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Editorial Preamble: A free hand

1 POLITICAL REFORMS

It's just the stimulus to economic reforms

INDIA DECIDES: A stable, unifying government in the world's largest democracy. The people have spoken & spoken decisively: voting out confusion, voting in clarity; voting out schism, voting in development, voting against arrogance, and voting for ability. 2009 may just be the beginning of India's century: A year when India dumps its old baggage & looks to the future with humility, unity and hope.

A political reform is an economic reform. And most urgently required reforms lie in the political sphere. Veteran policymaker and chairman of the 13th Finance Commission Vijay Kelkar is fond of saying that India needs a (political) reform stimulus than a fiscal stimulus. Fair enough, but what reform? Build physical infrastructure, invest in education and healthcare, say the majority of our CEOs. Implement the proposed Goods and Service Tax right, say some others. Financial sector reforms, according to yet others. All these are relevant, but the most pressing economic reforms are squarely in the realm of politics.

An easy example of political reform that will directly yield huge economic returns is appointing ministers for telecom and roads, whose prime focus is rolling out telecom services and getting roads built, rather than making money from these sectors.

A slightly more complex example of political reform leading to economic gains is ending patronage of power theft and power give-aways without compensating the utility from the government's budget.

Nearly half of the power generated in this country is not paid for. Such unviability induced by base politics is the only real constraint of India's power sector. If power theft is stamped out, as is happening in West Bengal and Gujarat, and if all governments pay their power utilities for the power they want give-away free to farmers, power will become a commercial viable sector. People will invest in it, generate and sell the power demanded by consumers and make money, just as they do in any normal line of business. Stamping out power theft is essentially a question of political will.

As even more complex example is that of improving the overall governance of the state that underperforms vis-à-vis its potential; take the case of Bihar.

Bihar should ideally be the sugar capital of India, perhaps, of the world. Its agro-climatic features are ideal for sugarcane, which draws a lot of water from the ground and can survive the occasional flood and come out stronger. However, sugarcane is not a popular crop in Bihar because cane requires to be crushed soon after being harvested and for that you need sugar mills in the vicinity of the cane field. But sugar mills cannot come up if those who run them are perpetual targets of protection racketeers, kidnappers and sundry criminals. If Bihar's law and order conditions were to credibly improve and stay stable at an acceptable level, the state would grow at least at the average rate of growth for all states and India's GDP growth would go up by nearly 2% points.

Reconfiguring spending priorities to build rural infrastructure – roads, irrigation canals, power and telecom lines, schools and healthcare facilities – can pay huge political and economic dividends, as YSR Reddy has demonstrated in Andhra Pradesh. Rural incomes will go up, create a market for industry's produce and raise prosperity in the towns as well.

But the most complex and most urgently needed political reform is getting the administrative machinery to do the job for which it has been created. The Indian state is corrupt, predatory, dysfunctional and unaccountable. This kills enterprise, excoriates the most bleeding-heart of welfare schemes, stunts the minds and bodies of India's young in its ill-run schools and hospitals and undermines the future.

But changing this cannot be done by any set of administrative reforms alone. The challenge calls for two interlinked kinds of political tasks. One is mobilisation of the rural poor, in whose name most development expenditure takes place, to hold the bureaucracy accountable on a day-to-day basis.

Use of the increasingly ubiquitous camera phones to record and verify the actual progress achieved in various development/welfare schemes is now possible. But this can be done only if the poor have the required agency, organisational strength and political support. In the implementation of the now-acclaimed rural employment guarantee scheme, only NGO activists have been beaten up and even killed. Where are the political workers, when it comes to implementing schemes like NREGA?

The other key reform is how political parties finance themselves since politics also needs funds.

Right now, this is mobilised by loot of the exchequer and extortion from the public, bending policy to suit financiers. This distorts policy, makes a joke of corporate governance (companies fund parties with resources taken off their books), corrupts the bureaucracy (the exchequer cannot be looted and policy bent, without suborning the bureaucracy), strips politicians of moral authority and cleaves the ties of interdependence that should bind political parties and the people whom they want to represent.

This last set of reform has huge potential to boost investment and growth. The capital cost of not only public sector projects but also private sector projects will come down sharply, as also their time for execution, if money does not have to be diverted to propitiate politicians and civil servants. These are not easy tasks. It will require a new breed of politician to take the lead to effect reform of this order.

Now that the 'hurly-burly's done, the battle's lost and won' and the Congress party has emerged as clear winner, it must get down to next most important issue in hand – distributing the 'spoils'. Unlike in the past there is no reason why it should hand out key portfolios to fickle allies in a bid to enlist their support. The party has been returned to power at the critical juncture when the country is facing many challenges, both within its borders and without, apart from economic crisis. And though it has a reasonably strong mandate, it knows expectations are also high. Ministers will be expected to not only perform but also to live up to certain standards of probity.

Going forward, growth and reducing poverty would be the major objectives of the new government. Economic development and social development need to go hand in hand.

Therefore, the focus must be to simultaneously accelerate economic growth and ensure that the basic minimum requirements are provided to everyone. The major challenge before the country is to come out of the impact of economic crisis, which had originated abroad. We should be able to move to a higher trajectory of economic growth soon.

We can look forward to a strong and stable government at the Centre, which is essential for taking appropriate decisions. It also means consistency in policy formulation. The government will also be able to take strong decisions, which sometimes is difficult in a coalition government.

Political stability is key to economy's revival

The change in the political template will change the dynamics of economic decision making. On the eve of taking charge as the new finance minister, Mr Pranab Mukherjee said that the return of political stability is certain to become the main factor in the bounce-back of the economy. "You will now see the impact of stimulus packages announced by the government".

When a stable government is in place credit flows and other measures needed to boost the economy become easier. His confidence about swift action in the economic front appeared to stem from the greater cohesion in the alliance and the numerical comfort for his party. The bullying Leftists did not allow the government to move ahead with critical reform initiatives like more FDI in the insurance sector. The fact that the task of governance has become easier suggests more headroom for bold decision-making.

On the impact of the stimulus packages, the minister said its effect would be felt in sectors like automobiles soon. We had cleared the purchase of 1,400 buses. But model code of conduct came into effect on March 2 and the government could not make use of the allotment of funds. The money is already with the state government and they will begin purchases.

He also recalled that the Centre has allowed states to spend 0.5% of the GDP. This had to be deferred because of elections. You will soon see action on the ground.

Mr Mukherjee said that he was not in the alarmists' column over fiscal deficit. Though there cannot be reckless spending. But at the same time, developing countries have to take a balanced view on subsidies. No developing economy can afford to say no to subsidies. They are essential. If crude prices go up to $140, you cannot pass it on to the consumer. But this issue will have to be addressed and I will address it adequately. I repeat, my response will be adequate. The finance minister admitted that food inflation was a cause for concern. However, he was confident that prices of commodities will soften; we have taken some corrective measures to bring down prices in the domestic market.

The minister admitted that export sectors have been hit by the recession. But export sectors are hit the world over. However, it is picking up. There will be more export credit available now, and credit will be available easily as political stability has brought greater confidence in India's economy. On December 7, 2008 and January, 2009, we addressed the problem from the monetary side as well as the fiscal side. The RBI reduced CRR, LSR and repo rate to provide adequate liquidity to the system. On the fiscal side, we also undertook a series of measures. They have started having its impact. Although there is no strong rebound there are signs of rebound.

He clarified; the global economic crisis has impacted every economy in the world; we are no exception; our economy has not suffered like the economies of Europe, North America and Japan. But we did suffer. And it was visible in September 2008. The government took steps to contain the problem. The prime minister attended G-20 Summit and there he made it clear that protectionism is not the answer to the problem. Everyone agreed with his call against protectionism.

The Prime Minister has said that his immediate task is to bring the economy back into the growth trajectory. We will certainly take more measures to achieve this objective. I am sure it will make greater impact because of political stability. The impressive mandate for the Congress has created confidence in the market and there is expectation that the economy will bounce back. The first document on the government's action plan will be the presidential address. This will contain the initiative that we plan in the immediate and long run. And of course, the budget will be there before you in July.

2.1 STOCK MARKETS

Explore a framework for how markets really work

The prevailing paradigm for financial markets – that markets tend towards equilibrium and deviations from it are random – is both false and misleading. The legendary market man George Soros argues that only by exploring a new conceptual framework for how markets really work can we avoid disaster and economic ruin. The present global crisis is not an account of market misconduct but the result of deliberate leveraging, mis-pricing of risk and asset bubbles. Although several confidence-building measures have been taken, we may not have come to the end of the tunnel.

Fears of a US as well as global recession will not die down so soon. It is important that this is understood and we should not get carried away merely by the performance of the stock market or the other emerging positive news and considers them as indication of prosperity. It is important now that we take a deep dive to clean up our own house by taking deeper systemic measures.

George Soros in his analysis of the crisis laments that in the financial markets we have to make decisions without having sufficient knowledge at our disposal. He also states that we have, to an extent gained control over the forces of nature and that makes us powerful. Our decisions have great impact on nature. We can do a lot of good or a lot of harm. However, **we have not learned how to govern ourselves**. As a consequence, we live in great uncertainty and grave danger. We need to gain a better understanding of the situation in which we find ourselves. It is difficult to accept uncertainty. It is tempting to try and escape it by kidding ourselves and each other, and that is liable to land us in greater difficulties.

Looking back: 17.5% rally of sensex in April 2009

April 2009: Globally markets continued their smart run on better than expected quarterly earnings numbers from several corporates which subdued the impact of emerging gloomy economic data. Domestic markets continued to display strong buoyancy during the month with Sensex posting a whopping 1,694.75-points-gain. The sentiments continued to remain encouragingly positive on the back of continued strong liquidity momentum aided by FIIs. The FII inflows in April '09 has totalled Rs 5,560 crore, reversing the trend in first three months of the Calendar Year 2009, during which FII **outflow** was as high as Rs 6,672 crore.

1st week of May '09 – Sensex up 475 points (4.15%), in ninth week rally

Sensex zooms 732 points on Monday, to close above 12,000

Indian shares surfed the wave of bullishness in global equity markets to post their biggest single day gain in six months on Monday despite some concerns that hopes for a speedy economic recovery may be just frothy optimism. The Sensex rose by 6.4% or 731.5 points, to close at a 7-month high of 12134.75. The extreme chaos of 2008 seems to be behind us. Till last month, players were comfortable with the price, but were wondering if it was the right time to buy. Now the consensus seems to be that it is indeed the right time. The popular belief is that a recovery in China will help pull the global economy out of recession by creating demand. Economic parameters would increasingly get better hereon.

There are murmurs that some of the unaccounted money parked in Swiss banks could be returning home, fearing tighter banking regulations in future. A decent chunk of overseas money that has flowed into equities over the past few weeks has been coming through the P-note (participatory note) route, and there is reason to believe that a good portion of this could be unaccounted money finding its way back into stock markets. Investors, who do not want to take exposure to India directly, invest through registered FIIs, which invest on their behalf and issue P-notes as shares cannot be held by unregistered portfolio investors. Sebi had put curbs on P-notes in 2007, but later revoked it last year.

Daily review	29/04/09	04/05/09	05/05/09	06/05/09	07/05/09	08/05/09
Sensex	11,403.25	731.50	(3.67)	(178.33)	164.19	(240.51)
Nifty	3,473.95	180.05	7.90	(36.85)	58.85	(63.20)

Indian stocks are out of wood

The 17.5% rally of the Sensex in April 2009, the best monthly rise in a decade, followed by 6.42% surge on Monday would give the impression that Indian stocks have come out of the bear market. Many analysts have suggested the stock markets were at the beginning of a bull rally. The temptation to believe Indian stocks are out of the woods would be high, as sentiments in the market seem to have turned positive. Macro indicators coming out from many economies give the impression that the worst of the economic downturn is behind us. China's manufacturing has rebound for the first time in 9-months. In the US, the pace of decline of factory output has slowed. And in India, industrial output expanded for the first time in 5-months in April according to ABN AMRO Bank purchasing managers' index.

Weekly review	29/04/09	08/05/09	Points	%
Sensex	11,403.25	11,878.43	475.18	4.15%
Nifty	3,473.95	3,620.70	146.75	4.22%

The Sensex extended its rally to 9-straight week, gaining another 475 points, making the longest weekly rally since July 24, 2006 with a rise of 42.65%, and the biggest weekly %-wise gains in the BSE history.

Sentiments have improved

FIIs have always had a strong influence on Indian markets. The markets fell by around 60% between January 2008 to March 2009 when FIIs withdraw around $25 billion from the Indian markets. While the domestic Institutions were net buyers with around $18 billion in this period, the ownership structure has become much more balanced now with both domestic institutions and FIIs owning roughly $80 billion each worth of stocks. The FIIs were largely selling while the domestic institutions have been regularly buying. Now that the FIIs have also turned buyers, having invested close to $1.5 billion over the last month, the sensex has recovered nearly 50% from the recent lows. Should the trend continue? **A significant negative surprise in the Indian election results on Saturday (16/05/09);**

2nd week of May '09 – Sensex up 295 points (2.48%), in tenth week rally

Daily review	08/05/09	11/05/09	**12/05/09**	13/05/09	14/05/09	15/05/09
Sensex	11,878.43	(193.44)	**475.04**	(138.38)	(146.74)	300.51
Nifty	3,620.70	(66.10)	**126.50**	(45.85)	(41.80)	78.20

Sensex zooms 475 points on Tuesday, to close above 12,000

India's industrial output recorded its sharpest fall in 16 years in March '09 and exports fell for the seventh straight month in April '09, but that did not prevent local stock markets rallying to a seven-month high on Tuesday, propelling by a surge in fund flows **as investors positioned themselves ahead of the election results this weekend.** Market appeared to have its focus firmly on the future; with analysts and economists' predicting a recovery was imminent.

Weekly review	08/05/09	15/05/09	Points	%
Sensex	11,878.43	12,173.42	294.99	2.48%
Nifty	3,620.70	3,671.65	50.95	1.41%

India decides a stable government on 16/05/09

Five years ago, when the UPA government led by Manmohan Singh took office on a hot summer day, India was thought to be shining. The country had had broken of the grip of the Hindu rate of growth in 2003-04 with an incredible 8.5% economic expansion. There was a feeling of well being in urban India. Inflation was benign. The policy reforms carried out in the previous decade had begun to pay off. Roads and highways were being laid at speed unknown before, ports were buzzing and mobile telecommunications had already begun to transform the lives of people.

The disinvestment process kicked off by the NDA government forced global investors to sit up and take note of India. The six public offers at the fag end of the NDA term, and notably the sale of shares of ONGC, saw smart money coming to India. India had emerged from the shadows. But it was a different story in the hinterland. Agriculture was suffering from years neglect. It was on the promise of improving the lot of the aam admi that UPA rode to power. The UPA government was lucky in its early years. The global economy was booming and India too gained from rising demand for merchandise as well as service exports. After a bit of deceleration in growth in its first year in office, due to growth in agriculture, the economy bounced back with 9.5% growth in 2005-06. We were suddenly important enough to be compared with China, or so we felt.

But compulsion of coalition politics, which the UPA could not quite easily wriggle out of, ensured policy paralysis. Several reform measures were proposed, such as opening up of the financial services sector, but very little was achieved. Even road and highways expansion suffered. Money poured into the fisc, the tax GDP ratio soared, but the money was frittered away on fuel and fertiliser subsidies, bloating the real fiscal deficit, although, to paint a rosy picture, many of these subsidies were maintained as off-budget items. The New UPA government that takes office later this week has its task cut out. Growth has slackened from a peak of 9.7% experienced in 2006-07. In the current fiscal, we can at best hope for 6% growth, unless the government acts with a sense of urgency in its first few months in office to remedy the situation. We need another reform stimulus, not just another fiscal stimulus. Reforms that were stuck for want of consensus in the government's previous term must be pushed through.

		GDP Growth		
2004-05	2005-06	2006-07	2007-08	2008-09
7.5	9.5	9.7	9.0	7.1#

 # Advance estimate

3rd week of May '09 – Congress win makes the bull go crazy

Trading halted as Sensex hits upper circuits twice

On Monday it was a frenzy unprecedented in the history of the Indian stock market. Investors scrambled to buy stocks as **if there was no tomorrow**, almost certain that the emergence of a stable government at the Centre would solve all the ills dogging the economy. In the mad rush, circuit breakers on the upside were triggered **twice** and trading had to be halted from 12 noon onwards. This is the first time that trading has been suspended for upper circuit breakers being breached. The 30-share BSE Sensex ended the truncated session at 14,284.21, up 2,110.79 points or 17.3%, over Friday's close. The 50-share NSE Nifty ended the session at 4,323.15, up 651.50 points, or 17.74%, over the previous close.

One-day review	15/05/09	18/05/09	Points	%
Sensex	12,173.42	14,284.21	2110.79	17.30%
Nifty	3,671.65	4,323.15	651.50	17.74%

Circuit breakers

It helps check abnormal movement in indices**.** The breakers are applied in three stages of movement – 10%, 15% and 20%, either up or down. These circuit limits are fixed on the basis of the indices' closing values at the end of the previous quarter. Monday's limits were based on the closing values of the Sensex and the Nifty on 31 March 2009, which were 9,708.5 and 3,020.95 respectively. Trading is halted for an hour after an index moves 10% intra-day. In case of a 15% movement, it halted for 2 hours. And if the index hits the 20% limit, trading is suspended for the rest of the day. On Monday: Within a few seconds after markets opened at 9.55 am, the Sensex and Nifty vaulted 1,789.9 points and 531.7 points, thereby breaching the circuit limits of 1,450 points (15%) and 450 points (15%) for the two indices. Consequently, trading in both equity and derivatives segments was halted for two hours till 11.55 am. Within seconds of resuming trading, the indices soared 2,110.80 points and 651.50 points, respectively, prompting the exchanges to apply the 20% circuit breaker, and suspend trading for the rest of the day.

Daily review	15/05/09	18/05/09	19/05/09	20/05/09	21/05/09	22/05/09
Sensex	12,173.42	2,110.79	17.82	(241.37)	(324.12)	150.61
Nifty	3,671.65	651.50	(4.70)	(48.15)	(59.40)	27.60

Mid & small caps join D-street party as big boys take a break

Large cap led the fall at the BSE as the 30-share Sensex shed 241 points on Wednesday and 324 points on Thursday, even as second-line stocks scored huge gains in highly volatile trades. FIIs who are the principal market driver, bought midcap and smallcap shares heavily. The midcap and smallcap indices outperformed the Sensex, shooting 6.03% and 8.86%, respectively. Investors continued to be upbeat amid reports that an ambitious reform agenda is being drawn up for the first **100 days** of the new government.

Weekly review	15/05/09	22/05/09	Points	%
Sensex	12,173.42	13,887.15	1,713.73	14.08%
Nifty	3,671.65	4,238.50	566.85	15.44%

The Sensex ended the week at 13,887.15, a rise of 1,713.73 points, or 14.08%, over its last weekend's close. Brokers said the market is upbeat but expected to witness high volatility ahead of the expiry of derivatives series on May 28. Analysts, too, do not rule out consolidation in the market as it has been bullish for the last 11 weeks, during which the Sensex has risen by 5,561 points, or 67 per cent.

Take a contrarian call: The recent upsurge in the market re-inforces the belief that it pays to be a contrarian. Three months ago there was gloom all around. A contrarian investor who bought at those levels would have today easily doubled the money in a very short period of time. When the news and views are all one sided, remember to go the complete opposite way. It would not only help you conquer both greed and fear but also instill virtues of long-term investing.

Analysts say there are still plenty of stocks at low valuations. And contrarian investors can look to invest in underperformed sectors like reality, consumer durable, metal and IT. Their notion is on expectation of newer policies in favour of these sectors. These stocks have more space to recover compared to outperformed stocks. Nobody knows whether bulls are here for real or not but prices are always for real and prices definitely show change in factors on which Indian markets are being valued after the formation of new government. The rivalry between bulls and bears, fear and greed are as old as stock markets have been in existence. But if you want to conquer markets, always remember time and tide waits for no one. And markets never create opportunities but smart investors make sound investment decisions.

4th week of May '09 – Bourses in upbeat mood on reform hopes

Daily review	22/05/09	25/05/09	26/05/09	27/05/09	28/05/09	29/05/09
Sensex	13,887.15	26.07	(323.99)	520.41	186.37	329.24
Nifty	4,238.50	(0.95)	(120.85)	159.35	61.05	111.85

Weekly review	22/05/09	29/05/09	Points	%
Sensex	13,887.15	14,625.25	738.10	5.31%
Nifty	4,238.50	4,448.95	210.45	4.97%

Nothing seems to stop Indian bourses from moving ahead as sustained flow of investments this week lifted the key indices – Sensex and Nifty – by 5%, extending the weekly rally to yet another week. The key driver of capital markets, FIIs gradually become aggressive buyer, taking the weekly rally to twelfth straight week. The Sensex flared up to nearly nine-month high of 14,625.25 at the weekend.

Major trigger came in the form of the release of GDP growth rate of 5.8% in the last quarter of 2008-09 and 6.7% for the fiscal, which were stronger than the market expectations.

Taking charge of Petroleum Ministry for a second term, Murli Deora's statement on oil price deregulation reinforced optimism about faster economic reforms. Analysts said the market is expected to attract more foreign interest in the coming days with indications that the full budget for 2009-10, slated in July, may focus on fiscal prudence and disinvestment in public sector units.

Financial sector is likely to witness low interest rate regime with inflation continued below 1% and sufficient liquidity in the banking system. Realty counters stole the limelight with the BSE Reality Index climbing up 15.38% over the week on hopes of increased portfolio inflows and a turnaround in the sector after the political stability. Rising participation by public investors could be gauged by increasing activity in the Smallcap and Midcap shares which outperformed the Sensex, the Smallcap index flared up by 8.59% and the Midcap index by 6.33%.

Recovery hopes rise across the globe fast

Improving vital signs across the globe – from US GDP to Japanese factory output and British house prices to German retail sales – raised hopes that the world economy was responding after months in intensive care. It's clear, based on the market action, that we've turned a corner. But, the question is that, when we get a clearer view of what's around the corner, is it going to be better growth and moderate inflation, or is it going to be slow growth and bad inflation?

While US stocks marked their third straight monthly advance, the dollar fell to five-month lows against a basket of currencies as an advance in global equities and signs of an easing global recession drove investors to snap up higher-yielding currencies and riskier assets. Gold, metal and soft commodities also rose on the weak dollar. Oil rose to a six-month high above $66 per barrel.

In Asia and Europe, data pointed to signs of recovery. Japanese factory output rose 5.2% in April, the biggest jump in more than half a century, and manufacturers forecast further gains, while South Korean industrial output expanded for a fourth straight month. German retail sales showed a 0.5% month-on-month rise in April, while private consumption for the first quarter rose a similar amount, despite a 3.8% contraction in GDP. In Britain, house prices registered a surprise rise in May, the 2nd time in 3-months.

Monthly review

Month	Dec '07	March '08	June '08	Sept. '08	Dec. '08	March'09	April '09	May '09
Date	28/12/07	31.03.08	30.06.08	30/09//08	31/12//08	31/03//09	30/04/09	31/04/09
Sensex	20,206.95	15,644.44	13,461.60	12,860.43	9,647.31	9,708.50	11,403.25	14,625.25
Points	Base	(4,562.51)	(2,182.84)	(701.17)	(3,213.12)	61.19	1,694.75	3,222.00
%	Base	**(22.58%)**	(**13.95**%)	**(5.21%)**	**(24.99%)**	**0.64%**	**17.46%**	**28.26%**

Infrastructure companies could drive next bull-run

Good times or bad times don't last forever. Just like the sensex can't move in the same direction always. After every fall there will be bull run and vice versa. And after every fall, there come certain sectors, which lead the pack. Intelligent investors make money by identifying these sectors early. Before trying to identify the sectors that could lead the next bull phase, we need to take a peep into the past.

After a bull phase for a few years, the sensex crashed by the end of 1998 and later it peaked during the first half of the year 2000. During this period, a few sectors that led the pack were fast moving consumer goods (FMGC), IT and banks. Again, the market fell in 2000 and most of the IT companies declined considerably. The fall continued till end of 2002, however there were several ups and downs in between.

The next bull rally started in 2003 and lasted till the beginning of 2008. During this period, sectors such as oil & gas and power in 2003, IT and realty in 2004 and 2005, oil & gas and realty in 2006, auto and healthcare in 2007 were the leaders. Realty performed better during 2004 to 2006, as there was a huge demand for housing and commercial space. During this period, IT and BPO were on expansion mode.

Interestingly, prior to this bull phase there were not many listed real estate players. Similarly, prior to the bull run of 1998 to early 2000, many listed IT companies did not exit. At the end of 1998 there were around 110 listed IT companies and the number went up to 187 prior to the fall of 2000. Going forward, a few new sectors are expected to emerge. Analysts argued that the government's spending is going to play a pivotal role for the next few years. Consequently, several social sector companies might emerge to work with government on public private partnership basis.

Although, there aren't many listed entities as of now but this sector surely has the potential to lead the next rally. Within the infrastructure sector, power equipment and engineering companies are expected to be pioneer due to high domestic demand. However the infrastructure companies which performed well in the last bull-run are quite different from those that are likely to do well in the next bull-run. In the last bull-run infrastructure construction companies performed better but in the coming bull-run infrastructure companies, which own the asset, are expected to do well.

A decisive vote for Inclusive growth

This is a decisive vote for inclusive growth – the people of India, by and large, prefer a vision on politics and economics that embraces everyone: Hindu and Muslim, Brahmin and Dalit, rich and poor, everyone must be heard and everyone must benefit when the economy grows. Simultaneously, it is popular rejection of sectarian visions that focus on some sections of society alone for bestowing benefits.

Economics meets politics

Near 9% growth for 5-years created prosperity, some of it trickled down directly to the less well off majority of the country. What have turned out to be politically significant were the outgoing UPA government's measures to capture some of the additional income as taxes and redistribute resources to the poor. The NREGS has been the big hit. And farm loan waiver has touched many lives.

The stunning performance on the Congress in Andhra Pradesh underscores the political gains to be had from **"redistributive growth".** The YSR government invested massively in rural areas, implemented the rural employment scheme and introduced health insurance for the masses (arogyashree). Investment in irrigation creates incomes where they are most needed.

Politics seeks growth, governance

The politics of giving people voice had great resonance when they had none and this is why Lalu, Paswan, Mulayam and Mayawati became political heroes. But having got voice, people need governance and economic opportunity, to convert their voice into real empowerment.

Nitish Kumar has given Bihar what the state has not had for a long time – governance, and he has reaped its political benefits. Nitish's success is that he delivered governance. Mayawati and Mulayam have been rejected precisely because they failed to deliver governance. A majority of the dons and musclemen fielded by different political parties have lost on the governance count.

Governance cannot be sectarian

One major reason for the Congress regaining a fair degree of Muslim support has been its ability to regain the secular ground it had lost over decades of presiding over communal riots in UP, appeasement of Muslim and Hindu fundamentalists by turn, failure to prevent demolition of the Babri mosque and so on.

The fact that a Congress-led government could investigate the Malegeon blasts inspired by the ideology of Hindutva served to drive home not only the Congress's current secular credentials but also the need for an all-India political party to uphold India's secular essence. The attack on Mumbai also underscored the need for a political ideology that unites people, rather than divides them, when the nation in under attack.

Implications for future policy

In these times of global recession, countries are learning to appreciate the value of a large domestic market The inclusive policies that have now been given political legitimacy will help India further expand its domestic market by bringing larger and larger sections of people into the economy's participative base.

The Right to Information, the forest dwellers' rights and the Employment Guarantee Schemes must be effectively used to mobilise people at the margins to turn them into fully empowered participants in the growth process. Sectional favour and patronage must give way to broad base development. This will promote social cohesion, the bedrock of internal as well as external security of the nation.

We can and we should do

Dr Manmohan Singh deserves our heartiest congratulation on being elected for a second term. It is thus time for him to introspect and travel down the memory lane. On 25 December, 2004 he narrated: “I do hope that in the New Year (2005) we can all work together to build a more equitable, competitive and humane India… This is a doable agenda provided we can set aside our ‘make-do’ attitude and adopt a ‘can-do’ sprit”. We hope that his second term can become a Can-Do and Shall-Do period.

During the last four years, many hurdles came his way, including the global economic downturn. With a more stable coalition, progress for the country along the path of inclusive growth will need more than stimulus packages and some ‘out of the box’ and determined thinking. Many ideas cannot be postponed or vital issues left hanging on a cliff. This will need clear signalling. This should include harvesting low-hanging fruits within the next 100 days; as much of the agenda has already been elucidated in the Planning Commission’s recent policy document: ‘Inclusive growth’.

Many pundits and edits have been spinning out various prescriptions of action for the new government. They did not anticipate the same government triumphing over the anti-incumbency factor and returning to power. We the people of India have voted for continuity over change. Thus, we hope that the country can move forward with a stronger coalition, which will overcome the tail-wagging-the-dog syndrome.

The compulsion of coalition politics had *inter alia* paralysed progress in many of our infrastructure sectors. We focus here on this one area. However there are several other important issues, such as finance, debt management, markets, climate change, employment, security, agriculture, poverty eradication, etc.

Dr Singh and many other have said, we need to boost investment in the infra sector as a counter-cyclical measure. Even a student of economics knows that infra is a key multiplier of jobs and a source of elevation in living standard. The malaise in the infra area in the recent past was aided by poor governance and pork barrel politics in spite of Dr Singh assuming command of the situation. Alas, the process became a stumbling block, rather than a catalyst. This needs to be revisited. And the recommendations for reforms in infrastructure governance arising from the splendid work done by think tanks like the Planning Commission and NGOs have to make the journey from paper to the realm of implementation.

The Planning Commission’s policy document: ‘Inclusive growth’ – highlights the role of private sector investment in bridging our huge infrastructure deficit. There is also a fair amount of national consensus on such investment liberalisation across the political spectrum. However, liberalisation needs to be accompanied by effective competition policy reforms. Nobel laureate Joseph Stiglitz has observed: “Strong competition policy is not just a luxury to be enjoyed by rich countries, but a real necessity for those striving to create democratic market economies”. An effective competition policy requires determination and administrative capacity to tackle at least some vested interests.

At the same time, the onerous business regulatory framework is itself an entry barrier to new entrants. The World Bank has assigned India a rank of 122 among 181 nations in terms of the ‘ease of doing business’ in 2009. When disaggregated, we are right at the bottom in terms of enforcement of contracts. This too is either a disincentive for business activity or a trigger for the use of ‘informal’ channels to resolve disputes which often breeds corruption and social discord. Therefore, the government needs to put legal reforms on the fast track and engage the judiciary activity.

In sum, there are many things that Dr Singh can do and should do.

2.3 INDIA INC

Sign of revival on the anvil

Financial year 2009-10 has begun on a positive note. The gloom that prevailed on the economies, world over, finally seems to be ebbing a bit. While the markets and the economy have begun to show some signs of revival, the corporate world continues to hold its cautious approach and appears sceptical about a quick upturn in the overall economic conditions. The scepticism is clearly reflected in the declining Business Confidence Index (BCI), which is down for the fifth consecutive quarter in a row.

While there has been a decline in the BCI, the current quarter's survey has observed that the firms have now at least begun to see some ray of hope. This optimism seems from the recovery expected by these firms in their turnover and profitability in the near term.

If we speak of domestic sales, the breather is the decline in the number of respondents expecting fall in sales in the next six months. On the other hands, certain sectors of the economy now hope to see their topline graph move in the upward direction. Consumer non-durables leads this race with most respondents expecting a surge in the domestic sales by about 5%-10%. Interestingly, this is the only sector where not a single respondents expecting a decline in sales in the near future.

The same, however, cannot be said about the consumer durable and capital goods sector where the confidence level clearly reflects the ebbing demand conditions in the domestic market with both households and corporates having safely put the long-term and big-ticket expenditures on hold. The number of respondents expecting a decline in sales in case of consumer durables has thus more than doubled vis-à-vis the previous quarter while in case of capital goods too it has increased, though marginally. The services sector is more or less neutral in its view and most respondents under this category do not expect things to change much in the following months.

The export forecasts continue to be lacklustre in the in the current quarter. The overall scenario is not much exciting with only a marginal increase in the nature of respondents expecting to see a hike in export sales. And even those who are hopeful expect a trivial increase in sales by up to 5%.

As sales are expected to move, though at a snail's pace, it seems that the firms would leave no stones unturned to meet the demand with adequate supply. With firms currently using their capacities to the optimum levels, most respondents want to maintain their current production levels for the coming six months. In fact, there has been a sharp decline in the number of respondents who would like to cut down on production. While not many respondents are in favour of increasing production either, even those who would like to, won't raise their production by more than 5%.

It was surprising to see marginal increase in the number of respondents expecting a surge in the import of raw materials given their neutral perception with respect to production. This pattern seems to have influenced by the fact that a large portion of imported goods are used as inputs in exports. While there has been an increase in those who anticipate rise in imports, it is only vis-à-vis previous quarter. For majority the current pattern of raw material imports is bound to remain the same.

Not much change is anticipated in the ex-factory price of the products in this quarter. However, there is definitely an increase in the number of respondents who expect their pre-tax profits to improve by the next two quarters. These firms are anticipating their margins to improve by at least 5% during this period. It is to be noted that while there has been a decline in the number of respondents who expect a further fall in their bottom lines, those expecting no change in their profitability has gone up marginally. Thus signalling the better days would be back again.

Politics of aspirations

During the 2009 election campaign most political commentators declared that regionalisation of India's politics had reached a point where the local appeared to have subsumed the national. There were only local issues being debated in state after state. There was hardly any overreaching national theme being articulated by the Lok Sabha aspirants.

It is true that local development themes did dominate the discourse in most parts of India. However, it now appears there simultaneously existed a silent undercurrent, even a mini-wave, at the national level in favour of the Congress party simply on the "stability and continuity" plank.

This "**stability and continuity**" plank encompasses many narratives. One can unravel some of them with the benefit of hindsight. Congress's 'Jai Ho' prevailed upon BJP's 'Bhay Ho'. The drubbing received by BJP in the polls showed that voters were clearly not enthused by the negative campaigning unleashed by the saffron party. Their main campaign plank of "*Mazboot Neta, Nirnayak Sarkar*" (strong leader, decisive government) has been overwhelmingly rejected by voters. The NDA's prime ministerial candidate L K Advani not only looked jaded, but, post-Kandahar, was neither found *mazboot* nor capable of providing a *nirnayak* government. The "weak leader" charge was hurled at Dr Singh soon after he assumed office in 2004, and has been a constant weapon in the opposition's arsenal since then.

BJP's efforts to build a brand around Mr Advani just did not work. Among sections such as the youth and the professions, he was found to be devoid of any brand equity. In fact, BJP had failed to learn lessons from its flop show in the elections to the Delhi assembly held in December last.

On the other hand, wiser from the experience, the Congress party think-tank had decided to embark on a positive theme to capture the voter's imagination. The idea was to pit Dr Singh against L K Advani, who was projected as a strong and decisive leader.

Arun Jaitley of the BJP was the first to admit publicly that the Congress totally appropriated the stability plank and got its message across to the people successfully. Its strident campaign against Dr Manmohan Singh as the weakest prime minister probably produced the opposite effect.

What the BJP and its spin doctors failed to read is the fact that the people of India, in general, had come to respect unique arrangement between Sonia Gandhi and Dr Singh – a relationship that guides national governance.

Sonia Gandhi and Dr Singh, both are inherently consensual in their approach and avoid in speech and action, any kind of aggressive, conflict-ridden politics. How many times in the past five years have you heard either Sonia Gandhi or Dr Singh use excessively strong language against any political opponent? Think hard. Even after the Mumbai terror attack, Dr Singh was very measured in his statements against Pakistan. This was read as a weakness by the aggressive BJP.

Sitaram Yechury of the CPI(M) too conceded that the Congress got a huge advantage from the failure on the part of the Third Front to project a stable and cohesive leadership. The Front and its egotistical leaders, for obvious reasons, could not project anyone as a prime ministerial candidate. No wonder, over 60% of the 61-odd seats gained by the Congress came from the Third Front constituents whose numbers got seriously eroded compared with their 2004 Lok Sabha tally.

The Congress got the stability vote also because it was seen as a natural party of governance. Perhaps, there was a strong feeling among the urban middle class that a government under Dr Singh was best suited to respond to the deepening global recession which is hurting employment all around. No wonder the Congress has repeated its stellar performance in most urban areas and the clean sweep in Delhi, once a strong BJP terrain, is something that must make the BJP leadership introspects very hard.

The UP results may seem to suggest that the politics of fragmentation which began with the *Mandal-Kamandal conflict* in the late eighties seems to be playing itself out. Indeed, the Congress has begun to threaten the hitherto impregnable bastions of both Mayawati and Mulayam Singh Yadav in UP.

Even in Bihar the vote in favour of Nitish Kumar is largely a development vote, and not due to his caste. Indian politics seems to have reached an inflexion point where the electorate seems to be looking at caste plus governance. Incrementally, governance will play a more important role. In this context, it must be noted with some satisfaction that most of the celebrated candidates with criminal record have lost in UP.

Going forward, the development agenda will get a leg up for another reason. For the first time there are signs, that anti-incumbency is in decline because many state governments have used the economic boom years after 2003 to deliver more public goods to their constituents.

The BJP has done well in states where its own local governments have delivered some good governance. In Gujarat, Karnataka, Jharkhand, Chhattisgarh and MP the BJP was perhaps helped by this local factor to some-what counter the sweeping national sentiment in favour of the Congress across the country.

Other states like Orissa and Andhra Pradesh (AP) have seen the incumbent governments return to power. This is in line with the recent study which showed that anti-incumbency has declined from 65% in 2004 to about 46% in 2008. In this period, a large number of incumbents got elected at the state assembly level.

However, the Congress has a big challenge in the years ahead when economic growth is bound to slow down compared with what we have experienced in recent years. It is very clear that the UPA governments will have to continue to feel the politics of aspiration, which is taking firm roots.

One positive development, in this regard, is a growing competitive politics linked to improving delivery mechanism for public goods. In this election campaign there was a robust debate over improving the delivery of social sector schemes. In AP small shop keepers animatedly talked about the radical direct cash transfer scheme promised by TDP. Others recognised the success of Y S R Reddy's attempt to transfer payments directly to a million bank accounts under the NREG programme.

In Bihar, Nitish Kumar patiently explained to voters how he would also come up with direct cash transfer schemes to avoid leakage of precious resources.

Rahul Gandhi is also grappling hard with ways of improving the delivery systems for UP with the help of his party organisation. He wants to make governance the basis of rebuilding the party in the heartland.

There is less cynicism when the youth join such campaigns. It will be good for India's polity and governance if political parties at Centre and states compete to improve delivery systems in response to the growing politics of aspirations. If this process gets institutionalised, India would have crossed the threshold of lethargy and inaction where it has been stuck for decades.

Sustainability equals prosperity

Green New Deal

Sustainability has become the foundation for almost all economic thinking nowadays. It is essential not only for economic recovery today, but for ensuring peace and security tomorrow.

Factoring sustainability into all our thinking is necessary because, as a global society, we are living on the edge. The last two years have brought a series of crises: energy, food, climate change, and global recession. We fear that worse may be in store.

If, today's global economic crisis, if not handled properly, could evolve into a full-scale political crisis – one defined by social unrest, weakened governments, and angry public who have lost faith in their leaders and their future. In addition, we are entering a new age of austerity. We are facing more problems with fewer resources; national budgets have shrunk; aid programmes are being squeezed; and voluntary contributions are drying up.

Yet there is a third reality, which provides cause for optimism: the challenges that we face are interrelated, so if we are smart about it, if we spot and utilise the inter-connections among these problems, solutions to each problem can be solution to all. We can get more bangs for our collective buck, peso, and real, and find effective, efficient, enduring paths to a more sustainable, inclusive, and prosperous future.

At the recent G-20 summit in London, world leaders explicitly recognised these linkages. They agreed on a genuine global stimulus that advanced the interests of all countries, not just a few. They stood against protectionism, and they recognised the United Nations' Millennium Development Goals as an engine for development, growth, and creation of quality jobs worldwide. They took a major step toward a "Green New Deal" and vowed to reach agreement at the UN climate change in Copenhagen in December.

This last development is vital. We have seen shrinking glaciers in Antarctica. We have seen the effects of deforestation in the Brazilian Amazon. The very existence of some Caribbean countries, including portions of Trinidad and Tobago, could be threatened if sea levels rise. But bold, visionary leadership will be needed to seal an ambitious, effective and fair deal, offering rich countries a way to cut greenhouse gas emissions while supporting poorer countries as they adapt to the adverse impact of climate change. We need to protect vulnerable populations, and we need financial incentives to preserve forests and the livelihood of those who depend on them.

By tackling climate change, we also deal with the economic crisis – green jobs for green growth. All of us see the links between economic growth and political stability, democracy, and human rights. Collective social and economic security is a basic principle of justice – global social justice.

But to achieve this goal, we must think about and work to advance the sustainability agenda for what it really is: a prosperity agenda. We have to create a new mechanism for coordinated additional financing for food security to help vulnerable nations weather the storm. We have to support a Global Jobs Pact – a recovery strategy to meet peoples' basic need for decent work. And we have to launch a Global Vulnerability Alert, collecting real-time information on the social effects of the economic crisis.

Ultimately, solidarity and common cause must be our greatest strength. For today we have before us an opportunity to re-invent how we as countries work together to deliver collective solutions to our collective problems. Indeed, the times require lying foundation of a new and sustainable prosperity for all.

2.6 WARNING SIGNALS

Redefining the reform agenda

Last July, when the Left withdrew support to the UPA, many commentators were ecstatic. They forecast that the UPA would come up with a fresh burst of "reform" in order to wow the electorate. Alas, nothing of the sort happened. Now, the Left is not in the picture. Once again, there is a clamour from industry bodies and commentators to get on with the "reform" agenda. The sensex zoomed after the election results were out, reflecting hopes that the Congress would now seriously pursue "reform". Such hopes are based on a serious misunderstanding of both the electoral verdict and the Congress' position on "reform".

We can only guess every time what considerations prompt voters to favour a particular party or alliance. The record of the party or coalition in powers is not the sole determinant of the outcome of elections. The electoral arithmetic, which way the votes are split amongst the various parties or alliances, is an equally important factor. The Congress did not win the elections by being going-ho about "reforms". Indeed, the verdict on the UPA government had been that it was a comprehensive failure when it came to "reform". Commentators were outraged that the 'dream team' of Manmohan Singh, Chidambaram and Ahluwalia should have turned out to be such a disappointment.

If the Congress benefited from its record at all, it was from measures that "reformers" had relentlessly opposed: NREGA, the farm debt waiver, the Sixth Pay Commission award, an increase in subsidies and OBC quotas. There was also the impressive performance in recent years of agriculture, an area least touched by "reforms". NREGA covered four crore families, the farm waiver four crore farmers and the Sixth Pay Commission one crore employees in the central and state government. That adds up to a significant proportion of the 75 crore electorate and the 42 crore who actually voted.

SEZs are an important term in the "reforms" agenda. The one formation that embraced this aspect of "reforms" and lost heavily was the Left in the West Bengal which went all out to usurp farm land in order to give a push to industrialisation. Paradoxical as it may seem, the Congress benefited from measures generally associated with the Left while the Left itself lost out on account of its reformist ardour. People tend to forget that the Congress itself is leftist in orientation and the Gandhi family's political instincts have also tended in that direction whatever the corrections, made from time to time.

Stock market enthusiasts who rejoice at the ouster of the Left must remember that in West Bengal, Mamta Banerjee had positioned herself to the left of the ruling coalition. The Trinamool Congress has already indicated that it will oppose disinvestment. The outcome of the 2009 elections should moderate expectations about the future course of "reforms". The Congress has understood the need to redefine the reform agenda and this is clearly reflected in its election manifesto. Election manifestos are not read, otherwise commentators would not be harping on 'second generation' reforms in the coming budget.

The Congress manifesto is clear that privatisation will not happen but disinvestment will. There is no mention of labour market reforms. The manifesto does mention fiscal prudence and the need to better target subsidies. In the familiar "reforms" agenda, the only item other than fiscal prudence that finds mention in the Congress manifesto is the move towards a goods and service tax. The thrust of the manifesto is overwhelmingly on inclusion and improved governance – extension of the NREGA, a right to food law, health security, affordable education, democratisation of cooperatives, strengthening of panchayats, comprehensive social security, etc.

Now, these may not be reforms that will send the sensex shooting up, they may not be the ones that businessmen want. Economic commentators and market enthusiasts would like to see policies that swiftly return India to the 9-10% growth path. But the balance to be sought between growth and equity, the content of economic reforms, is a political decision. Some two decades after it initiated a bout of economic reforms, it appears the Congress party has made its choice.

3.1 MUTUAL FUND INVESTMENTS

How to review before redeeming the units?

If your MF investment is yielding a lower return than what you anticipated, you may be tempted to redeem your units and invest the money elsewhere. But be careful; there are both pros and cons to the redemption of your MF units. Let's examine the circumstances in which liquidation of your units would be most optimal and when it may have negative consequences.

The first thing you need to understand is mutual funds are not synonymous with stocks. So, a decline in the stock market does not necessarily mean that it is time to sell the fund. Stocks are single entities with rates of return associated with what the market will bear. However, mutual funds are not singular entities. They are portfolios of financial instruments, such as stocks and bonds. An advantage of this portfolio of assets is diversification. Within the MFs, the decline of one or a few of the stocks can be offset by other assets that are increasing in value.

The key to successful MF investing is to know "when to hold and when to fold". There are four situations indicating not necessarily that that you should fold, but they are situations that should raise a red flag.

Change in Fund Manager: When you put your money into a fund, you are putting a certain amount of trust into a found house & fund manager's expertise, which you hope will lead to an outstanding return on an investment that suits your investment goals. A category of investors track fund managers more than they track the fund house and its schemes. These investors invest in a mutual fund relying mainly on the star fund manager's investment prowess and skills.

Change in Fund Strategy: If you researched your fund before investing in it, you are most likely invested in a fund that accurately reflects your financial goals. If your fund manager changes the investment mandate that do not reflect the mutual fund's original goals, you may want to re-evaluate the fund you are holding. For example, if your small-cap fund starts investing in a few medium or large-cap stocks, the risk and direction of the fund may change.

Change in Fund Performance: If the mutual fund returns have been poor over the last two or more years, it may be time to cut your losses and move on. You can compare the fund's performance to a suitable benchmark or to similar funds.

Change in Personal Investment Portfolio: Besides changes in the mutual fund itself, changes in your personal portfolio may require you to redeem your mutual fund units and transfer your money into a more suitable portfolio. Here are two reasons which might prompt you to liquidate your mutual fund units:

The need to rebalance your portfolio: If you have a set asset allocation model to which you would like to adhere, you may need to rebalance your holdings at the end of the year to get your portfolio back to its original shape. In these cases, you may need to sell or even purchase more of a fund within your portfolio.

Need a tax break: If your fund has suffered significant capital losses and you need a tax break to offset realised capital gains of your other investments, you may want to redeem your fund unit to apply the capital loss to your capital gains.

Selling a mutual fund isn't something you do impulsively, without a great deal of thought and consideration. Make sure you are clean on your reasons for letting it go. However, if you have carefully considered all the pros and cons of your fund's performance and you still think you should sell it, do it and don't look back. Before you press the sell button, take stock of the tax implications and exit loads, if any. And given that market movement are random and not in your hands, don't try to time your exit.

3.2 TREND FOLLOWING

Key to consistently making money

The truth is that many investors are using a basic trading technique called *trend following.* And another truth is that these investors have experienced consistent positive performance over the past three decades.

The simple technique "trend following" was pioneered in 1948 by Richard Donchian, an American commodities and future trader, who successfully used these simple techniques to trade until his 90s.

Trend following aim to take advantage of ups and downs of current market prices. The general direction (either up or down) of the market can be determined using other technical indicators like moving averages and breakouts. Once a general trend is identified, a trade is executed with small position and pre-determined stop loss. This trading method requires very strong self-discipline.

Having pre-calculated entry and stop loss price levels eliminates human emotions when a trade goes for or against you. The losing trades are, automatically stopped out and we let the winning trades run until the trend reverses.

The goal is not to predict but to take advantage of riding the wave until it ends. Trend followers adopt this strategy because no one can truly predict the future and no one can really know when a trend will end.

The biggest challenge is in implementing these rules, that is why tech savvy investors make it systematic i.e., pre-programmed in a computer system.

Taking the human emotions out of the decision-making process limits risk exposure and makes the decision process faster and more efficient.

One of the main advantages of this trading technique is the possibility of implementing it across the board for any underlying market, from soyabeans to crude oil, from bonds to currencies, as long as it has a price and the market offers sufficient liquidity to trade it.

In a portfolio, diversification is extremely important – the same principle applies when it comes to beating the market. By having small positions with pre-calculated risks and diversified trades, where the underlying assets have low correlation to each other, will give you a better chance of finding the winning trades.

At this point you may wonder how you can relate to this when you cannot programme or watch the markets all the time. One of that is diversification among asset classes that are uncorrelated to each other. Other is to look for an asset class that is liquid, regulated, and uncorrelated to stocks and performs in both bull and bear market.

For example, investors should reduce their stock portfolio, allocate part of your portfolio to asset classes that are not correlated to stocks and bonds (such as property, gold and managed futures), you are able to lower your overall risk exposure and protect your investments in a market downturn.

By allocating a percentage of your investments into different asset classes, you are building portfolio diversification which is the key to successfully making your money work for you.

3.3 COMMODITY MARKET

Crude heads for biggest monthly gain since 1999

Oil rose, heading for its biggest monthly gain in a decade, as economic indicators from Asia and falling US stockpiles pointed to a global recovery.

Oil climbed to a six-month high above $66 a barrel after India's economy grew more than expected in the first quarter while Japan said on Friday (29/05/09) that its industrial output climbed the most in at least six years in April. But, the US crude-oil supplies fell 5.41 million barrels last week, the most since September, an Energy Department report showed in Thursday. US crude oil stockpiles have dropped 3.2% in the past three weeks to 361.1 million barrels, according to the Energy Department. However, the decline left inventories 27% greater than the five-year average, up from a 23% surplus a week earlier. Stockpiles were the highesr since 1990 in the week ended May 1.

Tom Bentz, a senior energy analyst at BNP Paribas Commodity Futures Inc. in New York said, "We have been up on speculation that the worst of the recession is over. This is bullish for the economy as a whole, oil and stock market." Crude oil for July delivery rose $1.05, or 1.6%, to 66.13 a barrel at 9.30 am on the New York Mercantile Exchange. Futures touched $66.47, the highest since November 5, 2008. Oil has advanced 29% in May 2009, the biggest monthly increase since March 1999, when Asia was recovering from the 1997-1998 financial crisis.

Oil also climbed as the US dollar weakened, heading for its biggest monthly decline this year against euro. The dollar dropped 1.2% to $1.4103 versus the single European currency, boosting the attraction of commodities such as oil and gold as an alternate investment. John Kilduff, senior vice president of energy at MF Global in New York said, "The devaluation of the dollar is leading to revaluation of energy and commodities in general. This is a monetary-based rally. The market is focused on the future and ignoring the fundamentals of the present day crude-oil supply and demand picture.

India, Asia's third largest economy, expanded 5.8% in the three months to March 31 '09, led by government spending and construction, the statistics office in New Delhi said on Friday. Economists were expecting a 5% increase.

Japanese factory production climbed 5.2% from March, when it gained 1.6%, the trade ministry said on Friday in Tokyo. The increase was faster than the 3.3% expected by economists. Companies said they planned to increase output in May and June as well, the report showed. Japan is the world's second-biggest economy and the third-biggest oil consumer.

The Organisation of Petroleum Exporting Countries (Opec) predicted stronger demand as it decided to keep output quotas unchanged. Opec agreed at three meetings last year that the 11 members with production quotas would reduce output by 4.2 million barrel a day. Saudi Arabian oil Minister said Opec opted not to alter its output targets because "prices are good, the market is in good shape."

Opec Secretary General Abdalla el-Badri said on Saturday, "Oil's rally is driven by improving sentiment about the global economy and isn't supported by demand. Global crude stockpiles remain very high. Still prices may reach $70-75 a barrel by the end of the year; partly because speculators are returning to commodity markets. Michael Lynch, president of Strategic Energy & Economic-Research, in Winchester, Massachusetts said, "The drop in US inventories is evidence that the Opec production cuts are starting to bite. There's some optimism about the economy, which is driving the oil market. It's important to keep in mind that demand has shown absolutely no sign of recovery.

A free hand

Prime Minister Manmohan Singh said the new government will accelerate the reform process and create more jobs. The world is experiencing a shift in dynamics of growth from the west to the east. We cannot afford to lag behind rising economies of the east.

With the Congress and its allies winning 261 of the 543 seats, the government will now have a free hand in pushing its agenda of economic reform. The last government was unable to go ahead with its reforms agenda on account of its dependence on the Left. The Congress which on its own won 206 seats, will further its social welfare agenda, and his government would work with states to ensure implementation of the National Rural Employment Guarantee Act, Rural Health Mission, Urban Renewal Mission and programmes targeted at poor among minorities and backward sections.

Dr Singh added that the election verdict is for inclusive growth. It is a verdict for equitable development. It is a verdict for a secular and plural India. Besides pushing for economic reforms, he stressed on the need to revitalise agriculture and accelerate industrial development. He has made the task to "**re-energise government and improve governance**" his first priority.

In a stark reminder of the deep global recession, Mr Singh referred to the challenge of reviving economic growth and creating new employment. He accepted that there had been an economic slowdown which has hurt us. There is some slowing down of investment and employment generation. We have to reverse this. We have to revive growth and make it more inclusive. In the backdrop of the global recession, he said that India will have to continue to keep its savings and investment rates high and become more globally competitive, so as to be able to face global economic challenges.

On the governance front Mr Singh said that he would ask every minister to set time-bound targets for implementation of poll promises and programmes of the ministry. He suggested a quarterly review of programme implementation. He expressed hope that the 15th Lok Sabha would witness a more co-operative atmosphere and more productive proceedings. He extended his "hand of friendship" to political parties across the spectrum and invited them to "play the role of a constructive opposition."

Congress president Sonia Gandhi, who proposed the name of Mr Singh as the leader of the parliamentary party, said that over the next five years, under Mr Singh's leadership, the government would continue to work to "rebuild the economy" and "to secure our place in the world." Addressing the meeting, Ms Gandhi said: "The people's verdict tells us that above all, they carve for honest and capable governance and decency in public life. We must not disappoint them."

4.1 FINANCIAL ADVISORS:
Weigh impact on investors

Seize the **opportunity!**

The UPA government has been given a rare honour – a second term. If the Congress party was pleasantly surprised by the results of the 2004 election, it must be doubly surprised this time around when its performance has floored everyone, including its own leaders! But even as it celebrates an exceptional performance and sees it as a vote for performance, the party cannot but realise it has an extremely tough task on its hands. Be careful what you wish for, someone might have told Prime Minister, borrowing line from Chris Doughtry's famous song: "You just might get it all and then some you don't want!"

The biggest challenge before the new government is security: external, internal and financial security. As far as external and internal security is concerned it's not difficult for the government to convey a sense of urgency. The *aam admi* understands the need for external security only too well and now thinks to growing danger from terrorism and Naxalism. Also there is no need to press home the point about internal security either. As far as financial security is concerned, it would be no exaggeration to say that neither external nor internal security has any meaning without financial security; all three are so closely inter-connected that you cannot have one without the other. A prolonged economic slowdown that threatens our financial security adversely and sees millions lose their jobs posses a threat to our internal security and makes the country more vulnerable to external threats.

The problem is nobody knows just how long the recession will last or how much of the collapse in output and fiscal revenues is structural rather than cyclical. If it is cyclical the government can hope that with a revival in the world economy, the country's finances too will revive. But if, as is likely, our deficit is structural (chronic or long-term) there is no guarantee things will right themselves once the worst is over.

Subsidies, for instance, showed no decline even during the boom years. On the contrary, the subsidy bill grew, from Rs 57,125 crore in 2006-07 to Rs 70,926 crore in 2007-08, a 25% increase in just one year. In addition, the government has been issuing oil bonds indiscriminately on the grounds that they do not involve an immediate cash flow. The net effect has been a steady worsening of our public finances with repercussions that go well beyond the financial sphere.

A high fiscal deficit (close to 13% for the Centre and states combined) raises the threat of inflation, pushes up interest rates and poses a grave risk to growth. The 1991 crisis, though popularly referred to as a balance of payment crisis, was in reality a fiscal crisis that spilt over to the external sphere. There is every chance that if we do not get our act together we may see a repeat of those years. Unless there is explicit and direct government intervention to redirect, if not reduce, spending and increase revenue.

Yet, if the Congress party manifesto is to be believed, there is little reason to hope we will see the necessary course correction. Take for instance its proposal to extend the NREGA to 'everyone' as against one member in each family at present, or the equally fiscally irresponsible promise to give 25kg of rice or wheat at Rs 3 per kg, i.e., at roughly one-sixth the open market price. Both call for huge sums of money. At a time when gross market borrowing are already slated to touch Rs 4.01 lakh crore, it is naïve to assume government will be able to borrow more without serious (adverse) repercussions.

The problem in a democracy is that it is always difficult to withdraw sops once extended. For the Congress this poses a real dilemma since unlike during its first term, it will not be able to blame its allies for its inability to administer harsh, but necessary, medicine. It has a window of opportunity in terms of lower inflation but this is a window that will not be open for long. It is only a matter of time before the impact of the huge amount of liquidity injected by central banks as well as the vast amount of debt issued by governments as fiscal stimulus, shows up in prices.

In 2004 soon after he took over as PM, Manmohan Singh hailed his party's victory as a vote for a 'change in the manner in which this country is run, a change in national priorities and a change in the processes and focus of governance." It would be wise if he looked upon the verdict in election 2009 as a second chance and effected the changes he spoke of rather than saw it as an endorsement of what his government has done. Now is the time for him to do the things expected of a man with his reformist credentials; dismantle the APM for oil, disinvest PSUs, raise the limit for FDI, reform the labour market, the police and the judiciary and, most of all, improve governance. Seize the opportunity!

4.2 CREDIT COUNSELORS
Resolve convertibility and recompensation issue

Electoral **theories**

Almost all pundits anticipated a hung Parliament with regional and caste-based parties holding the balance of power. Now that the UPA has achieved a clear victory, the same pundits are coming out with grand theories to explain it. Almost all these theories have holes, and are partial explanations at best.

This is vote for secularism: That would be nice if true, but is not the case. The BJP lost some ground, but not because of a Hindu fundamentalist platform. One can hardly claim that the voters of Gujarat, Madhya Pradesh, Chhattisgarh, Karnataka and Bihar are communal, while those of Haryana, Delhi and Andhra Pradesh are secular. This election was not fought on the basis of Hindutva versus secularism.

The Congress party is back on the road to its old political dominance under Rahul Gandhi: Well, hardly; the Congress won just 206 seats out of 543, and the Congress-led coalition won only 261 seats, short of a majority. This is a far cry from the days when the Congress party won big majorities in Parliament and ruled most of the states. Congress' vote share inched up by just 2% to 28.6%. Its numbers look good today only because of highly diminished expectations. This time the party under Rahul Gandhi certainly improved its seat tally in UP, yet its vote share was no more than 18.3%, far lower than Mayawati's 27.4% or Samajwadi's 23.3%. So, Congress still needs all the help it can get from regional and caste-based parties. It may have pulled back from a long decline, but is nowhere near its old dominance, and is very much in need of allies.

Voters are now tired of caste-based and regional parties, and are heading back toward national parties: Not so; the combined vote share of the Congress, BJP and Marxist parties has actually fallen by almost 2% compared with 2004, and their combined total of parliamentary seats is almost unchanged at 346 against 344. The vote share of regional parties has held up quite well. Indeed, some regional chieftains like Nitish Kumar in Bihar, Navin Patnaik in Orissa, Chamling in Sikkim, and Karunanidhi in Tamil Nadu, have registered stellar performances. Mere caste combinations unbacked by development – this description may apply to the SP, BSP, RJD and LJP – have fared poorly. But wherever regional or caste-based leaders have delivered good governance and development, they have been rewarded by handsomely by voters. This election simply cannot be called a vote against regionalism or casteism. But can be called a vote for good governance and development.

Going it alone was a fabulous innovation of Rahul Gandhi in North India, and helped revive the part's fortune: Alas it was not Rahul but the Fourth Front that chose to ditch the Congress and go it alone in UP, Bihar and Jharkhand. Going it alone may have been one of the ideas put forward by Rahul before the campaign, but ultimately it was a necessity thrust on him when the SP, RJD, and LJP walked out of the UPA and formed a Fourth Front. Besides, going it alone was hardly a uniformly successful policy. It worked in Uttar Pradesh, but was a dismal failure in Bihar and Jharkhand, where the party won only two seats and one seat respectively.

The Congress gained greatly from populist schemes like the National Rural Employment Guarantee Schemes, and the farm loan waiver: This seems plausible, yet is not obvious. Why should the waiver have so totally failed to enthuse voters in Bihar, Orissa, Chhattisgarh or Jharkhand? No doubt Chidambaram's loan waiver must have gratified some farmers, but history suggests that this is at best a marginal vote getter. As for rural employment, such schemes have in one form of another been in force for three decades, in which incumbent governments have been trounced regularly.

4.3 WEALTH MANAGERS

Map out the details to translate into benefits

Back to **basics**

The decisive electoral mandate is extremely good news for India and its people. This is all the more so, given that the past-year has been marked by a challenging global economic backdrop, which has also spilled over to the domestic economy. The mandate for the UPA represents a new window of opportunity, and can now set out with renewed vigour to tackle the problems of poverty and economic growth.

The danger for the Congress is that its surprisingly good showing – its scale was not predicted by any of the myriad exit polls – might induce it to revert to the single party syndrome.

Freed from Marxist shackles, the new government needs to articulate a new five-year vision, as well as a plan of action for its 100 days in office. The five-year vision should include education and administrative reform that provides good governance and makes public services more accessible to the aam admi. And the 100-days plan should consist not of more promises but concrete actions. The centerpiece of 100-days plan must be completion of legislative business blocked by the Left Front for the years. The new laws can be passed quickly because they have already been debated threadbare. These include pension's reform, opening up coal mining for the private sector and raising foreign investment limits in several sectors. The government can now reduce its holding in PSBs to below 50%, enabling them to raise more capital. The government can also go forward with the sale of minority stakes in PSUs.

Congress needs a new agenda, and Rahul Gandhi may be looking for big new themes. Education and administrative reforms merit top priority. These will make public services more accessible to aam admi.

Education for all sounds a catchy title, but is useless if teacher absenteeism and other ills mean that most children cannot write simple sentences or solve simple sums after six years of schooling. Teacher accountability can be improved by devolving power to panchayats, who should be empowered to discipline errant teachers. The licence-permit raj for private schools must be disbanded. School vouchers should be introduced in urban areas, to give parents greater school choice. And foreign universities must be freely allowed to start colleges here, greatly improving public access to world-class education. Our future lies in a skill-based society, and anything that comes in the way of that needs to be thrown out.

The common man complains of the lack of **basic governance.** States with good governance like Bihar & Orissa have resoundingly re-elected their chief ministers. The one chief minister who came to power on an anti-corruption platform, Pawan Chamling of Sikkim, has been reelected repeatedly, and this time won all 32 seats in his state. This highlights the need for purposive development linked to good governance. For this, we cannot depend on the good sense of a few chief ministers here and there. We need huge administrative overhaul to greatly reduce the discretion of politicians and strengthen independent institutions. We need greater devolution of power and funds to panchayats. And we need elected mayors of cities with substantial powers, not the powerless irrelevancies of today.

The immediate challenges include riding out the global recession and building on the rural development success. We are not in a cyclical Keynesian recession that can be ended by a stimulus or two. We are in a structural Hayekian recession, which requires painful elimination of global imbalances, especially excess spending in the US and excess saving in China. This will take time – which is why the IMF predicts a return to normal growth only in 2011. Manmohan Singh must resist the temptation to empty the treasury with ever-new giveaways that might take the national debt to 100% of GDP.

4.4 INCLUSIVE CEOs

Innovative responses to problems: Increase employability to fuel inclusive growth

Increase **Employability**

India's growth story has masked the challenges underneath – as many as 600 million people continue to depend on agriculture as a source of livelihood, yet it has been growing at only 3% annually. At the same time, India's workforce is growing. We currently have around 500 million people in the workforce and this is expected to grow by about 20 million each year for the next ten years. By 2020 India will account for a fourth of the world's total workforce. And it will be a young workforce. By then, the average working age is projected to be 60+ in both US and Europe, 45 in China, and merely 29 in India!

But this workforce has a serious problem: unemployability due to lack of the necessary skills and competence. Multiple surveys by bodies such as CII and Nasscom show a severe gap between employment and employability, which in turn severely limits the possibility of true inclusive growth that ultimately depends on the productivity of the overall workforce and talent resource levels.

One of the main reasons for the unemployability is the big disconnect between what the industries need and what the students learn through the education system. Around 90% of employment opportunities are estimated to require vocational skills. But the majority of students who graduate are equipped with book knowledge rather than practical vocational skills.

The consequence of this skill deficiency has a debilitating impact on the national economy, in addition to widening the inequality between the haves and the have-nots. For India to prosper, it must integrate its diverse population, especially its youth. They are the future. But this can only be done if the 4Es are in place – education, employability, employment and excellence. With the 4Es will come the 5th E – economic growth.

It is a daunting challenge. And the figures are staggering: A little more than half (around 270 million) of India's workforce is employed in rural areas primarily in agriculture (many of them underemployed). Of the current total workforce, 40% is illiterate, and another 40% constitutes school dropouts. While of the nearly 455 million jobs available today, almost 90% require some level of skills, 9% are knowledge-based and 1% is a combination of both knowledge and skills.

Clearly, there is an urgent need for both quick, short-term solutions as well as long-term planning. No single stakeholder, whether the government or industry can bridge this massive employability gap. It requires a collective effort. While India has increased literacy from 18.33% in 1951 to 64.84% in 2001, we still have a long way to go, both in terms of the number of people educated and the quality of education they receive. While short-term solutions such as courses to bridge skills gaps are necessary, they are not sufficient. For a loner-term impact, we need to go to the root cause and address the challenge.

In the 11th Five Year Plan, the Planning Commission has an entire section dedicated to skill development and training. It is not by accident that the same report bears the title "Inclusive Growth" on the cover. But inclusive growth can't be achieved by government's efforts alone. Companies from all key sectors should have a stake in furthering education and increasing prosperity. If IT was the driver in professional services for India, then retail could be the engine of rural growth. But for the engine of growth to thrive and prosper, it requires a broad and growing base of consumers with sufficient buying power. If India fails to grow inclusively, the consumers' collective buying power will erode, and the India growth story will fall.

Inclusive growth is more than a clever slogan. It is a call to action. Not only for government, but also for the private sector, the education sector and people to join hands, identify solutions and grow together.

4.5 FINANCIAL PLANNERS

Value unlocking for all stakeholders: Reap the benefits of demographic dividend

Harness **Youth power**

Youth power is believed to be one of the most important assets for economic growth. Now, the power of youth can wield is seen in the recently concluded general elections as they played a crucial role in boosting the UPA's performance and paving the way for a second consecutive term in governing the nation. However, youth power can be a double-edged sword if it is not managed efficiently. Failure to do so could result in a host of social problems, and it could drag down India's economic prospects.

India's economic planners have time and again focused attention on the youth. The first Planning Commission in 1952 recognised the vital role that youth can play in the development of the nation. In 1985, after the UN declared it as the International Year of the Youth, Indian policymakers set about preparing a National Youth Policy, which was adopted in 1988, which was then revised in 2003. Despite this, few initiatives were taken to translate these policies into action on the ground.

Before addressing the youth issues, it's necessary to first arrive at a definition of youth. Sociologically speaking, youth refers to a 'category' rather than a 'group'; the difference being that a category has diverse or heterogeneous elements unlike a group which is sociologically similar in its composition. Youth relates to an age group that is transiting between childhood and adulthood and may comprise of a conglomeration of sub-groups with differing social roles, expectations and aspirations.

However, there is no uniformity in the definition. The UN defines youth as those in the age-group of 15-24 years. The UNICEF defines youth in the age bracket of 15-30 years. On the other hand, India's National Youth Policy (NYP, 2003) considers all individuals in the age-group of 15-35 years as youth population. NYP further states that all persons within this age group are unlikely to be one homogeneous group and divides into two broad groups: 13-19 years (adolescent age group) and 20-35 years.

India is comfortably placed to reap the benefits of this demographic dividend for at least the next decade. But, size alone is not sufficient. The quality of human resource is an important aspect. Indian youth need to be equipped with knowledge and skills to compete globally. As recent Business *Week article* pointed out "the primary ambition of young Indians from smallest villages to the largest cities is to 'become rich'." But the gap between expectations and reality is too wide – and some would even say unbridgeable.

According to trends revealed by NSS (National Sample Survey, Government of India):

- Indian households spend a minuscule 3.58% of their total household expenditure on education which translates into Rs 73 per month for rural and Rs 230 per month for urban in 2004-05. This has marginally increased from 2.42% in 1993-94.

- In 2004-05, rural households spent roughly about the same amount on education and on consumption of pan/tobacco and other intoxicants. Significantly, education featured way down on the list of priorities and just above entertainment, in terms of household expenditure.

The above figures are definitely a cause for concern. A strong culture of reading is a prerequisite for any society that expects to compete in the fast globalising environment.

Television, the internet and other communications have raised the expectations of the youth. And unless this gap between aspirations and abilities is adequately addressed, it could turn into a 'problem' rather than a 'resource', so don't waste the opportunity.

4.6 TECH SAVVY PROFESSIONALS

Take first step to ensure efficient and reliable system

Regulator for flagship schemes

The new government will set up an independent regulator to monitor the progress of key flagship programmes and submit quarterly reports, as it tries to ensure that the funds earmarked for such social sector schemes reach the intended targets in a timely and efficient manner.

Roughly a quarter of the Rs 120,000-crore allotted for these schemes in the last fiscal had remained unspent, and the UPA political leadership believes that an independent and autonomous regulator will be able to analyse reasons for this and suggest solutions.

Officials in the finance ministry and the ministry of statistics and programme implementation are now chalking out the contours of this new body, slated to be in place with in 100 days of the new government taking charge.

Prime Minister Manmohan Singh, in his last term, had wanted the government to keep an arm's length from the process of independent evaluation of these schemes. The PM made it clear again that there will be quarterly evaluation of flagship programmes.

So the officials in the finance ministry and the ministry of statistics and programme implementation working on creating an autonomous body for evaluating the schemes for building social infrastructure, providing education, health care services and midday school meals as well as creating rural jobs.

This time around, the government might also make use of the talent pool available in universities, management or research institutions and also non-governmental organisations for doing an evaluation of these schemes.

An independent evaluation is now considered necessary because official spending on these programmes, notably the rural job guarantee scheme and the rural health mission, is expected to rise.

The autonomous evaluation body will keep a close tab on the cost of service delivery under each scheme. This assessment will be used to make norms capping the cost of providing various services to the people.

As of now, that job is done by the Planning Commission and the respective ministries. But roughly a quarter of the Rs 120,000-crore was not spent last fiscal, although some government officials argue that this is not a direct reflection of inefficiency in implementation.

For instance, spending on the National Rural Employment Guarantee Scheme (NREGS) may come down due to lack of demand for such jobs in rural areas, they say.

These flagship programmes including NREGS, Jawaharlal Nehru National Urban Renewal Mission, Sarva Shiksha Abhiyan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Integrated Child Development Schemes, are now on top on the government agenda once again, with political pundits attributing the UPA victory of Polls 2009, mainly to these programmes.

4.7 MICRO-FINANCE PROFESSIONALS

Developing alternative credit delivery models: Truly rural job guarantee to get a fillip

Realise fully potential of **NREGS**

Wooing rural poor has always been the central theme of Indian politics, but providing job guarantee to unemployed people in rural India worked wonderful for the Congress and its allies. Earlier, governments, including those led by the Congress, might have formulated policies to provide jobs for rural Indians, but the job guarantee factor for 100 days, coupled with a complete sealing of possible leakage of resources by the UPA regime, helped *aam aadmi* in rural India become the direct beneficiary of the NREGS.

That the scheme has worked has some telling evidence: **One** that food prices were higher in districts where the scheme had been implemented compared to districts not part of the scheme, indicating higher purchasing power on the part of the rural poor**. Two** the shortage of migrant labourers in Punjab is widely attributed to the NREGS keeping potential migrants in their Bihar villages.

The statistics are equally impressive. Ensuring employment to a whopping 4.47 crore families and creating 215 crore person-days during the past three years are quite a big achievements. Over 27 lakh projects have already been taken up, out of which 12 lakh were completed. The programme was initially implemented in 200 districts in 2006-07. It was extended first to 330 districts before all 614 districts in the country were covered. In terms of allocation it has been a big jump from Rs 8,600 crore in 2006-07 to Rs 13,000 crore in the next fiscal to finally earmark a whopping Rs 30,000 crore in FY09.

What has, however, made this programme distinct from many other Central government schemes is its delivery. Former rural development minister Raghuvansh Prasad Singh, who played a key role in implementing the NREGS, explains that money would have gone to the pockets of middlemen if the account payee system was not introduced. “A system is laid out according to which one has to have a bank account or a post office account to get the payments. Otherwise, many sarpanch (village heads) would have provided fake names and misappropriated the funds. Former Prime Minister Rajiv Gandhi once said that out of one rupee spent by the government, only 15 paisa reached the people. We ensured that the entire amount reaches the target group.” The UPA’s flagship rural development programme is not a political gimmick at all. The very reason that as high as seven lakh rural poor opened accounts in banks or post office and contributed to the process of financial inclusion, would necessarily drive the current government and the political establishment to expand its scopes manifold.

Yet, the potential of NREGS for poverty reduction is far from fully realised. Many have debunked this nation-wide programme while others have given a strong endorsement on the grounds that it is beginning to transform the lives of the poor and making them better aware of their entitlements. The issue is an important one, as the decision to extend it to all 604 districts with an employment guarantee of 100 days per household is likely to be a huge fiscal burden (about Rs 53,000 crore), especially when the public finances of both the central and state government are in parlous states.

Certainly, more and more people will demand work under this scheme than supplied. So the policy insight is to ensure that supply adjusts to demand – especially in districts with higher incidence of poverty – at a faster rate. So that potential of NREGS could be fully realised for poverty reduction. What needs to be emphasised is that higher NREGS wages undermine the self-selection of the poor in it. And the hike in the NREGS wages in Rajasthan (from Rs 70 to Rs 100) in Haryana (from Rs 126 to Rs 141), with a few doubling the amount in a year, surmise that these hikes are likely to be inflationary. What is perhaps worse is that populist hikes in NREGS wages may further erode its potential.

4.8 ONE-STOP-SHOPS

Dedicated to offer related services under a roof: Hundred ways to get things going

The first **100 days**

100-days have an impressive ring. It suggests that great things can be achieved, with despatch yet enough time for deliberation – we are not talking dubious overnight policies here, but not endlessly delayed ones either. The term was first used in its iconic sense for the period when Napoleon escaped from Elba and returned to France to raise his army for one last desperate bid for survival. There was a strategic insight: Napoleon realised that the enemies, who forced the return of the French armies ranged across Europe, and that these ill-treated soldiers were now usefully concentrated and could be motivated to fight again. In the course of 100-Days – actually 111 – it almost worked, but it came to an end at Waterloo.

A Hundred Days was used again for Franklin Delano Roosevelt's administration – elected in the dark days of the Great Depression – and which, between March 4, 1933 and June 15, 1933, passed 15 major piece of legislation, including the Glass-Steagall Act, separating commercial and investment banking, and took America off the gold standard. It was cursed as socialism at that time, hailed as saving America later on, and today is being fought over all again. Barack Obama's 100 days were much hyped and hugely scrutinised, and it's not clear how much that was concrete was achieved.

There have been no parallel Indian examples. Indian administrations tend to spend their first 100 days fighting over portfolio allocations, and from the DMK's tantrums this one will be no different.

A 100-days' programme to kick-start the Indian economy; assuming such things is possible; there are some uncomfortable questions the government will have to answer even as it draws up the blueprint. Prime among there is, where it is going to find the money? Contrary to the widespread belief, this is not going to be easy. If there is one thing government and households have in common, it is that ultimately, both have to cut their coats according to their cloth. The key word here is 'ultimately'. But there is one key difference. The difference is that for households the day of reckoning comes pretty fast while government get a longer rope, thanks to their ability to print money.

However, if it were only a question of keeping the printing presses oiled, no government would have a problem. In reality, credibility is an important aspect of fiat money and credibility, in turn, is closely linked to the health of government finances. Unfortunately for the UPA government, the poor health of government finances is a serious constraint, both on its ability to work and printing press, and on any programme to spur the economy. The danger is that as pressure mounts and expectations run high it might be tempted to turn a Nelson's eye to the fiscal deficit (now close to 13% for the Centre and states combined) and look instead for quick fixes, read print money.

The Prime Minister knows very well, when it comes to the economy there are no quick fixes. Indeed printing money indiscriminately at a time when the fisc is already severely impaired is no fix at all. As RBI governor has pointed out, another stimulus package could help the economy short-term but there is a long-term cost. Higher borrowings work against a low interest rate environment critical to any kind of investment activity while excess liquidity will ultimately manifest itself in the form of inflation.

The fact is there is trade off between short-term compulsion (populism?) and longer-term sustainability. This is something the government will have to keep in mind as it struggles with trying to live up to expectations. The struggle might be easier if it remembers it has been elected for a full five years – that's 1826 days, not a mere 100 – and acts accordingly.

Declining **rural funding** by states

The general perception is the government is pumping in enough resources to the rural areas which get reflected in rising purchasing power. But rural prosperity, though evident, is confined to a few segments. Even today, around 70% of the countryside is left behind the nation's march towards prosperity. And this could be attributed largely to lackluster government spending in rural areas: the combined total investment in the rural area by both the Central and states has remained more or less stagnant at around 1% of GDP since the 90s. The fact that rural development remains largely neglected becomes evident when the analysis show that investment by state governments in the countryside – including public expenditure in agriculture, rural electrification, roads, housing, sanitation, schools, medical centres and ancillary units – has declined for a majority of states since the nineties. In fact, the cumulative expenditure of states in rural development as a percentage of total expenditure has dropped from almost 7% in 1992-93 to 4% at present. Most states spend a little as 1-5% of their total expenditure on rural development. The exceptions are Madhya Pradesh (8%), Chhattisgarh (8%) and Bihar (7%).

No doubt, there are cases where there is apparently no close correlation between fund allocation and rural prosperity. For example, rural Bihar suffers from economic deprivation despite higher state allocations. In contrast, Punjab is a first ranker in rural prosperity despite government neglect. In Punjab, this could be attributed to the predominance of non-farm rural employment (60%), greater urbanisation, high minimum support price paid to farmers and well established rural infrastructure. In Bihar, a higher proportion of state government funds have not made a visible impact in terms of rural uplift. This is because around 80% of population continues to depend on low productivity agriculture for its livelihood. Nearly 40% of gross cropped area is still un-irrigated and rural infrastructure is in dreadful condition.

A major reason why the impact of government spending in the villages may not be clearly visible is that most of the increase in rural spending is through allocations by the Centre while the contribution of the states, which could make a difference, is declining on account of its preoccupation to meet the fiscal deficit targets. This is borne out from the fact that states' expenditure, which accounted for nearly 95% of total rural spending in the nineties has dropped to around 60% at present, while the Centre's share has gone up from 0.5% to 2.5% during this period. However, the centrally sponsored schemes have proved unequal to ameliorate the plight of the rural populace. The leakages in delivery mechanism and poor accountability at the state level have prevented funds from reaching the targeted beneficiary.

Secondly, not only is rural funding inadequate but the amount disbursed is also spent inefficiently. For example, around 75% of the amount allocated for agriculture is spent on subsidies with only 25% made available for productive investments despite the latter providing higher returns. Besides, not much is being done to promote rural industrialisation. More than 50% of the villages are yet too covered by Khadi and Village Industries Commission and the paucity of basic infrastructure like transport, communications and electricity is a major deterrent to the growth of rural SME clusters. Additional funds are desperately required for improving connectivity in the countryside. Connectivity enhances the value of every other rural investment since it empowers people through improved mobility and access.

All this shows that augmenting fund allocation for public investment in the rural area is more a necessity than an option for promoting inclusive economic growth. However, the enhanced fund allocation by the Centre alone is not sufficient. It is the contribution and commitment of states, which by supplementing the initiatives of the Centre could help in rural uplift and make it possible for industry to realise the full potential of the rural marketplace by bringing many more buyers within its fold.

Regionalists: Partners or spoilers?

Post- independence India had inherited the political and social umbrella platform represented by the Indian National Congress along with authentic regional political forces represented by the Akali Dal of Punjab, the National Conference (NC) of Jammu & Kashmir and the Dravdian movement and politics of Tamil Nadu. Not only this, the Communist Party and the Hindu Mahasabha had also been born in the 20th century, pre-independent India and had contested the Lok Sabha and state assembly elections of 1952.

In other words, neither the all-India parties nor regional and sub-regional parties are new players in electoral politics. These regional parties have consistently opposed the centralised federal ideology of the all-India Congress party. They are representatives of regional diversity of India and protect the 'autonomy' of regional cultures and interests. The point to be understood is that a country of India's diversity and vast size requires multiple and diverse responses to specific regional needs and aspirations and regional parties have always been born in response to the felt needs of diverse regions.

The class architecture built by the Congress on the basis of support from high caste Hindus, Scheduled Castes and Muslims were weakened by the emergence of powerful peasant caste groups represented by the '**Other Backward Castes (OBC)'** who created their own caste-based political formations. The best illustration of this is provided by the phenomenon of the emergence of caste leaders like Mulayam Singh Yadav of Uttar Pradesh and Lalu Prasad Yadav of Bihar. These leaders captured political power by displacing the Congress in UP and Bihar. However, their consciousness is not an all-India consciousness and this is the reason why OBCs has numerous regional parties, specifically limited to one region.

Social contradictions also led to the emergence of separate parties of **'Extremely Backward Castes (EBCs)' and Dalit**. Nitish Kumar mobilised EBCs of Bihar whose interests were in conflict with that of the Yadavs. Ajit Singh is a leader of Jat peasants of western Uttar Pradesh who in caste hierarchy are almost equal to Yadavs but the prosperity level of Ajit Singh's Jats is higher than that of the Yadavs. Hence, Ajit Singh and Mulayam Singh are not able to form one party of the EBCs because intra-caste clash of interests. Like the fragmented EBCs, Dalits are also fragmented. Mayawati of the Bahujan Samaj Party has built a separate party for the Dalits. But, because of intra-Dalit conflicts, she has succeeded in establishing her supremacy only over the Dalits of Uttar Pradesh. Ram Vilas Paswan, a Dalit leader of Bihar, is not ready to accept Mayawati's claim as an unchallenged leader of Dalits outside UP. Nor are the descendants of Ambedkar in Maharashtra.

If political parties at the regional level have emerged in response to the felt needs of caste and sub-caste aspirations, the political vacuum created by the collapse of Congress in Bengal provided an opportunity to the **class-based** Communist parties to mobilise the urban and agrarian labouring classes, which were neglected by the Congress. The Communist hegemony in Bengal remained unchallenged but an anti-Communist social constituency in Bengal was waiting for a leader and Mamata Banerjee emerged on the scene. The Trinamool Congress of Mamata is mobilising and leading a social constituency which remains dissatisfied with the Communist rule.

The purport of this narrative is that all regional and sub-regional parties are relevant in Indian politics because they are protecting and promoting some specific social class and group interests. But, it can be asserted that every major regional party is keen to participate in the exercise of power in a coalition at the central level because many regional aspirations as represented by regional parties cannot be fulfilled if they are not in power at the Centre. Thus after every Lok Sabha elections the race to form a coalition government at the Centre becomes quite hot as regional parties do not want to miss the bus.

4.11 GLOBAL OUTLOOK

Global pathways: Will global balance returns?

Global imbalances

Future history books, depending on where they are written, will take one of two approaches to assigning blame for the world's current economic crisis. One approach will blame lax regulation, accommodating monetary policy, and inadequate savings in the United States. The other, already being pushed by former and current US officials like Alan Greenspan and Ben Bernanke, will blame the immense pool of liquidity generated by high-savings countries in East Asia and the Middle East. All that liquidity, they will argue, had to go somewhere. Its logical destination was the country with the deepest financial markets, the US, where it raised asset prices to unsustainable heights.

Note the one thing on which members of both camps agree: **the global savings imbalance** – low savings in the US and high savings in China and other emerging markets – played a key role in the crisis by allowing Americans to live beyond their means. Preventing future crises similar to this requires resolving the problem of global imbalances. Here, the early signs are reassuring. American households are saving again. And the US trade deficit has declined from $60 billion a month to just $26 billion. But once American households rebuild their retirement accounts, they may return to their profligate ways. Indeed, the Obama administration are doing all they can to pump up US spending. The only reason the US trade deficit is falling is that the country in a recession, causing imports and exports to collapse in parallel. With recovery, both may recover to previous levels. And the 6%-of-GDP US external deficit will be back.

Whether there is a permanent reduction in global imbalances will depend mainly on decisions taken outside the US, specifically in countries like China. One's forecast of those decisions hinges, in turn, on why these other countries came to run such large surpluses in the first place.

One view is that their surpluses were a corollary of the policies favouring export-led growth that worked so well for so long. China's leaders are reluctant to abandon a tried-and-true model. They can't restructure their economy instantaneously. They need time to build a social safety net capable of encouraging Chinese households to reduce their precautionary saving. If this view is correct, we can expect to see global imbalances re-emerge once the recession is over and to unwind only slowly thereafter. The other view is that China contributed to global imbalances not through its merchandise exports, but through its capital exports. What China lacked was not demand for consumption goods but a supply of high-quality financial assets. It found these in the US, mainly in the form of treasury and other government-backed securities, pushing other investors into more speculative investments.

Recent events have not enhanced the status of the US as a supplier of high-quality assets. And China, for its part, will continue to develop its financial markets and its capacity to generate high-quality financial assets internally. But doing so will take time. Meanwhile, the US will has the most liquid financial markets in the world. This interpretation again implies the re-emergence of global imbalances once the recession ends, and their very gradual unwinding thereafter.

One development that could change this forecast is if China comes to view investing in US financial assets as a money-losing proposition. At that point, China would pull the plug, the dollar would crash and the Fed would be forced to raise interest rates, plunging the US back into recession. There are two hopes for avoiding this disastrous outcome. One is relying on Chinese goodwill to stabilise the US and world economies. The other is for the Obama administration and Fed to provide details about how they will eliminate the budget deficit and avoid inflation once the recession ends. The second option is clearly preferable. After all, it is always better to control one's own fate.

4.12 ISSUES OF THE PRESENT

Freedom to get & fail in the system of free enterprise: Is anti-incumbency really passé?

Anti-incumbency

Despite week's long media dissection, two key events related to the election have gone unnoticed. One of these events is a case of a dog that did not bark and the other of a dog that did bark but no one noticed.

Consider first the dog that barked but went unnoticed: anti-incumbency. Because the election returned the Congress-led incumbent ruling coalition to power with near-majority votes, virtually all commentators have automatically assumed that anti-incumbency is now dead. But this reflects either a poor understanding of the anti-incumbency thesis or superficial reading of the results.

Writing in the *Wall Street Journal* in May 2004, Jagdish Bhagwati offered the thesis that economic reforms that had finally begun to raise incomes at all levels at rapid pace had given rise to a revolution of rising expectations. People at all levels, especially the poor, had discovered that unlike during the first four decades of independence, rapid improvement in the economic fortune was possible. They, therefore, now punished non-performing governments with electoral defeat and rewarded performing ones with victory. At the time, many in media and some even in the academia found the thesis so compelling that they went on to reproduce it without attribution and often as their own.

The key feature of anti-incumbency in India is that it strikes with potency at the level of the state. The electorate rewards the party of a performing chief minister and punishes that of non-performing one in not just state assembly elections but national parliamentary ones as well.

Recently, Bihar, Orissa and Chhattisgarh have had performing non-Congress chief ministers. As a result, in the latest elections, Congress could win just nine out of total of 72 seats in these states. The bulk of the seats went to respective ruling parties and their allies.

Delhi and Andhra Pradesh, on the other hand, have had performing Congress chief ministers and the party respectively bagged seven out of seven and 33 out of 42 seats in the two states.

In Rajasthan, the Congress had trounced out an unpopular BJP CM less than six months ago. That anti-incumbency effect extended to the parliamentary elections with the Congress winning 20 out 25 seats.

Mayawati, who had scored a stunning victory in Uttar Pradesh two years ago, has subsequently revealed herself to be a self-centred identity-based politician. The electorate has swiftly punished her by handing 60 out of 80 seats to rival parties.

But the electorate has reserved its harshest blow for Communists in West Bengal and Kerala. On the national stage, the Communists had already earned the reputation for being obstructions and spoilers. In West Bengal, the state government added to their woes by its inept handling of highly visible land acquisition on behalf of the industrialists. In Kerala, Achuthanandan of the CPI(M) became chief minister three years ago but made himself greatly unpopular not the least by insulting the family of the local martyr and the hero of the Mumbai tragedy, Sandeep Unnikrishnan. In consequence, the CPI(M) was reduced to nine out 42 seats in West Bengal and seven out of 20 seats in Kerala.

It needs reminding that in social sciences, usually no single theory explains everything. Especially when three or more candidates contest for the same seat, even minor alternative factors can tip the balance. Therefore, counter-examples showing the victory of non-performers and defeat of performers can scarcely invalidate the anti-incumbency hypothesis.

Next, turn to the dog that did not bark and therefore escaped nearly every commentator's attention. The latest election had begun amid serious fears that terrorists would strike during one or more of its five phases and at least temporarily derail the entire exercise. There existed the obvious threat of suicide attacks by terrorists originating in a neighbouring country. But there could also have been strikes from within: Maoist rebels or local militant groups such as the Indian Mujahideen. But apart from violence incited by Maoist rebels in Chhattisgarh, Jharkhand, Orissa and Bihar resulting in 18 deaths in the first phase, the election was as peaceful as any in the past.

This success did not result from just good luck. The government, intelligence agencies, central and state police and the election commission deserve much applause for their vigilance. The central government moved decisively to address the weaknesses in the internal security systems in the wake of 26/11 events, especially after Mr P Chidambaram came to the helm at the home ministry.

The minister also made some difficult but wise choices. Specifically, on the issue of India Premier League (IPL) holding its tournament concurrently with the elections, he wisely refused to commit hos government's resource to the states wishing to host the games. The media huffed and puffed and the general secretary of the Bharatiya Janata Party Arun Jaitley even denounced the government's decision as 'shameful'. But Mr Chidambaram stood firm.

Unlike the opening ceremonies of the Olympics in China, Indian election did not produce spectacular images that could be instantly transmitted over electronic waves to impress the world. But the feat accomplished was much bigger. The election involved no fewer than 714 million voters of whom 420 million actually voted. Approximately 1.4 million voting machines were installed at 830,000 polling stations. So meticulous was the Election Commission that in Banej village of Junagarh constituency in Gujarat, it established a polling station for a lone voter! With some exceptions, polling stations carried voter lists that included photos of voters to prevent impersonation. On top, voters were required to bring their photo identification. Polling was spread over four weeks and carried out in five phases.

Finally, thanks to electronic voting machines, counting of the results was completed within a day. Even recounting in closely fought elections was completed amicably within the same day and, unlike in the United States, actual votes rather than judiciary decided the outcome!

5. BANKING SECTOR

Financial inclusion: marginal borrowers

Traditionally, lending has been based on measures such as assets, cash flows, credit scoring and the like. Many marginal borrowers cannot offer security or the prospect of immediate high returns, or credit scores that support such financing. Banks, however, having to operate within tight regulatory straight jackets are sometimes unable to take the leap of faith required to fund such borrowers. Yet, the ability to lend to marginal borrowers is one of the measures of the effectiveness of a financial system. Every potential borrower turned away represents the loss of an opportunity to drive economic growth and employment.

The importance of lending to marginal borrowers is magnified, when a nation is at the cusp of consumption-led demand, as India is today. India's future economic growth lies almost entirely in its ability to extract the most from the so-called demographic dividend, namely the ability to grow fast based on the consumption demand and productivity of a large youthful population.

Critical to this demographic dividend theory is the assumption that the country will be able to provide meaningful employment to the youth. And that opportunity for growth "is our biggest chance". It is final backstop that prevents a country of this size from being dragged into poverty. Data from the US has demonstrated that localised finance companies (NBFCs) are able to lend against lower collateral and at affordable and competitive rates of interest than larger banks, thereby accelerating the development of small businesses. They go to extra mile to truly comprehend and appropriately price such risks. Furthermore, they monitor assets closely and are inclined to support clients through the life of a loan.

All financial institutions rely on an ability to raise short-term funding from the capital market or the central bank and use this to support long-term loans. Banks are able to manage these mismatches due to the access to consumer deposits which tend to more stable and which enable them to mitigate the liquidity challenges that running such a mismatch can cause. In the ultimate test of liquidity, banks will turn to each other or the central bank to tide them through.

But, the localised finance companies live in a strange purgatory, without one of the most fundamental elements of a financial system. i.e., the access to a lender of last resort. They play the game of lending without backstop that the central bank can offer when liquidity runs out.

The Raghuram Rajan committee on financial sector reform has recognised the importance of localised financial institutions and the need to provide them a fair playing field. The committee has suggested that NBFCs which resemble banks be subject to similar regulation but that there be active encouragement for organisations that have a capability to serve communities locally. NBFCs marry these opposing requirements, of being both regulated and being local, very nicely. In today's economic situation small and medium businesses and marginal retail borrowers are the most likely candidates to be turned away from funding, because it is not worth the while of the traditional banking system to distinguish between the credit worthy borrower and the potential defaulter.

NBFCs step in to intermediate this arbitrage, both of information and the motivation to serve. Such an intermediation function is more valuable when credit is scarce and when a country needs small businesses to generate employment. To do this, however, NBFCs need to know that they can lend with the confidence that, in the event of short-term liquidity mismatches, they will have recourse to funds to tide through liquidity crunch. The presence of an open-ended backstop facility would go far in achieving this objective. It would be an irony is at a time when India's economy needs resources to grow and when many smaller borrowers are finding access to banking system difficult, the absence of such a facility from the lender of last resort prevents willing NBFCs from providing credit where it is due.

Review of Lead Bank Scheme

The Lead Bank Scheme, which has come up for review after 40 years, provides a forum for banks and state government to work in unison for achieving the public-policy objectives of inclusive growth. Usha Thorat, deputy governor of RBI and chairperson of high-level committee on Lead Bank Scheme, is of the view that the scheme will be an enabler in achieving financial inclusion and improving the flow of credit to the priority sector. It will also help in monitoring the subsidy-linked government-sponsored schemes.

- The committee has suggested that a banking outlet be made available in each village with a population of over 2,000. It feels that the service may not necessarily be in the form of a branch, but could be provided through alternate channels. This should be achieved before March 2011.
- The committee has suggested that every lead bank should open a financial literacy and credit counselling centre in every district where it has a lead responsibility.
- To make the Lead Bank Scheme more workable, the committee has suggested that state government should ensure roads and digital connectivity to all centres where banking penetration is required.
- Further, the state government should try to reduce the use of cash and cheques and take initiatives to make their bulk payments like salaries and pensions through mechanisms such as the electronic clearing system (ECS). This will make banking more cost-efficient.
- The committee is of the view that state government should participate in recovery drives. Willful defaults and misuse of loans should be treated as an economic offence.
- The committee has urged private banks to actively involve themselves in the Lead Bank Scheme and extend their service to under-banked and unbanked areas.

RBI roots for easier saving a/c norms

The Reserve Bank of India (RBI) has urged the government to tweak the Money Laundering Act (MLA), making it easier for people without access to organised credit to open no-frills or plain saving bank accounts. The regulator has recommended that an affidavit and a photo should suffice for the opening of such no-frills or plain saving bank accounts.

The MLA subsumes the Know Your Customer (KYC) norms that banks have to follow while opening accounts for customers, and hence the suggestions by RBI. The KYC norms require a customer to give proof of identity or an introduction from an account holder of the branch to open a no-frills account. The banking regulator is of the opinion that new customers may not always find it easy to provide proof of address and letters of introduction. However, for the implementation of RBI's suggestion of an affidavit and a photo being sufficient the KYC norms, MLA will have to be amended.

6.1 TAX UPDATES

After 25 years… Pranabda back in North Block

Pranab is back in North Block 25 years after he sowed the seeds of **Manmohanics** with some key tax proposals in his last budget as Union finance minister in the Indira Gandhi cabinet in 1984. His mandate is clear: to steer the country clear of **global downturn** and ensure that the economy keeps growing at a **healthy pace**. But why this 73-year-old veteran? Because he a '**young guard'** with an ability to move with the times. He is a **workaholic** who has not taken a day's holiday in 40 years! With **consensus** as his main weapon, Pranabda may be the right man for the **tough job**.

Troubleshooter is an unlikely term for the 5-foot-small, soft-spoken Finance Minister of India. He was the obvious choice not only to chair dozens of committees but also helm the external affairs ministry to steer Prime Minister Manmohan Singh's nuclear deal.

But workaholic is the word that his family, friends, colleagues and associates alike concur on when describing the indefatigable 73-year-old. It's hard to believe that Mukherjee puts in 16-hour days and his mild, bespectacled, dhoti-clad professorial appearance is at variance with his reputation for being a tough talker. But he not only has a politician's penchant for "the art of the possible," he has an academic's formidable memory for names, facts, precedents and formulations. Armed with a prolific memory for numbers he can reel out relevant contents of obscure government files at the drop of a hat!

A double master's degree in politics and history, an additional degree in law, have helped no doubt to bolster his memory banks but his long innings in government from deputy minister in 1973 to holding fort while the PM recuperated in 2009, has given him a unique familiarity with the workings of government at all levels. Indeed, by working with four PMs, Mukherjee's learnt firsthand the tortuous task of reconciling political pragmatism with economic imperatives within the Byzantine alleyways of government.

He's spent the better part of his life acquainting himself with, and then mastering the tricky business of government. His innate capacity to absorb, understand, remember and implement is probably what propelled a naughty child from Birbhum district to the heart of Delhi. As Kalyan Achariya, an old associate from Mukherjee's native village Mirati recalls, "Children in our village loved acting in dramas, but the king's role was exclusively Pranabda's. He was imbued with leadership qualities from those nascent years." Achariya fondly recalled him doling out the other roles in the plays, but it's not kingmaking qualities that make Mukherjee the man of the moment but his political acumen.

Agreeing to be junior partner to Mamata Banerjee's Trinamool Congress in the battle for West Bengal's Lok Sabha seats was just one recent example of his foresight. But, as family members point out, his defining virtue is his keen understanding of both domestic demands and the international situation. The first test of that came when he was Union minister for external affairs, but a bigger test lies ahead as he assumes formal change of the finance ministry as the world faces up an economic crisis.

It is his deep knowledge of both grassroot reality as well as the global economic issue that made him the right choice for the finance ministry. He is a political economist, actually. He has the confidence to take tough decisions, once he is convinced of their efficacy, and also carries them in a calm and well thought out manner. He had such vast experience in so many ministries and situations that it's nearly impossible to catch him unawares about any issue.

He can always remember if it has happened before and what was done then. After that, finding a solution that is both politically and administratively viable is not that difficult. And, his lifelong love of reading also makes him very up-to-date on the latest issues around the world and the country.

The full budget 2009-10

Finance Minister Pranab Mukherjee said in the first press conference after assuming office that the full budget for 2009-10 to be presented in the first week of July would have welfare measures for the poor, concrete reform moves, higher infrastructure spending and steps to boost the economy. The budget would also Kickstart fiscal consolidation to be achieved over a three-year period. Mr Mukherjee said the government would present its vision and approach for the next five years in the forthcoming budget. Seperately, the government will get commitments from banks to lower the cost of funds.

Broadly, the election results have vindicated the strategy of inclusive growth. I have no hesitation in saying that along with reviving the momentum of growth and employment generation our government will strengthen the various ‘inclusive’ elements in the coming budget. The Congress party’s manifesto promises to expand the schemes on creating rural jobs, providing education and health insurance cover, besides legally guaranteeing food for the poor.

The minister said budget-making was underway in full swing and that it would be presented in the first week of July. The government has to continue with higher spending this fiscal too in order to restore the higher economic growth rate in the past.

The 73-year old political veteran said, “Let me say unambiguously that we are committed to restoring growth and employment and that would not have been possible without spending funded by incremental borrowing. This would need to be further continued in 2009-10, the current year.

The government, which earlier announced three economic stimulus does, will provide sustained stimulus to growth by the next round of economic reform. “We have a broad plan of action in mind. I will get additional inputs when I have my pre-budget consultations with stakeholders. All this will be distilled into a concrete short-term and medium-term vision and strategy for India’s economic growth.

Finance secretary Ashok Chawla, who accompanied the minister, later explained to reporters that the slowdown in growth has “bottomed out” and a recovery was imminent. Four lead economic indicators have suggested that the economy was set to grow faster. Besides, foreign institutional investments into the country have picked up, with the total inflow in the last 45-50 days touching about $4 billion.

Mr Mukherjee also said the government was concerned about the cost and the speed at which finance can be accessed by businesses. He said that he would meet bankers and get them “committed” to a more benign plan of action.

The government will also give special attention to strengthening infrastructure investment. The government will re-appraise infrastructure projects in the pipeline and make them more robust. The Centre would also calibrate policies to boost infrastructure spending so that the economy returns to the high growth it posted in the previous years.

Despite the higher spending, the government is equally committed to fiscal consolidation over a period of say 2-3 years. In the interim budget presented in February, the government had estimated that fiscal deficit for 2008-09 mat touch 6% of the GDP and it forecast a 5.5% fiscal deficit for this year.

Economists said the combined fiscal deficit of the Centre and the states may have crossed 10% of the nation’s GDP last fiscal.

Sebi gets tough with buybacks

Market regulator Sebi is clamping down on the practice of 'hollow' buyback offers, which see companies make buyback announcements and lift share prices, but buy little or no shares. Buybacks are meant to enhance shareholder value by reducing the equity base, which in turn boosts the earnings ratios and subsequently the share price. But Sebi has observed that some promoters have managed to bolster the stock price without spending a single rupee on buying back the shares.

Now, the companies will have to mention the minimum number of shares that will be brought back while making announcement. The buyback offer cannot be closed before the minimum number of shares has been bought back. Companies will also have to buy back a certain number of shares every week when the market price is below the maximum buyback price.

In the past several companies have announced large size buyback offers via open market purchases, without intending to honour them. The mere announcement of a buyback offer is good enough to bolster the stock price of a company. This is because short sellers back off; thinking company purchases will avert any steep slide in the stock price, and thus limit profits from short sales. Many undecided sellers will hold on to their shares, preferring to sell when prices rise later, and fresh investors too will step in to buy, expecting the stock to be re-rated because of the improvement in earning ratios.

In July last year, DLF announced a Rs 1,100-crore buyback for a maximum of 1.83 crore shares. Now, it announced the closer of the issue after buying back just 76.39 lakh shares for an aggregate amount of Rs 140.69 crore. In another case, Bosch that announced a buyback totalling Rs 639 crore in December last year bought back a little over four lakh shares, as against the maximum limit of over 14 lakh shares.

Foreign firms must come clean on health for IDRs

The government has made it compulsory for foreign companies to disclose more details of their financial health while seeking to raise capital from India through Depository Receipts (IDRs). The Corporate affairs ministry has changed the IDR rules to bring more financial information available to Indian investors for the period between the issuing company's last audited financial statements and the date of opening of its IDR issue. That is, an interim financial statement for any period beyond 180 days is compulsory for IDR issue now.

As per the earlier norms, a company's financial health for this period could be established by a statement from its statutory auditor at home, if it was issued as per a form prescribed by India's capital market regulator Sebi. Now on, instead of such a declaration, the company has to compulsorily disclose interim financial statements for the period. For example, if there is a gap of ten months between the last financial statements' concluding date and the date of IDR issue, then the company has to disclose interim financial statements for the first six months. The issuing company should take only less than 180 days to prepare interim financial statements for issuing IDRs.

The move comes in the wake of a wave of bankruptcies hitting the West and some initial signs of activity in the dormant Indian Depository Receipts market with entities like Standard Chartered Bank showing interest. This is an investor friendly move in the wake of the global financial crisis. The move comes as the earlier Sebi-prescribed formats have apparently not been sufficiently informative for investors.

7. INFLATION RETREATS: NOW ADDRESS GROWTH

Global inflation tsunami unlikely

Stock market in the US usually bottom out four months before the end of a recession. If you believe, as many an analyst now seem to do, that the S&P500 Index saw its trough on March 9 – when the benchmark slumped to a 12-year low – then we ought to start getting ready for a revival in the US economy as early as July. Sure, there's some indication that the US economy is coming out of its funk. Sales of consumer durables were better than expected in February. There are also signs that the housing market, the root cause of the current crisis, is stabilising. Recent sales figures for both new and existing homes have been encouraging. And although residential property prices are still falling 19% year-on-year, the pace of decline is beginning to plateau.

April 25: Inflation moves up to 0.7%

Inflation rose for the third straight week under pressure from rising prices of food and manufactured items. Headline inflation measured in terms of wholesale price index (WPI) stood at 0.7% for the week ended April 25. The rate may firm up further due to the cascading effect of higher food and fuel prices, which will get reflected in the prices of manufactured products. Annual inflation was 0.57% in the week before. Milk, vegetables, pulses and cereals become costlier over the week, pushing annual inflation of food articles to a two month high of 7.82%.

May 2: Inflation slips to 0.48%

Inflation broke its four-week-long climb and slipped to 0.48% in the week ended May 2 on the back of high base effect. The inflation rate has remained below 1% for two months now. However food articles, fuel items and chemicals become costlier on a week-on-week basis, but economists expect, food price inflation to drop in the coming months.

May 9: Inflation inches up to 0.61%

Inflation inched up to 0.61% on the back of costlier food items, textiles, metals and chemical products during the week ended May 9, but an appreciating rupee is expected to complement the efforts of the new government and the central bank to rein in prices.

After falling below Rs 52 per dollar in March, rupee has appreciated close to 10% and is trading around Rs 47 against the greenback. The local currency is expected to continue its gaining streak. "The thump rule is that for every percentage point appreciation of rupee against dollar, wholesale price inflation will come down by 10 basis points, that is, after factoring in the direct and indirect impact. With the strengthening of rupee, continuing increase in prices of manufactured items is expected to soften. However, inflation for food items remains a sticky issue, even though the annual inflation measured in terms of wholesale price index is holding close to a 33-year low.

May 16: Inflation steady at 0.61%

Inflation for the week ended M ay 16 remained unchanged at 0.61% over the previous week. With vegetables becoming cheaper over the week, food price index dropped marginally after week-on-week rise for eight straight weeks. The easing of pressure on food items was balanced out by fuel and manufactured items that become slightly costlier.

How markets really work?

Riding on **cyclical bull**

The recent plight of the global investment community is best captured by a Russian proverb: "Ignore history and you will lose an eye, stare at it too long and you will lose both."

After the global crisis bubble burst dramatically last autumn, catching many investors unawares, there was a frantic rush to brush up on economic history lessons, particularly those dealing with the Great Depressions. But just as market participants were done positioning themselves for a long drawn out downturn, based on all the compelling parallels with the dark periods in economic history, one of the fiercest rallies broke out in stocks worldwide.

Rarely have so many investors felt so much pain at the sight of rallying markets. Over the past three months, US equities have risen by more than 30% - the most powerful advance since the 1930s, while emerging market equities have surged by a staggering 60% during the same period.

Once again, the price action shows that every significant deviation from the long-term trend is followed by a strong bounce back in the equity market. The fact is stocks tend to appreciate over time; after adjusting for inflation, the trend return for the benchmark S&P 500 index is 6.4% over the past 150 years.

In mid-March 2009, the US market fell to a level that can be termed as secular bear market low – defined as the point from where markets always yielded positive returns and investors have never lost money.

There have been seven such secular bear market lows since 1850. In six-out of those seven instances, the extent of the deviation had been broadly similar to what was seen in March this year. The only time that US stocks deviated by an even greater margin from their long-term trend line was in the early 1930s.

While there are a remarkable number of similarities between the current economic environment and that of the 1930s, the major difference is the willpower of governments across the world to avoid a Great Depression redux. Since October 2008, governments have systematically enacted steps that have turned out to be the largest fiscal and monetary stimulus in history. The stimulus measures finally started to gain traction on a global basis from March this year, as evident from economic data that have consistently surprised on the upside since then.

The developing world led by China has already returned to positive growth in the current quarter while the US economy is also likely to exit negative growth territory by the third quarter of 2009. This marks a remarkable turnaround in economic activity: even in the first quarter of this year. The global economy shrank nearly 8% on an annualised basis.

The questions now are how much of the improvement is already reflected in the value of stocks and what will the nature of the economic revival hereon? Following the massive rally of the past three months, stocks are no longer cheap and have reverted to their historical trend line. The Indian equities market too is now trading right in line with its historical average (it has returned 11% per annum since 1976 in dollar terms). Indian equities should perform close to their historical norm over the next decade, assuming the economy grows at an average pace of 5-6% during that period. It then makes sense for any long-term investor to hold a majority of the financial net worth in stocks since the asset class should deliver superior returns over time compared to almost all alternatives. However, most investors don't have the patience to view investments on a 10-year basis and are at best willing to take a 1-3 year time horizon. And the issue here is that the outlook for global equity markets over the next couple of years is a lot less clear.

With stocks no longer extremely undervalued, further rises in the near-term are more likely to be determined by the economic momentum that needs to keep improving and possibly surprise on the upside. For one, data out of the US will need to show that the economy is not just contracting at a reduced pace but is actually expanding again. From the US to China, the most important data to track are the Purchasing Managers Indices (PMI) that captures the pace of manufacturing activity and trend to be the earliest available gauge of overall economic activity.

Current indications are that all the stimulus packages should keep the global economy on the path of recovery in the coming months. However, some of the structural issues relating to the over-indebted US consumer and the export-dependent Chinese manufacturer will come back to haunt the global economy once the economic impulses from government spending plans begins to wear off early next year. As a result, both the global economy and stocks are likely to suffer some sort of a relapse in 2010.

Although governments can play a role in shoring up economic activity to a certain extent, eventually it's the enterprise of the private sector that creates sustainable growth. The structural problem is that the private sector is still heavily indebted in the developed world, whereas it will be some time before emerging market can reorient their economic model to be more domestic-led than export dependent.

The path then for equities in the short-to-medium-term is likely to be quite jagged. The current economic momentum inspired by government spending will likely keep financial markets well-bid for much of this year but the environment will be more challenging next year as the debt-impaired private sector's contribution to economic growth continues to remain anaemic at best. Meanwhile, governments will not be in a position to provide any major fresh stimulus, given the poor state of their finances.

A sampling of the world's 30 largest economies shows that governments are expected to run, on average, a fiscal deficit of around 6% of GDP both in 2009 and 2010. Bond markets are already beginning to fret about the massive borrowing programmes required to fund such deficit; the US 10-year treasury yield in recent days has risen sharply to 3.7% from 2.1%. If the yield rises to above 4% any time soon, it could undermine even any cyclical recovery this year.

Another risk to an economic upturn materialising in 2009 is a premature resurfacing of inflation. Some investors have been buying "hard assets", or commodities, in the belief that the loose monetary policies followed by central banks across the world will do more to reignite inflation than revive economic growth. It is highly unusual for commodity prices to be rallying sharply so early in an economic expansion. They tend to perform well at the late stages of an economic cycle when growth is overheating. The recent price action in commodities essentially reflects a loss of confidence in paper money as the demand and supply fundamentals don't justify the recent uptrend. If the price of oil were to rise much beyond $70 a barrel in the immediate future, it would defeat all the stimulus efforts as the increase would act as a tax hike on consumers.

Barring any such major setbacks, involving bond yields and oil prices spinning out control, a cyclical bull market should continue to take shape this year followed by a relapse in 2010. The implication for emerging markets such as India is that they are likely to oscillate in a broad trading range around the long-term trend line over the next couple of years. Hopefully by 2011 enough time would have lapsed for the private sector in the developed world to get its leverage ratios in more decent shape and for emerging markets to evolve their economic models to become more robust on the domestic demand front. Such structural changes would allow a meaningful global economic expansion to take hold. That in turn would herald a truly new secular bull market.

9.1 INSURANCE SECTOR

Embedded value

With the UPA getting a decisive mandate for a second term, it looks like nothing can stop the amendment to the Insurance Act that proposes to raise the foreign shareholding limit in the life insurance industry to 49% from the current 26%. A likely increase in the shareholding cap implies that foreign capital flows will have to rise 30 times from the Rs 400 crore that was brought in by overseas insurance companies when the opened up in 2000. Clearly, there will be windfall in the offing for many Indian promoters. Insurance companies believe that if the Insurance Act is amended, then most of the dilution will take place through the India partner unlocking value by selling shares to the foreign partner.

Promoters of Indian insurance companies have pumped over Rs 25,000 crore into their ventures. The capital brought in by the foreign partners to increase stake would be well over Rs 10,000 crore and the industry's capital requirements are unlikely to be this high. The real question confronting promoters who have agreed to sell their stake to a foreign partner at the prevailing market rate is how to arrive at a valuation when none of their companies are listed.

However, most companies across the board are likely to go in for a stake dilution. ICICI Prudential, the largest among the private life insurance companies, was worth over $10 billion with investors willing to pick up stakes at those valuations. Today, that valuation may have diminished, but it would still be a sizeable amount, particularly for the foreign partner Prudential, which would otherwise be conserving capital. ICICI Pru Life MD V Vaidyanathan said: "The insurance market premiums in India are annually worth Rs 2-lakh crore, which could rise to Rs 4-lakh crore in 3-4 years' time. This is, therefore, a very significant opportunity in a sunrise sector, I am sure Prudential will want to partake of this growth."

Allianz has not only incorporated a decision in its agreement with life JV partner Bajaj, it has also got a call option to hike its stake at a fixed price. For companies such as Aviva and MetLife, it is almost certain that the foreign partners will increase their stakes given that they are the main drivers. Insurers expect that in most JVs the foreign partner will immediately consider increasing stake. The only exception will be in cases where foreign partners, such as AIG, are facing difficulties back home.

The capital brought in by foreign partners could be a big booster for life companies, which are slowing down business, fearing capital constraints. Given that an increase in stake is almost a certainty, valuation will be the main issue for money inflow. In cases like Bajaj Allianz Life, where the valuation is pre-decided and the foreign partner is relatively unhurt by the global crisis, a hike in stake would be smooth. In other cases, the foreign partner would raise its stake subject to both partners (foreign and local) agreeing on a common value. If the foreign partner is unwilling or is not in a financial position to hike stake, the promoters would have to look at unlocking value by selling shares to other investors or through an IPO. In all these situations, the key to any deal would be pricing.

Kamal Goyal, country head, Allianz India explains, "Assigning value to a like insurance company based on business figures without information on its ratios is like valuing a 1,000-square feet apartment at Rs 2 crore without knowing about the location or quality of construction.

At present, most analyst valuations are taking place despite lack of information on various ratios. The moot point for investment banks doing deals would be: How do you value a business making losses all along? Are there investors who realise what is embedded value? Is there a common definition for arriving at embedded value? Given this situation, the regulator has to work with Sebi to ensure that all companies agree on various definitions and that there is a minimum level of declaration for public scrutiny. Only then can the market get an idea on the valuation of life insurance companies.

34 bills lapse, 46 go nowhere

When the 14th Lok Sabha came to a close, as many as 34 Bills lapsed and the fate of another 46 rests with the next government. This high volume of unfinished legislative work tells the story of a fractured House, the inability of a government to engage the Opposition and its ineptitude in building a consensus; a situation that doesn't augur well in a parliamentary democracy. Even often the government piloted legislations just to make some political capital without intending to see these through to a logical end.

The Right of Children to Free and Compulsory Education Bill is a case in point. The UPA government had made basic education an important cornerstone of its common minimum programme. However, despite bipartisan support for the legislation, the government dragged its feet for five long years. On some pretext or another, sometimes money or legal liabilities, the government kept putting off the legislation. Finally, at the 11th hour, it is introduced in the Rajya Sabha. In doing so, it sought to score brownie points for keeping its commitment to basic education without the responsibility of implementing it.

But not all such exercise proved to be successful. The Congress, which had ridden to power on the back of the *aam aadmi* slogan, was keen to see through the *Land Acquisition (Amendment) Bill, 2007*, and the *Rehabilitation and Resettlement Bill, 2007*. It would have helped it tap the affected population across the country. While this constituency is not sizeable or concentrated, it has the ability to impact electoral outcomes as both rehabilitation and land acquisition are issues that have an emotive quality over and above the socio-economic content. It managed to get the bills through the Lok Sabha, but was unable to even introduce them in the Rajya Sabha.

The absence of any form of engagement of the Opposition seemed to have become a regular feature in the 14th Lok Sabha**.** In the last session of the 14th Lok Sabha, the government suffered reverses on *Prevention of Corruption (Amendment) Bill, 2008*. The government had rushed the bill through the Lok Sabha, but was unable to repeat its feat in the Rajya Sabha. The traditional opponents, BJP and the Left, came together to prevent the introduction of the bill.

There almost appeared to be a method in the government's style of functioning in Parliament. Instead of reaching out, it sought ways to ram through legislations. And when there was consensus, it wasn't built but simply that each political party perceived a benefit in supporting it – the *terror-related laws* brought in the aftermath of the Mumbai terror attack provide such an example.

Poll in five phases from April 16 – May 13

India, the world's largest democracy with 714 millions voters, will elect its representatives over five phases between April 16 and May 13, 2009.

Chief election commissioner N Gopalaswami, flanked by election commissioners Naveen Chawla and SY Quraishi, said on Monday (2nd March 2009) that 124 Lok Sabha constituencies would go to polls on April 16, followed by 141 on April 23, 107 on April 30, 85 on May 7 and 86 on May 13.

While 15 states and all Union territories will have a single-day poll, the remaining 13 states will hold elections in multiple phases. Jammu & Kashmir and Uttar Pradesh will hold polls in five phases and Bihar in four phases. While Maharashtra and West Bengal have polls in three phases, voting in Andhra Pradesh, Assam, Jharkhand, Karnataka, Madhya Pradesh, Manipur, Orissa and Punjab will be done in two phases.

The EC will also hold simultaneous polls in Andhra Pradesh, Orissa and Sikkim as the terms of their assemblies will expire on May 30, May 29 and May 23. While polls in Andhra Pradesh and Orissa will be held in two phases on April 15 and April 23, Sikkim will have a one-day poll on April 30. The constituencies in these three states will have concurrent polling in Lok Sabha and assembly seats.

Incidentally, this is the first scheduled parliamentary elections after the Delimitation Commission redrew constituencies. With delimitation completed in all states – except Arunachal Pradesh, Assam, Jammu and Kashmir, Jharkhand, Manipur and Nagaland and 5 UTs not requiring the exercise – the election for 499 of 543 Lok Sabha seats will be held on the basis of delimited constituencies. Delimitation has also pushed up the number of scheduled caste seats in Parliament from 79 to 85 and scheduled tribe seats from 41 to 47.

The number of polling stations has also been increased significantly from 687,402 in the 2004 Lok Sabha polls to 828,804 now. The rise is due to rationalisation of polling stations, resulting in an addition of 12,901 for villages with under 300 electors to address concerns of threat and intimidation.

The 2009 polls will be first photo electoral rolls-based parliamentary elections, with 522 of the 543 Lok Sabha constituencies using this type of rolls.

With Monday's announcement, the model code of conduct has come into force, shutting the government exchequer. Counting of votes will be held on May 16. The mammoth exercise will deploy over 40 lakh civil officials and nearly 21 lakh security personnel, including 75,000 paramilitary personnel.

Small fish never had it this good

With the national parties failing to give voters any real reason to come and vote for them with enthusiasm, the regional players have never had it so good. *Both in the run-up to the elections and as well as in the post result scenario where no single party is expected to cross the halfway mark.,* the smaller parties are certain to make huge demands which can be ignored only at the cost of losing power.

Put simply, it is a case of the national parties shrinking even as the regional parties have expanded their areas of influence, an offshoot of that the big brothers of yesterday will be forced into compromises with them. In any case, an alliance is possible only if the national party voluntarily agrees to play the role of a junior partner in the state where the little brother had far more muscle and clout.

Poll vault **cash circulation figures**

Just as El Nino phenomenon effect produces a dramatic change in the strength of ocean currents every few years, the heat of general elections creates perceptible change in the strength and flow of money into and across the Indian economy. As the world's largest democratic exercise unfolds, parties and candidates are expected to mobilise and spend thousands of crores as part of their campaign. An immediate impact of all the spending by political parties is an increased volume of cash in the form of currency.

This year too like every other year there has been a sharp jump in currency in circulation. Some traders in the foreign exchange market feel that with political parties reaching out to overseas funds there will be a rise in remittances before the election like in most election years. During election time, a rise in remittances and private transfers, besides simultaneous depreciation of the rupee is a common phenomenon. Economists also point out the possibility that dodgy money parked outside the country may be heading back to the banking system.

Be tech-savvy: Obama to Indian politicians

Barack Obama used a unique grassroots campaign that leveraged technology to reach out to the masses. His assets included an impressive 13 million e-mail addresses and 2 million friends of his social networking site. Though, the Obamisation of Indian politics has little relevance to the bulk of voters that actually elects MPs on the basis of caste and creed. However, Indian politicians are taking a leaf out his stunning campaign and are trying to use technology to reach out to the electorate.

A few parties, including Congress and BJP, are reaching out to specialised consultants, and going beyond plain vanilla websites to help them plan their campaign. Some plans to leverage cell phones, which has a much higher penetration in India compared to the internet. Though the penetration of internet is still minuscule, 60% of internet users live in the top eight cities which impact some 50 Lok Sabha seats, so it's a medium worth considering. The relatively lower cost of an online campaign also makes it a compelling proposition. By spending Rs 3-4 lakh, one can get around 4 million impressions which is far cheaper than channels like television or outdoor. Parties like CPM are, however, a little sceptical of the power of online. They argue that in a poor country like ours face-to-face contact with voter will always occupy centre stage. Online campaign can be a successful model for America where internet penetration is 100%.

Aam aadmi marches ahead in Congress's Jai Ho campaign

Releasing its first set of campaign films, the Congress sought to drive home the point that it had not abandoned the *aam aadmi*. Set to the tune of the Oscar winning song Jai Ho, the 3-one-minute spot films highlight the advances made by the aam aadmi on the 60-year heritage of the party and its achievements over the last five years. The party is back to courting the aam aadmi, suggesting that its continued advancement rests with the Congress. Hence the slogan – aam aadmi ke barte kadam, har kadam per Bharat buland – (the common man marches ahead, and every the step he takes makes India stronger).

In providing a snapshot of its achievements, the Congress has heavily focused on the National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan, higher education, Chandrayan, rural health, mobile connectivity and the IT revolution. There are passing reference to rural electrification, road and rail connectivity, Delhi Metro and industry. The one-minute spot also features Lal Bahadur Shastri, the man who epitomised "jai jawan, jai kisan," Indira Gandhi as the person who made the Green Revolution possible and Rajiv Gandhi and his IT initiative. The idea the Congress seeks to reinforce is that the party has always been the vanguard of change.

But negative feedback on the three-short films, has forced the party to reconsider using them. Based on the response to the initial airing, there was apprehension in the party that the 'Jai Ho' crusade would end up going the "India Shinning" way. It is now feared that the campaign could expose Congress to attacks from the Oppositions, which would argue that the party was responsible for the existence of slumps.

Declining poverty ups UPA's re-election chances

India may have begun to experience a new era in electoral politics, where a large number of incumbents stand a good chance of getting re-elected because of declining poverty levels. Poverty has declined in 380 of the 543 Lok Sabha constituencies in the past five years.

Of the 380 seats where poverty levels have fallen, Congress has 84, RJD, 17, NCP, 6, SP, 16, BJP, 65 and the Left Front, 31, while BSP has 10.

Declining anti-incumbency ups UPA's re-election chances

An analysis by the Economic & Political Weekly (EPW) shows that anti-incumbency, the trend for the electorate to vote out the incumbent representative, has declined significantly between 2004 and 2008. Some of this may have been reflected in the recent assembly polls in five states, where three incumbent governments retained power.

The study found a declining trend in anti-incumbency. The study shows that while 77% of all incumbent state government were voted out of power in the decade ending 1998, this proportion dropped sharply to just 46% last year. It is also seen that state election results mirror that of the Lok Sabha in a large number of cases, especially when the two are held within a year of each other. Although a direct correlation between one single measure of development and electoral performance runs the risk of being too simplistic, it's safe conclusion that a decline in poverty is a factor that favours re-election.

However, anti-incumbency could work in constituencies where poverty levels have remained static or increased between 2004 and 2008. In the last five years, poverty has remained static in 51 constituencies, and increased in 112 constituencies. Poverty is defined by the government in terms of food intake: people who cannot consume 2,400 calories of energy a day in rural areas or 2,100 calories in urban areas are deemed poor, or below the poverty line (BPL). Primary data from the National Sample Survey Organisation was taken to arrive at the constituency-wise BPL populations.

Exit polls points to hung verdict

With the exit polls giving new dimension to that over-used word "hung", the political chess game is acquiring a feverish pitch. The desperate hunt for allies led the Congress to "touch base" with recently estranged partner Samajwadi Party as Prime Minister Manmohan Singh and other top Congress leaders, who have taken charge of the number mobilisation, sought a meeting with SP leadership. The prime minister on 13th May '09 sent the word through a corporate honcho about the Congress' keenness to resume business with the SP. On its part, the SP leadership is playing the waiting game, showing no inclination to reveal its cards until actual results come out on May 16.

On the other side of the political aisle, the BJP, too, has intensified efforts for mopping up the additional numbers required for forming the next government. Gujarat chief minister Narendra Modi and Arun Jaitley, who have been spearheading the BJP's efforts, have already cast the net wide and established contacts with major players. The negotiations are at a nascent stage as none of the parties are willing to declare their preferred option. The BJP, which is expecting the NDA tally to cross the 200 mark, is hoping that it could emerge as the main choice for the "unattached". Ideological issues are unlikely to come in the way as most parties are displaying uncharacteristic flexibility in their dealings.

It's the president's turns now

The indications are that no single party will emerge with a clear majority after the 2009 Lok Sabha polls. The Constitution has left it to the discretion of the President, whom to call upon to form a government, in such an event. No law guides this discretion and the President must choose to act in the best interest of the nation. The leader of the single largest party may be called upon, but not necessarily. The President may look to a pre-poll alliance or to a credible post-poll alliance, if one emerges. It is not simply a question of numbers either. Let us imagine that one group of, say, 235 MPs consisting of nine or ten parties stakes a claim as against another of 230 or 220, but comprised only of two or three parties. The President may well reckon that the latter would be a less fragile and hence, a better option.

It is open to the President to ask one staking a claim to substantiate it with letters of support or a list of names. But it is no part of the President's powers to demand that the majority be proved by a floor test. No law prescribes a precondition like that. The MPs, if they think fit, are free to bring a no-confidence motion against the government. It is neither for the President nor for the courts to direct trial of strength by a vote. It is the privilege of the House to regulate its proceedings. The Constitution bars the courts from interfering with this in any way.

Finally, a free hand

The Congress on Saturday (16/05/09) was uncorking champagne like they never did in the last two decades. The grand old party smashed the existing political template and roared back to power with a victory margin that virtually announced the return of its lost pride in the country's polity. The scale of its victory surprised even diehard optimists within the party. The Congress will now be able to be in the driver's seat without distractions from the many back-seat drivers and remote control operators. The dominance of the Congress in the UPA is now so total that some of the alliance partners, pesky in the past, have no option but to fall completely in line. It is certain that the Congress will not just have the last word on issues of governance but can also keep all the plum departments under its charge.

The decision to go it alone in the Hindi heartland, no alliances at the national level and the emphasis on rural India paid off for the grand old party. In the run-up to the elections, as early as January, the Congress Working Committee decided to go it alone at the national level; alliances at the state level; and 'going solo' in the Hindi heartland states of Uttar Pradesh and Bihar. The Congress virtually sidelined in the two politically important states. Though both these states had once been traditional bastions of the Congress, the party had been practically sidelined.

In Uttar Pradesh, which was being viewed as the BSP's stronghold, the Congress has succeeded in forcing a rupture in Mayawati's social engineering project. Sections of the upper caste that had veered towards the BSP are now gravitating back to the Congress. Muslims, a key force in the state's electoral politics, too have been drawn back to the Congress. Though the party can't claim to have reclaimed the Muslim vote in full measure, it is now a claimant just like the SP and the BSP. The mindset in Uttar Pradesh has traditionally been in favour of the Nehru-Gandhi family and the Congress, and the party's attempt to reassert its place on the state political stage has been rewarded by the people.

In adjoining Bihar, the story of the Congress' resuscitation may not have translated into wins as it did in Uttar Pradesh. However, the party has increased its vote share. That could script the beginning of a revival story in the state, where the Congress could reclaim its traditional vote banks over a period of time. Resurgence on the lines of Uttar Pradesh may then only be a matter of time and not impossibility.

The impact of the 'going solo' move was felt beyond these two states. The Congress was able to build on its latent vote base, even in states that were BJP strongholds, such as Madhya Pradesh. Despite as many as seven factions within the party's state unit, the Congress was able to improve its tally, indicating that its traditional support base was slowly consolidating.

Besides, its decision to focus on rural India helped reduce the risk considerably. The focus proved to be a powerful counterpoint to the adverse impact of price rise and unemployment. The focus on efforts such as the farm loan waiver and national rural employment scheme helped the party gain depth. It reinforced across: the story of India's resurgence lay in rural India, and that the party was well-seized of this idea.

Death for identity-based politics

The dominance of Congress is back, making the biggest blow for parties that practice identity-based politics and an end to their arm-twisting tactics. The fact that the Congress and the BJP share a good 320-plus seats between them, leaving only the remaining 220 for the third and fourth fronts as well as unattached parties like the BSP and BJD, cannot but a heartening for national parties whose growth over the last two decades had been arrested by the dominance of regional parties.

Though it is still too early to say that the comeback by the Congress as the *numero uno* of national politics spells death for identity-based politics, the truth is that the grand old party is finally challenging clout the smaller formations. The impressive show by the Congress is indicative of the people's disgust with the regional formations who had only used their numbers in fractured verdicts to make unreasonable demands for concessions and drive hard bargains.

A case in point is the rout of the PMK, which walked out of the UPA on poll eve hoping to come back on its own on the strength of its Vanniyar votebank, in Tamil Nadu as the electorate chose to disapprove of its caste-based politics.

Even the MDMK led by Vaiko – who used every trick in the book to swing the votes in his favour, including sympathising with the LTTE at the cost of endangering national security – was rejected by the people who chose to vote for governance rather than for narrow political considerations.

Even the Fourth Front parties RJD and LJP were humbled in Bihar notwithstanding their calculations that the former M-Y vote-base, coupled with the Dalit bank of Mr Ram Vilas Paswan, would pose a solid challenge to the rival JD(U)-BJP camp.

But the people of Bihar, who had started to see the first signs of development around them under Nitish Kumar's rule, had obviously overlooked caste considerations to stand firmly behind the ruling alliance.

The marginalisation the regional parties was also evident in Punjab, where the ruling Shiromani Akali Dal, saddled by corruption charges, braved public anger to end up with a humble tally.

And In Haryana, where INLD almost drew and blank, even as 9 of the 10 seats in the state went to the Congress.

Even if the SP joins the UPA government, they do not have much room to bargain for key portfolios. Ditto for the Left, whose dreams of a Third-Front led government remain just that?

And if AIADMK chief J Jayalalithaa was hoping to be wooed by either of the two leading political formations, a day ahead of the results, her modest tally only jolted her back to reality.

The same was the case with TDP, where Congress held on to its ground.

But this certainly does not mean that the regional parties can be written off. The good show put up by JD(U) in Bihar, BJD in Orissa and Trinammol Congress in West Bengal is a case in point. The common factor that prompted the Bihar and Orissa wins was not caste but the development agenda followed by their respective chief ministers.

Criminals bite the dust as voters give sweeping verdict

The process of criminalisation of politics and the politicisation of criminals, which had become one of the dominant themes of politics landscape in Hindi heartland, was handed a rebuff in the just-concluded general election with the voters rejecting candidates with criminal background.

While the people in Bihar sent a clear message they had become sick and tired of such politicians by voating them out of the fray, in UP, only a handful of such elements could escape the voters' wrath.

In Bihar, almost all political parties, with the exception of BJP, had put up an array of candidates known for their musclepower, or their wives, in the electoral arena.

These included JD(U)'s Vijay Kumar, aka Munna Shukla (Vaishali), LJP's Rama Singh (Arrah), Zakir Khan (Araria), RJD's Mohd Taslimuddin (Kishanganj) and MAA Fatmi (Darbhanga).

Four former MPs, whose attempts to re-enter the electoral fray had been blocked by the judiciary after finding them guilty of committing heinous crimes, had fielded their wives.

These included Veena Devi, wife of LJP member Suraj Bhan who had been put up from Nawada; Heena Sahab, spouse of Mohd Sahabuddin, the RJD strongman who's now cooling his heels in Siwan jail; Lovely Anand, wife of Anand Mohan, who was the Congress candidate from Sheohar; and Ranjeeta Rajan, wife of Congress' Rajesh Rajan, better known as Pappu Yadav, who was barred from contesting the election by the Patna High Court. He subsequently stitched allegiance to Congress, and not only persuaded the party to field his wife from Supaul, but also his mother, Shanti Priya, from Purnea.

All of them were made to bite the dust by the electorate, who made it clear that they had enough of such elements. The most classic case was, of course, that of Prabhunath Singh, the three-term JD(U) MP from Maharajganj who had almost become an alternative power centre within his party over the years. He met his waterloo this time round, having been defeated by RJD's Uma Shankar Singh by a slender margin from his old constituency.

A similar trend was witnessed in neighbouring Uttar Pradesh, where notorious history-sheeters were handed out a rude jolt by the electorate.

These included Mukhtar Ansari (Varanasi), his brother Afzal (Ghazipur), Atiq Ahmed (Pratapgarh), Rizwan Zaheer (Shravasti), Anna Shukla (Unnao), D P Yadav (Budaun) and Guddu Pandit (Baghpat). With the exception of Atik Ahmed, who contested as an Apna Dal candidate, all the others had been put up by Ms Mayawati.

A few others, however, managed to escape the electorate's anger by emerging victorious at the hustings.

These include Ramakant Yadav (Azamgarh), Dhananjaya Singh (Jaunpur), Kadir Rana (Muzaffarnagar), Kapil Mohan Karwariya (Phuplur) and Kushal Tiwari, son of the notorious mafia don from eastern UP Hari Shankar Tiwari, who had put his hat in the ring from Kabir Nagar. Barring Yadav, who had been put by BJP, all of the other candidates had been put by BSP.

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