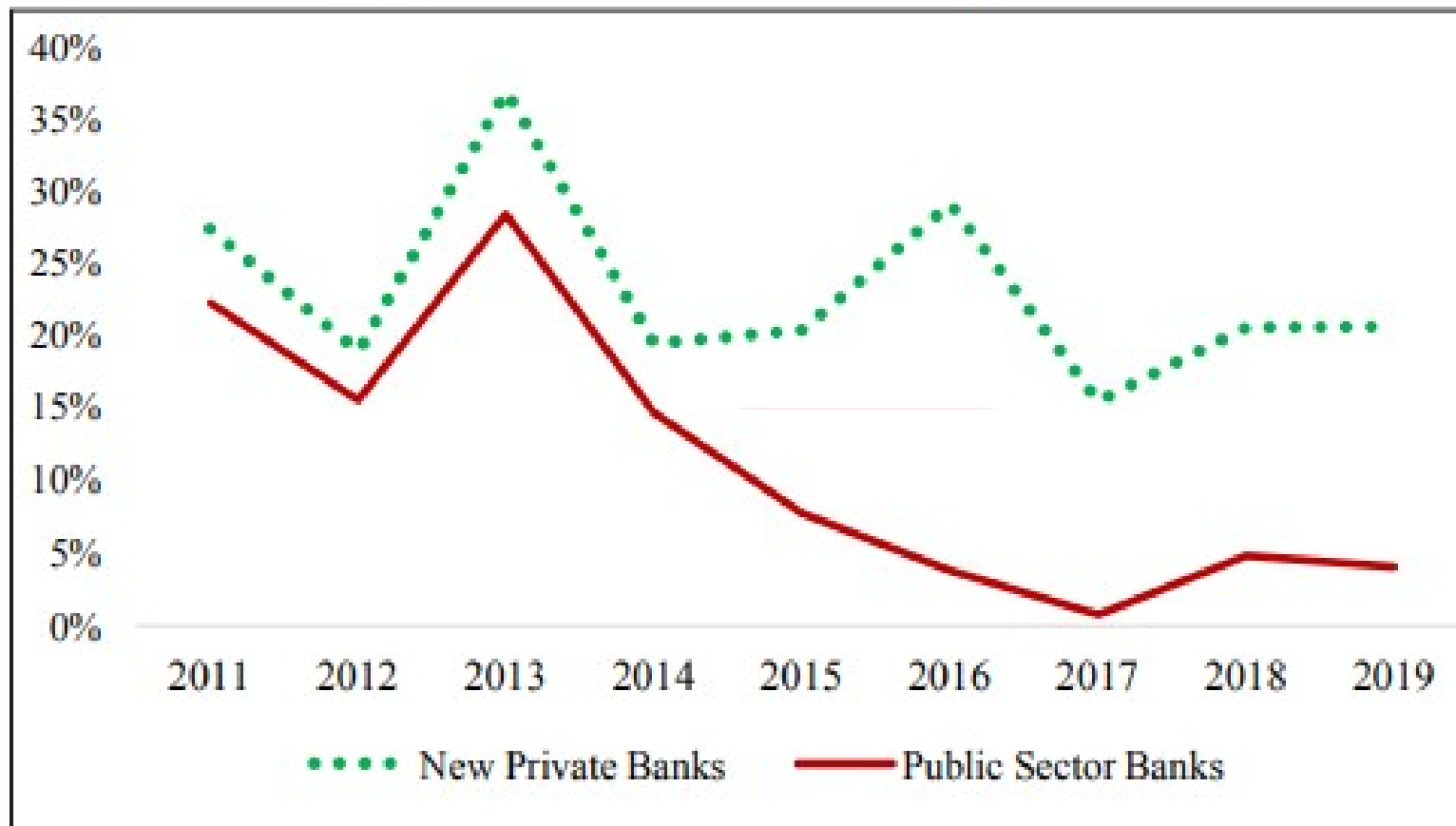
- Structural weaknesses in PSBs explains their poor performance.
- Ownership of Public Sector Banks (PSBs):
 - Transfer holdings to a Holding company - Bank Investment Company (BIC).
 - Govt to reduce holding below 50%
- Board appointments in PSBs:
 - Professionalised in a three-phase process.
 - Bank Boards Bureau - Bank Investment Company (BIC) – PSB boards
- Private sector banks:
 - Diversified investment funds should be allowed to hold 15-20% stake in a private sector bank without regulatory approval (currently, 5%)
 - promoters should be permitted to hold up to 25% stake (currently, 15%)



Small banking sector when compared to size of the economy (GDP), development of the economy (GDP per capita) and population

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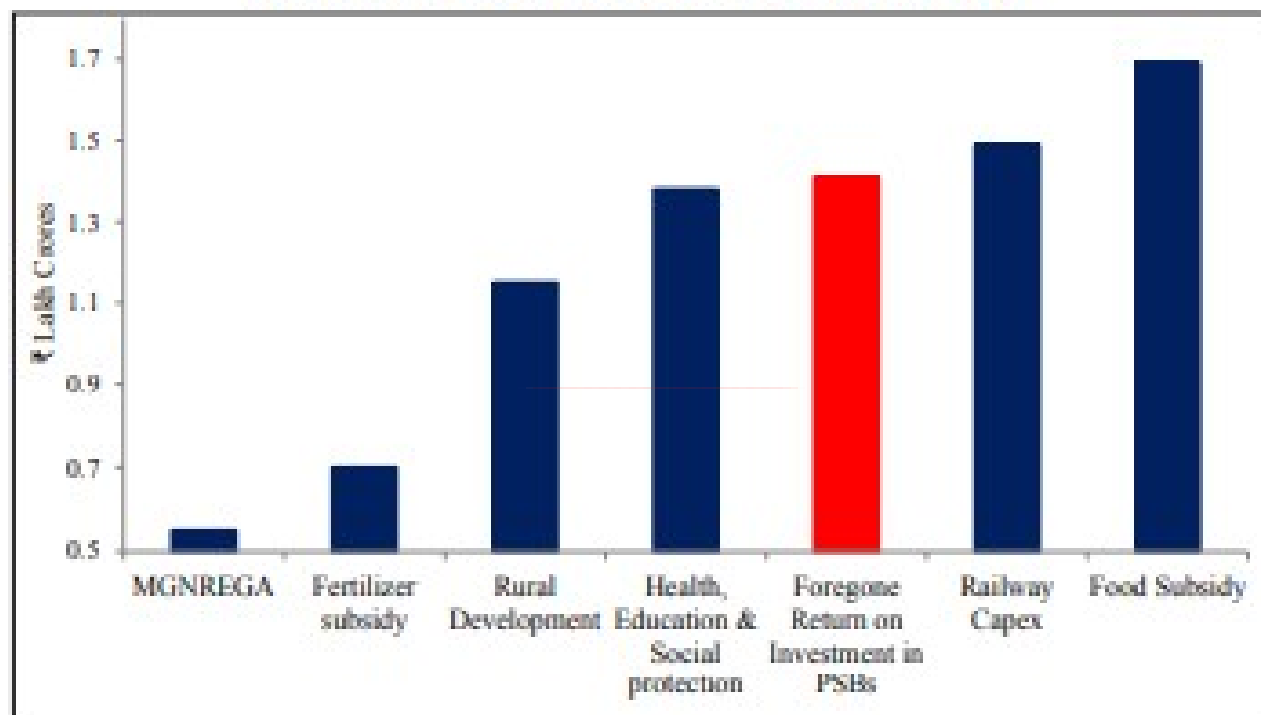
Figure 5: Bank Credit Growth (per cent)



Source: RBI Data and Survey Calculations

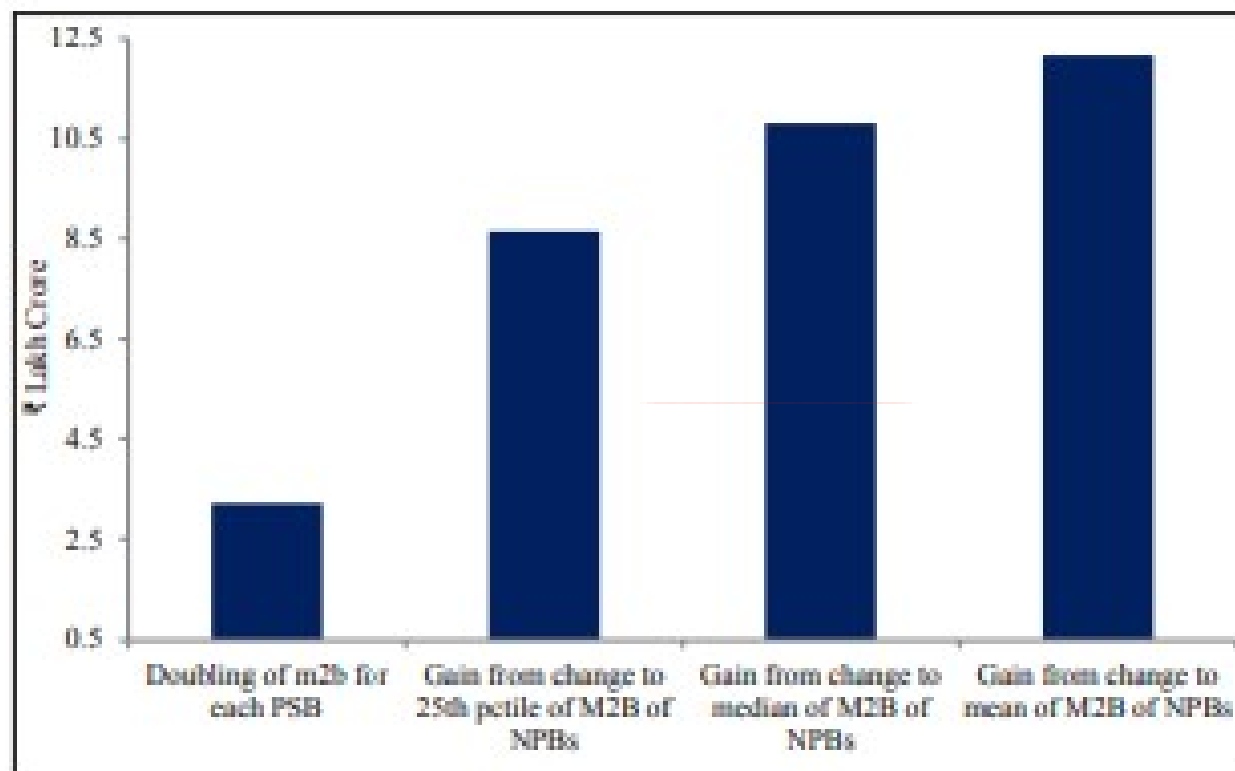
- 70% market share
- 85% frauds
- Collective loss- 66k crores
- GNPA – 7.4 Lakh cr

Comparison of the foregone return on taxpayer money investment in PSBs with large subsidy heads (2019)



Source: Budget documents, RBI Data and Survey Calculations

Potential gains to the taxpayer from enhanced efficiency in PSBs

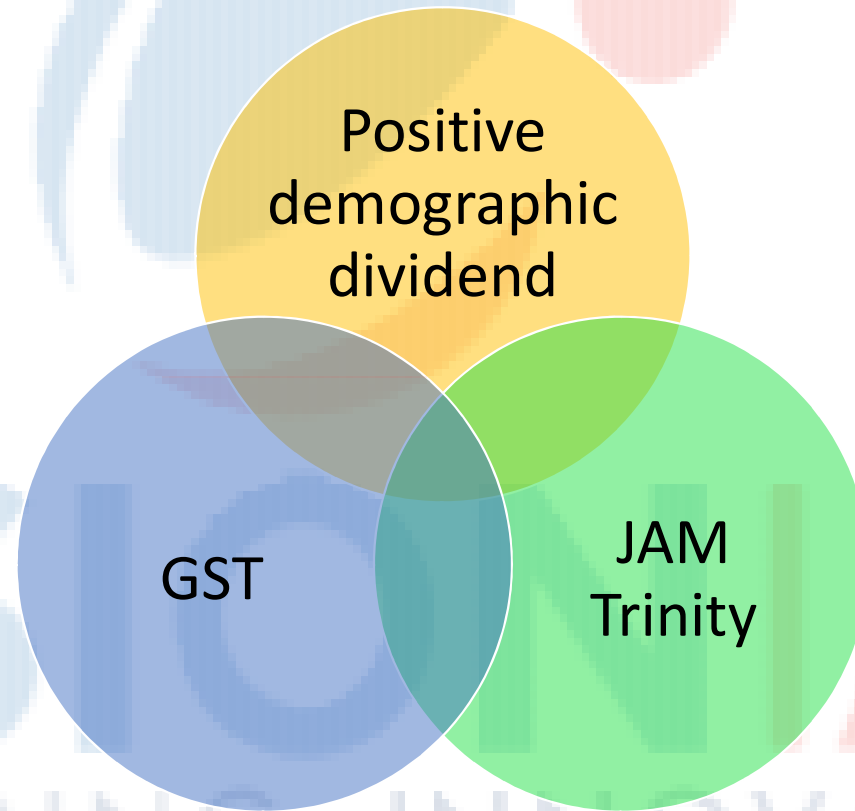


Source: Survey Calculations

Note: M2B denotes the market-to-book ratio of a listed bank



Inflection point of Formalization



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Structural Issues with Government control

Operations

- Recruitment, Pay, Board & Top mgmt
- Investments, Financing, Expansion

Implicit bailout promise

- Implicit cost to the taxpayer

Principal-agent problem

- Scrutiny of CVC/CAG => Risk Aversion
- Lending fell; Wary in renegotiating bad debt

Benefits of Bank Nationalization in First Decade

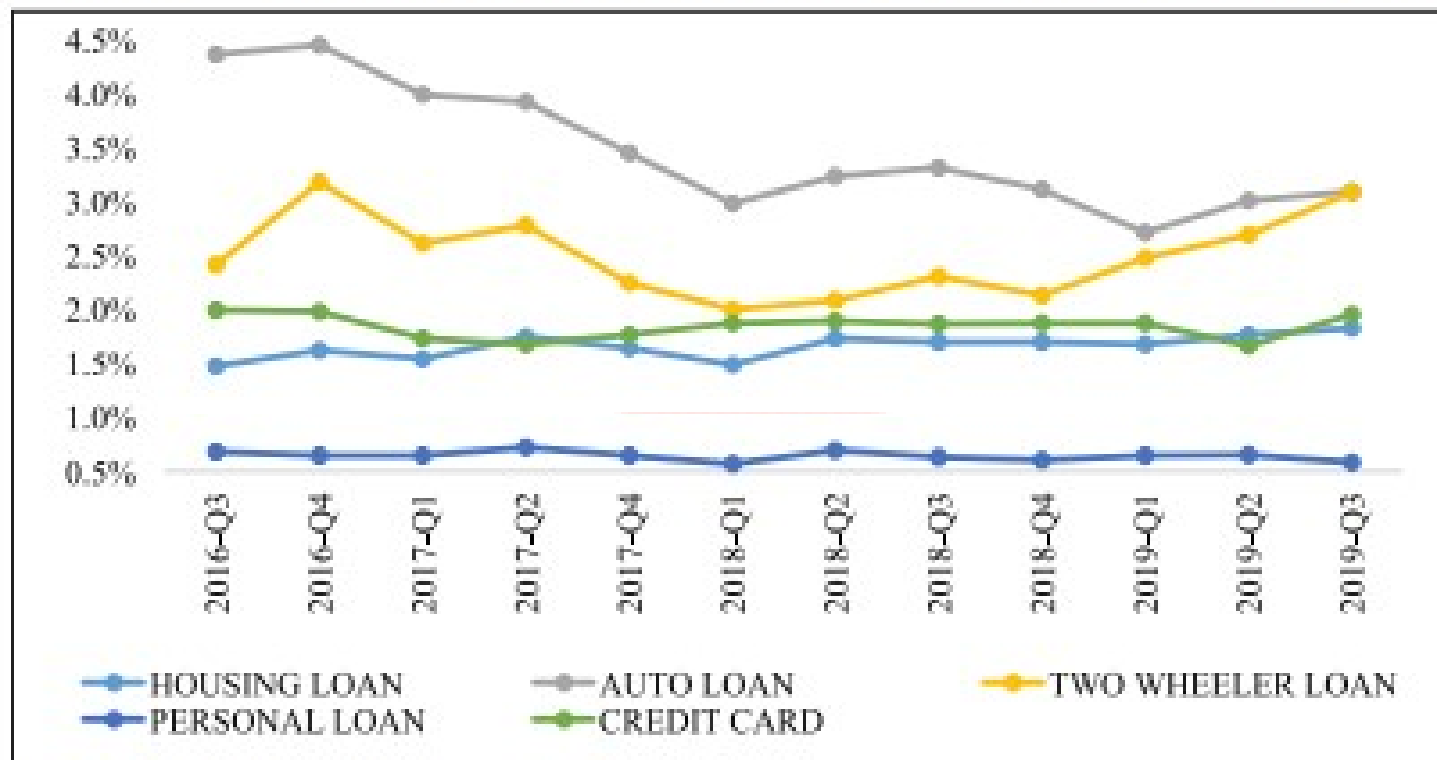
Output

- Branches in rural areas: 10x
- Credit to Agriculture: 40x [2% to 13% of GDP]
- Credit to rural areas: 20x
- Both rural bank deposit mobilization and rural credit increased significantly



- Confounders - Green revolution, Anti poverty programmes, RBI directed lending
- Differential impact on poverty seen during 1977-1991 cannot be attributed to nationalization [Panagriya, Burgess and Pande]
- Cole(2009) - finds no significant benefit of nationalization on the real economy

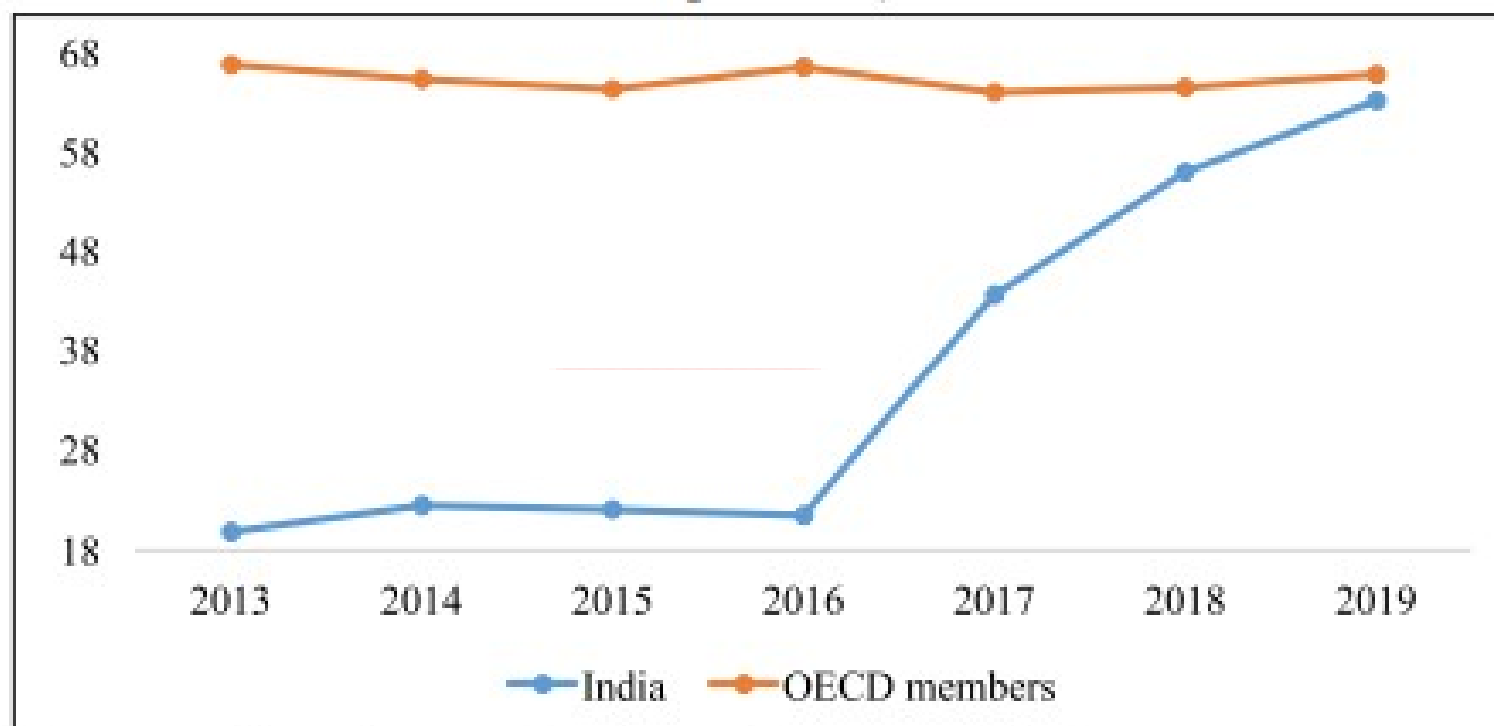
Figure 25: NPA Levels in Retail Loans by Major Products (2016-19)



Source: CIBIL Data

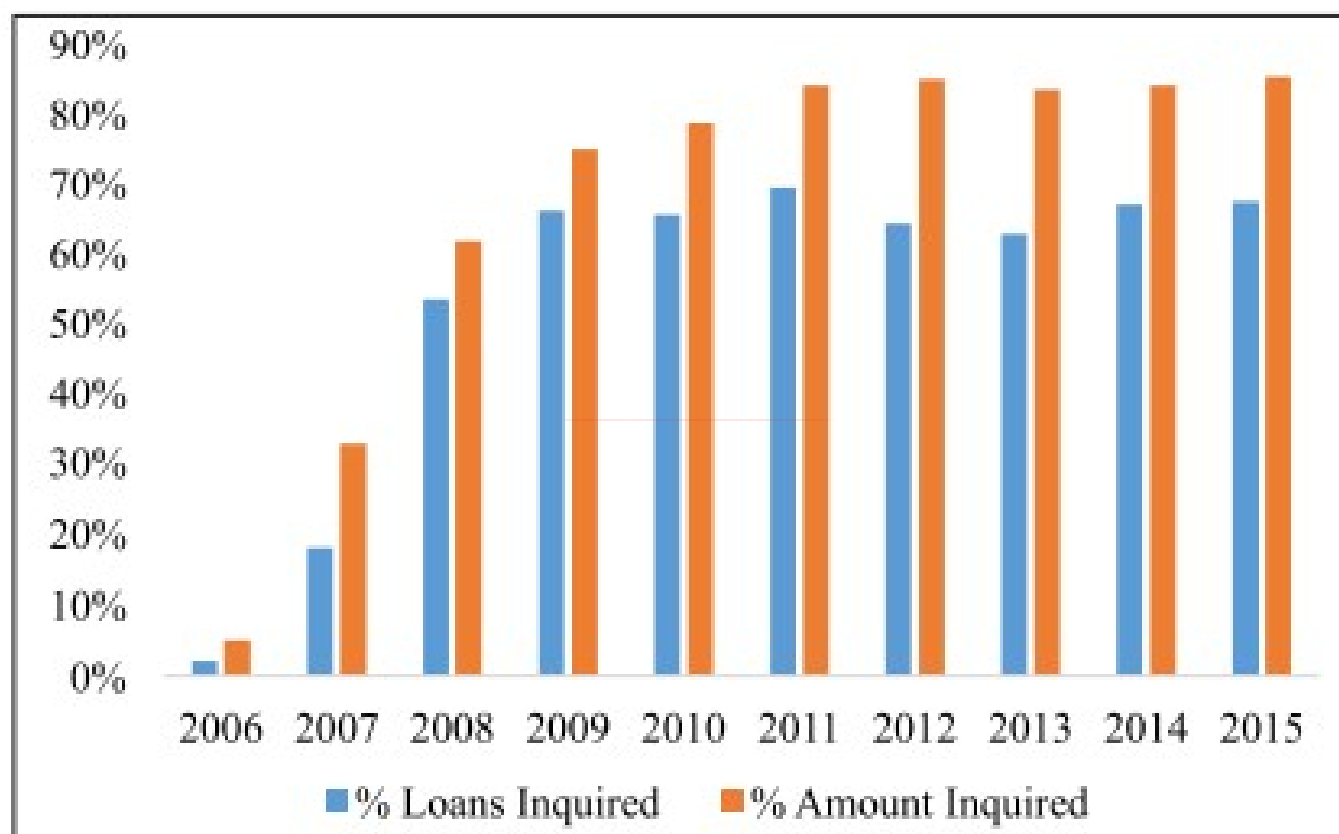
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Figure 26: India caught up with OECD Credit Bureau Coverage (per cent of Adult Population)



Source: World Bank –Ease of Doing Business Report 2019

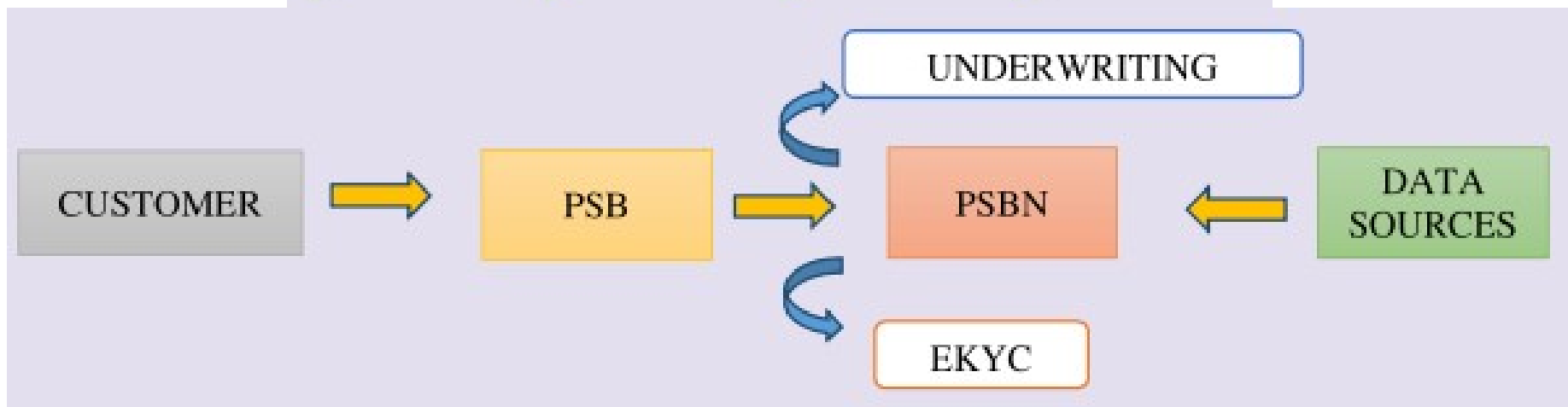
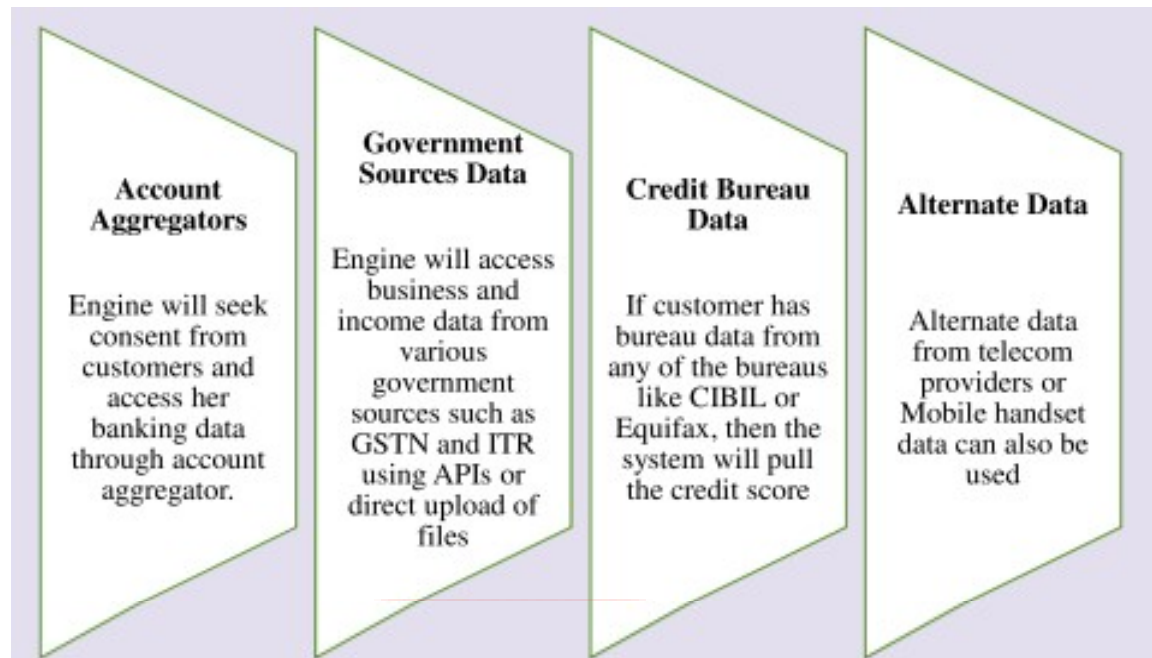
Figure 27: Usage of Credit Bureau Data in New Private Sector Banks



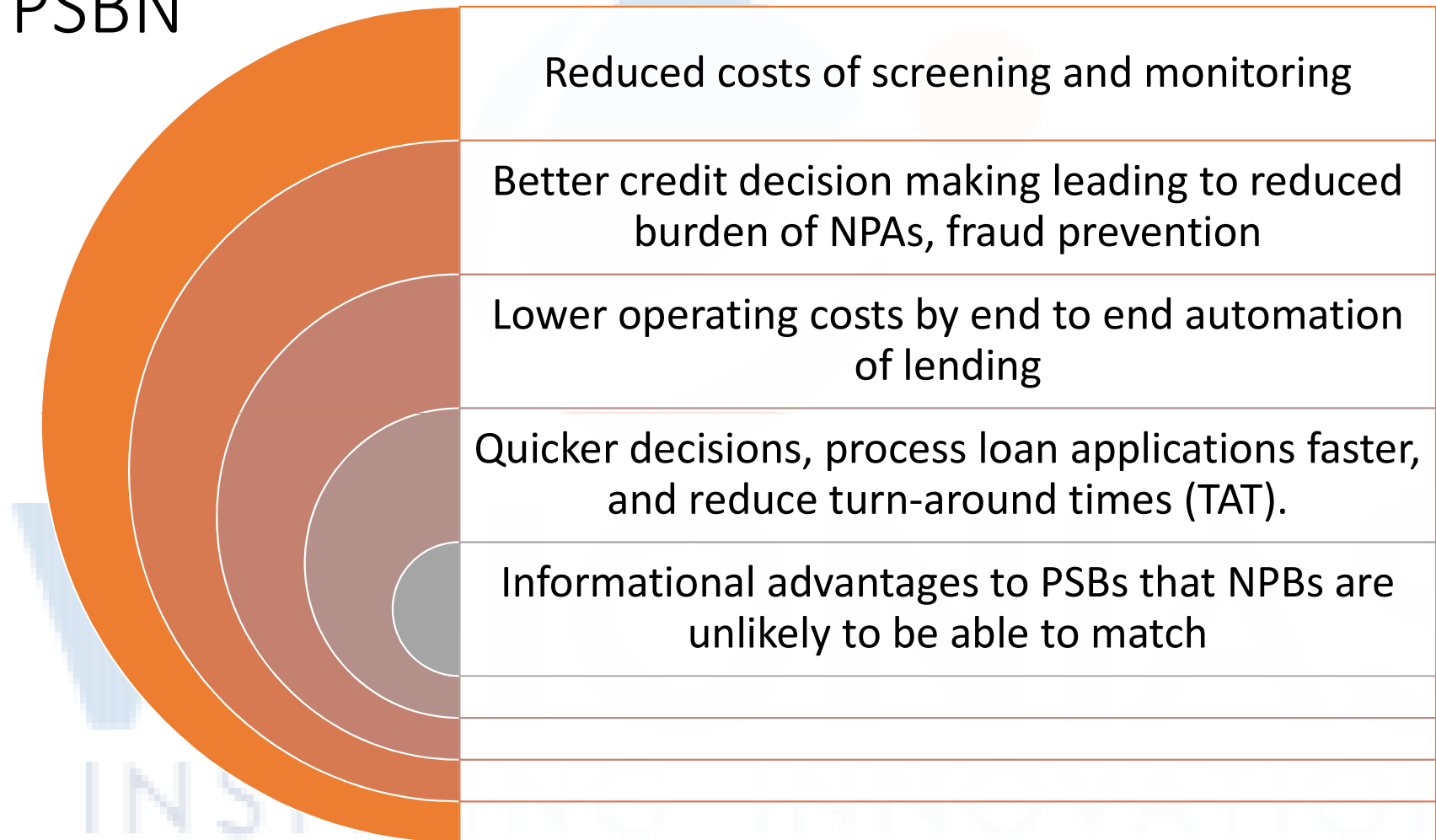
Source : Mishra, Prabhala, Rajan 2019

Use of FinTech

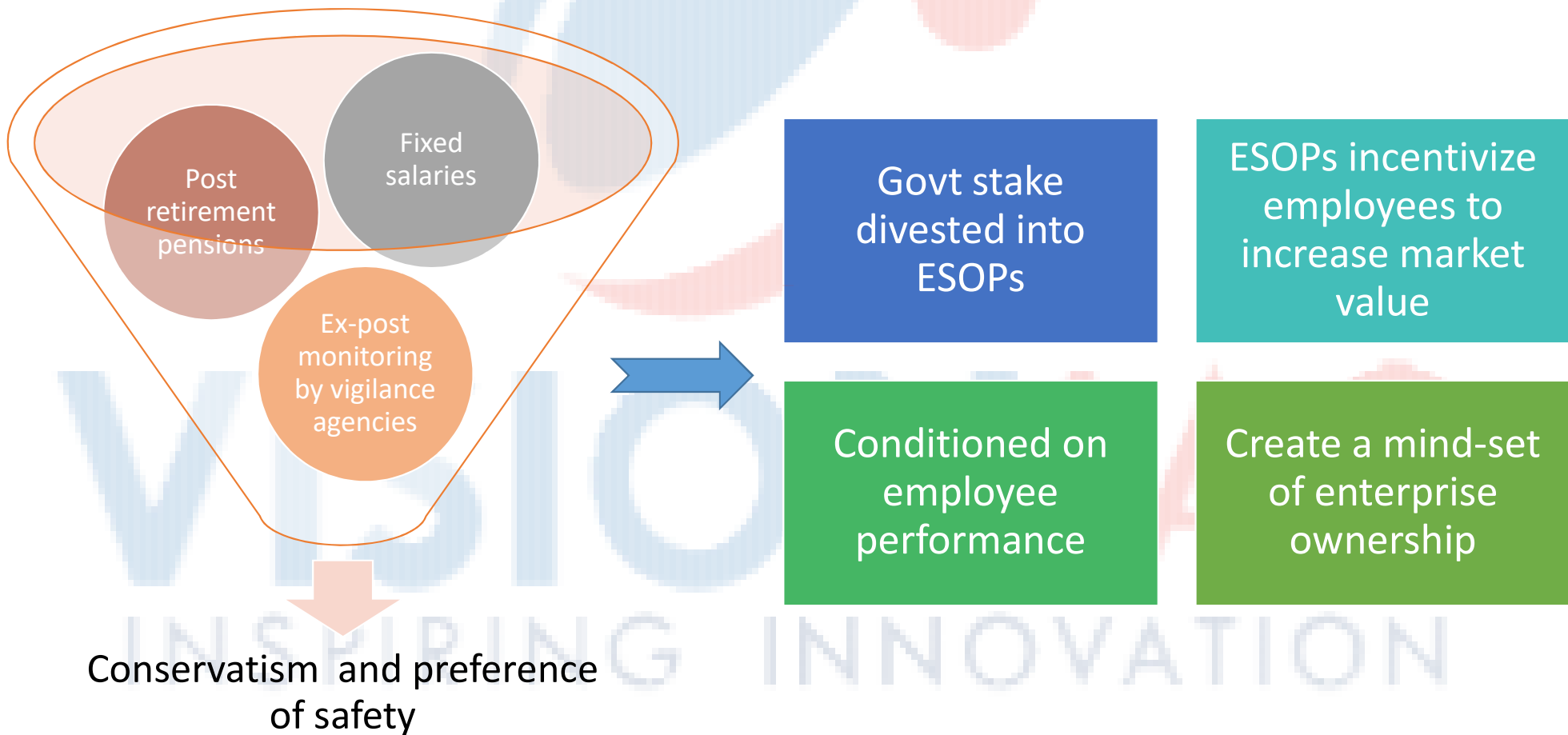
- Ex-ante screening of potential borrowers and the ex-post monitoring of their behaviour
- Data: company filings and analyst call reports
- Models: AI, ML, Big Data, Pattern recognition,
- Algorithms that explore, learn and identify patterns
- Using FinTech allows banks to better screen borrowers and set interest rates that better predict ex-post loan performances



PSBN



ESOPs in PSBs to reduce Agency problems



Solutions to make PSBs profitable

ESOPs

- ESOPs and proportionate representation on boards proportionate to the blocks held by employees.

HR Management

- enable cutting-edge recruitment practices that allow lateral entry of professionals and recruitment of professionally trained talent at the entry level.

FinTech

- Use of Financial Technology across all banking functions

PSBN

- A GSTN type of entity should be setup to enable use of big data, AI and machine learning in credit decisions, especially those pertaining to large borrowers.

Leveraging data & Technology for Wilful Default

Geo-tagging – stealth, better valuation

GPS devices on collateralized assets

Integrated data on collateral across all lenders

Blockchain – SWIFT is experimenting with it

Risk: infringing upon the borrower's privacy and dignity

Which of the following factors indicate poor performance of public sector banks compared with that of private sector?

- 1. Only bank among top 100 global banks belongs to private sector.
- 2. Higher incidences of frauds.
- 3. Lower return on investments.
- Select the correct answer using the code given below.
- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3



Financial Fragility in the NBFC Sector

Chapter 8 – Volume I

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SHADOW BANKING

Intermediaries
operating partially (or
fully) outside the
traditional banking
sector

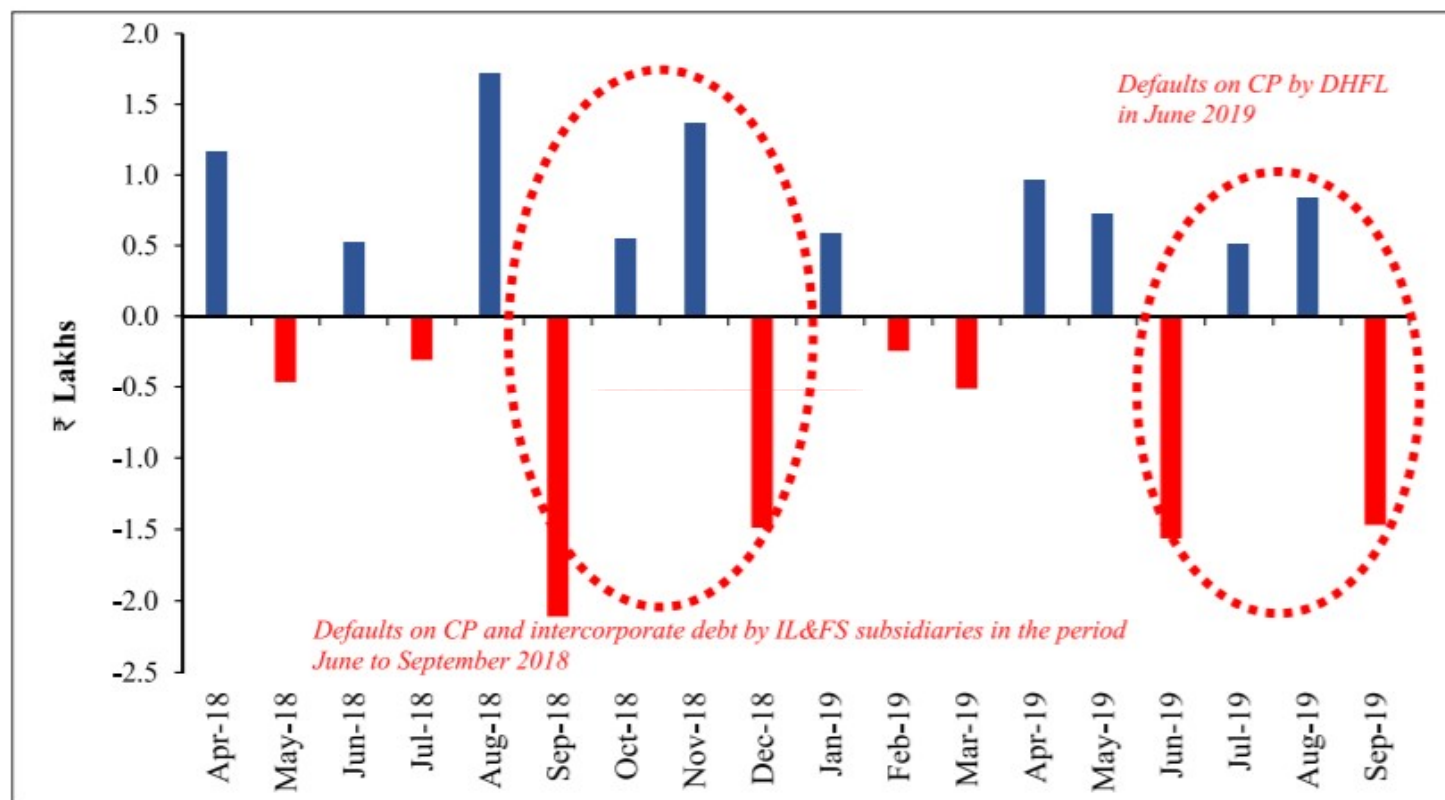
Highly levered with
risky and illiquid assets
with high probability of
“bank runs”

Light or no regulation

No explicit access to
central bank liquidity

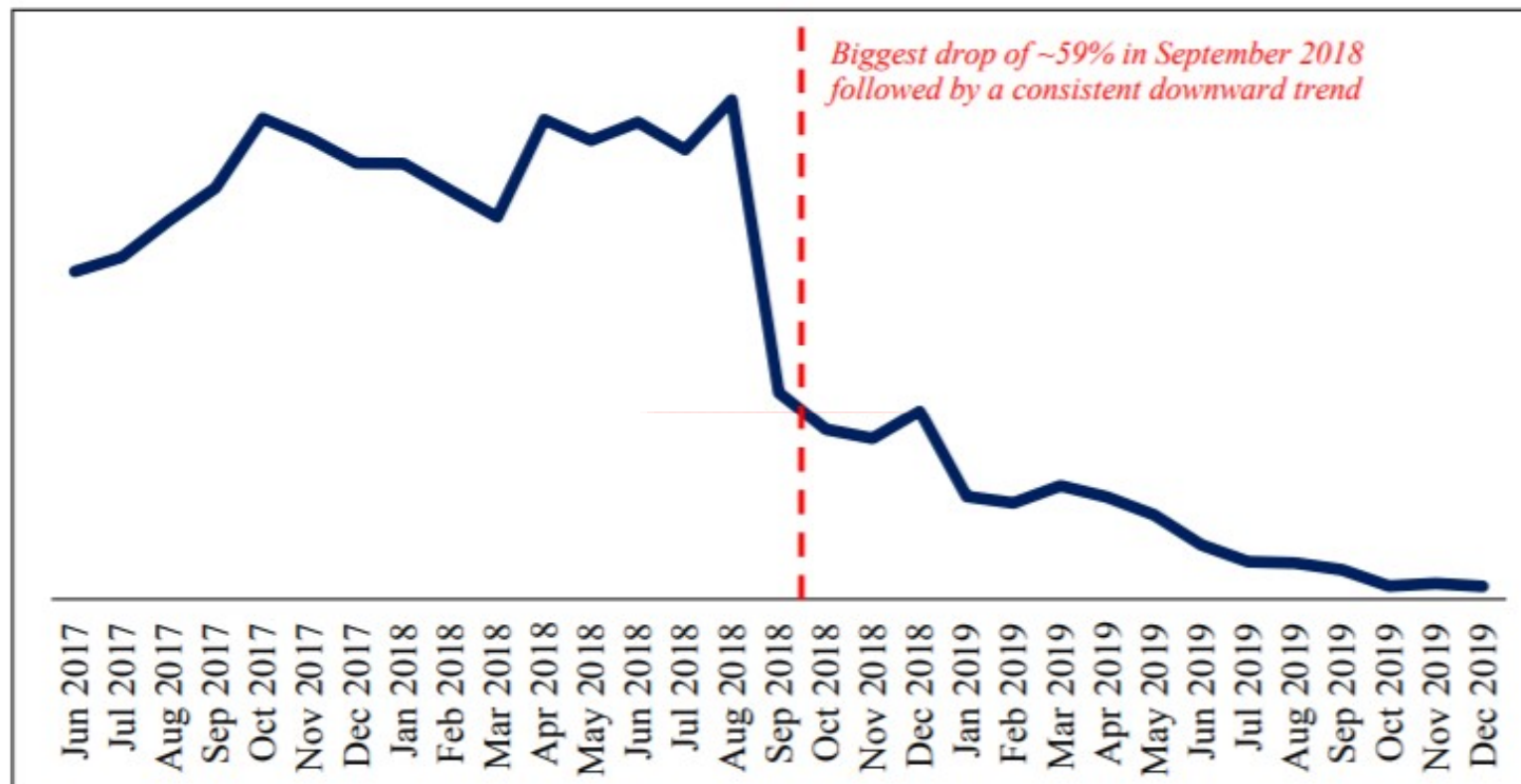
- Non-Banking Housing Finance Companies (HFCs)
- Retail Non-Banking Financial Companies (Retail-NBFCs)
 - Liquid Debt Mutual Funds (LDMFs).

**Figure 1: Net Inflows – Liquid Debt Mutual Funds (LDMFs) & Money Market Funds
(₹ Crore)**



Source: ACE-MF Database, based on a sample of prominent LDMFs

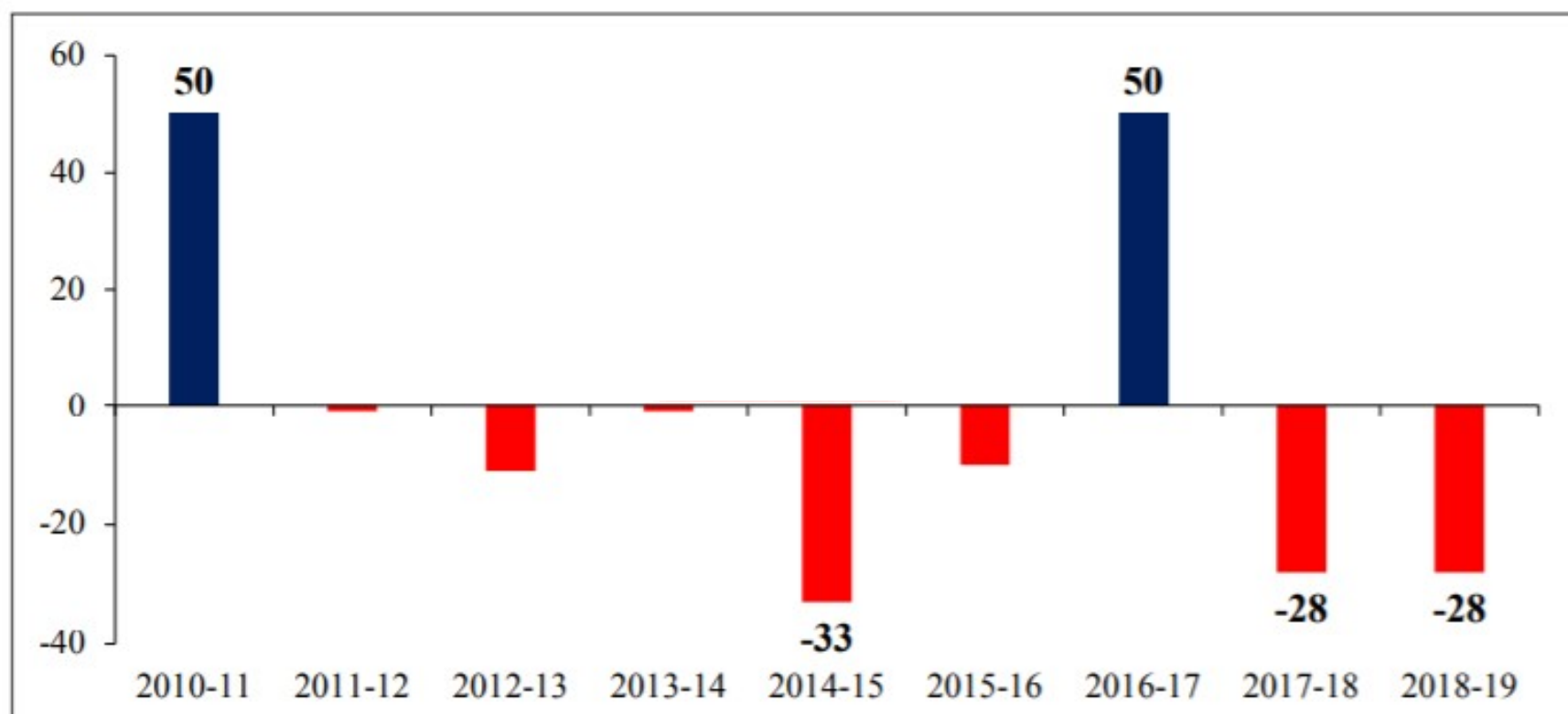
Figure 2: Trend in Equity Prices of stressed NBFC (July 2017- December 2019)



Source: Bloomberg

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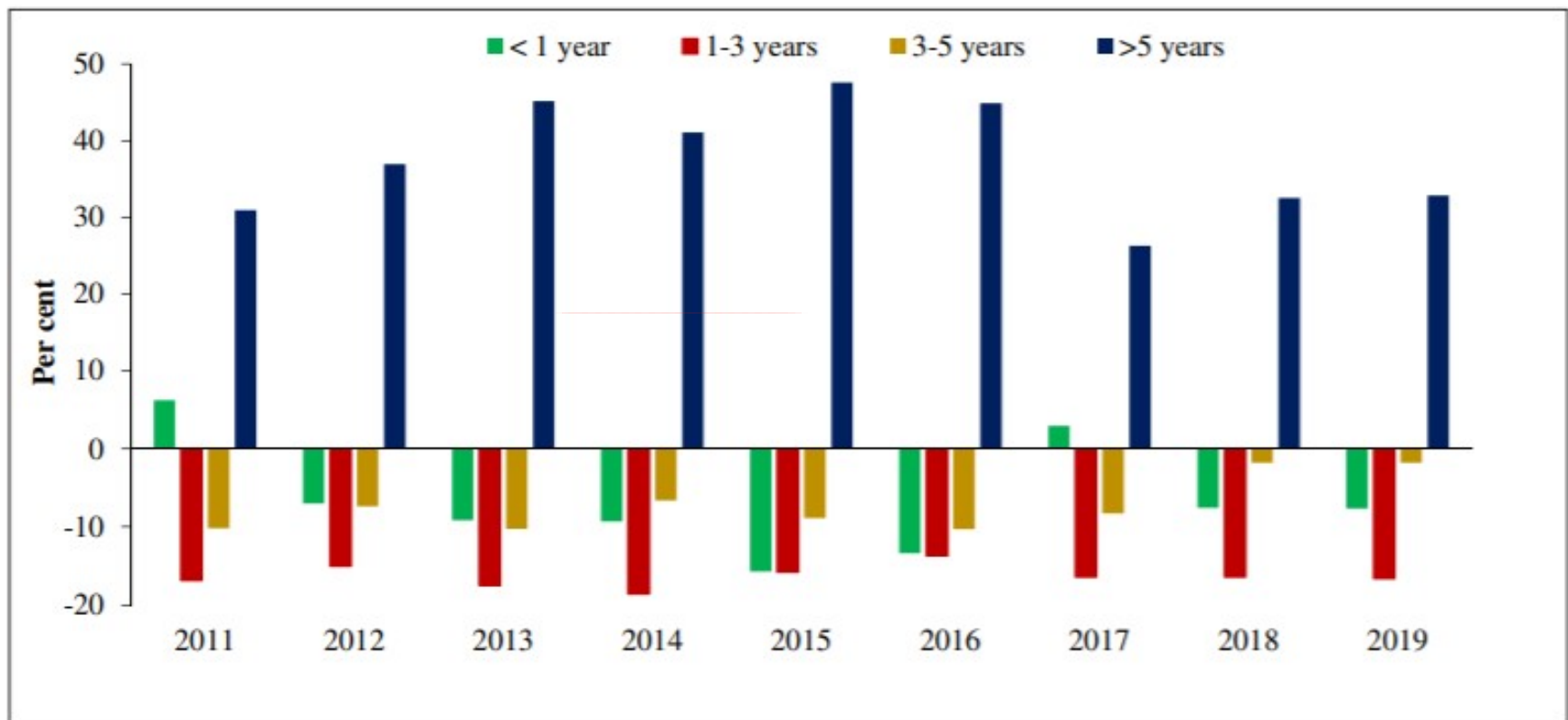
Figure 3: Health Score of a stressed NBFC



Source: Annual Reports

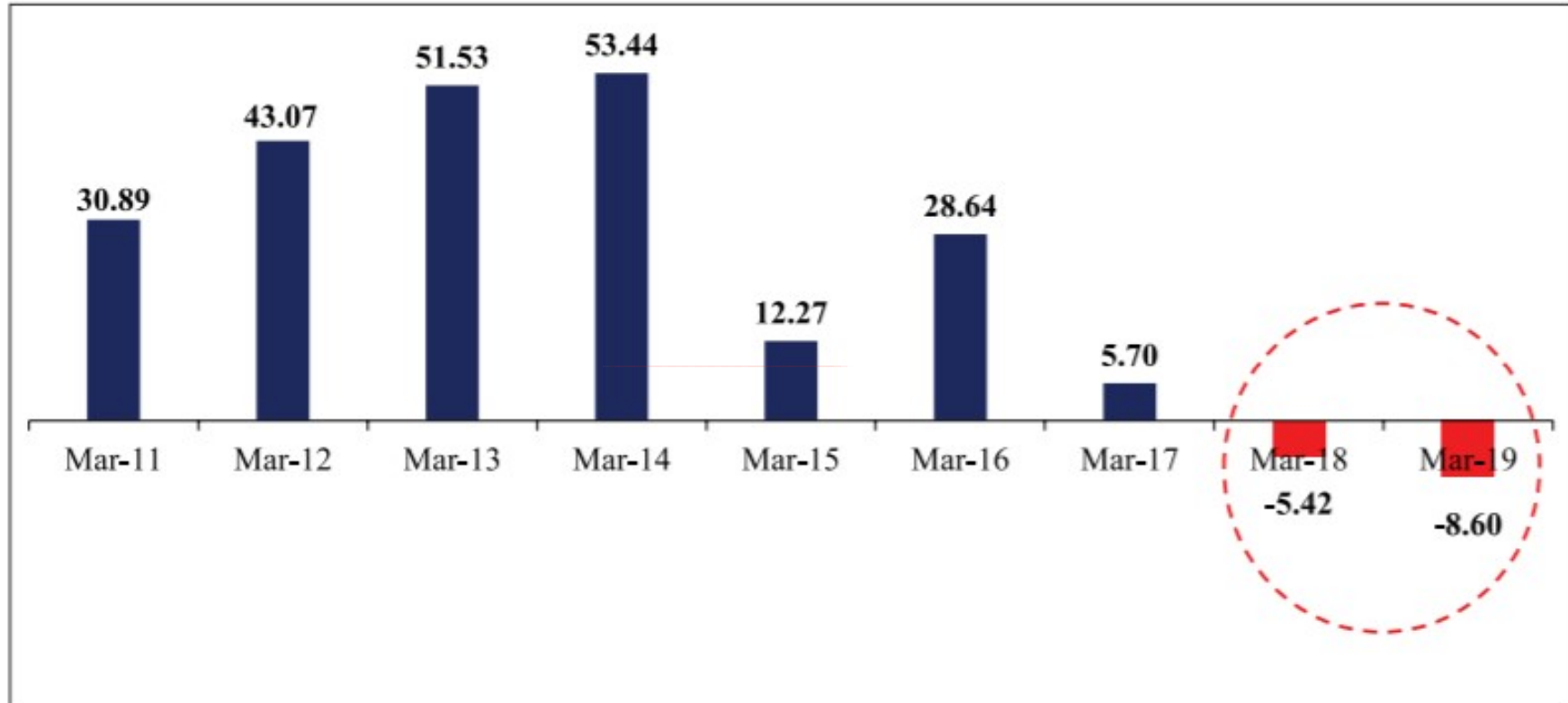
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**Figure 4: ALM Profile (Assets – Liabilities as a percentage of Total Assets)
of a stressed NBFC**



Source: Annual Reports

Figure 7: Health Score of HFC Sector

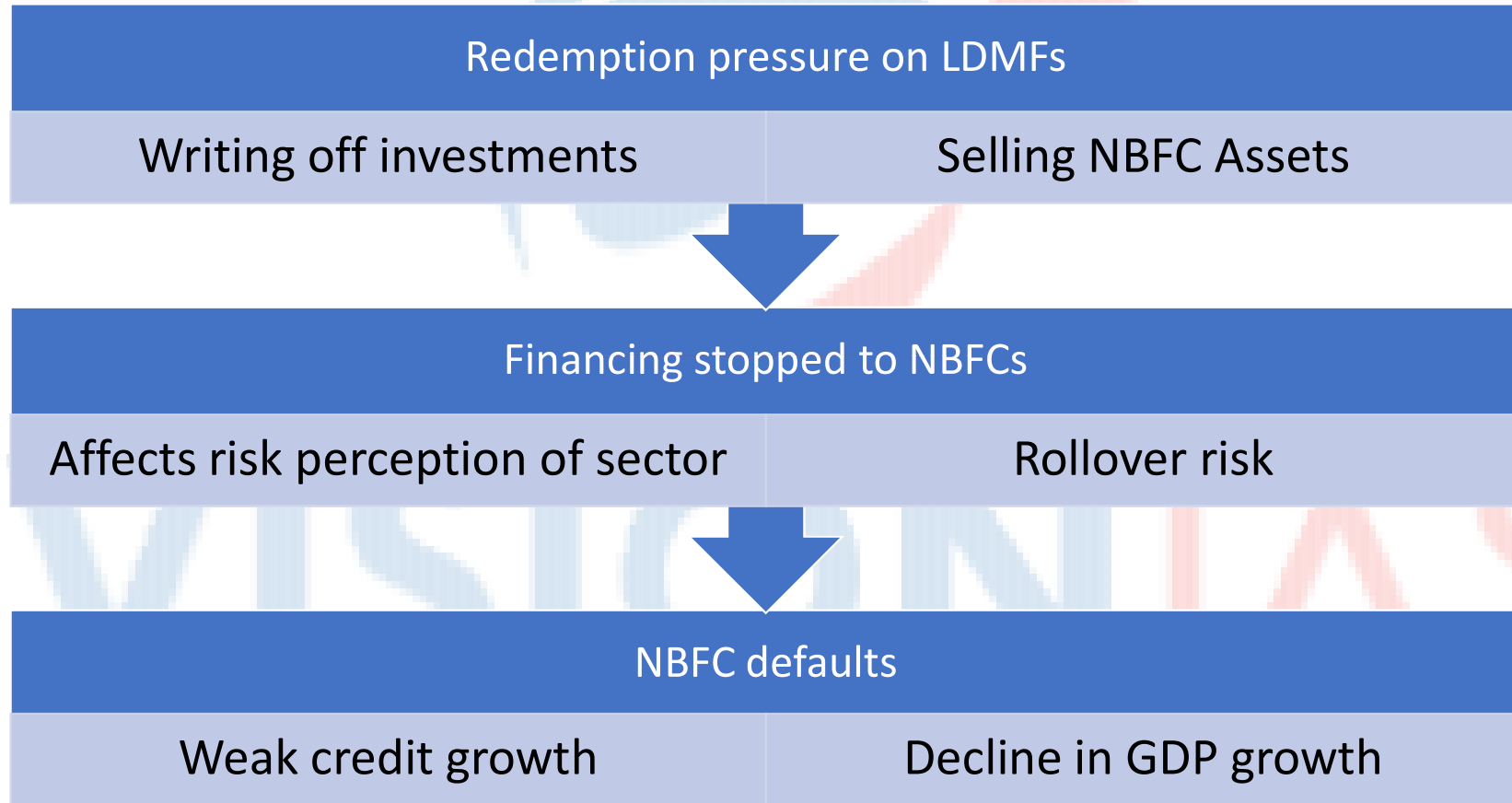


Source: Annual Reports of HFCs: 2011-2019, based on a sample of prominent HFCs

Learnings

- Redemption pressure faced by debt mutual funds is akin to a “bank run”
- The redemption pressure gives rise to refinancing risk (rollover risk) for NBFCs, thereby affecting the real sector.
- The extent of refinancing risk faced by NBFCs is fundamentally driven by their reliance on short-term wholesale funding.

NBFC Liquidity crisis



Rollover risk vulnerability

Magnitude of ALM
problem

Interconnectedness
With LDMFs

Resilience of
Balance Sheet

Root Cause: Overdependence on Short term funding

HFCs

- CP Exposure: 5-6.5%
- High ALM Risk
- Low IC Risk

SM Retail NBFCs

- CP Exposure: 11.5-12.5%
- V. High IC Risk
- Low ALM Risk

Large Retail NBFCs

- CP Exposure: 5-6.5%
- Low ALM Risk
- Low IC Risk

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Figure 14: Rollover Risk Schematic (HFCs)

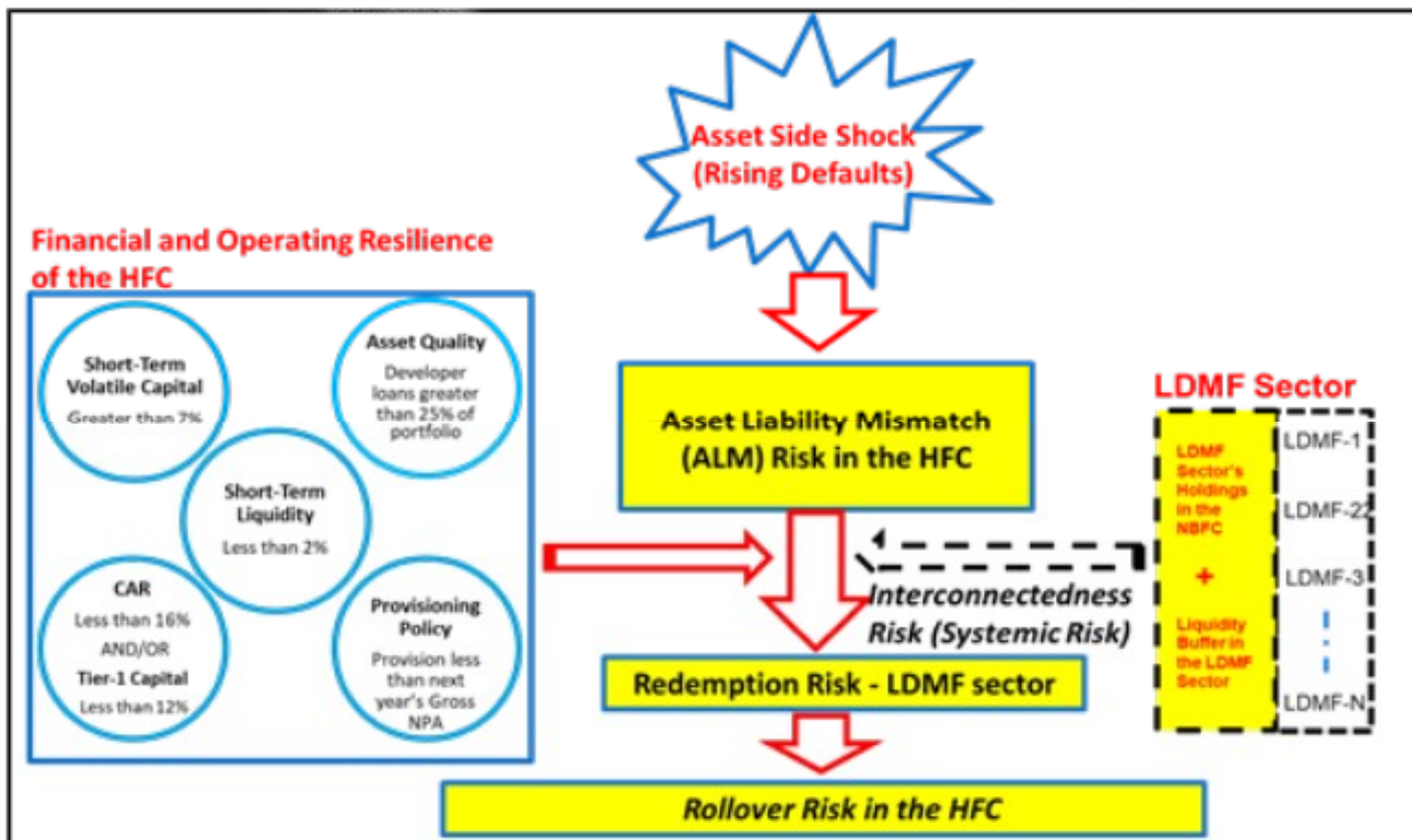
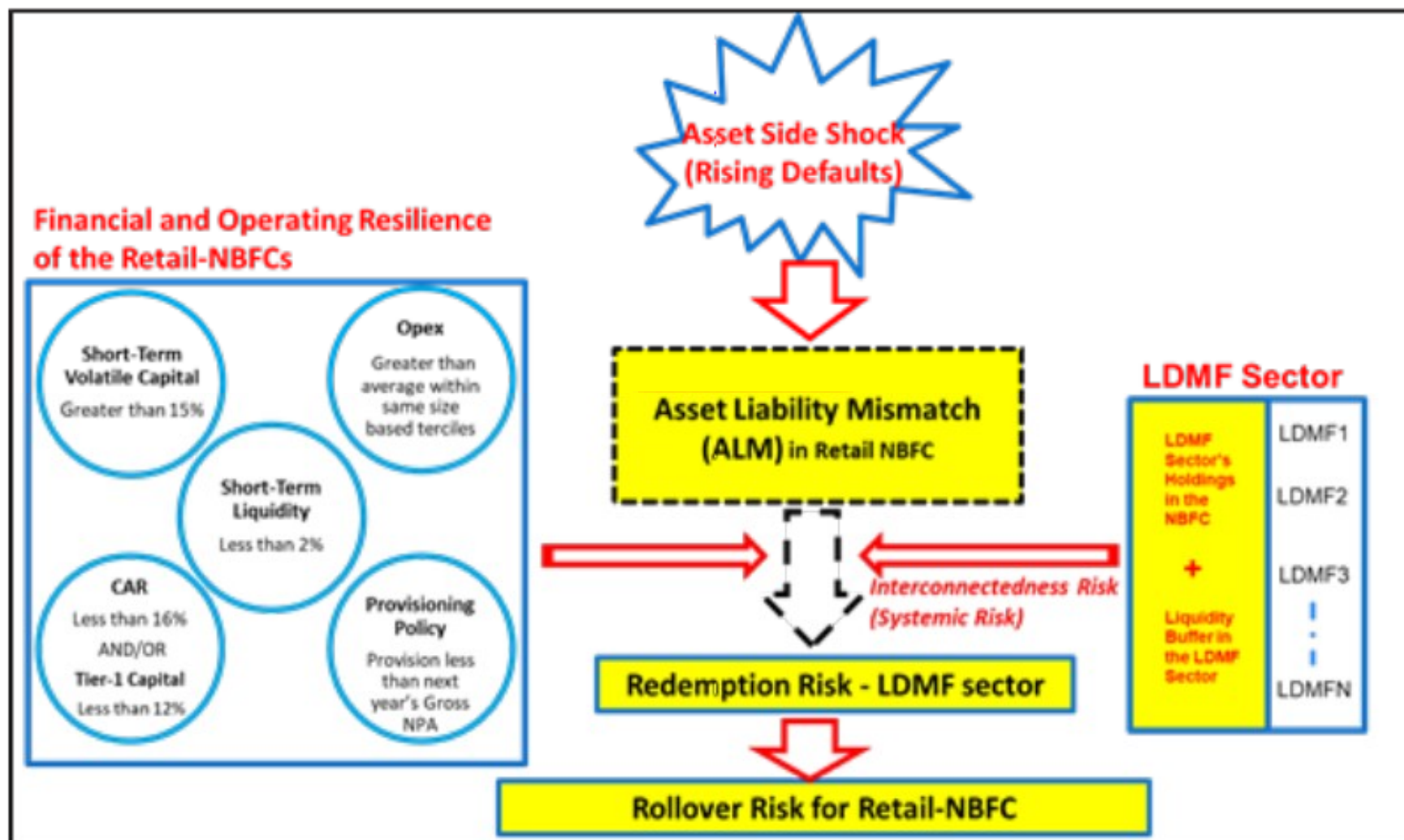


Figure 15: Rollover Risk Schematic (Retail-NBFCs)



Health Score- HFCs

- ALM Profile
- Asset quality
- Short-term liquidity
- Short-term volatile capital
- Provisioning policy
- Capital Adequacy Ratio

Health Score- R NBFCs

- LDMF exposure
- Liquidity buffers in LDMF
- Opex ratio
- Short-term liquidity
- Short-term volatile capital
- Provisioning policy
- Capital Adequacy Ratio

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POLICY IMPLICATIONS

Health score for early warning signals and as monitoring trigger

Health score as metric for optimal direction of capital infusion

Countercyclically adjusted prudential thresholds on the extent of wholesale funding

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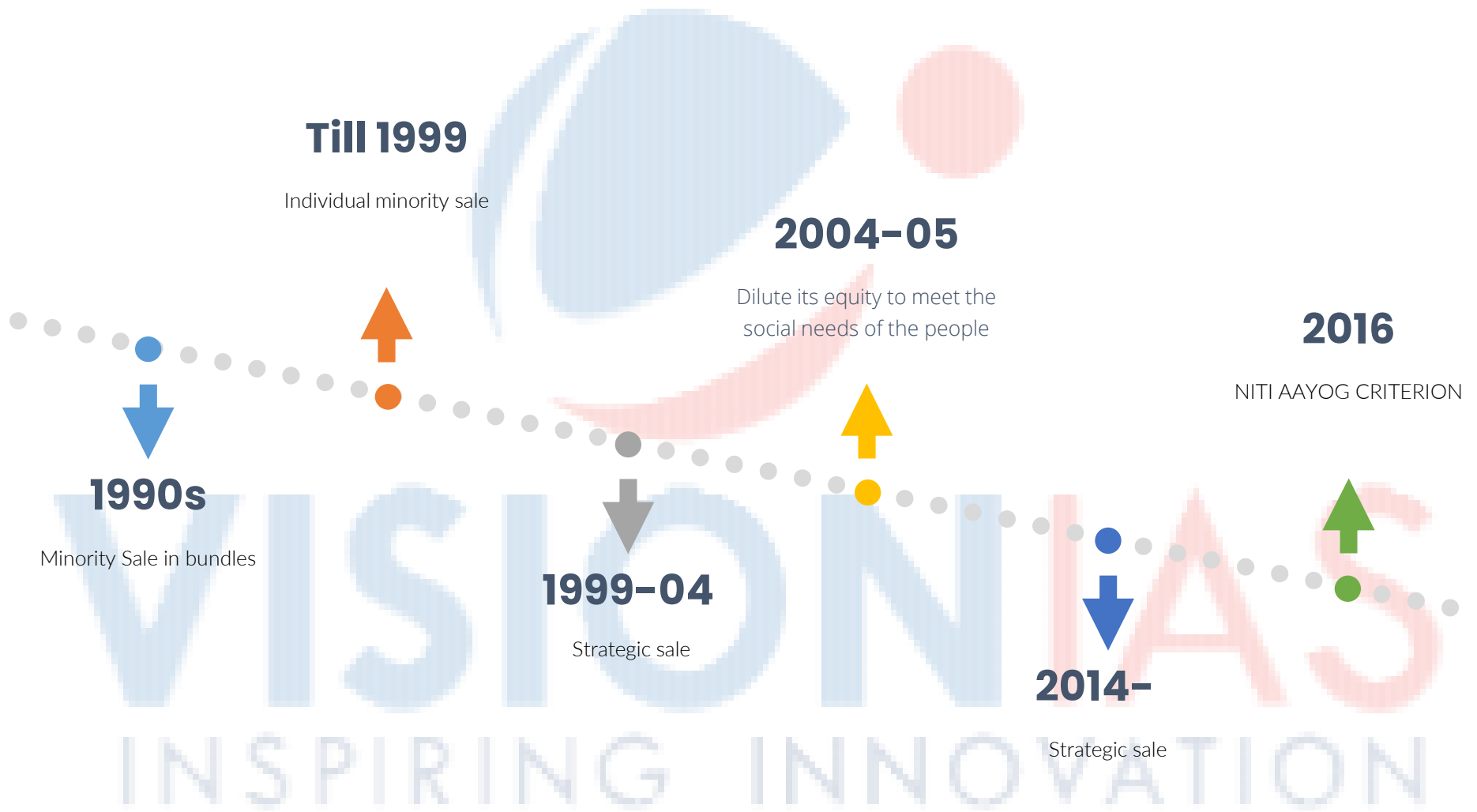
Privatization and Wealth Creation

Chapter 9 – Volume I

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Background

- About 264 CPSEs under 38 different ministries and departments.
- 13 ministries have around 10 CPSEs each under its jurisdiction.
- Many of these are profitable enterprises but do not generate the kind of returns that private firms do. 4% vs 38% during 2014-19
- As many as 57 PSUs are now listed with total market capitalisation of over Rs. 13 lakh crore
- In early 2016, CCEA had approved 28 CPSEs for disinvestment.



Disinvestment models

- Disinvestment through minority stake sale
- Listing of CPSEs to facilitate public ownership
- Strategic Disinvestment
- Buy-back of shares
- Merger and acquisitions among PSUs in the same sector
- Launch of exchange traded funds (ETFs)
- Monetization of select assets

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Analysis of past disinvestments

- **Comparative analysis of the before-after performance of 11 CPSEs that had undergone strategic disinvestment from 1999-2004**
- **Analysis affirmed that disinvestment unlocked the potential of these enterprises to create wealth**

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Disinvestment – To Unlock Value

- **Impact of the company**

- Positive effect on labour productivity & overall efficiency of PSUs [Chibber, Gupta]
- Higher {profitability, investment level, Output, dividends}, Lower leverage [Several studies]
- Improves capital allocation and economic efficiency

- **Impact on economy**

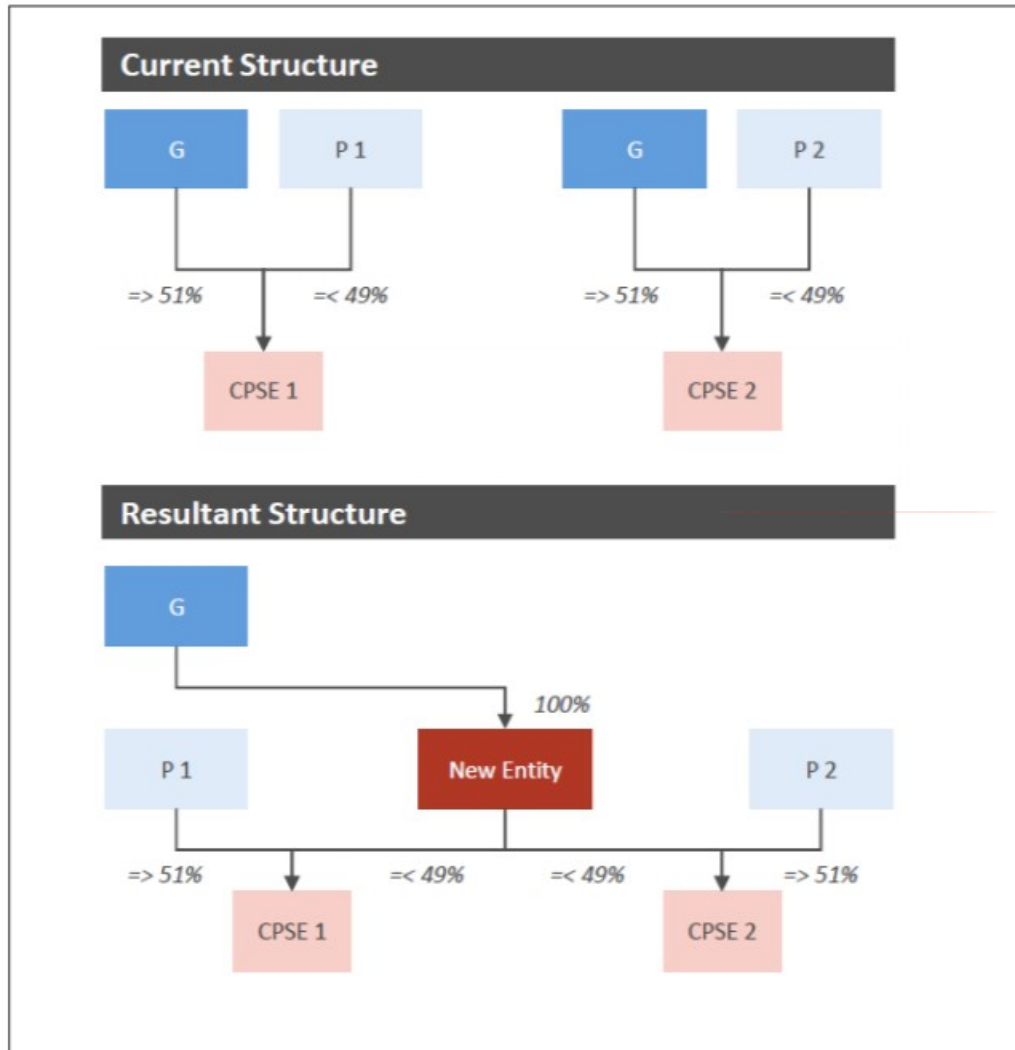
- Improves efficient allocation of public resources
- Unlocking of capital for use elsewhere
- Create wealth
- Creates Fiscal space
- Multiplier effect

Criterion for Privatization

- a) National Security
- b) Sovereign function at arm's length
- c) Market Imperfections and Public Purpose
- Profitability/loss is not among the relevant criteria

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Figure 12: Proposed Structure for Corporatization of Disinvestment



- Lend professionalism
- Autonomy
- Independent board

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GOOD LUCK
AND THANK YOU!

