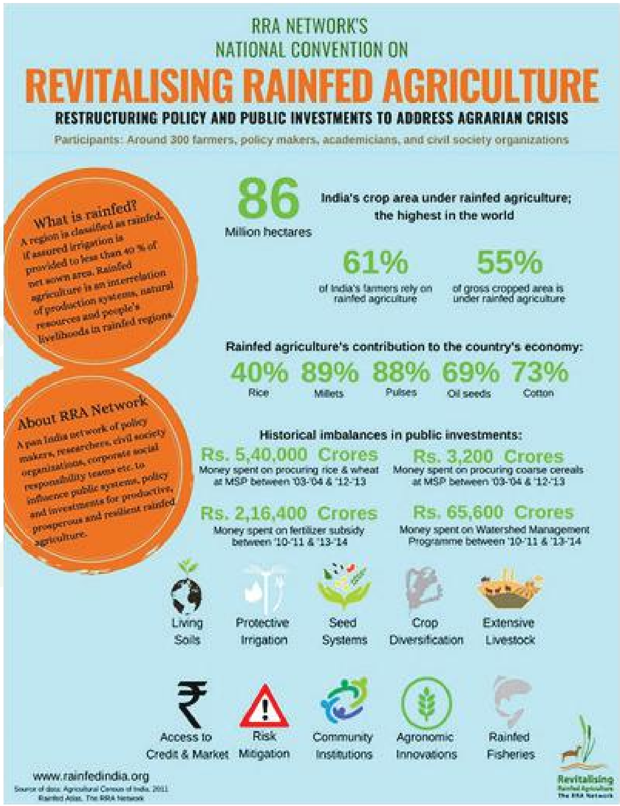
17 FEBRUARY 2019

1. Policies biased against rainfed agriculture

Three out of five farmers in India grow their crops using rainwater, instead of irrigation. However, per hectare government investment on their lands may be 20 times lower, procurement of their crops is a fraction of major irrigated land crops, and many of the flagship agriculture schemes are not tailored to benefit them.

Rainfed agriculture atlas

A new **rainfed agriculture atlas** released this week not only maps the agro biodiversity and socio-economic conditions prevailing in such areas, but also attempts to document the policy biases that are making farming unviable for many in these areas.There has been "negligence" toward rainfed areas, which is leading to lower incomes for farmers in these regions.



The farmers in such areas are receiving 40% less of their income from agriculture in comparison to those in irrigated areas.

Lands irrigated through big dams and canal networks get a per hectare investment of Rs. 5 lakh. Watershed management spending in rainfed lands is only Rs. 18,000-25,000, and the difference in yield is not proportionate to the difference in investment.

When it comes to procurement, over the decade between 2001-02 and 2011-12, the government spent Rs. 5.4 lakh crore on wheat and rice. Coarse cereals, which are grown in rainfed areas, only had Rs. 3,200 crore worth of procurement in the same period.

Flagship government schemes, such as seed and fertiliser subsidies and soil health cards, are designed for irrigated areas and simply extended to rainfed farmers without taking their needs into consideration.

'No system'

For example, many hybrid seeds notified by the government scheme need plenty of water, fertilizer and pesticides to give high yields and are thus not useful to most rainfed farmers. Commercial fertilizers will simply burn out the soil without sufficient water. The government has no system to channelise indigenous seeds or subsidise organic manure in the same way.

Solution

A more balanced approach was needed to give rainfed farmers the same research and technology focus and production support that their counterparts in irrigation areas have received over the last few decades.\

Note

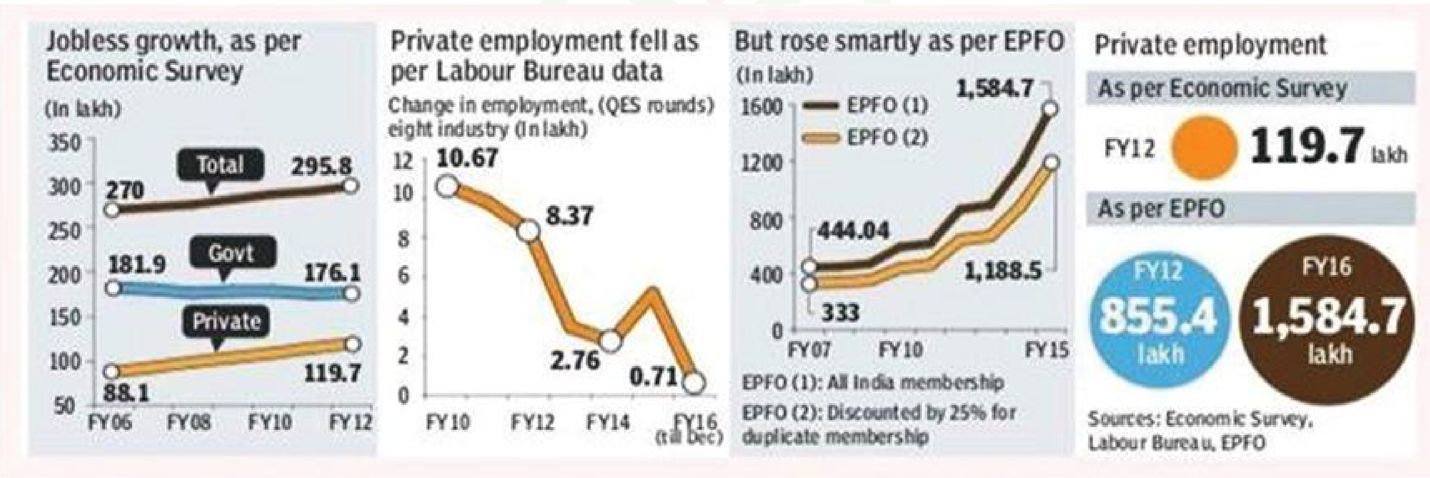
Exam Prespect:

- About Rainfed Agricultural Atlas
- Farm Subsidies
- Soil health cards
- Schemes related to Irrigation

2. Jobless growth, urban chaos have made youth restless

The "jobless growth" has slipped into "job-loss growth", which, together with rural indebtedness and urban chaos, has made the growing number of aspirational youths restless.

The domestic challenges of India's economy were daunting in their complexity and devastating in their impact on society. The "grave agrarian crisis, the declining employment opportunities, the pervasive environmental degradation, and above all the divisive forces at work" were some of the challenges facing the nation.



Suicides of farmers and frequent farmer agitations reflect the structural imbalances in our economy which call for serious in-depth analysis and political will to address them. The jobless growth slipping into job-loss growth, together with rural indebtedness and urban chaos have made the growing aspirational youths restless.

Note

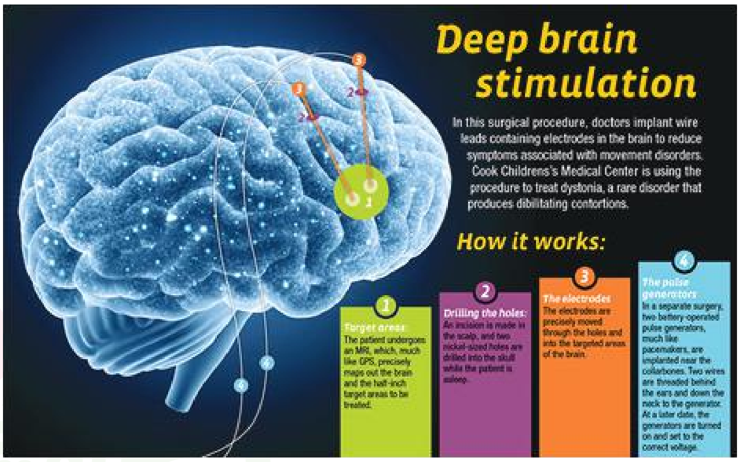
Disastrous, slipshod'

The attempts at creating additional job opportunities in the industrial sector have failed as industrial growth was not picking up fast enough. The small and unorganised sectors which were vibrant and contributing to generation of wealth and employment opportunities have grievously suffered in the wake of the "disastrous" demonetisation and "slipshod" introduction and implementation of the GST.

3. Deep brain stimulation can help treat depression

It is hard to describe what people experience when depressed. They could be aware of their illness but unable to quantify it. Yet, they can describe the feeling of wellness when they surface from the ailment.

Mental Depression



Depression is a condition in which human emotions become altered significantly, resulting in abnormalities of mood, emotional experience and expression, self-confidence and functional ability. The disorder could affect sleep, appetite and sexual function.

Around 5% of the population copes with depression and in India, an estimated 56 million people suffer whereas there are only 4,000 psychiatrists. In all cultures, more women than men suffer and as much as 28% of productive years were lost, Improved predictability

Predictability of Depressions

New technologies with enhanced imaging techniques had improved predictability in treatment offered and as much as 10% of people could become treatment resistant. For such people, deep brain stimulation, similar to that used for persons with Parkinson's disease, could provide relief.

After scanning and mapping depression, neurosurgeons use high frequency electrical stimulation and target specific areas in the brain. Surgeons implant battery-operated paired electrodes in subcallosal cingulate cortex, near the centre of the brain. The battery is replaced every few years.

To address brain and behaviour and care because community care in India, particularly people with neurological deficiencies and problem, was non-existent.

4. Inflation is tamed, but households don't think so

While many macro indicators relating to India are all over the place, one indicator that is behaving itself is the inflation rate.

After averaging 10.4% in the five years from 2009 to 2013, CPI inflation for industrial workers (the old measure of consumer price inflation) collapsed to 4.91% in the last five years. The new CPI series flagged off in 2012 shows even more heartening trends. It shows that consumer-level inflation has stayed below 4% for 12 consecutive months now, nosediving to 2% in January 2019.

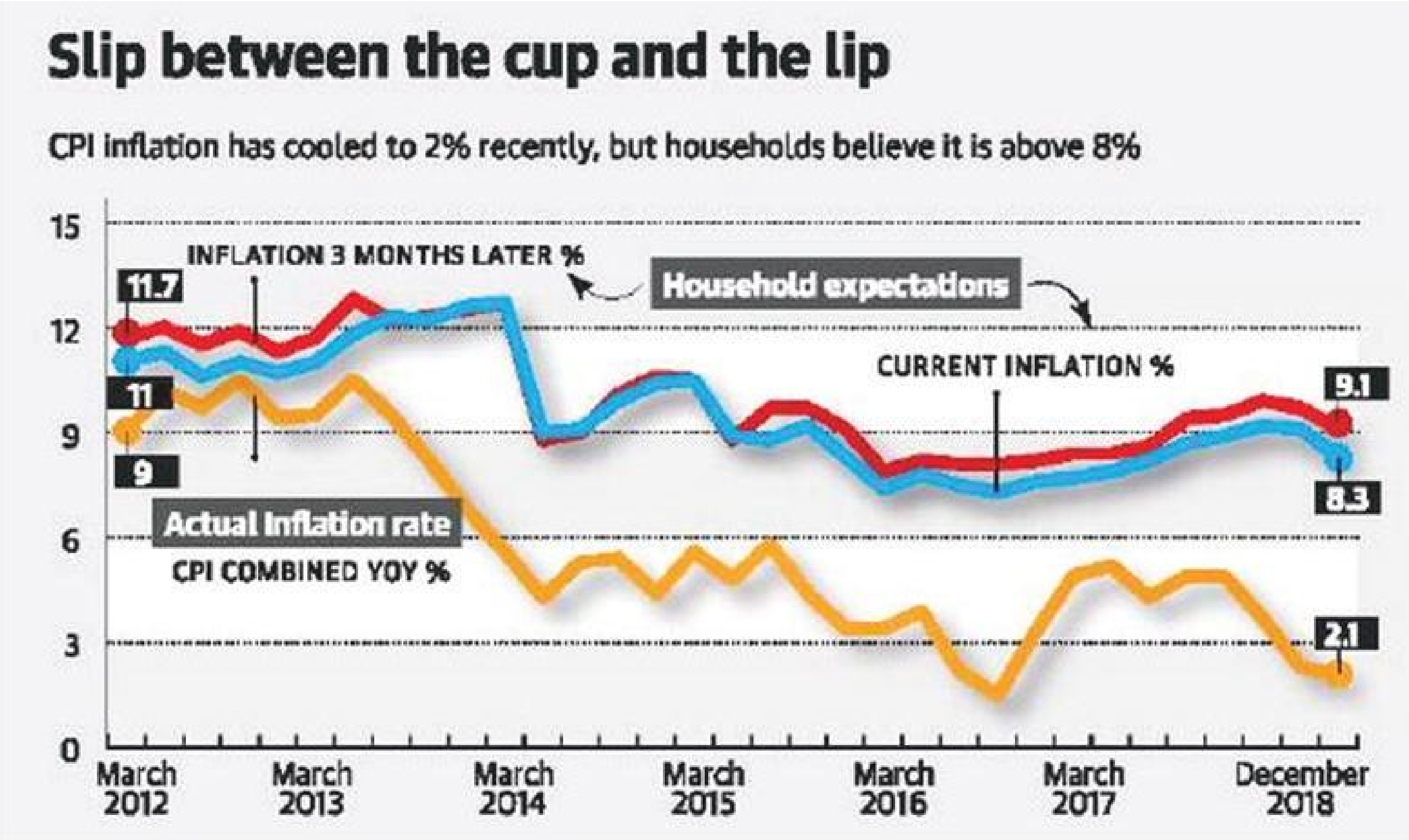
Fears moderate

Since 2005, the RBI has been conducting a statistical survey of inflation expectations of Indian households four or five times every year. It quizzes 5,800 selected respondents from 18 cities on their perception of current and future inflation rates.

Note

This survey shows that the proportion of households expecting prices to rise has been falling steadily in the last five years. The Monetary Policy Committee cited the sharp decline in household inflation expectations while cutting interest rates.

But while households seem to be aware of a receding inflation threat, their perception of current inflation rates are at wide variance with the official data.



So, when inflation was sky-high at 10%, Indian households believed it to be 12%-plus. Now, when it is at 2%, they still believe it to be at 8.3%. In effect the gap between actual inflation data and the layman's perception of it has sharply widened.

Note

Why the gap?

So why do Indian households believe that prices are rising at over 8% a year when CPI data shows nothing of the sort? Researchers within and outside the RBI, who have studied the survey over the years, have offered several explanations.

Some suggest that Indian household expectations of inflation tend to be 'adaptive.' That is, when asked about inflation rates or expectations, households base their responses on past data, instead of sticking their neck out on how prices would move in future.

But even if households base their inflation 'predictions' on past data, it isn't clear why they have remained anchored to inflation rates that prevailed a good four years ago.

Rural consumers are estimated to spend far more on food items than their urban counterparts.

Food items, which have been deflating on collapsing crop prices, carry a weight of 54% in the CPI Rural index, but only 36% in the CPI Urban index.

Spending patterns vary

A third and very likely possibility is that the actual spending patterns of Indian households now bear very little resemblance to the weights assumed in the CPI index.

Given that the current CPI series has 2012 as its base year, the weights that it assigns to different items of the household budget are based on spending patterns captured a good seven years ago.

But if it turns out that Indian households are increasingly cutting back on their food budgets to splurge on housing, health, entertainment and education, an index rejig could actually bump up the official inflation rate.

Way Forward

Overall, figuring out the reasons for the widening gap between perception and reality on consumer price inflation, is important for a government keen to convince the electorate that it has succeeded in taming the inflation monster.

5. NBFCs will retain place under the sun

After a steady growth over the past few fiscals, the trajectory of NBFCs (non-banking financial companies) and housing finance companies (HFCs) is set to change again after the latest round of liquidity challenges.

This fiscal, interest rates and borrowing costs started swinging north. This, coupled with liquidity issues faced by NBFCs in the last five months or so, have resulted in funding access challenges.

Measures by the Government of India, the Reserve Bank of India, the State Bank of India, and the National Housing Bank have for sure mitigated the stress to an extent, but it's not business as usual yet.

Cutting disbursements

In the third quarter of this fiscal, non-banks have curtailed disbursements by 20-40%, even more in the non-retail segments. Consequently, growth in assets under management (AUM) is expected to halve in the second half, and lower the entire fiscal's AUM growth to about 15%.

Annualised growth of NBFCS in the first half of this fiscal was a healthy 20%, similar to the 18% compound annual growth seen between fiscals 2014 and 2018. This was because of their inherent strengths such as excellent customer relationships, adaptability, local knowledge and innovativeness.

The share of overall financial system credit, which rose 500 basis points (bps) since March 2014 to 18% in March 2018, is unlikely to change this fiscal, despite the expected moderation in growth. Over the medium term, as access to funding improves, retail asset classes should exhibit a relatively steady growth.

Note

Intense competition

Nevertheless, competition will remain intense, especially from private sector banks and potentially from some large public sector banks, as they find their mojo back after asset quality challenges recede.

Further, wholesale lending, which has been one of the growth engines in the recent times for NBFCs, will decelerate.

This could have second-order effects on the asset quality for this book. Delinquencies could increase, given the fact that credit flow to the sector is slowing down. We also remain watchful of the asset quality in small and medium enterprises financing, especially the loans against property (LAP) segment. That is because of the sensitivity of borrowers to prolonged funding crunch.

Since 2015, stress in LAP has been coming to the fore. With seasoning of the portfolios and reduction in balance transfer cases, non-performing assets (NPAs) in LAP are expected to rise further and cross 3% in the medium term.

However, quality in the traditional retail asset classes such as vehicle finance and home loans is unlikely to be impacted much, given the granularity of loan books.

So where are the major shifts due to occur?

1. There will be a structural shift in the liquidity and liability management of NBFCs. The quantum and quality of liquidity cushion would become a key differentiator, going ahead.

Low interest rates between fiscals 2015 and 2018 led to higher capital market borrowings, especially short-term, by NBFCs.

This led to a mismatch in asset-liability maturity profiles for entities with longer-term assets. While most NBFCs had maintained adequate bank lines for these, access in a timely manner became challenging, putting the spotlight on cash and equivalents in balance sheets. Diversification in bank lines and ensuring steady access to sanctioned bank lines will also be a focus area.

2. NBFCs are expected to re-orient their resource profile by reducing reliance on short-term borrowings.

3.while their funding requirement will remain high, commercial banks, saddled with their own issues (both in terms of capital and Prompt Corrective Action framework stipulations), are unlikely to immediately fill the void.

In such a scenario, retail bonds offer an attractive option, but are costlier.

Securitisation

Securitisation has clearly emerged a preferred source of funding of late, with volumes in the first nine months of the current fiscal well exceeding that for the entire last fiscal.

Overall, sound liquidity policies will help build resilience to short-term liquidity shocks, and structurally strengthen the sector.

Amid all this, it's important to note that NBFCs have navigated a few cycles of stress over the past two decades.

While these have caused short-term pain, they have also spawned structural changes after periods of adjustment which have made the sector stronger.

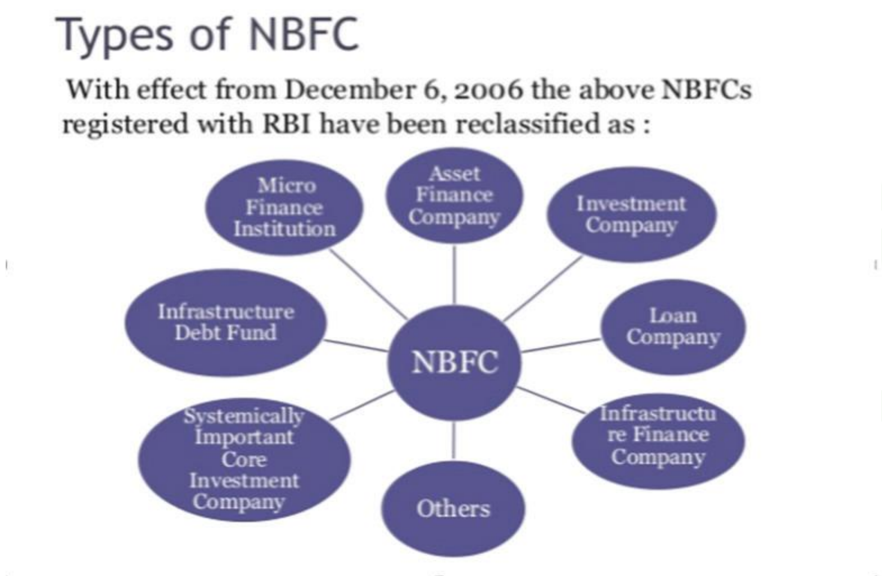
That cycle should repeat yet again, and NBFCs, after a period of adjustment, are expected to continue their key role in the Indian financial system.

Note

Exam Prespect:

Difference between NBFC and Banks

NBFCs	Bank
NBFC is incorporated under Companies Act, 2013.	Banks are incorporated under Banking Regulation Act, 1949.
NBFC cannot collect deposits	Banks can collect Deposits
NBFC cannot issue checks drawn on itself	Banks can issue cheques drawn on itself.
NBFC cannot issue Demand Drafts like banks	Banks can issue Demand Drafts
NBFCs cannot provide facility of Deposit Insurance and Credit Guarantee Corporation to depositors of NBFCs.	Banks can provide for deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation to depositors of Banks.



6. Scientists discover massive mountains under Earth's crust

Scientists have discovered massive mountains in the Earth's mantle, an advance that may change our understanding of how the planet was formed. Most school children learn that the Earth has three layers: a crust, mantle and core, which is subdivided into an inner and outer core.

While that is not wrong, it does leave out several other layers that scientists have identified within the Earth.

Earthquake data

Data from an enormous earthquake in Bolivia to find mountains and other topography on a layer located 660 km straight down, which separates the upper and lower mantle.

Lacking a formal name for this layer, the researchers simply call it "the 660-km boundary."

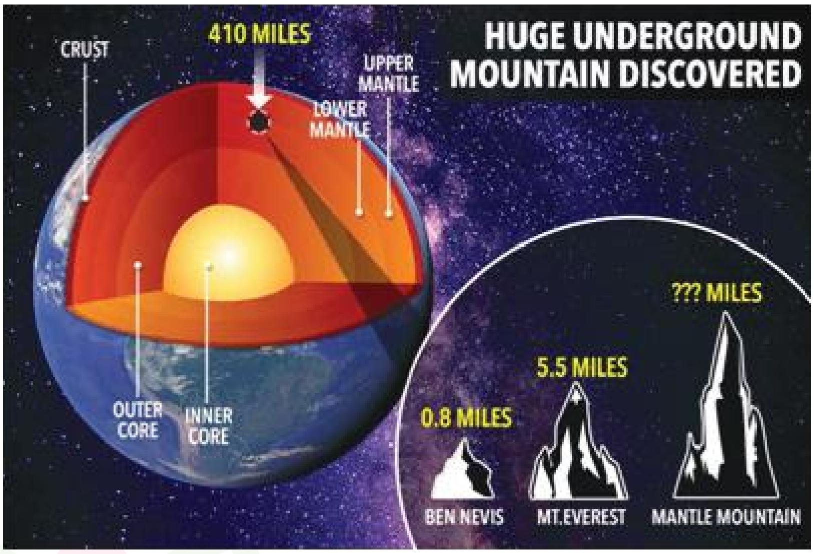
To peer deep into the Earth, scientists used the most powerful waves on the planet, which are generated by massive earthquakes.

Note

Data from earthquakes that are magnitude 7.0 or higher send out shockwaves in all directions that can travel through the core to the other side of the planet — and back again.

For this study, the key data came from waves picked up after a magnitude 8.2 earthquake — the second-largest deep earthquake ever recorded — that shook Bolivia in 1994.

A layer 410 km down, at the top of the mid-mantle "transition zone," and they did not find similar roughness. The presence of roughness on the 660-km boundary has significant implications for understanding how our planet formed and evolved.



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