SENSEX Revisiting Risk-Reward *P16* | **EUROZONE** Facing A Japanese-style Deflation? *P33* | **REFORMING EDUCATION** Looking Beyond *P36* | **CHINA** Bouncing Back! *P45*

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THE GLOBAL ANALYST

July 2014 A BUSINESS & FINANCE MONTHLY Rs.100

INDIA

Growth Vs. Inflation Conundrum

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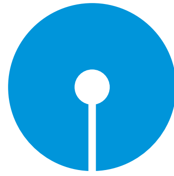

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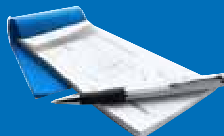

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EDITORIAL

Budget Time, Expectations Time!

As the initial euphoria over the historic win of the NDA government dies down, it's time now to move on and start thinking about putting the economy back on track. There is hardly any doubt that these are trying times for the Indian economy, going by the past economic data including the GDP numbers for the recent few quarters. Though the stock markets are in buoyancy mode with benchmark indices such as Sensex and Nifty crossing one milestone after another, which has enthused many to even forecast Sensex to reach the milestone of 1-lakh mark in near future! However, this could be more because of over enthusiasm of some die-hard optimist investors. But the fact of the matter is that it would take several years of hard work and a series of bold reforms to make the economy grow again at 8-9 per cent. A number of issues have derailed the economic growth in the past which got only worsened with the policy paralysis and policy flip-flops in the past.

There is a need to revive manufacturing, first, which, in turn, would help revive the job market. Despite several ambitious talks of how to make India a manufacturing hub and compete with China, the so-called world's workshop, the country remains an also-ran when it comes to competing in the global manufacturing arena. Global manufacturing giants are yet to make a beeline for India, due to policy constraints and several other issues.

These needs to be addressed at the earliest and the policymakers must come out with a blueprint which could really make India a strong contender for the world's leading manufacturing destination. It's also important at the same time to revive the services sector which has played a key role in the growth of the economy over the past several years. Indian corporates have already proved their mettle on the global firmament, and the government must come out with effective policy measures that help Indian companies strengthen their global footprints even further.

And as the budget day is approaching fast, any discussion at this juncture would be incomplete in absence of a discussion over tax reforms. The government must also look at introducing radical tax reforms which not only provide the much needed relief to the aam aadmi, who has been reeling under high inflation for the past several years, but also to help the corporate sector, which in turn could boost investments in new projects, help create new jobs and give a kick-start to the domestic economy.

Let us hope that the forthcoming budget does not disappoint the common man, and also the corporates.

- Managing Editor

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Published & Edited by D Nagavender Rao

We need skills, scale and speed if we have to think of competing with China. India needs skills to be able to reap the power of its demographic dividend, We need skilled manpower in this country. We should be in a position where India can export teachers, nurses and skilled professionals to the world.

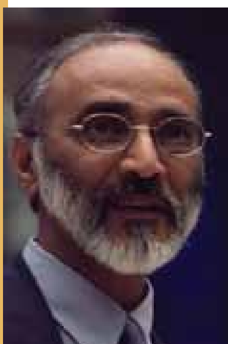
- Narendra Modi, Prime Minister

Strengthening the public sector banks include merger of some weaker banks with stronger banks to create a few bigger banks. Some of the specific banks are in worst shape where the non-performing assets and restructured assets banks exceed 15 per cent. There the government could take the opportunity to consolidate the banking system by merging some of the weaker banks with stronger banks. What we want is creation of a few larger banks through consolidation and the current weakness of certain banks provide a good opportunity to do that.

- Arvind Panagariya, Professor of Economics, Columbia University

The new government should liberalise domestic savings, by which I mean that domestic savings should be channelized to real investments. Part of that is obviously investments in infrastructure and improvement in transport and energy sectors. The government should liberalise to attract foreign investments. In addition to that there should be focus on encouraging Indian companies to invest in India rather than overseas.

- Robert Parker, Senior Advisor, Credit Suisse



Unrelenting inflation is a key challenge to the new government. Fiscal and monetary measures are, no doubt, the main instruments for combating inflation, but there is role for trade policy as well. The annual inflation in consumer prices, which had moderated to 8.03 per cent in February 2014, accelerated to 8.59 per cent in April 2014. In the medium-to-long term, India will have to invest more in raising agri-products productivity and building efficient value chains at home. - **Ashok Gulati, Professor, ICRIER**

There is no longer any reason to let the zero bound on nominal interest rates continue to hamper monetary policy. A simple and elegant solution is to phase in a switchover to a fully electronic currency, where paying interest, positive or negative, requires only the push of a button. And with paper money – particularly large-denomination notes – arguably doing more harm than good, currency modernization is long overdue. Using an electronic currency, central banks could continue to stabilize inflation exactly as they do now.

- Kenneth Rogoff, Professor of Economics and Public Policy, Harvard University

Inequality presents a major risk to human progress and carries a high economic price tag. A "fragmented" education system, tax laws and corporate governance are some of the key causes of the problem in the United States – one of the societies that scores worst on this measure in the developed world.

- wwNobel Prize-winning economist Professor

Prime Minister Narendra Modi's task at hand has got tougher. Now, add weak monsoon to the list of other economic challenges he faces: Worst slowdown in decades, high level of inflation, high interest rates, weak manufacturing growth and poor infrastructure, among others. Indian economic growth could see a 0.50-0.75 per cent hit from weak monsoon. India's economy is expected to grow at 5.4 per cent this fiscal.

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Having witnessed a spiraling inflation curve and sliding growth in the backdrop of global and domestic slowdown, the Indian economy is now changing its course for yet another growth run post handing over a thumping electoral mandate for development and growth.

In all likelihood, the new Modi government is expected to usher in reforms to set back on track the growth trajectory and bring back the lost traction the country's economy set itself on a few years ago. The task is challenging enough with an ensuing tug of war as always between the growth-oriented politicos and stability demanding central bankers and it would be interesting to see who has the last laugh in the coming years.

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10 Agenda for Union Budget
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12 SEEMANDHRA - Key Development Clusters
The new Andhra Pradesh has immense potential for development due to its geographical location. It has the second largest coast line after Gujarat, and the state has five sea ports. It also has four airports, which significantly enhance the air connectivity of the cities.

APOLITICAL

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The Passenger fare hike is a bold decision by the NDA government that remained a work-in-progress by itself in its previous innings from 1998-2004. While the communists have already taken to the roads against the Railways decision (pun intended), the truth must be told.

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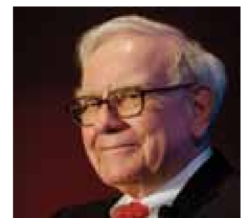

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A good starting point to gauge investment performance is to compare your results against a simple buy and hold portfolio.

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When markets run too fast ahead of their fundamentals, it may be wise to understand the risk side of the game. This is not to say that market momentum will lose its steam. It may go on for some more time before it winds up to the fundamentals.

20 BSE SENSEX @ 100,000 - A Reality Check

The Global ANALYST spoke to Sudip Bandyopadhyay, President, Destimoney Securities, (Mumbai) to find about what he feels of the current surge in benchmark indices like Sensex and Nifty, how sustainable is the present rally, sectors that could do well, going ahead, and the policy-measures that are required to revive domestic demand and put the economy back on track of fast growth etc.

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Self-regulated learning is recognized as an important predictor of student academic motivation and achievement. It requires students to independently plan, monitor, and assess their learning. However, few students naturally do this well.

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33 Eurozone - The Coming Threat of a Japanese-style Deflation

David Wyss, former Chief Economist, Standard & Poor's, New York, US & Adjunct Professor, Brown University shares his views with The Global ANALYST about Eurozone debt crisis, the coming threat of a Japanese-style deflation, what is it that's ailing the financial system of these nations and how could policy makers avoid getting into the deflation trap?

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34 Folks Motor Corporation

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36 Reforming Indian Higher Education - Looking Beyond

Indian higher education system is going through a major crisis. Reforming education system is a complex issue and needs a greater degree of understanding and public debate.

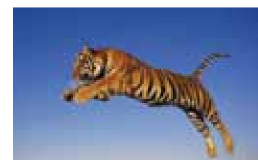
BANKING / BUSINESS ENVIRONMENT

40 Banking - Rethinking Fiscal and Monetary Policies

A Recent few months have witnessed debates in both the print and electronic media on the role of central bank's policy intervention in promoting economic growth in India. These were at times part of criticism against Reserve Bank of India, sometimes part of articles supported by deep analysis of various components of economic growth indicators and more often formed part of discussions by economists and politicians with diverse academic backgrounds and political convictions.

50 India - Fundamental's Remain Strong

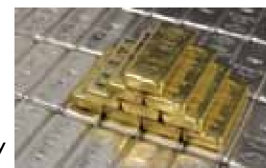
Not so long ago, the Indian economy showed consistent upward growth trajectory, which made it the second fastest-growing economy in the world. However, since the start of the global financial crisis (GFC), India's economic growth has been affected by reduced foreign inflows and lower exports.



INTERNATIONAL

45 China - Back on Growth Track?

Chinese government is trying to stimulate growth by investing in their railways, spending on public housing, starting large water projects, encouraging lending to small businesses. But will all these put economy back on growth tract. So the problem is solved? Will China resume rapid growth? Not really!



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52 Mendacity is a System of Lies

Both gold and silver have seen some excitement in the recent times. By end of 2014, it's expected that the market will stop worrying about gold and silver trending toward their lows of 2008, and instead will begin wondering when the highs of 2011 will be taken out!

REGULARS

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ROADMAP FOR RESTRUCTURING COAL SECTOR

The merging of ministries for power, coal and new & renewable energy is a good beginning but still falls short of an all-encompassing Ministry of Energy that could include oil and natural gas as well. This is necessary in view of the need to look at the comprehensive energy policy, energy security challenges and planning to meet the needs of our growing economy. While that may be essential and critical, but need to restructure coal industry is both and also urgent so that power sector may meet the expectation of electricity generation and supplies, says *Dipesh Dipu, Associate Professor, Centre for Energy and Infrastructure Development, Administrative Staff College of India (ASCI), Hyderabad.*

Dipesh Dipu

The immediate priority for the Government of India should be to ensure that coal supplies are enhanced from domestic production and that the investment environment in power sector improves. The roadmap for opening of coal sector for greater private and foreign participation needs to be drawn, which may include de-nationalization and also creating independent subsidiaries out of Coal India Limited monolith.

The coal blocks allocated to government-owned companies and private sector companies from the approved end-users of power generation, cement and steel sectors haven't met the expectations of production, which is around 37 million tonnes per annum. More than a quarter of the allocated coal blocks have been de-allocated and several more have been served notices for explanations for delays in project development. The controversies in these allocations notwithstanding, the performance of these coal blocks in itself indicates the failure of captive mining policy. End user companies with no experience and no expertise are not the best candidates for allocation in any case since most of them in turn resort to hiring contract miners for development and operations of these mines.

Given this, the best way forward will be to remove the entry barriers to coal mining and auction the coal blocks through transparent and objective process to independent miners or end users if they desire. Increasing the number of suppliers in the market will not only improve supplies but also make pricing transparent and market driven. It is time that the pending Coal Mines Nationalization Amendment Bill of 2000 enacted.

The other mechanism for enhancing competition in coal sector that has been mooted is to split Coal India Limited into independent companies. The newspapers report that CIL unions may not resist such a move. However, looking at the fact that the subsidiaries are still monopolies in their geographies and these subsidiaries were created based on coalfields, and also that these may still be controlled by the Ministry, the mechanism of competition may not help. It is also noteworthy that marketing function of Coal India Limited and its subsidiaries are restricted and coal linkages are provided by Standing Linkage Committee, which is a multi-ministerial and multi-stakeholder body constitute by the Ministry of Coal. Under these circumstances, competitive forces in the proposed liberated subsidiaries will still be dormant and negligible. To make splitting of CIL effective, it needs to be supplemented with large scale stake sale of each of these subsidiaries; mostly to the public should outright privatization be politically unpalatable. Government may still be in control but large floating public shareholding will enhance accountability of the Boards of Directors and help competition.

Through the transition of coal sector from the current state to market oriented with private and foreign participation state, the Coal Regulator may play a crucial role. The framework for the regulator is already in place but needs to be strengthened in scope.

Short term challenges of the domestic supply of coal will persist since the projects that CIL has planned may need quicker permissions and development of infrastructure for coal evacuation. But with strategic roadmap laid for the turnaround of the sector will pave the way for reducing import dependence and create a vibrant domestic market.

(Views are personal.)

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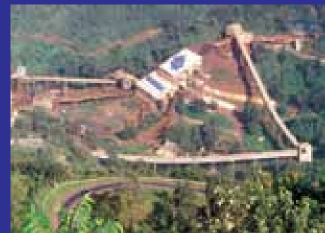

NMDC

UP **10%** Production

Year on Year

UP **16%** Sales

Year on Year

PART - I (Rs. in Crore)

STATEMENT OF AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31/03/2014

Particulars	Stand alone					Consolidated	
	Three months ended			Year to date		Year to date	
	31-Mar-14	31-Dec-13	31-Mar-13	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
	Audited	Un-Audited	Audited	Audited	Audited	Audited	Audited
1. Income from operations							
(a) Net Sales/income from operations (net of excise duty)	3,883.52	2,821.53	3,202.10	12,052.29	10,698.67	12,052.29	10,698.67
(b) Other operating income	0.97	1.64	2.15	5.91	5.60	5.91	5.60
Total Income from operations (net)	**3,884.49**	**2,823.17**	**3,204.25**	**12,058.20**	**10,704.27**	**12,058.20**	**10,704.27**
2. Expenses							
(a) Consumption of raw materials	5.85	8.78	7.62	26.50	30.94	26.50	30.94
(b) Consumption of Stores & spares	138.88	83.28	100.49	346.31	257.99	346.31	257.99
(c) Changes in inventories of finished goods and work-in-progress	-80.32	-5.82	-73.07	-14.27	-184.33	-14.27	-184.33
(d) Employee Benefit Expense	255.85	157.35	161.46	706.20	579.92	706.35	580.06
(e) Royalty & Cess	328.87	225.55	303.51	960.43	952.43	960.53	952.53
(f) Selling Exps incl. Freight out	446.73	243.17	392.86	1347.41	818.00	1347.41	818.00
(g) Depreciation and Amortisation	43.10	36.17	38.68	150.41	138.52	150.65	138.77
(h) Other Expenses	318.92	208.05	561.58	914.16	871.35	915.26	874.58
Total Expenses	1,457.88	956.53	1,493.13	4,437.15	3,464.82	4,438.74	3,468.54
3. Profit from operations before Other income, finance cost & exceptional items (1-2):	2,426.61	1,866.64	1,711.12	7,621.05	7,239.45	7,619.46	7,235.73
4. Other income	527.54	507.70	547.39	2,094.52	2,238.87	2,089.11	2,238.98
5. Profit from ordinary activities before finance costs and exceptional items (3+4):	2,954.15	2,374.34	2,258.51	9,715.57	9,478.32	9,708.57	9,474.71
6. Finance cost	1.85	0.00	13.20	1.85	13.20	1.85	13.20
7. Profit from ordinary activities after finance costs but before exceptional items (5-6):	2,952.30	2,374.34	2,245.31	9,713.72	9,465.12	9,706.72	9,461.51
8. Exceptional items	-45.48	0.00	0.00	-45.48	0.00	-45.48	0.00
9. Profit from ordinary activities before Tax (7-8)	**2,997.78**	**2,374.34**	**2,245.31**	**9,759.20**	**9,465.12**	**9,752.20**	**9,461.51**
10. Tax expense	1,035.64	807.04	780.36	3,339.12	3,122.75	3,339.12	3,122.74
11. Net Profit from ordinary activities after tax (9-10):	1,962.14	1,567.30	1,464.95	6,420.08	6,342.37	6,413.08	6,338.77
12. Extraordinary items (net of tax expense)	-	-	-	-	-	-	-
13. Net Profit for the period (11-12):	**1,962.14**	**1,567.30**	**1,464.95**	**6,420.08**	**6,342.37**	**6,413.08**	**6,338.77**
14. Share of loss of Associates	-	-	-	-	-	-42.09	-5.02
15. Minority interest	-	-	-	-	-	-0.01	-0.01
16. Net Profit/(Loss) after taxes, minority interest and share of profit/loss of associates (13-14-15)	-	-	-	-	-	6,370.98	6,333.74
17. Paid-up Equity Share Capital:	396.47	396.47	396.47	396.47	396.47	396.47	396.47
Face value per share	Re.1/-	Re.1/-	Re.1/-	Re.1/-	Re.1/-	Re.1/-	Re.1/-
18. Reserves excluding revaluation reserves	-	-	-	29,591.83	27,114.49	29,550.36	27,122.12
19. i & ii EPS for the period (Rs) - Basic and diluted before and after extraordinary items	4.95	3.95	3.69	16.19	16.00	16.07	15.98
	(Not Annualised)			(Annualised)		(Annualised)	

PART - II

SELECT INFORMATION FOR THE YEAR ENDED 31/03/2014

Particulars	Three months ended			Year to date	
	31-Mar-14	31-Dec-13	31-Mar-13	31-Mar-14	31-Mar-13
A. PARTICULARS OF SHAREHOLDING					
1. Public share holding					
- Number of Shares	79,27,69,420	79,27,69,420	79,27,69,420	79,27,69,420	79,27,69,420
- Percentage of shareholding	20	20	20	20	20
2. Promoters and Promoter group shareholding					
a) Pledged/Encumbered					
- Number of Shares	0	0	0	0	0
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	0	0	0	0	0
- Percentage of shares (as a % of the total share capital of the company)	0	0	0	0	0
b) Non Encumbered					
- Number of Shares	3,17,19,46,580	3,17,19,46,580	3,17,19,46,580	3,17,19,46,580	3,17,19,46,580
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100	100	100	100	100
- Percentage of shares (as a % of the total share capital of the company)	80	80	80	80	80

Particulars	Three months ended 31-Mar-2014
B. INVESTOR COMPLAINTS	
Pending at the beginning of the quarter	0
Received during the quarter	22
Disposed off during the quarter	22
Remaining unresolved at the end of the quarter	0

(Rs. in Crore)

Segment wise Revenue, Results and Capital Employed under Clause 41 of the Listing Agreement

Particulars	Stand alone					Consolidated	
	Three months ended			Year ended		Consolidated	
	31-Mar-14	31-Dec-13	31-Mar-13	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
	Audited	Un-Audited	Audited	Audited	Audited	Audited	Audited
1. Segment Revenue							
(net sale/income from each segment)							
a) Iron Ore	3,839.78	2,796.98	3,166.84	11,925.79	10,609.50	11,925.79	10,609.50
b) Other Minerals & Services	51.07	35.95	46.87	158.68	145.56	158.68	145.56
Total	3,890.85	2,832.93	3,213.71	12,084.47	10,755.06	12,084.47	10,755.06
Less: Inter segment revenue	6.36	9.76	9.46	26.27	50.79	26.27	50.79
Net sales/income from operations	**3,884.49**	**2,823.17**	**3,204.25**	**12,058.20**	**10,704.27**	**12,058.20**	**10,704.27**
2. Segment Results							
(Profit (+) /loss (-) before tax and interest from each segment							
a) Iron Ore	2,510.78	1,949.24	1,764.60	7,910.81	7,385.10	7,910.71	7,384.97
b) Other Minerals & Services	46.27	-2.99	-1.65	37.99	28.76	36.49	25.16
Total	2,557.05	1,946.25	1,762.95	7,948.80	7,413.86	7,947.20	7,410.13
Less: Interest	-1.85	0.00	-13.20	-1.85	-13.20	-1.85	-13.20
Add: Other unallocable income net off unallocable expenditure	442.58	428.09	495.56	1,812.25	2,064.46	1,806.85	2,064.58
Total Profit before Tax (incl discontinued operations)	**2,997.78**	**2,374.34**	**2,245.31**	**9,759.20**	**9,465.12**	**9,752.20**	**9,461.51**
3. Capital Employed							
(Segment assets-Segment Liabilities)							
a) Iron Ore	3,570.38	3,232.54	3,048.72	3,570.38	3,048.72	3,573.07	3,051.56
b) Other Minerals & Services	156.07	98.42	106.38	156.07	106.38	175.26	114.56
c) Other reconciliation items	26,363.73	27,350.21	24,454.11	26,363.73	24,454.11	26,301.63	24,452.24
Total	**30,090.18**	**30,681.17**	**27,609.21**	**30,090.18**	**27,609.21**	**30,049.96**	**27,618.36**

STATEMENT OF ASSETS AND LIABILITIES (Rs. in Crore)

Particulars	Stand alone		Consolidated	
	Audited			
	Year ended	Year ended	Year ended	Year ended
	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
A EQUITY AND LIABILITIES				
1. Shareholders' Funds				
(a) Share Capital	396.47	396.47	396.47	396.47
(b) Reserves and Surplus	29,591.83	27,114.49	29,550.36	27,122.12
Shareholders funds	**29,988.30**	27,510.96	**29,946.83**	27,518.59
Minority Interest			1.37	1.36
2. NON-CURRENT LIABILITIES				
(a) Deferred Tax Liability (Net)	107.25	104.49	107.13	104.37
(b) Other Long term Liabilities	29.11	30.78	29.11	30.78
(c) Long-term provisions	11.44	12.38	11.48	12.41
Non-current liabilities	**147.80**	147.65	**147.72**	147.56
3. CURRENT LIABILITIES				
(a) Trade payables	185.67	160.76	185.68	160.77
(b) Other current Liabilities	1,153.20	1,101.96	1,160.29	1,107.32
(c) Short term provisions	1.95	1,860.39	1.99	1,860.42
Current liabilities	**1,340.82**	3,123.11	**1,347.96**	3,128.51
TOTAL-EQUITY AND LIABILITIES	31,476.92	30,781.72	31,443.88	30,796.02
B ASSETS				
1. NON-CURRENT ASSETS				
(a) Fixed Assets	6,639.17	4,500.75	6,663.26	4,513.86
(b) Non-current investments	250.37	249.67	219.30	260.69
(c) Long term Loans and Advances	720.82	546.29	719.03	545.24
(d) Other non-current assets	5.37	5.37	5.37	5.37
Non-Current Assets	**7,615.73**	5,302.08	**7,606.96**	5,325.16
2. CURRENT ASSETS				
(a) Inventories	681.19	637.46	681.19	637.46
(b) Trade receivables	1,448.42	1,082.21	1,448.42	1,082.21
(c) Cash and bank balances	18,657.23	21,025.75	18,660.51	21,027.41
(d) Short tem Loans and Advances	2,348.47	1,944.69	2,320.86	1,934.18
(e) Other Current Assets	725.88	789.53	725.94	789.60
Current Assets	**23,861.19**	25,479.64	**23,836.92**	25,470.86
TOTAL-ASSETS	**31,476.92**	30,781.72	**31,443.88**	30,796.02

NOTES:

1. The financial results have been reviewed by the Audit Committee at its meeting held on 30-May-2014 and approved by the Board of Directors at its meeting held on 30-May-2014.
2. During the year, the company paid total interim dividend of Rs. 8.50/- per share of Rs.1/- (I interim dividend of Rs. 3/- paid in Nov' 13 and II interim dividend of Rs. 5.50 paid in Feb'14). No final dividend is recommended by the Board of Directors.
3. The export of Iron ore during the current year was 22.97 lakh tons as against 16.02 lakh tons of previous year. Due to this Increase of export of Iron ore by 6.95 Lakh tons, the selling expenditure has gone up by Rs.458.95 cr.
4. The consolidated financial results of 2013-14 are drawn in respect of subsidiary companies considering the financial statements for the year ended 31/03/2014 and in respect of associate companies by considering the available financial statements for the year ended 31/03/2013 except in respect of Legacy Iron Ore Limited which is consolidated based on the financial statments for the year ended 30/06/2013. The comparative previous year figures are also drawn on the similar lines. However, the companies under liquidation i) NMDC SARL, Madagaskar, a subsidiary company and ii) Romelt-Sail (India) Limited, an associate company are not consolidated. The accounts of JV company Kopano-NMDC Minerals (Proprietary) Limited are not consolidated as the transactions are not material.
5. The above financial results are subject to audit under Sec 619(4) of the Companies Act, 1956 by the Comptroller and Auditor General of India.
6. The figures of last quarter of the stand alone are the balancing figures between audited figures in respect of the full financial year and the published year to date figures up to the third quarter of the current financial year.
7. Figures for the previous year have been regrouped wherever considered necessary so as to conform to the classification of the current year.

For NMDC Limited
Sd/-
(Narendra Kothari)
Chairman-cum-Managing Director

Place: Hyderabad
Date: 30-May-2014

NMDC Limited

(A Government of India Enterprise)
Regd. Office: "Khanij Bhavan", 10-3-311/A, Castle Hills,
Masab Tank, Hyderabad-500 028.

CIN : L13100AP1958GOI001674

Website: www.nmdc.co.in

AGENDA FOR UNION BUDGET

The forthcoming budget of the the new government is a critical one. It will be the first step on the 'walk' that must follow the electoral 'talk' of economic recovery and ushering in new, growth-oriented policies for the country. At this stage, every industry in the country - from textiles to agriculture, from aviation and tourism, from manufacturing to banking and allied financial services, from pharmaceuticals to information technology, from telecommunications to health-care and from retail to real estate, depends on major fiscal reforms, says Kishor Pate, CMD - Amit Enterprises Housing.

It is not only India's continued viability in the global sweepstakes that is at stake now. The very welfare of its people and a revival of their trust in their country are on the 'critical' list. Over the past few years, the confidence that Indians have in the power of a ruling government to revive its flagging fortunes has been sesriously eroded. Bureaucratic muddle, corruption and policy paralysis have become accepted norms. The arrival of a new and very proactive government at the centre is the first sign of real hope for positive change.

Boost Industrial Expansion and Output

A country's economic health rides on how well its primary industries perform. It depends on how encouraged these industries are to expand, how many jobs they create in the bargain, to what degree foreign funds are attracted and encouraged to invest in various industries, and how much consumption increases because of all these factors. The consumption sentiment is one of the most critical, because it dictates how well various sectors will perform.

Real estate is just one of many major industries in India. A government focused on the country's overall economic revival must consider the needs of all its industries. This holds true even if real estate is an industry that, unlike other industries such as electronics and luxury apparel, addresses very visible deficits. Residential real estate addresses the deficit for housing in India, while consumption of commercial real estate is directly related to how many jobs will be created in a certain city.

Increase Financial Confidence and Boost Consumption

Given that overall consumption sentiment is key, the new government will primarily need to present a budget that increases Indians' financial confidence. To achieve this, it will have to introduce a more benevolent taxation regime. Specific to boosting the real estate sector, the government must formulate and present a policy which provides clear and attractive tax benefits to developers who are focused on affordable housing. At the same time, raising the income tax exemption limit for home loans from the current Rs.1.5 lakh to at least Rs.5 lakh would encourage Indians to buy more homes.

Such measures are very much within the purview of the upcoming budget, which must also ensure that it provides incentives to boost entrepreneurial spirit and generally help Indians to earn more, save more and invest more. It is axiomatic that the real estate industry, as well as various other industries, will see significant revival merely on the basis of such a rebooted climate of confidence.

Provide Infrastructure Status for Housing

Real estate faces several hurdles other than flagging consumption sentiment that have harmed it immensely over the past few years of sectorial slow-down. Clearing all these hurdles in a single revamp of existing policies would be extremely challenging, if not impossible. However, one game-changing measure that new government can certainly undertake in the immediate future is to grant infrastructure status to the housing sector.

In the past, such a provision has proved to be a major turning point for the real estate sectors of many other countries, enabling them to significantly narrow their housing deficits. While such a measure would not fall within the ambit of budget announcement, it can and should be addressed in the ensuing parliamentary monsoon session.

So far, India has only provided infrastructure status to industries and companies involved in the development of ports, airports, highways, public transportation networks, etc. By granting the housing sector infrastructure status as well, the new government will ensure that housing developers become eligible for critical incentives and subsidies at the Central and State levels. It will also mean that institutional lending to the housing sector becomes more liberalized - banks will increase lending to housing developers, who will also be able to raise bonds to help generate funding for housing projects. TGA

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SEEMANDHRA

Key Development Clusters

The new Andhra Pradesh has immense potential for development due to its geographical location. It has the second largest coast line after Gujarat, and the state has five sea ports. It also has four airports, which significantly enhances the air connectivity of the cities. The NH-5, part of The Golden Quadrilateral (the highway network connecting Delhi, Mumbai, Chennai and Kolkata), passes through the key cities of the Seemandhra region, accounting for considerable strength in terms of road connectivity, says Sandip Patnaik, Managing Director – Hyderabad, JLL India.

The residual part of Andhra Pradesh, popularly known as the Seemandhra region, came into existence on the 2nd June 2014 after the new state of Telangana was formed. The capital city of Andhra Pradesh, Hyderabad is geographically part of Telangana, but will serve as the joint capital of the two states for next 10 years.

The key development clusters of Andhra Pradesh which can drive its growth are:

- North Cluster – Visakhapatnam
- North Central Cluster - Rajamundry and Kakinada
- Central Cluster - Vijayawada, Guntur, Tenali and Mangalgiri
- South Cluster- Tirupati, Nellore and Ongole

North Cluster – Visakhapatnam

Key City - Visakhapatnam - It also known as the 'City of Destiny', is an important port city of Andhra Pradesh. Madhurawada, located in the north-east of the city along NH-5, is already developed as an IT hub, with information technology firms having been allocated land in this area to develop and start their operations. A few of these companies are already operational.

The south-west part of Visakhapatnam is home to Jawaharlal Nehru Pharma City (JNPC), the only pharmaceutical SEZ in India. Industrial developments such as the steel and power plants are located towards the south. The city's two ports - Vizag Port and Gangavaram Port (the deepest port in India) - are on the south-east of the city.

Visakhapatnam is now emerging as a major healthcare hub, with Manipal Hospitals, Apollo Hospitals and Narayana Hrudayalaya planning to expand further in the city. It also has potential to develop on the film and tourism industry, given its scenic beauty. With many public sector units operational there, Vizag also has notable potential for development in coming years.

North Central Cluster

Key Cities - Rajamundry and Kakinada

Rajamundry, a city of great historical and religious relevance, is located on the bank of the Godavari and has huge tourism potential. With an airport located at Madhurapudi, it is well-connected to Hyderabad by air. Kakinada, located close to Rajamundary, has a port and is part of the thriving PCPIR (Petroleum, Chemical and Petrochemical Investment Region). It is, in fact, an important base for ONGC. Also, the Reliance Industries Ltd (RIL) Onshore Gas Terminal at Gadimoga is located at about 30 kilometres south of Kakinada. This city has immense development potential for industrial, warehousing and logistics development.

Central Cluster

Key Cities - Vijayawada, Guntur, Tenali and Mangalgiri

This cluster is most likely to house the new capital of Andhra Pradesh and is expected to become the financial centre of the state. The two growing areas within this cluster are Gannavaram and Guntur.

Vijayawada is traditionally a trading town and lies in the prime agricultural bed of Andhra Pradesh. The main economic base being agriculture, this city has considerable potential for development in terms of the food and agro industries.

An IT park is located at Gannavaram near Vijayawada Airport, and there is a proposed IT SEZ at Mangalagiri. The city is expanding along the NH-5, and the major growth is along the south corridor of NH-5 towards Guntur. Its proximity to Machilipatnam Port is a huge advantage for Vijayawada which, along with Guntur, is also home to many educational institutions. Together, they form an important educational hub of the state.

South Cluster

Key Cities - Tirupati, Nellore and Ongole

This cluster is located close to Chennai and Bangalore. Tirupati has a planned IT SEZ at Renigunta close to the airport, with the town growing along its east towards Renigunta. The city has good growth potential, as it is almost equidistant to Chennai and Bangalore. Also, it is an important pilgrimage destination of India and therefore witnesses considerable tourism activity.

In Nellore, located 130 kilometres from Tirupati, agriculture and aquaculture form the primary economic base of the city. However, it is gradually witnessing industrial development as Krishnapatnam Port is located there. The city has a distinct business spirit, as some key entrepreneurs of India hail from this district. In addition, Sri City - an industrial hub - is located in Nellore. This hub is an integrated township development which has witnessed huge industrial investments.

All factors considered, Nellore is likely to see considerable manufacturing-based industrial development in the future. Ongole, located 130 kilometres from Nellore, is also poised to develop on lines very similar to Nellore.

TGA

RAIL FARE HIKE

A Step in the Right Direction

The passenger fare hike is a bold decision by the NDA government that remained a work-in-progress by itself in its previous innings from 1998-2004. While the communists have already taken to the roads against the Railways decision (pun intended), the truth must be told...

What is the truth? Except for 2012, there has been no hike in passenger fare since 2002. India's largest employer - the Indian Railways - faces many battles even as it is constrained in capacity and resources. Expenditure on Railways as a share of transport expenditure has dipped from 56 per cent to 30 per cent by the Eleventh Plan. Share of railways in freight transport is down to 36 per cent from 89 per cent in 1961.

Despite the highly subsidized passenger fares, passenger transport is losing out to alternative modes of transport - low cost airlines and road transport.

Traffic is clearly moving away from Indian Railways due to poor quality of service already made worse by capacity congestion and extremely high rail freight tariffs. India's rail freight tariffs are among the highest in the world - perhaps the result of intense lobbying by the road and cargo transport operators. And how did we get there? Because freight revenue is used to cross-subsidize sub-inflationary and politically driven passenger rail fares.

The decision to raise passenger fares by 14.2 per cent and freight charges by 6.5 per cent effective June 25 will help Indian Railways raise an additional Rs.8,000 crore in the financial year. Successive governments have been unwilling to risk unpopularity and raise passenger fares while treating the loss-making utility as a means of doling out largesse in the form of new trains. Meanwhile, safety, quality and passenger comfort have suffered.

Indian passenger fares are 1/4th of those in China, 1/9th of those in Russia, and nearly 1/20th of those in Japan. Adjusted for purchasing power parity, they are at only 37 per cent of tariffs in China, 15 per cent of those in Russia, and 11 per cent of those in Japan. Whereas, freight tariffs in China are only 72 per cent of the tariffs in India in nominal terms and 58 per cent when adjusted for purchasing power parity.

Now look at the other travesty. Because Indian

Railways struggles to generate surpluses, coupled with the government's fiscal constraints, there has been significant under-investment in rail. Passenger trains and more of them keep getting added in budget after budget use up nearly 65 per cent of network capacity (rail network that is) but contribute less than 30 per cent of the revenue. Every year, more and more un-remunerative routes of passenger trains are added for various political appeasements. All this ensures Indian Railway keeps getting sicker by the day. And we now want bullet trains too at subsidized prices.

According to an article which I read a few years back, at current costs, a bullet-train ticket from Mumbai to Delhi will cost anywhere from $1450-1680 per head or thereabouts. And talk about so much pain with a passenger fare hike of 14.5 per cent, literally after a decade. There are more issues at hand that need redressal before Indian Railways gets up and going - get freight traffic back, stop subsidizing passenger fares, use the network to at least 40 per cent (we are using less than 15 per cent) and have a collaborative approach to address intermodal transport issues and connectivity.

According to one estimate, countries like Australia, Brazil, Canada, Germany, Japan, Russia and the US which collectively carry more than 90 per cent of the world's rail freight outside India, all now have unitary transport ministries. China too has consolidated all transport ministries except railways. But for now, the free lunch on passenger fares has thankfully stopped. This is one of the best key messages that the NDA government has given out - something that it has ducked itself from taking in 2002.

The free lunch on passenger fares has thankfully stopped. This is one of the best key messages that the NDA government has given out - something that it has ducked itself from taking in 2002.

S Sridhar TGA

Saint Warren Buffett's Dark Side

A good starting point to gauge investment performance is to compare your results against a simple buy and hold portfolio.

Every Saint has a past, every sinner has a future

Unless you can watch your stock holding decline by 50 per cent without becoming panic-stricken, you should not be in the stock market.

– Warren Buffett, the so-called Oracle of Omaha and the world's fourth-richest person.

While there are certainly ways to improve the performance of buy and hold, there are many more ways to make it much worse. You have to determine if the effort and actions you take with your portfolio strategy are worth it when compared to this simple (but not easy) alternative.

Investors generally fare much worse than buy and hold so this is an important decision for the average investor to consider. When you hear about the average long-term gains of 9-10 per cent in the stock market you must remember that those returns contain every single type of market environment. That means high valuations, low valuations, high interest rates, low interest rates, high inflation, low inflation, bubbles, recessions, booms, busts and everything in-between.

It's an all-inclusive number that contains the good and the bad. The anonymous blogger at the Brooklyn Investor shared their thoughts on this recently:

In order for people to have earned 10 per cent/year in the last 100 years, you had to own it through the depression, through war and peace, when P/E's were 7x and when P/E's were 30x. The point is that most people would not have been successful getting in and out of the market and doing better than 10 per cent/year, even if you used market valuation levels (instead of economic forecasts). 10% returns were not earned by being fully invested at 7x P/E, 50 per cent invested at 15x P/E and 0 per cent invested at 25x P/E or anything like that.

Another way to illustrate this is if you look at something like Berkshire Hathaway. BRK has gone down 50 per cent three times in the past (or maybe more).

Once in the early 1970's, once in 1999 and then again during the recent crisis. Of all the investors who owned BRK in 1970, how many have done better than the 20 per cent or so return of the stock over the years by getting in and out of it in order to avoid the 50 per cent drawdowns? There may be some who were able to improve on that buy and hold. But I doubt that there are too many people, even if they used very good valuation methods to time the sales and repurchases.

So that's sort of the way to look at the market. As long as you have faith in the US and the system at work here, you can look at the stock market in the same way. Most people who sound clever now telling us what the market is worth and getting in and out accordingly is probably not going to outperform the market over time. They will look good temporarily when the market goes down, though.

Obviously, there are important factors to consider for even the simplest portfolios — time horizon, risk tolerance and spending needs to name a few. But with the correct perspective and a long-term mindset, to get even average market returns requires living with periodic drawdowns.

It's an unavoidable by-product of earning a risk premium…even for the world's greatest investor. The Brooklyn Investor's commentary on Buffett led me to do some digging into the largest Berkshire Hathaway losses. I went back to 1980 and here's what I found: Roughly every 6-7 years, Buffett's investment vehicle suffered a rather large crash in its stock price. Yet since 1980 the stock compounded at a rate of 21 per cent per year, good enough to double your money every three-and-a-half years.

Berkshire Hathaway Largest Losses Since 1980	
1981-1982	-19%
1987	-37%
1989-1990	-37%
1998-2000	-49%
2007-2009	-51%

Any example involving Buffett is a bit extreme, but it shows that earning higher returns in the stock market come with a price. And these losses are very similar in magnitude with what you can expect from the overall market at times. The same is true of any investment that offers the potential for larger long-term gains.

Investors are constantly asking themselves, "How can improve my investment performance?" This is a worthy objective when it entails improving your behavior or process. But what most people should be asking is, "How can I not do any worse?" Can you create much better results than a buy and hold strategy? Yes, of course. It's very possible but not necessarily easy (mostly because of psychological reasons).

But can you do much worse than buy and hold?

Definitely. And it's very easy.

Courtesy: Ben Carlson, CFA, awealthofcommonsense.com

Warren Buffett's Biggest Money Mistakes – Lessons to Learn

Warren Buffett, as chairman of Berkshire Hathaway has an excellent investing record. However, his record isn't without imperfection. Mistakes happen, even when you're the best at what you do. Seven of Buffett's biggest blunders, and the lessons that we can learn from his mistakes:

1. You can't pay your bills with ego

The lesson: Your ego and your emotions have more impact on your investments than any economic indicator or quarterly earnings report. Controlling them is key to successful investing.

2. Diversification doesn't always help

The lesson: Swapping ownership in a high-quality business for ownership of a low-quality business hurts you twice. First, in the losses that result from the poor business, and second when you tally the cost of the gains you may have surrendered from outsized performance of the quality business.

3. Second opinions matter

The lesson: Personal finance is different from corporate finance. But all of us have some kind of partner who may have different financial needs and insight than we do. The truth is that women live longer than men, and a 2-year old will likely require more college savings than a 16-year old. Different goals required different financial planning and insight. Include your partners in the process.

4. Seeking success in something you dislike won't work

The lesson: Succeeding isn't easy. Succeeding in something you dislike is even harder. Shortly after Buffett walked away from the gas station, he moved on from his stockbroker job, too. Buffett learned his lesson - he'd do best in a job he liked. Notably, he offered to work for Ben Graham in investments for free, knowing that he'd prefer the work to his current alternatives. This is extends into investing, too. Don't like a particular industry? No problem! There are good numbers of listed stocks. You can be picky.

5. Impatience can crush returns

The lesson: While no one goes broke locking in a small profit, no one gets wealthy with small profits, either. Stocks represent ownership in businesses, many of which have been around for more than a century. Put your investments in perspective. A week, month, or year, is a very, very short timeframe in the life of a business. Good things come to those who wait.

6. Good people isn't a cure-all solution

The lesson: Just as 12 bodybuilders can't move mountains, the very best executive team can't change lacklustre, industry-wide fundamentals.

7. Pennies can cost you Rupees

The lesson: Don't get anchored to your purchase prices. Just because a stock sold for Rs.2000 in 2005 doesn't mean it can't be worth Rs.100000 or even Rs.5000 today. Past prices are past prices. What matters is what a business is worth today, and what you think it will be worth in the future, nothing else.

Next time you're down on yourself for making a mistake, just remember everyone has been there before - even Buffett.

Courtesy:fool.com

BSE SENSEX

REVISITING RISK-REWARD

When markets run too fast ahead of their fundamentals, it may be wise to understand the risk side of the game. This is not to say that market momentum will lose its steam. It may go on for some more time before it winds up to the fundamentals, says M R Raghu, CFA, FRM, Senior Vice President & Head of Research, Kuwait Financial Centre (Markaz), Middle East.

The author thanks Karthik Ramesh and Rajesh Dheenathayalan for their assistance

SENSEX Value Range	Break Out	Achieved On	Time Lag (in days)
10000	10,275.6	Jan 5, 2009	-
11000	11,284.7	Apr. 16, 2009	100
12000	12,134.8	May 04, 2009	19
13000	14,284.2	May,18, 2009	14
14000	14,284.2	May,18, 2009	0
15000	15,008.7	Jun 04, 2009	17
16000	16,016.3	Sep. 07, 2009	95
17000	17,126.8	Sep. 30, 2009	23
18000	18,113.2	Jul 22, 2010	295
19000	19,208.3	Sep 13, 2010	53
20000	20,001.6	Sep 21, 2010	8
21000	21,005.0	Nov 05, 2010	45
22000	22,055.5	Mar 24, 2014	1235
23000	23,551.0	May 12, 2014	49
24000	24,121.7	May 16, 2014	4
25000	25,019.5	Jun 05, 2014	20

It took just 4 days for the Sensex to gain 1,000 points (move from 23k to 24k) and 20 days to move from 24k to 25k. In contrast, it took 1,235 days to move from 21k to 22k! (see the table). That says it all. Don't be surprised by the 0 days to move from 13k to 14k. That was when the Indian markets witnessed an euphoric up move on May 18, 2009 buoyed by the positive election outcome. That day's percentage rise was the biggest since a 20.8 per cent jump on March 2, 1992 when Manmohan Singh, who was then finance minister, unveiled reforms that opened the economy to foreigners. The rest is history now.

Often, the most famous prescription for risk is the standard deviation of returns. In other words, it is the deviation of returns over its mean. Academics and others argue about the efficacy of just using standard deviation to measure the risk. It may be worthwhile to look at other risk metrics to understand how markets are moving into risk zone. It is with this view, the following table has been constructed: (Period ending date - June 11, 2014)

To begin with, let us look

Period Beginning Dates	09/12/13	11/06/13	10/06/12	11/06/11	11/06/09
Daily Return Stats	6M	1Y	2Y	3Y	5Y
Annualized Return for the Period**	19.4%	33.1%	23.4%	11.7%	10.6%
Average Return	0.16%	0.11%	0.09%	0.05%	0.05%
Highest Return	2.91%	3.77%	3.77%	3.77%	3.77%
Lowest Return	-2.02%	-3.97%	-3.97%	-4.13%	-5.83%
Largest Losing Streak (# of Days)	6	8	8	8	9
Max. Drawdown*	0%	0%	0%	0%	0%
St. Dev. (Annualized)	13%	17%	15%	17%	18%
Downside Deviation (Annualized)	7%	12%	10%	11%	12%
Average Gain	0.64%	0.80%	0.72%	0.82%	0.86%
Average Loss	-0.53%	-0.77%	-0.67%	-0.79%	-0.84%
Number of Gain Days	74	140	273	391	650
Number of Loss Days	52	109	226	356	598
% of Loss Days	41%	44%	45%	48%	48%
Gain/Loss Ratio	1.71	1.34	1.29	1.13	1.12

*Largest decline from a previous high , **Not Annualized for 6M

Max	25583.69	25583.69	25583.69	25583.69	25583.69
Peak Date	10/Jun/14	10/Jun/14	10/Jun/14	10/Jun/14	10/Jun/14
Min	20193.35	17905.91	16639.82	15175.08	13400.32
	13/Feb/14	21/Aug/13	26/Jul/12	20/Dec/11	13/Jul/09
	-21%	**-30%**	**-35%**	**-41%**	**-48%**

Source: Reuters, own analysis

at the daily average return for Sensex. During the last 6 months, it averaged 0.16 per cent, nearly three times more than the average that prevailed during the last 3 or 5 years. The comparative figure for MSCI Emerging Market Index is a paltry 0.04 per cent. If there is a reversion to mean, then expect some correction at this stage. The highest daily return ever clocked during the last 5 years has been 3.77 per cent and the lowest has been-5.83 per cent. How is this measure useful? A wider band indicates more deviation and a narrowing of the band indicates more stable markets. During the last six months, both these measures have mellowed down especially the lowest return which is nearly half of the number found in previous periods.

Measuring Risk

Risk is also measured by how long losing streak continues. In other words, markets do go in the negative territory structurally, but when markets go down day after day, it clearly signals a strong bear market. Even in a bear market, 3 to 4 days of loss will be intercepted by one recovery before the losses resume. For the Sensex, the longest losing streak during the last five years was 9 days.

In other words, this means that there was a period in time during the last 5 years when Sensex returns were negative for 9 consecutive days before recovering. The comparative number for emerging market index is 10 signaling more vulnerability than the Sensex. The higher this number, the higher the risk. During the last six months, this number has been reduced to 6 showing very strong bull market.

We can look at the most often used risk measure i.e., Standard Deviation. The higher the standard deviation, the higher the risk. Historically, the standard deviation for Sensex ranged between 17 per cent to 18 per cent annualized.

Focusing on risk when markets go into a frenzy mode is always a prudent thing to do. Psychologically it is the toughest thing to do. If however, prudence sets in, there are several risk measures to look at apart from Standard Deviation.

However, during the last 6 months the standard deviation has moderated to 13 per cent indicating lower risk levels. In a trending bull or bear markets, the standard deviation normally moderates. A useful variant of this is the downside deviation that measures the standard deviation of all loss days.

The higher this number, the riskier the market is. This leads us to the number of days the markets clocked losses as opposed to gains. As we must have observed in our experience, markets have both positive as well as negative performance on a given day.

However, while looking back say during the last 1 year or 2 years, it may be useful to see how many of those days were negative relative to total number of trading days. Measured in that sense, the average days when markets were negative is about 41 per cent for Sensex during the last 6 months compared to 48 per cent during the last five years, indicating a moderation of risk. This may be very useful for day traders. As this measure increases, the markets are treading into a bear market and vice-versa.

A related measure here is to see the average of loss days vis-à-

vis average of gain days and the gap between them. For e.g., during the last 6 months, the average of gain days (meaning the days on which Sensex posted a positive performance) was 0.64 per cent while the average of loss days was -0.53 per cent indicating a gap of 0.11 per cent. However, the same for the last one year measured in terms of gap is a paltry 0.03 per cent indicating that loss days were as powerful as gain days. This signals higher volatility. In other words, a large gap (like the one that prevailed during the last 6 months) can signal lower volatility.

Another risk measure is to understand the largest decline from a previous high which is technically referred to as drawdowns. Presently, Sensex is hovering at its life time high. Hence, this will be 0 per cent indicating a strong bull market. Time to be risk averse.

High and Lows

It may also be interesting to look at Sensex from the gap between the high and low. For e.g., during the last 6 months the peak Sensex value was 25,583 and the low point was 20,193 giving us a difference of 21 per cent. However, the same when looked at from a three year perspective is about 41 per cent. Short burst of performance in the market may soften this measure. However, in the long-term it may be possible that we invested in the high point (psychologically easy to do) and exited at the low point (again psychologically pressurized to do) thereby incurring huge loss.

In summary, focusing on risk when markets go into a frenzy mode is always a prudent thing to do. Psychologically it is the toughest thing to do. If however, prudence sets in, there are several risk measures to look at apart from Standard Deviation.

TGA

HISTORICAL BSE SENSEX RETURNS

The historical returns of the S&P BSE Sensex, which has given an average return of about 20 per cent per year, despite volatility and price fluctuations of about -20% to +60%. The beside table shows S&P BSE Sensex historical data - start & close values and the yearly returns of the sensex from 2000 to 2013. During the year 2014, the index hit an all-time high of 25000 plus. Despite markets hitting all time highs only a few stocks made all-time highs or the highs which were made in 2008 bull run, while most of them are still languishing well below their historical highs. The message for retail investors is clear - index investing is better than individual stocks.

Source: Master And Student - All About Stock Markets.

Historical Sensex Returns

Year	StartValue	Endvalue	% change
2000	5005.82	3972.12	-20.65
2001	3972.12	3262.33	-17.87
2002	3262.33	3377.28	3.52
2003	3377.28	5838.96	72.89
2004	5838.96	6602.69	13.08
2005	6602.69	9397.93	42.33
2006	9397.93	13786.91	46.7
2007	13786.91	20286.99	47.15
2008	20286.99	9647.31	-52.45
2009	9647.31	17464.81	81.03
2010	17464.81	20509.09	17.43
2011	20509.09	15454.92	-24.64
2012	15454.92	19426.71	25.7
2013	19426.71	21170.68	8.98

SENSEX TO TOUCH 100,000 BY 2020?

From a low of 7,697 in October 2008, the BSE Sensex tripled to its current 25,000 plus level on the back of sustained capital inflows as the new government unveiled its agenda for economic reforms. And it won't be surprising if the benchmark index could even zoom past the one lakh-mark in the near future. Economists are bullish on the index and expect the new government to start plucking the low hanging fruits by focusing on large yet stalled projects, by accelerating decision-making processes, incentivizing bureaucrats, etc. Likewise, brokerage firms believe that Narendra Modi-led government's promise for investor-friendly reforms and measures to revive economic growth, helped both market indices - Sensex and Nifty - continue their upward journey.

Sudip Bandyopadhyay, President, Destimoney Securities, (Mumbai)

Against this backdrop, several brokerage houses predict that the benchmark Sensex will touch 100,000 points by the end of the decade. To touch this level, Sensex would need to grow by 26 per cent annually till 2020. Karvy Stock Broking, one of the leading brokerage firms in India opined in its Sensex prediction note "There is no reason that India can't see a prolonged economic growth cycle with low inflation. The prolonged economic growth can create similar equity market returns in India as seen in United States in 1980s." Deutsche Bank, a German global banking and financial services conglomerate reiterated its target of 28,000 points for the BSE Sensex by December 2014, adding that it hopes the new government will push for reforms and focus on the revival of manufacturing.

The Global ANALYST spoke to Sudip Bandyopadhyay, President, Destimoney Securities, (Mumbai) to find about what he feels of the current surge in benchmark indices like Sensex and Nifty, how sustainable is the present rally, sectors that could do well, going ahead, and the policy-measures that are required to revive domestic demand and put the economy back on track of fast growth etc.

We are bullish on the entire energy space which includes companies like Coal India, Oil companies like Reliance, ONGC, BPCL and Power companies like NTPC.

Buoyed by the unprecedented victory of NDA, Sensex scaled a new high of 25,000-mark recently. Given, do you feel that it won't be surprising if the benchmark index could even zoom past 1 lakh-mark in near future?

The buoyancy in the Indian capital market stems from the expectation that the NDA Government will go ahead with the agenda of economic growth with a strong determination. Indian stock market has been anticipating the NDA win since January 2014 and has been rising since then. While the BSE Sensex has crossed 25000 level, we believe that lot of steam is still left in the current market rally.

However, the index zooming passed one lakh mark, in the near future, is not feasible. Fundamentals of the economy need to catch up with the market. We estimate that even if things go very well, India can start to achieve double digit economic growth only after 3 – 5 years from now. Consistent double digit GDP growth for a number of years, post that, can then propel the index to an unprecedented level.

How do you view the recent surge in benchmark indices like Sensex and Nifty?

Indian economy has been performing very badly over the last couple of years. Economic administration has gone from bad to worse and the policy bottlenecks have created complete stagnation. Capital investments have almost stopped. Under the circumstances, the growth oriented NDA Government coming to power augurs well for the economy.

Even sorting out issues in the Energy sector can unleash a huge positive spiral effect and unlock significant amount of capital investments. Similar development can also be seen in the Infrastructure and Capital Goods sectors once the policy paralyses affecting these sectors are sorted out.

Market always looks at future and prices the stocks. Since at present with the NDA Government in power with strong majority, the chances of economic agenda being pursued with dedication is extremely high, the stock market has shown this unprecedented run up.

Foreign flows have been robust for the past nine months. Do you think the momentum will sustain, going forward? What is driving this buoyancy?

FII inflows have been strong over the last few months and are expected to remain strong in the near future as well. Two factors are primarily driving this:

- Prospect of strong GDP growth in India which will be significantly higher than most of the other developed and developing markets, encourages the FIIs to invest in India.
- Easy availability of liquidity in the global markets also helps the investments of FIIs into emerging markets like India.

While there were certain concerns related to liquidity tightening by the US Fed, the easy liquidity policy adopted by the Japanese Central Bank and ECB, has to a great extent reduced the concerns. Even the US Fed has been following a calibrated approach for reduction in liquidity and as such the liquidity in US has not significantly shrunk.

Do you feel that liquidity would be the prime driver of the expected rally in future as well?

I Liquidity is definitely a huge factor helping the market rally. However, the relative attractiveness of Indian market makes the liquidity flow into India more consistent and stable.

What kind of reforms do you expect from the new

government? With stable government in place which sectors would you advise investors to look at?

We expect major reforms by the new government in the following areas:

a) Agriculture

Procurement, Storage, distribution, Pricing & Marketing

b) Coal - Mining, allocation and pricing

c) Natural Gas

Production, Pricing and allocation

d) Fertilizer

Subsidy, Production and distribution

e) Crude Oil & its derivatives

Domestic Pricing & marketing

f) PSU Banks

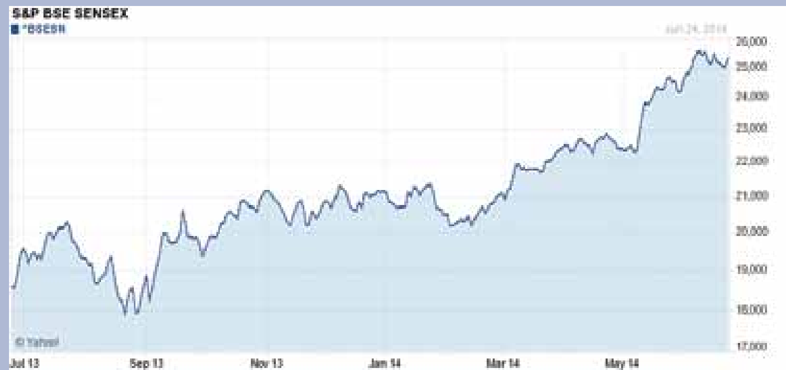
Capitalization and restructuring

g) Transport Infrastructure

Road, Rail and Waterways Structural reforms in the above areas will go a long way in de-bottlenecking the Indian economy and putting the same in the path of accelerated growth.

The corporate sector has been suffering on account of prolonged lacklustre demand on one hand and high inflation and interest rates on the other. Given, what measures policymakers are required to take so as to revive domestic demand and put the economy back on track of fast growth?

Carrying out the critical reforms as highlighted



above, will create positive momentum in the economy. The investment cycle which has but all stopped will get rejuvenated. This will lead to a gradual revival of domestic demand.

Supply side constraints have been the main reason for the stubborn domestic inflation over the last couple of years. By addressing the supply side by reforming agriculture and debottlenecking the economy, the government can, to a great extent, facilitate significant reduction of headline inflation.

Which sectors do you feel could be the first ones to rebound?

We believe that Oil and Gas, Power and Capital Goods will be the first sectors to rebound. These will be followed up by Infrastructure, Banking and others.

Which sectors you're currently bullish on?

We are bullish on the entire energy space which includes companies like Coal India, Oil companies like Reliance, ONGC, BPCL and Power companies like NTPC.

TGA

Global Cues - Indian Stock Market

Despite stable and able government, rising tension in West Asia will continue weigh on global markets, especially India. Escalating violence in Iraq has already burdened crude oil prices rise to nine month high at $107 (June 13, 2014) for the first time since September 2013. On the other hand, rising crude oil prices would mean higher import bill, rising deficit (current account deficit) impact on India's foreign exchange reserves, more importantly depreciating rupee. Accordingly, these developments would restrict the RBI from cutting interest rates. The central bank is already concerned with high inflation rate which left less room to cut interest rates. Rising crude oil prices would put further pressure would push inflation rate further.

We have to value Indian stock market with a long term horizon of three to five years. However, investors have to consider near-term hiccups like monsoon deficiency, rising oil prices and its impact on currency and inflation, could well have some adverse impact. Market pundits suggest that wait for the next clear signals emerge from the union budget in July 2014.

REVERSE MORTGAGE

Why it has not taken off in India?

One of the myths about a reverse mortgage is that one loses one's home at the end of the mortgage term. This is not always the case, says Anuj Puri, JLL India.

A reverse mortgage is a special type of loan against a home that allows the borrower to convert a portion of the equity in the property into cash. The equity built up over many years of home loan payments can be paid directly to the borrower. However, unlike a traditional home equity loan no repayment is required until the borrower(s) cease to use the home as their principal residence.

With a traditional second mortgage, or a home equity line of credit, one must show sufficient income versus debt ratio to qualify for such a loan, and needs to make monthly payments towards the mortgage. Reverse mortgage differs in that it pays the borrower, and is available regardless of current income or assets. The amount that can be borrowed depends on the borrower's age, the current interest rate, other loan fees, and the appraised value of the property. One does not have to make payments, because the loan is not due for paying off as long as the house is one's principal residence. Like all homeowners, the borrower is still required to pay applicable real estate taxes and other conventional payments like utilities.

One of the myths about a reverse mortgage is that one loses one's home at the end of the mortgage term. This is not always the case. The owner can retain the home if one pays back the funds received from the reverse mortgage lender. Payouts on a reverse mortgage can be made to the borrower in a single lump sum on approval of the reverse mortgage, in monthly payouts or in the form of a line of credit that the borrower you can draw from whenever he or she decides to. There are benefits to both approaches depending on one's immediate cash requirements and tax situation.

There are three reasons why reverse mortgage has not proved to be popular in India.

First, Indians look at owned property as a primary asset, ideally to be handed down generations and not encashed in any form unless extreme financial issues prevail.

Secondly, Indian culture has the care and support of senior citizens hard wired into it - elderly people who own properties in this country do not, as a rule, lack the financial wherewithal to support themselves in their Golden years.

Thirdly, the product itself is not as well understood in India as traditional home loans are. In any case, it does seem that unless the classic reverse mortgage is tweaked in a manner to make it more palatable to Indian sensibilities and values, it is not likely to become a big hit.

Reverse mortgage in the Indian context makes sense for elderly persons owning residential property who, for whatever reason, have no other dependable financial recourse. Also, there are instances of severe rifts within the family which can give an elderly person to choose to encash rather than bequeath the property. Finally, reverse mortgage can be used as a temporary fall-back option. In other words, reverse mortgage can be availed of for a certain amount which can then be paid back in a predictable period so that the ownership of the property is returned to the owner. TGA

The draft guidelines of reverse mortgage in India prepared by RBI have the following salient features:

- Any house owner over 60 years of age is eligible for a reverse mortgage.
- The maximum loan is up to 60 per cent of the value of residential property.
- The maximum period of property mortgage is 15 years with a bank or housing finance company.
- The borrower can opt for a monthly, quarterly, annual or lump sum payments at any point, as per his discretion.
- The revaluation of the property has to be undertaken by the Bank or HFC once every 5 years.
- The amount received through reverse mortgage is considered as loan and not income; hence the same will not attract any tax liability.
- Reverse mortgage rates can be fixed or floating and hence will vary according to market conditions depending on the interest rate regime chosen by the borrower.

THE SECRET OF SELF-REGULATED LEARNING

Self-regulated learning (SRL) is recognized as an important predictor of student academic motivation and achievement. It requires students to independently plan, monitor, and assess their learning. However, few students naturally do this well.

SRL is like your own little secret. It stirs from within you, and is the voice in your head that asks you questions about your learning, says Linda B. Nilson Founding Director, Teaching Effectiveness and Innovation (TEI), Clemson University and author of Teaching at Its Best: A Research-Based Resource for College Instructors.

More formally, self-regulated learning is the conscious planning, monitoring, evaluation, and ultimately control of one's learning in order to maximize it. It's an ordered process that experts and seasoned learners like us practice automatically. It means being mindful, intentional, reflective, introspective, self-aware, self-controlled, and self-disciplined about learning, and it leads to becoming self-directed.

Another secret about self-regulated learning is its strong positive impact on student achievement. Just the cognitive facet of it, metacognition, has an effect that's almost as large as teacher clarity, getting feedback, and spaced practice and even larger than mastery learning, cooperative learning, time on task, and computer-assisted instruction.

Self-regulated learning also has meta-emotional and environmental dimensions, which involve

asking oneself questions like these:

- How motivated am I to do the learning task, and how can I increase my motivation if I need to?
- If my confidence in my ability to learn this material sags, how can I increase it without becoming overconfident?
- Am I resisting material that is challenging my preconceptions?
- How am I reacting to my evaluation of my learning?
- How can I create the best, most distraction-free physical environment for the task?
- Metacognitive questions include these:
- What is the best way to go about this task?
- How well are my learning strategies working? What changes should I make, if any?
- What am I still having trouble understanding?
- What can I recall and what should I review?
- How does this material relate to other things I've learned or experienced?

Asking oneself these questions also constitutes elaborative rehearsal, which is the thinking process that moves new knowledge into long-term memory.

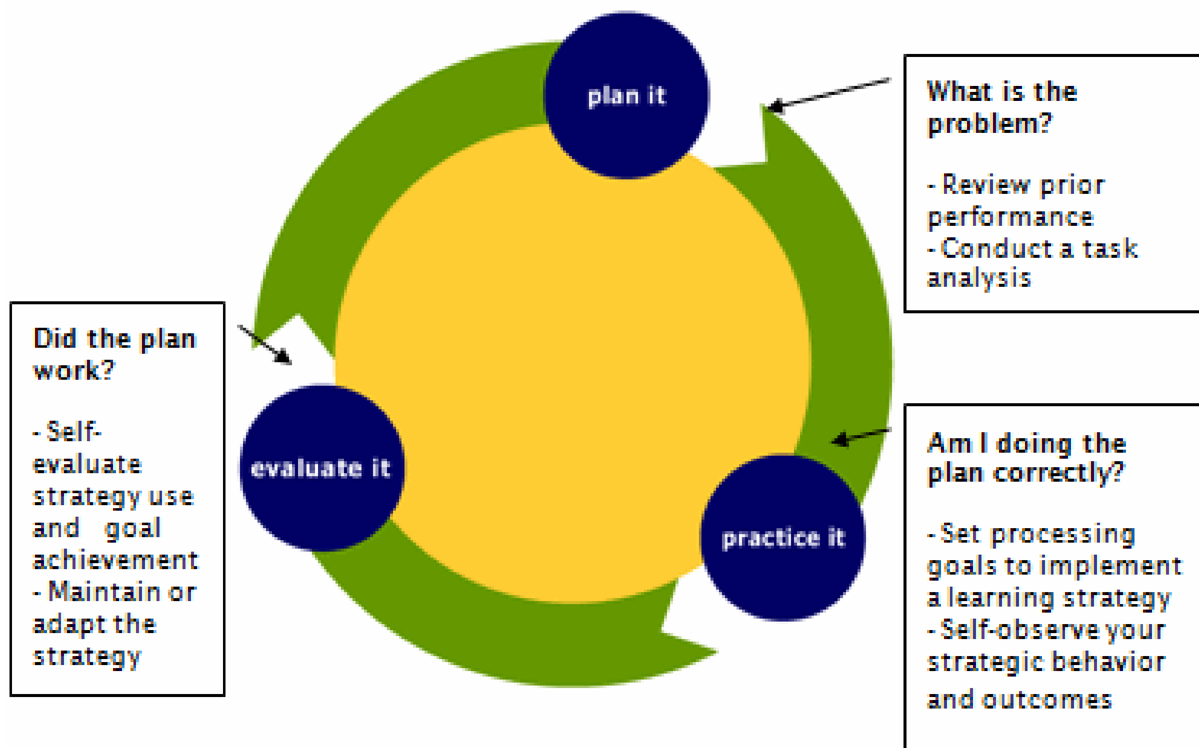
Just because we may practice self-regulated learning doesn't mean our students do. Most of us were among the best students,

especially in college, and the best students can become the worst teachers because we quickly knew how to master the material.

In fact, few of our students demonstrate self-regulation not even those in professional schools. When asked to identify the factors they considered important in their learning, 132 veterinary students most commonly cited the quality of their faculty's instruction, not their own effort or learning skills. Not surprisingly, younger, undergraduate students have the same mind set. They see learning as something that is happening to them, and our job is to make it happen and make it easy. After all, learning was easy in elementary and high school, so why should it require much time and hard work now?

How do you get students to practice self-regulated learning? First, you explain to them what it is and how it will benefit them and then have students do self-regulated learning activities in class

The SRL MODEL - Plan it, Practice it, Evaluate it



Within each phase, there are multiple opportunities for students to gather and effectively use feedback to improve their performance. During the planning phase, students learn to more accurately assess their academic situation and choose strategies that best address a specific learning challenge. They also set achievable short- and long-term goals. During the practice phase, learners implement the selected strategies and make ongoing adjustments to their plan as they self-monitor their progress. Last, during the evaluation phase, students evaluate the effectiveness of each strategy in helping them achieve their goals. Feedback from the evaluation phase is then applied to the start of the next SRL cycle.

and as homework. Then you wait for them to see the good results.

Students don't mind these assignments. They're short, low-stress, and worth a point or two, and students learn about themselves. You don't mind them either because, with 90% of them, you just give credit for completion: pass/fail, all points or no points. Most in-class activities don't even require this. You need only to grade the major reflective meta-assignments, the kind that accompany service-learning, problem-based learning, or a lengthy simulation.

Let's consider a few proven self-regulated learning activities and assignments; many more are in Creating Self-Regulated Learning: Strategies for Strengthening Students◎ Self-Awareness and Learning Skills:

- Students answer two or three reflective questions on the reading or podcast.
- They write about what they learned by doing an assignment.
- They re-do the same or similar problems to the ones they miss on their homework and exams and explain the proper procedure.
- They describe their reasoning process in solving a 'fuzzy' problem how they defined the problem, decided which principles and concepts to apply, developed alternative approaches and solutions, and assessed their feasibility, trade-offs, and relative worth.
- They reflect on a graded exam by answering questions like these:

1. How to you feel about your grade? Were you surprised?
2. How did you study for the exam? Did you study enough?
3. Why did you lose points? Any patterns?
4. What will you do differently to prepare for the next exam?

Dr. Linda B. Nilson

Students do see the effects on their academic performance. In a recent experimental study on multiple sections of mathematics students, instructors assigned pre-class homework of a reading and questions on it. In the treatment group, they explained the learning benefits of this homework and had the student's complete three reflection forms during the semester on how the process was affecting their learning. The control group received neither the explanation nor the reflective forms. The treatment-group students scored higher on the final exam, answered more of the optional questions during the course, and expressed greater appreciation of these assignments in helping them learn. TGA

Educators increasingly are emphasizing self-regulated learning as a means of raising students achievement outcomes. Self-regulated learning (or self-regulation) refers to learning that results from students' self-generated thoughts and behaviors that are oriented systematically toward the attainment of their goals (Zimmerman, 2001). Researchers have identified several self-regulatory processes that students instigate, modify, and sustain, such as attending to instruction, cognitively processing information, rehearsing and relating new learning to prior learning, believing that one is capable of learning, and establishing productive work and social environments. Research shows that increases in self-regulation result in higher student learning and achievement.

Self-regulation is not a mental ability or an academic performance skill; rather it is the self-directive process by which learners transform their mental abilities into academic skills.

- Barry Zimmerman, one of the foremost researchers on self-regulated learning.

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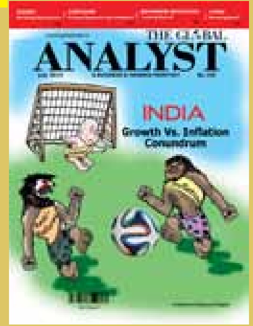

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INDIAN ECONOMY

Growth vs. Inflation Conundrum

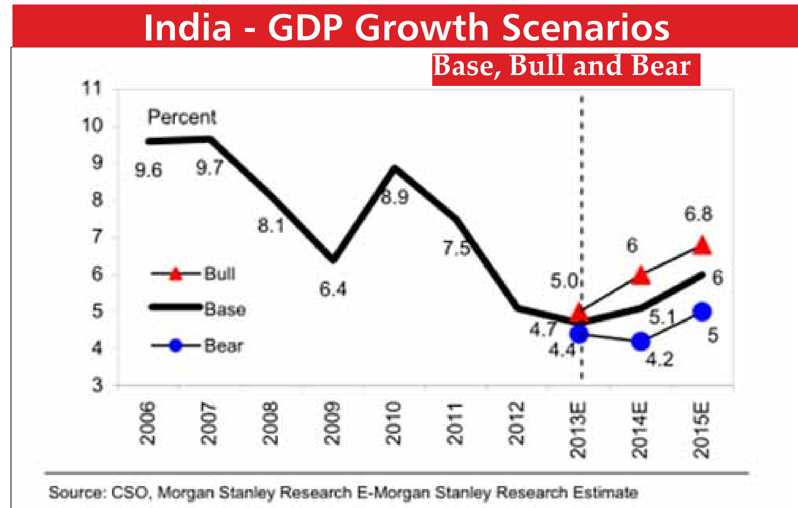
Having witnessed a spiraling inflation curve and sliding growth in the backdrop of global and domestic slowdown, the Indian economy is now changing its course for yet another growth run post handing over a thumping electoral mandate for development and growth. In all likelihood, the new Modi government is expected to usher in reforms to set back on track the growth trajectory and bring back the lost traction the country's economy set itself on a few years ago. The task is challenging enough with an ensuing tug of war as always between the growth-oriented politicos and stability demanding central bankers and it would be interesting to see who has the last laugh in the coming years.

- Hyma Goparaju. MD, Indigen Technologies (P) Ltd.

The debate between growth and inflation is not new and is akin to the chicken-egg debate with none ending up with the final judgment in its favor. Growth and inflation are like the two rods of a rail track and it is imperative to keep the distance between them intact in order to have a smooth run. At the same time, a discerning economist cannot ignore the impact one has on the other. Massive growth spurs inflation while unchecked inflation derails growth. Orbiting indeed in a vicious cycle, inflation and growth have always been at each other's neck.

The growth versus inflation case in India has been no less curious with the Indian economy being subject to an unobstructed rise in its inflation levels especially in the last decade when inflation touched a double digit figure post the 2008 global crisis. With industry output slackening and household budgets crippling, the central bank retaliated by prescribing its ever bitter medicine of increasing repo rates, also dubbed as a hawkish stance, which further reduced growth levels in an already sluggish economy and with lending costs going up, it has led to a strenuous environment not just for the domestic industry but for foreign investors and households also.

The previous government has surely played a proactive role in shielding the Indian economy from the perils of the very many global crises that muddled global stability in the last five years, by curbing gold imports, arresting the widening current account deficit and stabilizing the wayward economic parameters. Despite undertaking these measures, growth slipped, a part of



the blame of which can be fixed to global slowdown. Inaction in structural and policy matters that would have otherwise elevated the Indian economy to being the front runner in the global economic space has been disappointing and has significantly contributed to its pull-down, which is the other major part responsible for its faulty growth. A decisive government at the center, a political phenomenon achieved after 30 years of scuffling with coalition politics, raises hopes in the mind of the economic Indian who wants positive sustainable growth backed by low inflation and path-breaking reforms.

The Perennial Dilemma

India has historically been a savings oriented country with a current average of around 33 per cent share in its GDP. The Indian economy has performed fairly better in comparison to many latin American countries and African countries. A typical Indian's ***'save for the rainy day'*** nature has helped in considerably bolstering the Indian economy from sudden economic shocks. The growth rates also reflected the same conservative approach for many decades though the economy with its vast human resource pool and knowledge capital could have performed way better in sectors of industry and manufacturing that are the prime engines of an economy. Save for a couple of times during wars or global downturns, the Indian economy has displayed stoic resilience and has never crumbled like a pack of cards overnight as has happened in the tiger economies of the South-East Asia during the Asian crisis.

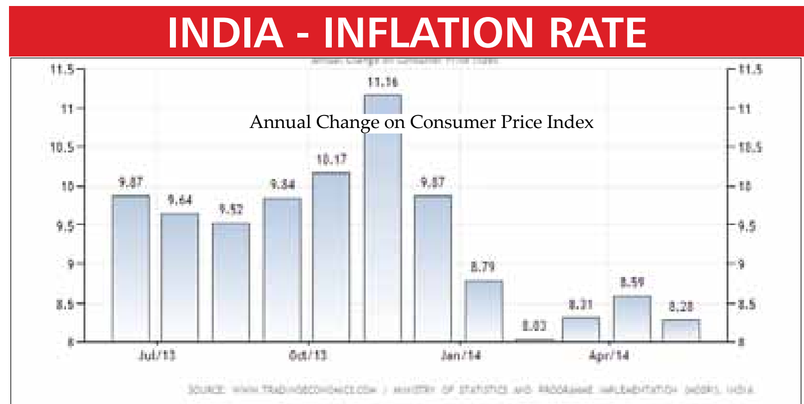
The Indian economy grew at a rate of 4.7 per cent in 2013-14 as against the targeted rate of 4.9 per cent and has not averaged more than 5 per cent in the last two years. With the Met department predicting a sub-normal monsoon this season, fears of a further pull back in the growth rates have increased as bad rains directly affect food production in the country instantly distorting the supply-side dynamics, spiking retail inflation and also headline inflation eventually. Indian politics has been marred by populism which has hurt its exchequer to the tune of trillions of rupees and a continuation of schemes and subsidies is also another hurdle for maintaining the momentum of the economy. As the new government begins to settle down, the cooling time required to kick-start structural reforms that have been hailed as a

panacea for the economic illnesses of the country, could provide the necessary incubation for corrections and future planning.

Hypothetically, GDP is measured as the sum total of consumption, investment, government expenditure and net of exports and imports. From an ICOR (incremental capital output ratio) perspective, GDP growth rate is the total of investment divided by ICOR. Thereafter if the growth rate has to go up then the savings and the investments have to increase while the ICOR needs to go down. For ICOR to go down several factors play an important role, chief of them being building a world class infrastructure. It comes as no surprise that only 4 per cent of India's roads are expressways. There is indeed a long road to travel as far as roads and infrastructure in the country is concerned.

For savings and investments to increase, the government has to focus on providing stable governance, simple and progressive tax structure and an investor friendly environment. Implementation of long pending GST (Goods and Services tax) would provide a level playing field for the manufacturing industry and the same is expected to add up to 2 per cent to the country's GDP.

The silver lining amidst so far gloomy clouds is that the newly elected prime minister Narendra Modi has had a proven record of spearheading growth led governance which is evident from the facts and figures emerging from Gujarat where he was the Chief Minister for over a decade. Gujarat's GDP has gone up three times since 2001 and the state now contributes to about 25 per cent of the country's exports. The state also has earned the reputation of having little or no red tape and it is expected that Narendra Modi who is now at the helm of the nation's affairs will turn the corner for the country and steer India onto the path of positive and sustainable growth and employment.



Reaganism and Thatcherism had revolutionised the growth paradigms in their countries by ushering in radical reforms. Margaret Thatcher pursued monetarism advocated by Milton Friedman and hiked interest rates to curb inflation, rolled out privatization by discouraging state ownership and reviewed the British tax structure by giving it a progressive touch. Though her term was laced with problems, Thatcher came back to power in the ensuing term. In India, a new "ism" could be in the offing in India as the Narendra Modi government sends out strong signals of meaning business with growth.

Banking on Low Inflation

The role of a central bank in any economy is price or financial stabilty and is usually accorded autonomy to ensure non-interference while it performs its duty of maintaining the economic stability of the country. The Reserve Bank of India in the last two years has stringently followed the book and hiked interest rates in order to curb inflation. While it has been successful to an extent as is evident from the fact that inflation slipped to a single digit figure.

It is also worthwhile to note that in over a decade since 2000, investment in the country has contracted by 0.1 per cent for the first time in 2013. Higher interest rates are detrimental to investment propensity and in a zeal to reduce inflationary pressures, growth and development which are the priority of a ruling government aspects get sidelined. The government and the RBI are lodged at contrarian positions when it comes to inflation and growth, with the former gearing to run-up the economic growth and the latter institution focussing on reining in inflation.

Post the 2008 global financial crisis, developing economies have had a deluge of capital investment which though are now at a risk of an exodus in the event of a completion of tapering down of quantitative easing, the Keynisian expansionary policy of stimulating an economy in doldrums. As the Fed begins to lower the bond purchase cap and interest rates begin to step up, capital flight from developing economies is imminent in the event of complete stoppage of fed stimulus and that would further goad the RBI to increase interest rates to hold back capital.

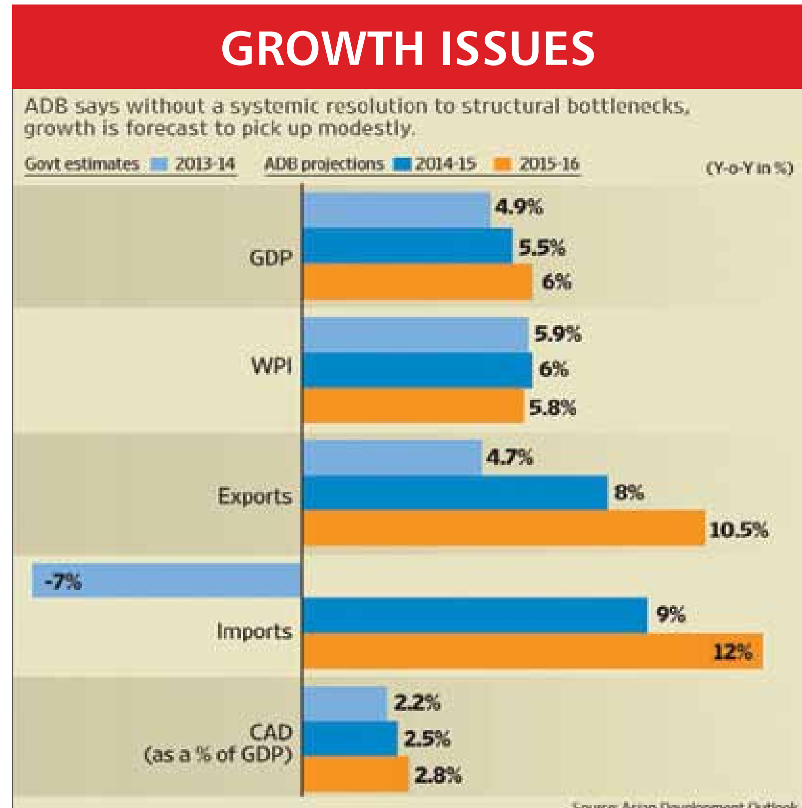
Also in the event of an increase in interest rates by the Federal Reserve of the US, the RBI along with central banks across the globe would be compelled to raise interest rates in order to

maintain the interest rate differential which could end up stirring yet another storm in the investment climate of the country, jeopardizing its growth and development plans.

For any growth-oriented government, it is hard to ignore inflationary impact as inflation is not necessarily a domestic phenomenon always. It is subject to external forces like oil supply shocks and global financial and political stability alike. A high inflation lowers the attractiveness of the rupee for foreign investors. Ignoring inflation completely invites massive threats of wage pressures and uncertainty and hence a trade-off between growth and inflation is a must for an economy to achieve sustainable and balanced growth. In April 2014, while wholesale price index or WPI stood at 5.2 per cent, retail inflation or CPI (consumer price index) stood at 8.59 per cent. Globally, retail inflation or CPI is used as the key measure for a central bank to decide on its policy actions.

An expert committee appointed by the RBI in 2013 to examine the monetary policy of the central bank, the Urijit Patel Committee has recommended that the CPI be adopted as the measure of nominal anchor for policy communication and has arrived at a figure of 4 per cent as the threshold rate of inflation (TRI) as the ideal figure for the Indian economy. 4 per cent TRI, the committee believes would act as a guidepost for central banks to secure positive real interest rates.

The committee has also stated that the fiscal deficit/GDP ratio needs to be brought down to 3 per cent by 2016-17 against the current 4.6 per cent. It has also provided an 8-6-4 formula for inflation control, 8 per cent inflation rate by January 2015, 6 per cent by 2016 and 4 per cent by 2017. The committee has strongly favored inflation targeting as the way ahead as it helps in better business planning, balanced wage negotiations and prudent management of household expenses.



However, the central bank and the government have locked horns on the roll out of inflation targeting as the RBI is firm that the inflation target should be veted through a parliamentary process and the government should be accountable to it while the politicos seem to want to play safe as a lot of times elections are fought on inflation wars. As food prices form a large portion of the CPI and with the same being largely controlled by the government and not a monetary policy, it does make a judicious case for a joint ownership of the inflation target. How this deadlock pans out would be interesting to watch in the coming months in the backdrop of radical reforms being planned by the Modi team. However, the central bank's softened stand post the election win sends out positive signals as it gears up to tone down its hawkish stance to a dovish one providing a cheerful credence to investors waiting to ride the growth story in the country.

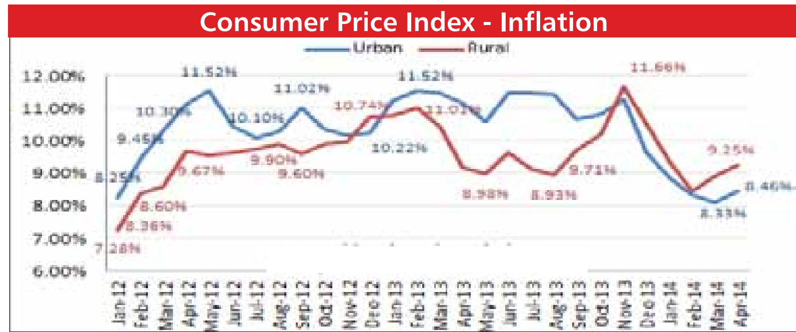
Inflated Inflation – the case against Inflation

India has been using the whole sale price index (WPI) for calculation of inflation unlike many countries that use changes in the consumer price index or the CPI for arriving at the inflation figures. The WPI in India is a basket of approximately 676 items traded between manufacturers and corporations and comprises primary articles, fuel and manufactured items. While CPI is termed a better denominator for arriving at inflation figures considering the fact that it takes into account consumer or end point transactions, WPI's limitations

due to conferring higher weightage to fuel and power makes domestic inflation figures highly vulnerable to external oil supply shocks.

The weightage to food in WPI is a mere 14 per cent which hazes the real picture as supply-side loopholes and minimum support prices have inflated food prices massively in the past few years. India is one of the very few countries that has been using the WPI to report inflation figures while many developing and developed countries use the CPI. Also headline inflation or WPI suffers from base-effect according to which a year's inflation is compared not with previous year's inflation levels but with a base year's level which considerably distorts the inflation picture. Moreover, Indian economy is largely dependent on oil imports for its energy requirements and any change in international oil prices causes policy shocks of greater magnitude in the domestic market.

Food inflation forms more than 50 per cent of CPI. While India is self sufficient in its food requirements, the agricultural sector is mired by inconsistencies due to over dependence on monsoons creating massive supply hindrances during bad monsoons that trigger supply shock factors also called as cost-push inflation. Shoddy public distribution system marred by unplugged leakages and lack of political will to correct it adds to the uncertainty of the sector and the Indian public has been living with the malady of constantly soaring prices of vegetables and fruits in the last decade. Also CPI suffers from onion and potato syndrome as it accords higher weightages to the two vegetables which can heavily skew the inflation figures, a strong case that goes against the RBI's curbing of inflation rates that end up stemming growth levels.



While agricultural reforms and increase in farm productivity by deploying innovative technological methods of cultivation would certainly address the problems in the long term, food inflation needs to be tackled on a fire-fighting mode as it not just pressurises the common man's purse but also becomes an election agenda and instances of potato and onion hoardings, blackmarketing and other malpractices have immensely inconvenienced the poor man's staple diet.

Overheating or reduced capacity in the light of increase in demand is a grave concern that the Modi government would have to undertake on a war-footing basis. The task is to remove infrastrucural bottlenecks and provide cost effective and seamless connectivity. A part of the trouble-shooting of the issue needs to be dedicated to addressing land acquisition hassles in the light of accelerating land prices, causing a direct impact on the cost of production.

High inflation pushes up wages and thus calls for an immediate moderation of labor laws as high wages though would help in increasing domestic demand could however, cause a loss of advantage for offshoring manufacturing activities, an advantage that manufacturing powerhouses like China have enjoyed till date and which is now shifting to south-east Asian countries. Inflation affects all sections of the society in some way or the other. However, it affects those at the bottom of pyramid the most and limits their choices and hampers decision making during uncontrolled price rises and immediately impacts the quality of life.

While inflation needs to be checked at every level, to compromise on growth by curbing inflation would be like throwing a spanner in the wheel of the country's economy that is bracing itself for yet another glorious run.

The need of the hour is to ensure revitalizing the Indian economy by refocussing on manufacturing sector and investing and planning in infrastructure that includes integration of road, railways and ports and creating an ecosystem for encouraging entrepreneurship and innovation. Price stabilization can certainly be achieved by addressing the supply-side economics of the farm sector and strengthening the agricultural and manufacturing sectors, the underpinnings of the Indian economy, that have a major role to play in controlling inflation and accelerating growth.

The celebrated economist, Arvind Panagariya has urged that the Indian policy makers should worry less about inflation and increase focus on reform-led growth. A proactive role from the government in this regard and an equally collaborative effort from the RBI would help in striking the right chord between growth and inflation and together should roll out the cycle of growth that the Indian economy is waiting to ride. TGA

Eurozone
The Coming Threat of a Japanese-style Deflation

Since early 2013, the eurozone has witnessed a prolonged episode of extremely weak growth in economic activity. Growth is still too weak and unemployment too high. Economists have expressed alarm about the risk of deflation, a downward spiral of prices that causes consumers to stop spending and companies to stop hiring. Even the mighty German economy has been showing signs of trouble.

Thus, the eurozone is facing the threat of Japanese-style deflation as the union's low inflation rate remains the dominant worry. It was just 0.7 per cent in April 2014, still far below the Europan Central Bank's target of just under 2 per cent over the medium term. Many economists warn that if low inflation were to turn into outright deflation, governments would find it much harder to manage their outstanding debts. Falling prices might also induce shoppers to delay purchases, weakening demand and threatening recession.

Against this backdrop, **David Wyss, former Chief Economist, Standard & Poor's, New York,** US & Adjunct Professor, Brown University shares his views with **The Global ANALYST** about Eurozone debt crisis, the coming threat of a Japanese-style deflation, what is it that's ailing the financial system of these nations and how could policy makers avoid getting into the deflation trap?

Dr. David Wyss

TGA:There are fears that some of the member countries of Euro zone are facing Japanese style deflation. What is your view?

I think a Japanese style deflation is unlikely. Problem is the disparity in costs and economic performance between the north and south. A deflation in the south is possible if the north doesn't permit some inflation.

TGA: What is it that's ailing the financial system of these nations?

There are three sets of problems:

1. Higher inflation rates have made the southern tier of countries uncompetitive with the north, and devaluation is not possible with a single currency.

2. Years of large government deficits have pushed debt to unsustainable levels in several countries (e.g., Greece, Portugal, Italy), with much of that debt owed outside the country.

3. The housing bubbles in Ireland, Spain, and Portugal (and other countries to a lesser extent) is causing banking problems which require government bailouts and restrict credit availability.

TGA: How they could avoid getting into the deflation trap?

The ECB has to follow a more expansionary policy. Mario Draghi (is an Italian banker and economist who succeeded Jean-Claude Trichet as the President of the European Central Bank on 1 November 2011) is moving fairly quickly in that direction, but the ECB was severely behind the curve and is playing catch-up. The problem is especially severe because the high debt makes restrictive fiscal policies necessary in the southern tier, while the countries of the north (especially Germany) refuse to pursue expansionary policies because they are doing well (buoyed in large part by trade surpluses with the South).

TGA: Future Outlook

The Eurozone is in a mess, but I don't think it will fall apart. Solution probably requires some controlled defaults and more expansionary monetary policy, as well as ECB bailouts. The crisis shows the impossibility of running a single currency and common monetary policy with divergent fiscal policies and financial regulations.

TGA

There is too much buzz around internet-based start-ups and not enough attention is given to the hardware start-ups. Even young college students with a keen interest to innovate are not able to follow their dreams. Building a hardware community by fellow entrepreneurs and investors along with a few incubators and accelerators will help boost the hardware revolution in India.

- Nikhil Khurana, Founder & CEO, Folks Motor Corporation

Amidst rising petrol prices and growing environmental apprehensions, automobile giants are facing serious concerns to address these challenges. However, Delhi-based Nikhil Khurana's Folks Motor Corporation is trying to implement hybrid technologies in automobiles, something which these giants have been trying for the past few years. While delivering products to Indian consumers, then he aims to move towards export markets. The first ever company which will be looking towards Hybrid Vehicle Business as concentrated business and starting a new revolution by creating a new segment in the automobile industry in India. **The Global ANALYST**, Nikhil Khurana talks about his entrepreneurial journey, what prompted him to start FMC, his start-up's business model, its USP, various challenges he faced and his plans to take his company to the next level.

TGA: What was the inspiration to work and pursue this idea?

Before getting into college, I was aware of all the conventional and advanced technologies of Automobiles. I entered college with a vision in my mind, that the next era of automobiles will be Hybrid and Electric Vehicles. Started my prior research work in Dec 2010, (during my first semester exams), reading and exploring till date hybrid vehicle technologies and patents related issues.

After 6 months, I got my concept ready and approached Indian Auto Majors to form a collaboration to develop my technology, signing NDAs with them to protect my intellectual property as I didn't filed any patent application. Later when I got the idea that no company showed interest to invest in my concept project. I started out my company, looking for investors (I didn't get any), struggling with my studies as well, I started filling my patent applications with my father's help (compelled him which took a time of 6 months) for further proceeding of my venture. Now we have manufacturing partners with us, and the journey goes on.

TGA: Could you share the business model of your start-up?

We are offering customers to transform their present car (any car in the market) in a Hybrid Vehicle (Parallel-Hybrid Configuration) using our Published Patent Technology, Hybrid Transmission System Platform, with 40 per cent* increase in fuel efficiency. Our services start at Rs.1 Lakh onwards. We are based out in Delhi-NCR, the services will start in the span in the latter part of this year.

Target customer: A dynamic urban car user who wants use his car for daily commuting and some frequent trips for holiday with an average run >1000 Kms per month.

TGA: What are the focus areas of the firm?

The focus area is to generate a hybrid car eco-system in the Indian market and lead to Frugal Innovation in Hybrid Vehicle Technologies, to provide affordable hybrid vehicles products for the Indian customer.

TGA: How do you define the USP of the start-up?

Our start-up aims to revolutionize the hybrid vehicle industry, by changing the definition of the hybrid vehicle system with our Published Patent Technology i.e, Hybrid Transmission System for Regeneration of power in Automobile, develop affordable customer by offerings with good value proposition for the Indian customer.

TGA: How do you view the market potential?

The market possess a great potential as the products came earlier doesn't hold an affordable prices tag. We have seen positive response in the Indian consumer mind-set, only if the product is affordable and contain value proposition. The cost of mobility is rising rapidly and there is a need to bring affordable options to decrease the same.

TGA: Which are the major markets for your company?

The key market to us is India with an approach towards Tier-1/ Metro cities, with urban working class people. In the next 3-5 years, we would look over to expansion towards South-East Asian countries.

TGA: What challenges have you faced in the journey, and how did you overcome them

The experiences were tough to manage and the struggle is continues. The challenges we are facing are to generate investor interest in automotive/auto ancillary sector, as all the Investors are interested in Internet, healthcare and other service providing businesses.

Whereas, our plan is to manufacture new age Hybrid Vehicles in India and compete in a dominant heavy industry sector.

Working on a hardware product involves a lot of challenges which involves capital, there is a lot wastage generated while developing/fabricating. We need to be critical about our fabrication as it would bring a lot of change in the outcome of testing.

TGA: How do you view the performance of the company so far?

The company is growing steadily and we have seen great response from customer in the last quarter. We look forward to satisfy customer need as soon as possible.

TGA: How is the competitive scenario in its key markets?

The competitive scenario is lean, in our Indian market. There is no presence of Eco-System for Hybrid Vehicles in India, which gives us the opportunity to make dent/mark in the market.

TGA: What are your future plans?

We plan to continue the development of our products. Currently, we are exploring opportunities for Hybrid car conversion space. More importantly, we do have our future plans for developing an Urban Hybrid SUV in future.

TGA: Do college students in India want to work more in hardware start-ups as compared to the IT start-ups?

Firstly, I don't think that shift is happening towards going to a hardware start-up and it doesn't interest investors as well.

IT ecosystem is a platform in which we are putting our real world in to virtual world. It is a way to offer hardware/software products and services to reach out to the educated internet savvy population to explore bigger, new generation market. It is important to let the consumers have access to various offerings in the product with less effort involvement with internet revolution in India. But, our economy needs innovation in consumer based products to make their life simpler in real world.

There is still a buzz in India to go towards IT start-up as it involves neat and clean environment. Moreover, it doesn't include challenges like in hardware start-ups.

I honestly think that college students do like to innovate but doesn't like follow up to commercialization, but some of them do like to pursue it when they have real world experience in their future. However, think twice before getting in to a hardware start-up. TGA

REFORMING INDIAN HIGHER EDUCATION

Looking Beyond

Indian higher education system is going through a major crisis. Reforming education system is a complex issue and needs a greater degree of understanding and public debate. In this article, I raised some critical issues for everyone to think and discuss. I believe that as a Nation, we are now in a position where a fair percentage of the college going age students can afford private education and thus there is a need for us to see if we can divert a greater share of our public funds towards meeting the needs of those that cannot take care of themselves.

- Dr. Kamlesh Misra, Vice Chancellor, Auro University, Surat, Gujarat.

Courtesy: Auro University

In India, we don't have official privatization in education but de-facto privatization exists for over 25 years now. One sure way to determine if our education system is on a decline is to look at the growth of coaching centres. There is a parallel education system being provided for everything. Students are going more and more to coaching centers despite the fact that they are enrolled in schools and colleges.

We are conducting entrance exams for almost everything in this country and our students spend more time in preparing for entrance exams than to acquire knowledge and skills in our university systems. With a few exceptions, our public universities are losing their credibility as they seem to be doing the same job for which India Gandhi National Open University (IGNOU) was created. They are only admitting students and conducting exams.

Systematic Failure?

Most Public Universities with a few exceptions have become local universities where students, teachers and staff are local residents of the city in which such universities are located. To add to the mess a large proportion of them are also related to each other. The best universities are still those that attract students and teachers from across the country such as JNU, Delhi University etc. There is no incentive for our universities to perform either in teaching or in research as they have become centres for political activity for both teachers and students.

What will happen to our education system if the decision to appoint a Vice Chancellor is based not on academic and administrative competencies but more on political considerations? Universities are funded without any considerations of performance in either teaching or research. I do not want the reader of this blog to assume that I am putting down our education system; I am also a product of the same system. I however, recognize that there is too much going wrong with our education system that we have to start public debate on the subject.

Every now and then under pressure, the government decided to set up committees to look at the functioning of our universities and to reform them. The problem is that most of these committees have as its members the very same people who have been responsible for its decline. How do we expect them to reform the system? There is no new thinking in the process of reform of higher education. There are too many interest groups involved for the reform process to take its own course. So now the government plans to dismantle all regulatory agencies and form on National Regulatory Authority. But then they will shift all existing people from these dismantled regulatory agencies into the new one. It is believed

Dr. Kamlesh Misra

that this will solve the problems; however, it will just lead to more centralization with same people running the system all over again. What will be necessary is to have the new National Regulatory Authority run on the same principles of credit rating agencies and it should be free from Government control.

Problems of Private Sector

The other side of the coin is the private sector education. This sector has its own problems due to lack of transparency, accountability and regulation. Those in the Public system accuse the private sector of being too commercial in their character and fleecing students and parents. I cannot say that there is no truth in this and to some extent there is an element of reality in this thinking. But what bothers me most is that the same very people who have always voiced their resentments of the private sector have after retirement from Public Universities and government regulatory agencies joined hands with private players and started dancing on their tunes. This is what I call hypocrisy of the first order.

If you go across the list of advisers in various private universities, colleges and institutions, you will find people who have retired from UGC, AIU, AICTE, MCI etc. All of a sudden they don't find the private sector as being commercial anymore and are open in saying that private sector is the solution to India's education reform. This is the typical I am OK syndrome which exists in our country and to a large extent has been responsible for the mess we are in today.

Although private sector may have its own problems, it is the regulatory system of the country that needs to be held accountable for the unchecked growth of the private sector. From Deemed Universities, to institutions, everything emerges from the incompetence of the regulatory agencies. The level of corruption that exists within the regulatory system is known to one and all in the field of private education. Pointing fingers at the private sector is not the solution to the problem and regulators have to take full responsibility for the mess that has been created both in the public as well as the private sector. As long as special interests will dominate this sector, there will be no solutions to the existing problems and reforms will take a back seat. Every person in government and at policy making level knows the problems but they are unwilling to do anything about it till a point of disaster is not reached.

What needs to be done?

So how do we go about reforming our massive educational system which has been victim of so much administrative and regulatory failure? To begin with let us try and understand the realities and how we can deal with them one at a time.

REBOOTING THE EDUCATION SECTOR

The new HRD minister Smriti Irani is staring at multifarious challenges in her office. For one, she needs to prioritize the gargantuan problems facing the education sector. If she succeeds in making an impact, she can truly make a big difference to this sector and ensure that India reaps the benefit of a demographic dividend of a large and young population. India is at the crossroads of opportunities and challenges and hopefully, the new minister will grab the opportunities and make some path-breaking changes.

The BJP manifesto had covered a wide range of topics on skilling and education. Importantly, it had mentioned that public spending on education would be raised to 6 per cent of GDP. Presently, it is around 3.2 to 3.5 per cent. If the new HRD minister manages to get a budget allocation of 6 per cent, it can truly revolutionise this sector. By doubling the amount of funds, it can vastly improve access to the "last man in the line" and also the quality of education.

There is a huge shortage of teachers across all the sectors. As per an analysis done by Technopak in 2013, India requires a faculty totalling 1.16 million for all the Universities. As against this, India has a total faculty strength of 810,000, which means that there is presently a shortage of 350,000. In 2020, the shortage will rise to 1.38 million. The BJP manifesto has made a repeated mention of shortage of teachers and the need to address it. We will have to wait for the execution plan that Irani rolls out for this.

So, what are the other initiatives which need the urgent attention of the new minister? Availability of finance for education needs urgent attention. In most developed countries, if a deserving student is unable to finance her education, she gets financing on easy terms, without collaterals. In India, education financing is largely based on collaterals provided by the student—invariably, by her parents. This should stop. Collateral-free financing can be made available if a robust framework of credit guarantee funds is made operational.

Our Prime Minister is known to be an innovative thinker and one who comes up with bold, original ideas. In this context, is it possible to conceive the idea of allowing "for profit" institutions in the education sector? Why not? In Gujarat, the Modi government has been aggressively pursuing privatization, even in the education sector, and allowing "for profit" institutions will become a game-changer.

Ninad Karpe, Managing Director & CEO, Aptech Ltd.

1. Given the supply-demand mismatch in Indian education, it is not possible for the public system to support the educational infrastructure required to educate all in the country. This will require us to clearly understand that both private and public sector will have to work together to create a robust educational system in tune with the current realities.
2. Emphasis needs to be given to re-structure the Ph.D programs of all universities to make them demanding and to begin to produce good Ph.Ds who will fill the gap of the impending shortages of quality faculty members in the years to come.
3. Make the regulatory system very stringent and transparent for both the public and private sector. There should be single policy and all higher education institutions will be measured on the same parameters' irrespective of whether they are private or public. We cannot have two different quality standards in higher education. What is good for the public system has to be good for the private sector as well.
4. Reform the funding criteria of public universities. There could be two different modes of funding. All public universities could receive a grant-in-aid which could constitute about 50 per cent of their current funding. The remaining funding should be directed towards needy students directly through a voucher system. The students can go to any public institution of his choice and if admitted the government will fund each of such institutions by the value of the vouchers presented to them. This will ensure that every public university will have to now compete for students to ensure adequate funding. In the event that the needy student is unable to get admission in a public system he could go to a private institution and use the same voucher. The fee in public system has to be brought in line with actual costs. Since most needy students are going to be funded by voucher, all other students will have to pay higher fee to cover the full cost of university education. This will result in some students who can afford private education to exit the public system. The net result will be to open up more avenues for needy students who would otherwise not be able to afford higher education.
5. The model works well and both private and public universities and both will co-exist to create a robust system which meets the needs of a growing economy like India. United States has a good system based on this principle and we can learn something from there. I cannot say that everything will work the same way, but it may be useful to study the USA model and make changes as per our own systems and requirement.

Above all this, there is one aspect that is critical to any reform in our higher education. There is a need to accept that there is a problem and that we need to find a solution to it.

I do not want the readers of The Global ANALYST magazine to assume that I have answered all questions on educational reform. Reform is not about changes in the process of doing things in a country but about changes in the mindset of its population. TGA

17 INDIAN UNIVERSITIES IN ASIA'S TOP 300

The new HRD minister Smriti The annual Asia rankings of QS have been published. It is a coveted list of the top universities and the Asia rankings are a variant of the world university rankings.

Seventeen Indian universities have made it to the list of top 300 universities in Asia. Last year, eleven Indian universities had made it to this list.

IITs lead the rankings of Indian universities, with IIT Delhi at 38th position. IIT Mumbai is at 41st position and five other IITs feature in the top 100.

In the list of traditional universities, Delhi University leads with a ranking of 81. Six new universities have made it into the list – Benaras Hindu University, Punjab University, Manipal University, Amity University, Birla Institute of Science and Technology and the Indian Institute of Information technology.

There are various weightages given to arrive at these rankings:

- 30 per cent for academic reputation
- 20 per cent for student/ faculty ratio
- 5 per cent internationalization
- 10 per cent employer reputation
- 15 per cent papers per faculty and citations per paper

If Indian universities focus on improving these parameters, we will see many more Indian universities in this QS ranking list.

Banking

Rethinking Fiscal and Monetary Policies

Recent few months have witnessed debates in both the print and electronic media on the role of central bank's policy intervention in promoting economic growth in India. These were at times part of criticism against Reserve Bank of India, sometimes part of articles supported by deep analysis of various components of economic growth indicators and more often formed part of discussions by economists and politicians with diverse academic backgrounds and political convictions.

- M G Warrier, Former General Manager, Reserve Bank of India.

The Global ANALYST's May 2014 issue published an article authored by me which covered certain aspects of monetary policy. Here we attempt to discuss, how best the system can take advantage of the recent change of guard in New Delhi to harmonize the handling of inflation and growth by Reserve Bank of India and central government.

One aspect which most of the analysts and critiques usually ignore is that the central bank (RBI) mandated to administer monetary policy has limited instruments to tame inflation and political decisions like those about administered prices, subsidy, waiver of taxes and dues to government and banks and so on taken by central and state governments sometimes set off whatever little is done by RBI to manage inflation. The new dispensation in Delhi should keep this in view and at least in the immediate future be magnanimous in fiscal policy support to RBI initiatives.

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From this perspective, the new finance minister who can take off from a fresh launch pad could factor in some of the following thoughts while he moves on to convert the election promises and the expectations of 'WE THE PEOPLE' who have opted for a change- 2014 vote was for a change and any other interpretation based on politics, religion or minority/majority or left/right can only generate ill-will and controversies- into hard figures in his financial planning:

Agriculture

Agriculture deserves more attention from planners and policy makers, not just on the eve of annual Budgets. This is a neglected sector for historic reasons. GOI should look at agriculture not only from the angles of farm sector production, food security and the millions of agricultural laborers who cannot migrate to urban areas. In the changed scenario, there is need to project agriculture as a sector which should graduate to self-supporting stage viewed from a 'business' point of view. This will need:

- Land reforms including need-based cultivation of crops required for consumption and export/ commercial purposes.
- Change in the approach to agricultural income and taxation thereof.
- Nationalization of idle lands which can be used for cultivation or commercial/ infrastructure purposes.
- Re-look at food stocks and their utilization as also support prices and costs and benefits of public distribution systems across states.

Payback Time for Super-rich

RBI Governors have been all along articulating the central bank's expectations from the finance ministry by way of fiscal policy support for central bank initiatives to tame inflation. As time is running out let us think differently and suggest some one-time measures which the new finance minister could consider:

1. Steps to price land and other resources being 'gifted' to corporates and rich individuals under various pretexts at market rates and plan recovery of costs as and when such 'gifts' start giving return.
2. A one-time surcharge on income tax payable by super-rich and create a rolling fund for financing social sector.
3. According to one assessment, a ten per cent surcharge on the tax payable by taxpayers who report an annual income of more than Rs.1 million will fetch about Rs.110 billion in a full financial year. As the last few years have been more strenuous for those with annual income level below Rs.1 million and that category deserves

some 'cross-subsidization' from the super-rich, FM should consider a one-time surcharge in Budget 2014-15, on the tax payable by those with income above Rs.1 million. The rate of such surcharge could be 10 to 20 per cent depending on policy perceptions. This surcharge collection should be ear-marked for creating a corpus for 'additional' funding of social sector which has been neglected in recent years.

The 'below moderate' rise in plan expenditure, at 6 per cent over the previous year during recent years, shows the saturation level GOI's capacity to mobilize resources for social sector, within the budgetary framework. But this should not dishearten FM. Money is accumulating outside the government fold, almost with the same speed at which heaps of garbage are growing in cities and suburbs. It is government's responsibility to canalize such hoardings for productive purposes. Even if money outside government accounts are not accounted in the budget, GOI's guidance expressed through Budget Speech should be clear about the social responsibility of people who 'grow' exploiting nation's resources. Perhaps the responsibility to develop infrastructure for healthcare, transport, education, old age care and so on in geographical areas close to large industrial establishments could be entrusted to the industrialists concerned. Tata has been doing this voluntarily in certain areas.

National Pension System

Abolish National Pension System (NPS). This will absolve employers' commitment to make 'matching contribution'. As financial position improves, employers including GOI should create pension funds to honor future commitments. Simultaneously, the Employees Provident Organization should be strengthened and the scheme implemented by that organization made more popular, integrating the essential rationale for introduction of NPS.

External Compulsions

India need not buy all the 'products' coming the country's way from rating agencies and brokerages whose allegiance is more towards 'developed world' which is struggling to keep its head above neck-deep debt and other problems including stagnation in growth since a few years. The new government should look for India-specific solutions for India-specific problems. As the country is at a different stage of development, we should stop worrying about the comparative figures of growth rates, savings rates, return on investment or inflation in countries like USA or Australia. Same holds true about SLR norms for banks and GOI dependence on captive sources like SLR. GOI should not hesitate to subsidize social sector or at least improve funding of social sector (including nutrition/food security, education, healthcare and poverty alleviation) even at the cost of other sectors as the dwindling resources flow is impacting further development.

Stop subsidizing interest rates on loans for any purpose including agriculture beyond reasonable levels. Fancy schemes like zero-interest rate loans and 'free' rations should be discouraged and financial support to eligible categories should be given in a transparent manner. Recalcitrant states should be made to fall in line through appropriate disincentives.

Interest Rate Subsidy

Stop subsidizing interest rates on loans for any purpose including agriculture beyond reasonable levels. Fancy schemes like zero-interest rate loans and 'free' rations should be discouraged and financial support to eligible categories should be given in a transparent manner. Recalcitrant states should be made to fall in line through appropriate disincentives.

The word 'subsidy', because of the way in which it is being used by economists, analysts and planners, has got a bad reputation in India. When flowers are destroyed in Holland market to manage prices, or costs of cultivation are supported in the US to ensure production of certain commodities, or food coupons are given at reduced rates or free of cost to certain classes of people in developed countries, there is not much hue and cry over the cost to the taxpayer or 'subsidy' factored in, in different forms. So long as a rational costs-prices-wages-income policy is not in place, so long as starvation wages,

Challenges for Central Banks: Wider Powers, Greater Restraints

The financial crisis and its aftermath

As recently as five years ago, most central bank governors could walk down the main street of their country's capital city unnoticed, their names and faces familiar only to avid readers of specialist journals. Today, in many countries, they are as well known as the government leaders they serve, and their words and deeds are the subject of heated debate in newspapers, bars and taxis. The continuing financial and economic crises have thrust central bankers center stage and cast them as leading actors, simultaneously berated as progenitors of the crisis and hailed as potential saviors.

It is not clear that all central bankers welcome this transition from membership of a hitherto largely anonymous technocratic elite to an increasingly public role.

This white paper argues that central bankers need to adjust to an increasingly public and prominent position on the political stage. A fundamental debate about the position of central banking and its relationship to government is now under way.

The financial crisis has led to considerable interlinked economic, sovereign debt and financial sector turbulence. At the time of writing (September 2012) these concerns show little sign of abating. This has been accompanied by increasing volatility in the political arena and an unstable world against the backdrop of a wholesale macroeconomic global transformation. The benign economic conditions and stable politics of the "Great Moderation" have been shown to be transitory. The global economy confronts its greatest challenges since the Second World War.

Central bankers have achieved a new prominence and become pivotal members of the policy-making establishments of both national and intergovernmental organizations.

As a result of a growing responsibility for financial stability, coupled with their injection of massive amounts of liquidity into the financial system has, central banks in many jurisdictions, have extended their powers and remit beyond their traditional "lender of last resort" function. We suggest in this report that this extension of powers is unlikely to be temporary and may not be entirely desirable. It raises far-reaching questions about the accountability and transparency of the principal activities of central bankers.

In addition to their traditional monetary policy and governmental banking roles, central banks have become national and global firemen with growing responsibility for the resilience of economies, the stability of financial systems and individual financial institutions, macro-and microprudential regulation, and macroeconomic and quasi-fiscal policy. They have gleaned far greater exposure to the media, politics and electorates. They have also taken on a whole range of new strategic and operational tasks and become exposed to far greater financial, reputational and operational risks. As their responsibilities have grown, so have their balance sheets and the accompanying risks.

From acting largely behind the scenes, central banks have now entered the political arena in a very public manner. Whether as principals, agents or advisers, it is unimaginable that there would no longer be a strong political imension to the activities of central banks. If that is the case, to what extent and how should central banks strive to maintain political neutrality? Should fiscal policy, for example, be an arena restricted to elected politicians, or should the views of central bankers be publicly aired as well? To whom should central bankers be accountable, and how transparent should that accountability be to the media and to electorates?

If this expanding remit of new roles and activities is to become permanent, what targets should be set for a central bank, and who should decide whether these targets have been met? While it is comparatively straightforward to set a target for inflation, how does one measure "financial stability," and just what degree of financial instability is deemed acceptable?

The white paper draws three major conclusions:

• The crisis has fundamentally changed the roles of central banks and central bankers, and there will be no reversion to the previous status quo. Adjusting to an increasingly public and prominent position on the political stage will be one of the lasting legacies for central bankers. The role of the central banker has become inherently more powerful, more complex and more contentious.

• The price of extending the activities and powers of central banks is likely to be restrictions on their hitherto sacrosanct independence. In many countries there will be a growing and vigorous debate about the transparency of the activities of central bankers and of accountability to government and the wider electorate.

• Many central banks are confronting a new set of policy and operational challenges. In a palette of disciplines ranging from overall strategy and governance, through risk management, and on to the core operational platform, there is much work to be done in attaining organizational fitness to manage significantly increased and more complex roles.

The report argues that the role of central bankers is changing and will continue to change fundamentally and irreversibly. There are multiple challenges, ranging from the grandly philosophical and strategic to more prosaic concerns. Paradoxically, in the final analysis, it may well be that expanded powers and responsibilities for central banks will lead to a full or partial loss of the independence that has, particularly in the Western world, become the cherished hallmark of central banking. Having been forced center stage as a result of the financial crisis, it is doubtful that central bankers will be able to escape the limelight, so they will have to define and adapt to an increasingly public role.

Courtesy: E&Y

unemployment and under-employment remain at ugly levels, any government, irrespective of changes in political alignments will not be able to go ahead with reforms just to support the upper middle class and rich people who account for less than 20 per cent of India's population. 'Subsidy' will resurface in one form or the other.

The managers of fiscal and monetary policy cannot be blamed as inflation is only one of the indicators that tell them the results of various fiscal and monetary policy measures they initiate. Depending on the direction they look, they are always able to either venture an optimistic prediction or tell us where either of them need correct the next step.

Taming Inflation

For taming inflation or plainly to retain prices within acceptable levels, long-term planning, regulatory support and coordinated efforts by government and stakeholders in the market and better consumer-awareness may have to get much more attention than they are getting now. Periodic wide fluctuations in onion prices are one indicator to show how those who gain control over stocks of goods that have a longer shelf-life manipulate prices.

The government may not need an economist to tell that the position of demand and supply has an impact on prices. Procurement by processing industry and wholesalers who have ongoing responsibility to maintain supplies to retail outlets like departmental stores and supply-chains, purchase by affluent pockets/states within the country which can afford to pay higher prices and export commitments affect prices of vegetables, meat and eggs.

A long-term policy on the food front may have to factor in improving productivity of land under cultivation, encouraging multiple-cropping patterns wherever feasible, ensuring remunerative farm-gate prices, estimating in advance the state-wise requirements for consumption, processing and export and regulating inter-state movements taking into account the potential for increasing local production. For such a change in approach, grass-root-level planning by sharing responsibility with state governments and local self-government bodies has to become a reality. There is a limit up to which sermons and directives from Delhi can help improve the position.

The managers of fiscal and monetary policy cannot be blamed as inflation is only one of the indicators that tell them the results of various fiscal and monetary policy measures they initiate. Depending on the direction they look, they are always able to either venture an optimistic prediction or tell us where either of them need correct the next step. This partly explains the ongoing debate among economists, bankers and political leadership about the direction monetary and fiscal policies should take. Problem is also about various categories of inflation, the methods of calculation of inflation and how the inflation (CPI or WPI inflation, for instance) affect different sectors of economy and different income-groups.

There is no clarity or uniformity in perspective on such things among those who are responsible to prescribe corrective measures. The 'Inflation elephant' is perceived as a different monster by scholars from different schools of economics.

Inflation Targeting

The best conclusion for this article could be a recent quote from my former colleague Dr. Charan Singh who is now the RBI Chair Professor of Economics at the Indian Institute of Management, Bangalore:

"Historically, inflation targeting has been generally adopted by countries recording hyperinflation. In India, that has never been the case. Therefore, inflicting such high interest rates on the Indian public in the name of combating inflation has only resulted in lower investment and growth, and higher non-performing assets. In view of the young population of India, our priorities should probably be on ensuring higher employment and growth and not just low inflation."

Without disagreeing, I would add that inflation need to be maintained at tolerable levels, to maintain stability in cost of living for those who do not have 'savings' to fall upon to subsidise expenses as prices fluctuate to their disadvantage!

TGA

CHINA
Back on Growth Track?

Chinese government is trying to stimulate growth by investing in their railways, spending on public housing, starting large water projects, encouraging lending to small businesses. But will all these put the economy back on growth tract. So the problem is solved? Will China resume rapid growth? Not really!
- William Gamble, President, Emerging Markets Strategies, US.

It only takes one word. One word can send markets soaring and interest rates falling. One word is supposed to create growth and jobs. The word is stimulus. Markets have enormous if misplaced faith in the ability of government action to promote growth.

Since 2008, all of the countries around the world have been engaged in unprecedented stimulus measures. Some of the stimulus has been fiscal. But fiscal stimulus costs money, taxpayer money. It is far more politically popular to use monetary stimulus, which in theory costs nothing.

Perhaps the largest stimulus has been provided in China. It provided 4 trillion Yuan. In contrast the fiscal stimulus provided in other countries looks puny. It began with massive stimulus in 2009 and has been providing more and more ever since.

Stimulus - There is no free lunch

Now once again China's economy is slowing. Every time this has occurred in the past five years, the Chinese government provided more stimuli to keep the economy growing. According to an article in a recent addition of The Economist, China is at it again. They are trying to stimulate growth by investing in their railways, spending on public housing, starting large water projects, encouraging lending to small businesses. So the problem is solved. China will resume rapid growth.

Not really. First, this is China. Things may not what they initially appear to be. Second, anyone familiar with economics specifically or life in general will be happy to inform you that there is no free lunch. The problem with stimulus or any government program for that matter is that there are always unintended consequences. This is especially true when governments start to play with the financial system. Programs designed to help the economy conflict with programs designed to strengthen the system.

The Economist's list is nothing new. The Chinese have been investing in their rail system for years. It was part of an earlier stimulus package until the crash of a bullet train in 2011. The program was stopped during an investigation that resulted in the discovery of massive corruption. But the railway funding along with public housing was theoretically restarted in 2012 and has been continuing ever since more or less.

The less part has to do with how these projects are funded. Public housing is supposed to be funded by local governments. Revenue for public projects in most countries is provided through taxes usually real estate taxes. Not in China. There are only a few experiments with real estate taxes. Most local governments fund themselves with land sales. All land belongs to the government subject to sometimes-theoretical rights of those who live there. Local governments give the local farmers "compensation" then sell the land to developers.

Local government revenue has not been able to keep up with the demands for more stimulus projects. Most of them are basically broke. Two years ago their problems become so bad that local governments' bank borrowing was restricted. So the local governments turned to the shadow banking system. In theory the system is not allowed, but since it was a source of funding, the government turned a blind eye to it. Now it makes up almost half the borrowing in China.

Unintended Consequences

Since it was unregulated for so long, it has developed serious risks, which are now being addressed by the government. But the unintended consequence is that the process of reigning in the shadow banking system dries up credit that the local governments need to use for the proposed stimulus packages.

The stimulus package just announced by European Central Bank (ECB) Chairman, Mario Draghi suffers from the same problem. European banks are supposed to be able to get cheap money from the ECB to lend to small businesses. But the ECB is also trying to get the banks to strengthen their balance sheets and clean up the over €1 trillion dollars of bad loans on their books. So the banks are unlikely to take advantage of the program.

Bad debts are also major problem in China. The money owed by Chinese companies shot up from 90 per cent of GDP in 2007 to 124 per cent by the end of 2013, a total of Rmb 64 trillion ($10.6 trillion). But companies were rather conservative compared to local governments. Their debt increased 70 per cent in just two years to Rmb 17.9 trillion ($2.95 trillion). It is not just the debt itself. The money has been spent in very inefficient ways. It now takes 3 Rmb of credit to create 1 Rmb of growth.

REALTY Bubble?

But the real problem with the most recent stimulus package is not that it has been tried before with limited success. Nor is it that the money for it is simply not there. The real problem is that it does not address the reason for the slowdown: trouble in the real estate sector.

Real estate is probably the most important sector in the Chinese

economy. Real estate construction accounted for about 16 per cent of the Chinese GDP last year. This level approaches the levels in Ireland and Spain before their housing bubbles imploded.

Not only is it important to the economy, it also represents the main support for local governments. Land sales and property related taxes provide 38 per cent of the total government revenue. Real estate is important to local governments not only for the income. High land valuations are important collateral for their loans. Given its importance, any wobble in China's real estate market will have a significant slowdown of the entire Chinese economy.

But is there any need to worry? According to the latest official data house prices in China's 70 biggest cities rose an average of 0.3 per cent in February alone. The annual increases in Beijing, Shanghai and Shenzhen region were 10.3 per cent, 13.1 per cent and 12.8 per cent respectively. According to Wang Jianlin, a developer and China's richest man, "There are only two possibilities to explain why people are predicting a collapse of Chinese real estate. Either they have ulterior motives or they have insufficient intelligence."

Is Wang Jianlin right? With such continued strong growth is there any reason to suspect problems? The growth figures for Chinese cities are actually slower than for the US housing market. The Standard & Poor's/Case-Shiller index, which tracks property values in 20 metropolitan regions across the US, rose 13.4 per cent on an annual basis. Monthly increases in the price of US during the first quarter rose 0.4 per cent also faster than China.

The cause for concern is not the growth but the rate of growth. The blistering pace of growth

in 2013 has begun to moderate. The number of Chinese cities experiencing growth reached a 13 month low. The problems are not in the large cities. As the size of the market declines, the problems rise. Prices in first tier cities are strong. Prices in second tier cities are shaky. Prices in third and fourth tier cities are starting to decline.

Growth in land prices has also started to slow. They have declined from 2.6 per cent growth in the fourth quarter to 2.1 per cent. This is the first slowdown since 2012. Such a decline would hardly be noticed except for the collateral issue. Many local governments need to refinance. Falling prices of their collateral won't help.

Though prices are generally increasing, sales are not. Property sales gained 26 per cent in 2013, but they have slowed substantially since then. This is true not only in smaller cities but in Beijing and Shanghai as well. Beijing had a 65 per cent fall in sales of pre-owned homes and a 56 per cent fall in sales of new homes in the first quarter. Shanghai had similar numbers: a 56 per cent fall in pre-owed homes and a 40 per cent fall in the new home market. The average fall in sales for the top ten tier one cities was 20 per cent in the first quarter. The first six days of April saw a decline of 23 per cent in 42 cities.

With all the declines, it is surprising that prices haven't fallen as well. Price cuts are rare in China and only used as a desperate measure. Most developers faced with slow sales start with discounts or extras. For example in Qinhuangdao east of Beijing two large developers, Evergrande and Vanke, are in a price war with their smaller competitors. A Chinese price war does not necessarily mean a fall in price. Instead it usually means a rise in discounts or extras. Vanke offers Rmb 50,000 in cash rebates. Evergrande's offer is to pay for two thirds of the 30 per cent down payment required by law until construction is completed in a year. In other lethargic markets developers are offering free interiors, household appliances or parking spaces.

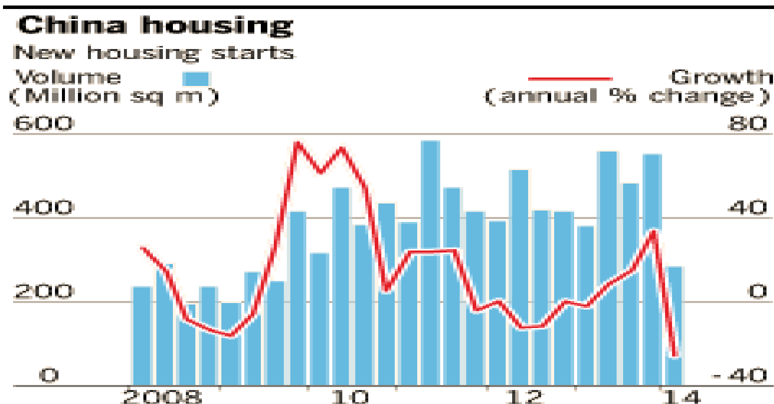
Corruption Concerns

Another problem is President Xi's fight against corruption. With limited investment options, real estate is a preferred place to put your funds, even if you made the money in ways that weren't exactly honest. The government is presently implementing a property registry system and will probably force government officials to register their assets in an attempt to clamp down on corruption. The possibility of exposure will induce many officials to sell the luxury apartments they own and not buy more.

So far the slowdown is not critical at least in first tier cities. But many smaller cities are severely overbuilt and a correction is likely. But any air coming out of a Chinese property bubble will have an impact far beyond China.

Thanks to the generosity of central bankers, investors, especially in Asia, have been searching for higher yielding investments. The result is an extensive direct exposure to Chinese property companies through their bonds. Chinese developers have dominated the Asian bond market. A fifth of all non-financial bonds sold by companies across Asia in 2013 came from Chinese real estate companies. They provided more that 40 per cent of new issuance. All of this debt added up to $48 billion of US dollar bonds and $6 billion in renminbi denominated debt. In addition to the bonds, there is probably another $30 billion in syndicated offshore loans outstanding.

The US debt must be a real problem since renminbi fell as low as 6.2509 renminbi against the dollar this week. This is the weakest since Dec. 12, 2012 when it hit 6.2588 yuan. That is a loss of 3.1 per cent for 2014 which more than offsets last year's 2.9 per cent gain. The renminbi is now Asia's worst performing currency.



With the property market softening, the bonds are deeply underwater. Vanke and Evergrande are the largest and second largest real estate developers in China. Country Garden is number eight. Their bonds trade at about 92 cents on the dollar a fall of 8 per cent. Bonds of smaller developers have fallen further. Developers' shares have fallen along with their bonds. The shares of Evergrande and Agile, the ninth largest developer, have fallen by a quarter.

To their woes, the Chinese government has tightened credit. Data released on April 15th showed that total social financing, the widest official measure of credit, fell by Rmb 560 billion ($90) billion or 9 per cent year on year. In contrast the US taper has been slowing at only $10 billion a month since the beginning of the year.

Shadow-banking Sector

Worse much of the credit from the shadow-banking sector has disappeared as part of the government's attempt to strengthen the banking system. Non-performing loans at Chinese banks have been rising. So they have already been discouraged from lending to developers. Their main alternative was the shadow banking system, but new loans have declined 78 per cent year on year. New loans are also more expensive. Trust loans are extended for interest rates of about 11 per cent.

With all the problems, there is always the possibility that a slowdown could turn into a collapse. This is especially true in China where local debts are so intertwined that the collapse of one company can lead to the collapse of many more. In the past the Chinese government has prevented a hard landing by just issuing more debt. But there is a limit to this policy.

Outlook

The irony is that the real estate bubble, the shadow banking system and the corruption were all unintended consequences of stimulus. Stimuli in the US and in Europe also have similar unintended consequences. The exceptionally loose monetary policy was supposed to help stimulate sustainable growth and employment. Instead it has gone to all the wrong places. It has not created a real estate bubble but other asset classes like junk bonds and equity prices are in nose—bleed territory with unsustainable valuations. The Chinese stimulus went into housing that no one lives in and in bridges to nowhere. Neither is sustainable. So next time you read an article celebrating government stimulus, you might consider that it might not be good news at all. TGA

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INDIA - FUNDAMENTALS REMAIN STRONG

Despite frustration over current slow economic growth

Not so long ago, the Indian economy showed consistent upward growth trajectory, which made it the second fastest-growing economy in the world. It's high growth rate, backed by a favorable demographic transition and the strong global economy, fostered rising consumption in virtually every sector. However, since the start of the global financial crisis (GFC), India's economic growth has been affected by reduced foreign inflows and lower exports.

The country's GDP growth witnessed a falling trajectory for the first time in a decade, and it currently stands at 4.5 per cent y-o-y (revised from the 5 per cent estimated by CSO previously) as of the full fiscal year (FY) 2012-2013.

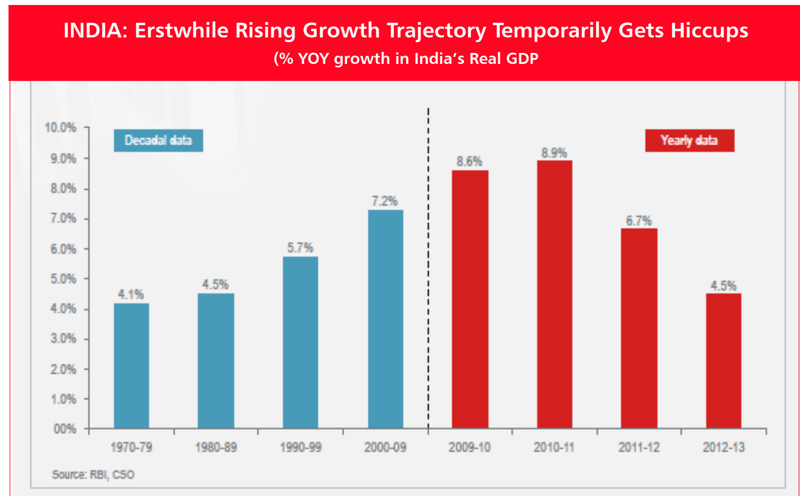
Nevertheless, India continues to lead in terms of GDP growth over comparable emerging and developed nations, largely on the back of its socioeconomic fundamentals that remain intact. With a population younger than other comparable emerging nations, India's favorable demographics and ensuing rise in consumption are sure to last longer than those in other countries, promising a prolonged period of higher GDP and income growth.

The median age of India's population is only 26, while that of other leading emerging nations ranges from 30 to 40. In leading developed nations, the median age falls in the range of 37-46, signalling a relatively lower propensity to spend and a much lower GDP growth rate compared to emerging countries.

At present, the global risk perception of emerging economies (including that of India) is relatively higher, owing to weak

Table 1	Real GDP	Income Growth	Median Age
	Annualised average growth 2005-2013 (%)		2013 est
Leading emerging nations			
Brazil	3.6%	11%	30.3
Russia	3.7%	12%	38.8
India	7.4%	10%	26.7
China	10.2%	18%	36.3
Leading developed nations			
US	1.2%	2%	37.2
UK	0.6%	-1%	40.3
Germany	1.5%	3%	45.7
Japan	0.6%	2%	45.8

Source: IMF, CIA World Factbook



worldwide investor sentiment. India, in particular, has had to face the dilemma of twin deficits-current account and fiscal-owing to a fall in foreign inflows and domestic tax collections, along with high imports (particularly gold, oil and durables).

However, the economy's inherent advantages highlighted above have not gone fully unnoticed. The World Investment Report 2013, released by the United Nations Conference on Trade and Development (UNCTAD), has repeatedly identified India as the third most attractive destination in the world for investment during the 2013–2015 period, as revealed through a survey of 159 top multinational companies. Some of the main reasons identified by these companies included India's vast and untapped market, along with labour cost, which is lower than in many other emerging markets.

Table 3: Number of new firms incorporated	
Emerging Economies	Annual avg growth 2004-11 (%)
Russia	35.4%
India	26.0%
Indonesia	13.3%
Hong Kong, China	12.7%
Singapore	9.7%
Brazil	6.3%
Korea	5.7%
Malaysia	2.5%
Australia	0.9%

Source: World Bank Entrepreneurship Indicators, 2013

India's per capita income continues to rise and fuel consumption.

Data on rising consumerism in India shows that rising income has resulted in increased consumption of several durable goods and services that were of little significance to ordinary Indians around a decade ago. Therefore, despite the challenging operating environment that currently exists in India in terms of policy inertia, corruption and bureaucracy, among others, the country continues to witness high growth rates in the registration of new firms.

The World Bank's Entrepreneurship Indicators -for 2013 show that during the 2004-11 period, the number of new firms registered in India has grown by 26 per cent y-o-y on average. This was the second highest growth observed across all comparable emerging economies of the world (see Table 3). **TGA**

Ashutosh Limaye,
Head, Research and REIS, Jones Lang LaSalle, India

MENDACITY IS A SYSTEM OF LIES

Both gold and silver have seen some excitement in the recent times. By the end of 2014, it's expected that the market will stop worrying about gold and silver trending toward their lows of 2008, and instead will begin wondering when the highs of 2011 will be taken out!

- Mark Lundeen, Independent Analyst, Precious Metails, US.

Mendacity, like Janet Yellen's "growing economy", is a system of lies. With "economic growth" managed by politicians, economists and bankers how else could it be? These self-described "policy makers" are comfortable dealing with half-truths and deception. Economically speaking, their chief concern is that key statistical data series for "growth", and inflation as well as their contrived valuations for the financial markets remain above question for fear the truth could cause their house of cards to come tumbling down.

This has been my opinion for years, but this week the Financial Times reports "a cluster of central banking investors have become major players on world equity markets" so maybe I'm on to something. Geeze Louise; the Financial Times informs us that these central banks have purchased $29 trillion dollars of assets in the global financial markets. With that kind of money, we can be sure the college professors in charge of "monetary policy" have "injected" a heavy dose of "stability" into asset valuations. As a consequence of this "policy" central bankers undoubtedly removed a significant percentage of the shares formerly traded daily on the stock market. As money today is merely a legal fiction, a tool of "policy", what, if anything, is stopping these professors from purchasing 100% of the float for every publicly traded company in the global stock markets? And what happens when they have to sell? What if they decide they never have to sell?

In the past few years I've documented a new and bizarre phenomenon in the stock market: how since January 2000 the historical relationship between valuation and trading volume at the NYSE going back to 1900, has apparently been turned upside down. In an unmanaged market, rising trading volume indicates rising demand for stocks, which resulted in rising stock market valuations up until January 2000. Declining trading volume indicates falling demand for stocks which resulted in falling stock market valuations up until January 2000.

We'll never know how far the stock market would have declined in 2002 & 2009 had the Federal Reserve not intervened. However, only the fear of repeating the depressing 1930s would have motivated a "cluster of central banks" to use such massive monetary inflation to purchase stocks at prices far above what the free market was willing to pay. Since the stock market's low of March 2009, incredibly the Dow Jones has increased 159% on a 62% decline in NYSE trading volume. This could only be possible if the 29 trillion dollars from central banks had greatly reduced the quantity of shares trading in the American stock markets – so this must be the case.

When one realizes that central banks "inject liquidity" into their economies by purchasing debt with monetary inflation (translation: money created out of thin air / money at no cost to the central bank), then this revelation by the Financial Times has ramifications beyond the stock market.

"Policies have contributed to a stronger stock market just as they did in March 2009, when we did the last iteration of this. The S&P 500 is up 20% plus and the Russell 2000, which is about small cap stocks, is up 30% plus."

- Doctor Benjamin Bernanke, CNBC Interview with Steve Liesman 13 Jan 2011 (1:40 PM).

It takes much more than just jawboning by the Fed Chairman to move the S&P 500 up 20%. As the American stock markets are the largest in the world, it's not difficult believing that half, or even more of the $29 trillion came from the Federal Reserve to "stabilize" American stock and other asset valuations. No wonder the Federal Reserve can reduce its monthly QE purchases of T-bond and mortgages by tens of billions with little effect on the financial markets; instead they have been directly monetizing the stock market and who knows what else that's not being reported on its balance sheet? Remember during the credit crisis when the Federal Reserve extended $13 trillion dollars in credit to European banks? Do you see that reflected anywhere in the Fed's balance sheet?

Since the Federal Reserve's creation in 1913, they have never had to submit their assets and liabilities to a public audit; and they're not going to start now since they know central banking could never survive if the truth was revealed. When Alan Blinder was selected as the Fed's Vice Chairman in 1994 he was as giddy as a schoolgirl as he made the circuit of financial news programs. From program to program he told all who would listen to him:

"The last duty of a central banker is to tell the public the truth."

- Alan Blinder, Vice Chairman of the Federal Reserve

It's obvious he's an influential left-leaning academic who is much loved in Washington as he is a proponent of big government solutions for problems best left to private individuals in a free market. When the economic system he helped construct inevitably comes crashing down, we can count on Doctor Blinder and his ilk blaming "unfettered capitalism" for the fall.

Look at the US national debt (below) and ask yourself what in the hell are the politicians in Washington spending all this borrowed money on? Absolutely nothing that will produce a profitable return. Here's why Uncle Sam is always rolling over his old debts: these borrowed funds are mostly being squandered to buy votes in the next upcoming election. But mainly these funds are spent with the intension of creating a class of citizens whose dependence on government is absolute – call it what it is: socialism. Washington's appetite for spending borrowed money will eventually result in ruin for all; either when the debt market refuses to rollover past debts that span back to the Great Depression, or when the Federal Reserve becomes the sole purchasers of US Treasury debt.

The most frustrating thing is that what is happening in American today is that it is nothing new. The 20th Century was an epoch where a self-appointed intelligentsia imposed their version of a socialist utopia on billions of people resulting in total war between the state and its citizens who desired nothing more than to enjoy the fruits of their labor. Aside from the many international wars from 1917 to 1989, a hundred-million people were murdered by their own governments during the 20th century to institute socialism. I'm not saying that Washington intends to murder its citizens. I certainly hope not, but desperate politicians are known to do desperate things to maintain their hold on power, and during a crisis politicians are willing to consider options that were unthinkable during the good times.

This is a point not dwelt upon by academics today, and we should all be concerned that proponents of big government like Alan Blinder, Janet Yellen and yes, President Obama, are apparently blind to the coming crisis. There can be no doubt how this exponential growth in the national debt will end; in chaos with all too many people demanding the government do something to solve the problems the same government created. Like Lenin said in 1917: "the worse things are, the better it is for us." That's an awfully cynical view of the world, but currently there are many people in the Democratic party who began their political careers in anti-Vietnam War, left-wing pro-communist organizations during the 1960s because they really didn't like America or limited government then, and still act like they don't like it now.

The Leveraged Buyout mania (LBO: bubble #1) popped in the late 1980s. Greenspan's response to that was to lower the Fed Funds rate 5% below the US T-bond yield which ignited the high-tech bubble (bubble #2). He began tightening monetary policy in the mid-1990s, eventually popping the high-tech bubble in 2000. Greenspan then flooded the financial markets with "liquidity" again in the early 2000s lowering the Fed Funds rate a full 5% below the T-bond yield in 2002 which inflated the mortgage market bubble.

Greenspan may have begun the mortgage bubble, but it was Doctor Bernanke who terminated it by raising the Fed Funds rate a mere sixty basis points above the T-bond yield in early 2007. If you compare Bernanke's 2007 yield inversion with the pre 1981 inversions, you get a sense of how fragile the US dollar economy had become. Our largest bubble (#4) is in the bond market, although stock and real estate prices are also being inflated.

There is no way that Janet Yellen is going to raise the Fed Funds rate above the T-bond yield until monetary chaos forces her to because when this bubble pops, interest rates will soon be at double-digit levels. This will result in many hundred-trillion dollars worth of interest rate derivatives coming into the money, with the big NY banks as the losing counterparties. As happened in 2007-08 when the big banks defaulted on many trillions of dollars of derivatives written on

US mortgages, they will again default on their obligations and face bankruptcy. And even if derivatives did not exist, this economy is too weighed down with debt to withstand even a small spike in interest rates, which would surely send it into a deflationary spiral rivaling the crash of 1929.

This is pretty depressing stuff. What can we do to protect ourselves from a global economic collapse? My next chart below puts things into perspective.

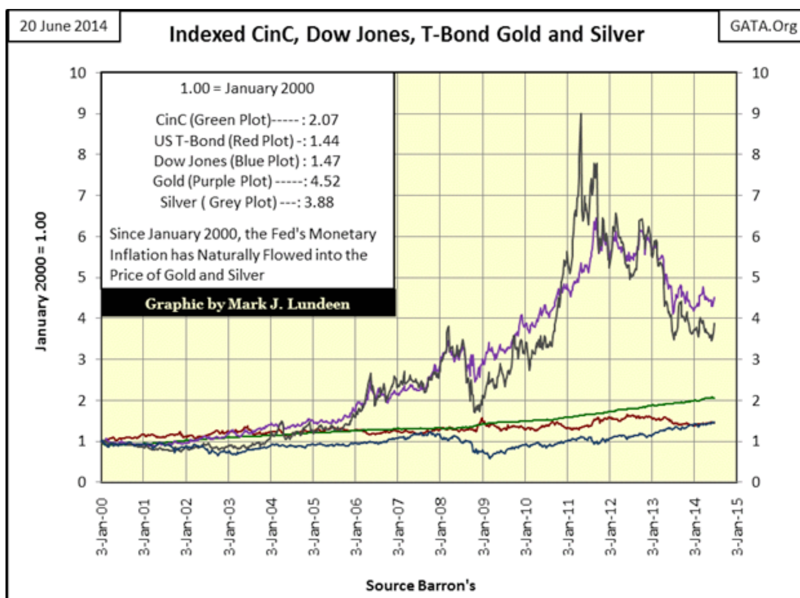
It was only this week when we were informed by the Financial Times of the massive purchases central banks have been making in the financial asset markets, but the CBs have been "injecting" trillions into the financial markets for over a decade as evidenced by this quote by Warren Buffet from 2003.

"Give me a few trillion dollars and I will show you a good time too!"

-Warren Buffet (comments upon the economic recovery efforts of the Federal Reserve of 2003)

For all the money central banks have dumped into the stock market since 2000, the Dow Jones (Blue Plot) has only recently (late 2013) caught up to the capital gains in the US Treasury market (Red Plot), and both the Dow Jones and US Treasury bonds have gained significantly less than the rate of CinC expansion (Green Plot). That isn't much of a bull market, but it's the only bull market CNBC reports on.

Now let's look at the bull markets almost everyone has been ignoring since 2001: gold and silver. No doubt about it; the old monetary metals have been in the dog house for the past few years. However, we should note that their current lows are far above the lows of their most recent correction in 2008; in addition, over the past year the bears have failed to drive precious metals prices decisively below the lows of last summer. Both gold and silver have seen some excitement this week. By Christmas I expect the market will stop worrying about gold and silver trending toward their lows of 2008, and will begin wondering when the highs of 2011 will be taken out. In a world where lying to the public has become Washington's "policy" of choice, the old monetary metals are looking pretty good right now.



Why Precious Metals Remain Attractive

They say the third time's a charm - and if the narrowed range that has confined silver over the past two years is any indication, those participants patient enough should be rewarded handsomely for their extended stay on the long side of the field. Going into this month, silver was presenting a third iteration of the patterned reversal - with all of the positive momentum trappings that had defined the previous two.

Adding fuel to the fire and despite the fact that silver had maintained a bid above last years low, those late to the short-side of the tracks or holding more dogmatic persuasions had built up a dangerously large short position almost 50 per cent above last years record congregation. Meanwhile, the disinflationary macro backdrop that had filled the sails for the shorts over the past three years had shifted 180 degrees and was now blowing firmly out of the south. Preaching from the pulpit we would caution - beware the fury of a patient position.

We would also caution anyone connecting the recent moves in precious metals directly to the latest geopolitical concerns in the Middle East, because the typical performance markers of those special situations are simply not present. Namely, the silver-gold ratio has been trending higher - which is more indicative of a reflationary bid than fear. Typically, in a geopolitically driven move, gold will strongly outperform silver as a safe-haven reaction to those concerns. While the recent events have likely helped provide additional catalyst for the sector, silver and gold remain under the influence of a much broader narrative. To a large degree this is the mirror of the cycle, whereas, the killing of Osama Bin Laden in May of 2011 provided the prick that popped an overextended market.

Our market strategy is formed from a more proactive than reactive posture, because we typically take a longer-term view on markets and the spectrum of backdrop conditions they appear in the foreground to. This isn't to say that when conditions and information change we don't adapt - we do, but that we allow a wider berth of perspective when evaluating a position. This is one of the primary differences between how we weigh a market or asset and how a more classical technician reacts to price.

The bottom line with respect to silver and the precious metals sector in general, is that conditions have only improved in the space over the past year - while their respective market structures has been trending to resolution. Anyone that has followed the broader narrative behind the sector and not just the daily machinations—namely the macro backdrop in long-term yields and the propellent currency markets upstream—would have come to a similar conclusion that the precious metals sector has remained very attractive.

Courtesy:investing.com

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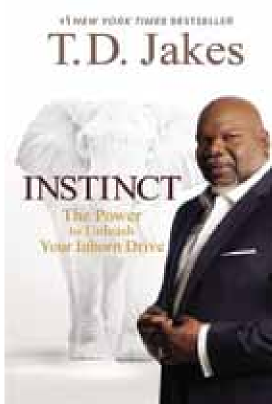


Release Date:
June 05, 2014
Price $15.15
(288 Pages)
FaithWords

Instinct: The Power to Unleash Your Inborn Drive

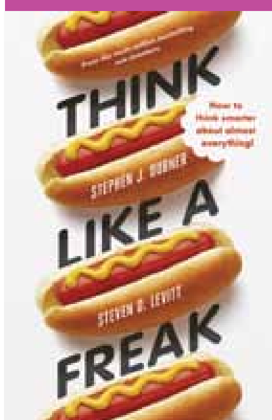
Modern life can seem like being lost in a jungle. With distractions and dangers emerging from every direction, it's easy to lose focus. Over time, we lose touch with one of our most powerful, purposeful, God-given attributes—the desire to be fruitful and multiply, what Bishop T. D. Jakes calls our "instinct for increase."

Combining historical, cultural, and personal examples with biblical insights, in INSTINCT Bishop Jakes outlines how to re-discover your natural aptitudes and re-claim the wisdom of your past experiences. When attuned to divinely inspired instincts, you will become in sync with the opportunities life presents and discover a fresh abundance of resources. Knowing when to close a deal, when to take a risk, and when to listen to your heart will become possible when you're in touch with the instincts that God gave you.

Jakes takes readers on a journey into their instincts—God-given natural aptitudes that, when examined, reveal considerable opportunities and resources to help people succeed in business, overcome obstacles, gain a better sense of direction, stay protected from predators, become better leaders, and build more inspiring relationships, among other things. "Instincts are the product of what we have and what we want to have," writes Jakes. "They are the inner compass guiding us from where we are to where we want to go." A big part of understanding how that inner compass works, though, is heeding Jakes' advice not to settle for less than God's best. Being in touch with inner instincts helps individuals meet life's challenges without fear. This positive book encourages readers to get in touch with their instincts, trust them, and rely on them, because they come from God.

About the Author

Bishop T. D. Jakes is one of the world's most widely recognized pastors and a New York Times bestselling author of over thirty books. Named by Time magazine as "America's Best Preacher," his message of healing and restoration is unparalleled, transcending cultural and denominational barriers.



Release Date:
May, 28, 2014
Rs.306
Paperback
Pages 256)
Penguin

Think Like a Freak: How to Think Smarter about Almost Everything

Don't get me wrong, I really enjoyed reading this book. The way that the writers can intertwine different stories to make valid points is remarkable. It really does a good job of proving by observation how some things in life seem irrational, but ultimately make a lot of sense.

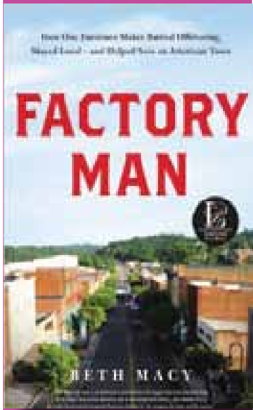
The only problems that I have with the book are the length, just over 200 pages, and it rehashes a lot of stuff that they go over in other works. This book is easy enough that you can probably read in one or two sittings and it is very captivating throughout. I really enjoyed the anecdotes they use to bring across the point of the book that everyone can benefit by thinking differently about the world (i.e. think like a freak).

One of the main things that I liked is how they describe the way children ask questions and are so curious about everything. Children don't have a set worldview and are eager to learn by asking a lot of questions. Parents often dismiss these questions when it might be valuable to see the world through a child's eyes and challenge set it stone opinions or thoughts.

The writers also make a good point about how the three hardest words in the English language are "I don't know" and how it should be okay to say these words. By applying these words to our lives, we will first of all lie a lot less and more importantly be able to demonstrate a willingness to find out answers to questions we simply don't know. As I stated before, I wish that this book was longer, but I really did enjoy all that was written and would recommend "Think like a Freak" for those interested in challenging their current worldview and seeking to approach life in a creative way.

About the Author

Steven D. Levitt teaches economics at the University of Chicago. His idiosyncratic economic research into areas as varied as guns and game shows has triggered broad debate. He recently received the American Economic Association's John Bates Clark Medal.



Release Date:
July 15, 2014

Hardcover $ 18.20 (464Pages)

Little, Brown and Company

Factory Man: How One Furniture Maker Battled Offshoring, Stayed Local - and Helped Save an American Town

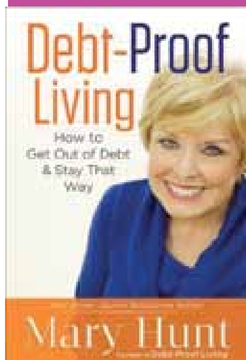
With over $500 million a year in sales, the Bassett Furniture Company was once the world's biggest wood furniture manufacturer. Run by the same powerful Virginia family for three generations, it was also the center of life in Bassett, VA-an unincorporated town that existed solely for the people who built the company's products. But beginning in the 1980s, the Bassett company suffered from an influx of cheap Chinese furniture as the first waves of Asian competition hit, and ultimately was forced to send its production offshore to Asia.

Only one man fought back. That man is John Bassett III, a descendant of the Bassetts who is now chairman of Vaughan-Bassett Furniture Co, which employs more than 700 Virginians and has sales of over $90 million. In FACTORY MAN, Beth Macy brings to life Bassett's deeply personal furniture and family story. As she shows how he uses legal maneuvers, factory efficiencies, and sheer grit, cunning, and will to save hundreds of jobs, she also discovers the hidden and shocking truth about industry and America.

Vaughan-Bassett (an offshoot of the family business), along with hundreds of jobs. Macy's riveting narrative is rich in local color. It traces the history of the Bassett family and the U.S. furniture trade, from the "billowing smokestacks" of Southern towns along Route 58 to the imposing factory complex near Dalian, China, and eventually to Vietnam and Indonesia, where manufacturers sought ever-cheaper labor. Macy interviews the Bassett family, laid-off and retired workers, executives in Asia, and many others, providing vivid reporting and lucid explanations of the trade laws and agreements that caused a way of life to disappear.

About the Author

Beth Macy writes about outsiders and underdogs. Her work has appeared in national magazines and The Roanoke Times, where her reporting has won more than a dozen national awards, including a Nieman Fellowship for Journalism at Harvard. She lives in Roanoke, VA.



Release Date:
May 08, 2014

Hardcover $ 11.76 (320 pages)

Baker Publishing Group

Debt-Proof Living: How to Get Out of Debt & Stay That Way

Debt-Proof Living is...

... a plan that equips you with the best ways to get out of debt

... a way of life that allows you to live below your means

... a simple approach on how to save, give, and pay off credit-card debt

Mortgages, credit card balances, student loans, car loans, and home improvement loans have become a way of life. All that debt is putting not only our present at risk as we live paycheck to paycheck but our futures in jeopardy, as shockingly few of us have enough put away for retirement. But personal financial expert Mary Hunt wants you to know a radical but simple truth—you really can get out of debt and stay out of debt—for the rest of your life.

If you have been struggling to pay the bills, if you feel like you just can't make your finances work, if you feel like your money situation is getting out of control, you need this book. It can change your life, just as it's changed the lives of hundreds of thousands of others

In this life-changing book, Mary Hunt shows you how to live a rich, fulfilling life without any consumer debt. By applying her simple principles and specific methods, you will learn how to effectively manage and maximize the money you have. No more guessing, wondering, or worrying. Just peace and a more abundant life. What have you got to lose?

About the Author

Mary Hunt is an award-winning and bestselling author, a syndicated columnist, and a sought-after motivational speaker who helps men and women battle the epidemic of consumer debt. She is founder and publisher of the interactive website Debt-Proof Living, which features financial tools, resources, and information for her online members. Her books have sold more than a million copies, and her daily newspaper column,

TGA

Test Your Biz IQ

Q.1This company markets fresh chilled chicken under Real Good Chicken (RGC) brand and ready to eat under Yummiez brand. It recently invested Rs 60 crore on expansion of plant capacities. Identify the company?

Ans. Godrej Tyson Foods

Q.2 Amazon recently unveiled a high-end handset boasting "breakthrough technologies" and a move aimed at challenging market leaders Apple and Samsung. What is its name?

Ans. Fire Phone

The social media website Facebook has launched a self-destructing photo sharing app. What is it called?

Ans. Slingshot

Q.3 Emami, one of the leading home-grown FMCG firms, in a move to strengthen its portfolio in the personal and healthcare segment, has acquired a sanitary napkin brand, Identify this brand?

Ans. She Comfort

Q.4 The Rani-ki-Vav (the Queen's Stepwell) located in North Gujarat district of Patan has been inscribed in the UNESCO's World Heritage List. What is it?

Ans. Rani-ki-Vav, a cultural site, is located on the banks of the Saraswati river and was initially built as a memorial to a king in the 11th century AD.

Q.5 Foreign investment of 10 per cent or more in a listed company will now be treated as foreign direct investment (FDI) as the government has accepted the report of a committee on rationalizing definitions of FDI and FII. Who headed the committee?

Ans. Finance Secretary Arvind Mayaram

Q.6 The founder of this American firm is in the lines of fire. He was recently asked by his board to either resign immediately as head of the company he founded, or the board would fire him with cause. Who is he? Also, identify the company he founded?

Ans. Dov Charney. The company in question is, American Apparel.

Q.7 Vishal Sikka, the newly appointed CEO and MD of Infosys, worked as the first CTO of this global software company. Name the company?

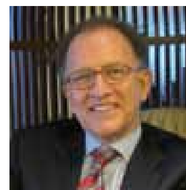
Ans. SAP AG

Q.8 This company recently announced its plan for a "voluntary delisting" from the Indian bourses. Which is this company?

Ans. Essar Oil

Q.9 Mahindra & Mahindra, India's leading automaker, which has been developing a range of electric vehicles, has said that it will review technology patents that this American electric car maker has made free for applicability to its products. Identify this company?

Ans. Tesla Motors



Q.10 Which term was first used and also brought into fashion by World Bank Economist - Antoine Van Agtmael during the 1980s?

Ans. Emerging Markets

Q.11 Identify the Microfinace comppany is one of the only two financial entities that was given an in-principle banking licence.

Ans. Bandhan

Q.12 Identify the Microfinace comppany is one of the only two financial entities that was given an in-principle banking licence.

Ans. Bandhan

Q.13 The pharma major that changed its name in the early 70s because another South Indian company with the same name challenged its usage. It had to choose another name with the letter 'T' because it had made huge investments in moulds with the letter T. So it chose its current name by fluke. Name the company.

Ans: Torrent pharmaceuticals

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