Retail prices of tomatoes, onions, and potatoes rise

This could be result of continued supply-side disruptions, say experts

INDIVJAL DHASMANA & SANJEEB MUKHERJEE
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Kolkatans had to fork out ₹100 for a kg of tomatoes on Monday, while they paid 40 per cent less at ₹60 just a month ago.

Similarly, consumers in Delhi had to shell out ₹41 to buy a kg of onions on Monday against just ₹20 on August 14. Moreover, wholesale prices were just ₹19 a kg in the national capital on Monday.

Wholesale prices of potatoes, too, were ₹25 per kg in Mumbai on Monday but end consumers bought it at ₹43 a kg. They paid a bit less at ₹40 a month ago.

Though the government has swung into action on one of the commodities, onions, and banned its export, experts said it would've been better to have ensured adequate imports in advance.

"There should be very good market intelligence, which tells me that there will be a major shortfall and we can start importing immediately. We will realise the shortage after a month or so and we will float tenders which will take their own time," said Madan Sabhnavis, chief economist at CARE Ratings.

But why the divergence between the wholesale and retail prices are widening?

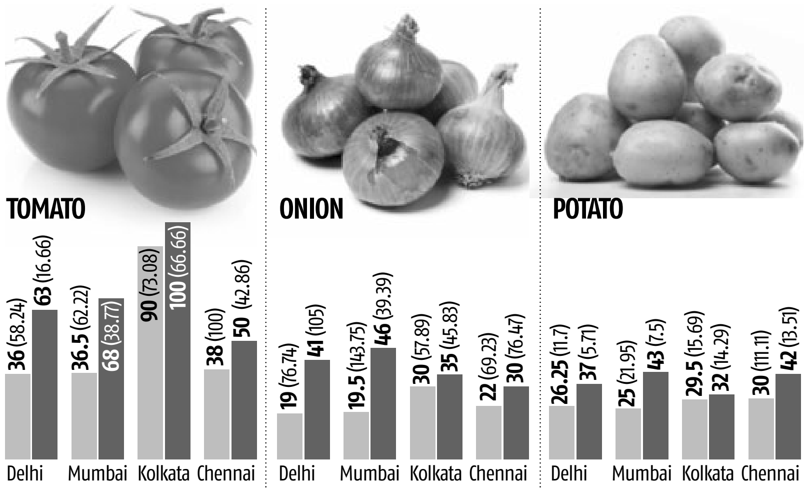
"I think the divergence has only increased in the last few months, despite easing of the lockdown, and is due to continued supply side disruption and localised setbacks to trade," said Mahendra Dev, director of Indira Gandhi Institute of Development Research.

Dev said the excess rains in August also disrupted supplies in some areas and damaged standing crops, such as onions, in Karnataka and Andhra Pradesh.

Both the southern states received over 40 per cent surplus rains in August, which inundated large tracts of land. "The production shortage is largely localised," Dev said.

On the onion export ban, India Ratings' Chief Economist Devendra Pant said the move might look negative from a free trade point of view. However, the government is taking these measures to contain prices. At a time when salaries are reduced and jobs declining, hike in prices come as a double whammy, he said.

THROUGH THE ROOF



Source: Department of Consumer Affairs

However, for farmers such as Bhagwaan Meena in faraway Madhya Pradesh, the sudden ban on exports has sharply pulled down the price of onions. He blames the government for the loss he has suffered.

A *PTI* report says farmers in Nashik's Lasalgaon area, home to the largest onion market in the country, and some other trading spots in the district on Tuesday took to the streets in protest against the ban.

Agitations took place at Mungse, Pimpalgaon, Nampur and Umrane markets and protesting farmers stalled auctions for some 10,000 quintals that had arrived, and also tried to stop traffic in the vicinity, officials said.

Aditi Nayar, principal economist at ICRA, said prices of these three staples tend to be fairly volatile and managing them has often proved to be problematic, particularly in the case of onions, which are grown in a limited area.

She said while prices are spiking, they may eventually crash, posing difficulties to farmers. Managing onion prices is often extremely challenging, and the situation sometimes warrants a temporary ban on exports.

Meena, who is also the National General Secretary of Kisan Swaraj Sangathan, a farmers group active in MP and Rajasthan, said,

"Till yesterday, onion was trading at around ₹38-39 a kg in Indore and Ratlam mandis, but today the prices have come down by almost ₹6 a kg and in the next few days onions will start trading below ₹25 a kg. When prices rise, everyone is unhappy, but no one thinks of farmers when prices crash."

Farmers in Nashik's Lasalgaon area and some other trading spots in the district protested against the ban on exports of onions on Tuesday. The Centre has banned the export to increase availability and check price in the domestic market

He said that in the next few weeks, fresh onion crops will start coming from Maharashtra and farmers won't get good prices for their produce.

"Think of the farmer who has sown onion in monsoon thinking of getting a good price by Diwali. He will be devastated," Meena added.

Rajendra Sharma, a prominent onion trader from Azadpur Mandi in Delhi, said supplies were down during the lockdown, but the situation has considerably improved now and prices have risen because of crop damage.

For instance, 114,175 tonnes of onions arrived in Delhi mandis in July, but only 80,837 tonnes were supplied the following month. Now, 56,899 tonnes of have arrived in September. The story is the same for the other two crops as well.

RBI plans interest rate derivatives for both retail, foreign investors

ANUP ROY
Mumbai, 15 September

THE PROPOSAL

- Local companies with minimum networth of ₹500 cr can participate
- Retail participants can only hedge, but non-retail can use it for any purpose
- Exchanges to decide on design and participants; in OTC, banks and primary dealers can participate
- FPIs can take exposure of up to ₹5,000 crore all put together

The Reserve Bank of India (RBI) on Tuesday proposed to introduce exchange-traded and over-the-counter (OTC) interest rate derivatives products that would be accessible to both foreign investors and retail participants. Retail participants can, however, only use the product for hedging, while non-retail participants can use it for any purpose.

In a draft guideline released on its website, the central bank said retail participants can be allowed to trade on Forward Rate Agreement (FRA), Interest Rate Swap (IRS), and European Interest Rate Options (IRO), including caps, floors, collars and reverse collars, while non-retail traders can take exposure in swaptions and structured derivative products, excluding leveraged derivatives and derivatives on derivatives.

Presently, only interest rate futures and interest rate options are allowed on government securities. With the introduction of many more IRF products, corporate debt could also be incorporated for making derivatives over time, say experts. Foreign Portfolio Investors (FPIs) would be allowed to transact in permitted exchange-traded interest rate derivatives (IRD) for a collective ₹5,000 crore in net long positions. Additionally, "the net short position of an FPI on exchange-traded IRDs shall not exceed its long position in government securities and other rupee debt securities," the RBI said.

Such IRD transactions can be carried out on exchanges as standardised products. The exchanges will be allowed to come up with their own product design, eligible participants, and other details of the IRD. In the OTC markets, banks and primary dealers would act as market makers. Foreign counterparts of market-makers in India may offer rupee IRD transactions to non-residents but such transactions have to be undertaken directly with a market-maker in India, or by way of a 'back-to-back' arrangement through a foreign counterpart of the market-maker in India. "Every rupee interest rate derivatives transaction undertaken offshore by any related entity of a market-maker in India, shall be accounted for individually in the books of the market-maker in India," the RBI said.

Resident Indian companies with a minimum net worth of ₹500 crore will be eligible to trade in these products.

Huge liquidity surplus unlikely to be inflationary, say economists

ANUP ROY
Mumbai, 15 September

The banking system continues to remain flush with liquidity, and the Reserve Bank of India (RBI) is in a no hurry to neutralise it.

High system liquidity is generally a cause for concern as it can stoke inflation, but the situation now is quite different. Instead of pushing up inflation, the huge surplus liquidity, bordering at around ₹7 trillion daily, is helping in policy rate transmission and aiding the government to borrow at a cheaper rate.

Therefore, analysts expect this liquidity surplus mode to continue well into the next year, till such time the economy starts picking up and capacity utilisation increases to a reasonable degree of say nearly 80 per cent, from below 70 per cent now. Of course, the borrowing programme for this year has to end before any thought on liquidity should cross the mind of the regulator, say experts.

"The liquidity surplus helps support government borrowing. It is actually substituting revenue shortfall, and would not lead to inflationary forces now as spending is low and there is low capacity utilisation, which can be ramped up if needed," said Madan Sabnavis, chief economist of CARE Ratings.

The annual government borrowing is pegged at ₹12 trillion, without yet counting a possible extra borrowing towards the end. Half of this has already been done at around the 6 per cent-mark, thanks to the surplus liquidity in the system. This is also serving an important function for the central bank — keeping the interest rates low.

Abundant liquidity is unlikely to be inflationary when the economy is operating well below potential and aggregate demand is so weak, according to Gaurav Kapur, chief economist of IndusInd Bank.

Instead, the large surplus liquidity is definitely helping in keeping cost of borrowings, up to three years, low for various class of borrowers and had reduced the refinancing risk significantly. "In essence, a financial logjam has been averted through lower rates and liquidity support," Kapur said.

"The role of monetary policy to stimulate the economy is to reduce the interest costs across various class of borrowers and through various channels — banks and bond markets. Transmission of monetary signals to the long end of the yield curve along with lending rates is going to be a priority going forward," said Kapur.

In a contracting economy, the usual assumptions may not always hold true. "The long-standing assumption of downward nominal wage rigidity in 1969-1970s, and hence the wage price nexus stemming from inflation expectation, is absent right now with weakening organised labour market activity," said Soumya Kanti Ghosh, group chief economic advisor of State Bank of India group.

"With people holding cash, there is a collapse of money multiplier. Under such circumstances, liquidity is unlikely to drive inflation at least till the time demand picks up," Ghosh said.

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'We don't expect major defaults in our corporate bond portfolio'

It is more than what it was in FY20. We are not considering scaling down our targets. We hope at the end of FY21 we will reach our budgeted figures.

In August, in composite premium, we had a growth rate of 15.19 per cent, which is better than the industry average of 14.79 per cent. In policies, in the same month, there was a decline of 24.08 per cent and in cumulative terms, up to August, we sold about 4.5 million policies with a 66.15 per cent market share and ₹71,415.18 crore of composite premium with a 71.87 per cent market share. Our business activities are picking up and we will finish FY21 with much better numbers.

Q&A
M R KUMAR
Chairman, LIC

LIC has substantial exposure to companies through bonds. Given the situation, where the cash flow of firms has been affected, do you think they will default on their debt repayment, resulting in an NPA (non-performing asset) problem for LIC?

We received a moratorium request in respect of only about 2 per cent of the bond portfolio. Companies are fulfilling their obligations like repaying principal and interest. As a matter of strategy, LIC follows due diligence. We don't expect major defaults in our corporate bond portfolio due to the pandemic. Our exposure to loans is very little and more than 90 per cent of our corporate debt exposure is through bonds.

What is your strategy for the equity markets in FY21? How much profit has LIC made from sales of shares till now and how much are you looking to invest?

LIC is a contrarian investor and we are buyers and sellers. We booked profits of more than ₹11,500 crore as of August 31. We will invest in equities when there is an opportunity to do so. As of August 31, we invested ₹40,769 crore in equities this year against ₹25,516 crore last year up to August 31. We are sector-agnostic and believe in assessing and investing in fundamentally strong companies. Given the emerging situation due to the pandemic, we believe that companies with strong fundamentals in every sector will perform well.

What is the status of LIC's IPO? Is there any clarity on how much the government is looking to divest?

The Department of Investment and Public Asset Management (DIPAM) is looking after the IPO aspects of LIC. It is, therefore, not appropriate on our part to comment on this.

Has there been a rise in demand for loans against policies from retail consumers due to the pandemic? Also, have surrenders gone up?

In this financial year, as of August 31, there has been a decline in the number of loans disbursed. LIC has disbursed 1.09 million loans worth ₹7,887.42 crore as against 1.70 million worth ₹11,125.52 crore in the same period last year. The number of surrenders has reduced by 31.8 per cent, indicating the awareness of continuing life risk cover.

LIC has been agency-driven, and with IDBI Bank in its fold now, bancassurance seems to be an important distribution network. Are you planning any new bank tie-ups and is there a plan to induct more agents this year?

IDBI Bank is one of our productive bancassurance partners and in 2019-20 it procured 66,751 policies with a premium of ₹699.03 crore. We are open to bank tie-ups as corporate agents and look forward to such relationships. Life insurance in India is mainly agency-driven and will continue to be so even in the digital era. Agents contribute 62.26 per cent of individual new business premium in the industry and 95.81 per cent of LIC's individual new business premium. With the life insurance business expected to grow by 12-15 per cent in the coming years, LIC will play a crucial role in creating employment in the agency channel. Despite the nationwide lockdown and subsequent unlock phases, LIC has a net addition of 60,771 agents to its agency force as of August 31 and the number of agents stand at 1.27 million.

Is LIC looking to pare its stake in IDBI bank anytime soon?

LIC has been providing support and working towards bringing IDBI Bank out of prompt corrective action (PCA). Though IDBI Bank has declared profits for two consecutive quarters — March 2020 and June 2020 — it has not emerged out of PCA. It is not possible at this stage for LIC to commit to a definite timeframe and at what point the market would be conducive for reducing stake.

How many death claims due to Covid-19 has LIC received?

As of September 10, we received death intimations due to Covid-19 for 678 persons. Of those, 408 have been settled.

India's economic growth plummeted in Q1. How much of an effect will this have on the life insurance sector and the savings of individuals?

In the days ahead, the consumption behaviour of customers will change. With an impact on employment, people will be cautious about spending. Insurance, a risk mitigation tool, will have priority in their expenses.

India's role in producing Covid vaccine critical: Gates

PRESS TRUST OF INDIA
New Delhi, 15 September

Billionaire philanthropist Bill Gates (*pictured*) has said India's willingness to play a "big role" in manufacturing Covid-19 vaccine and allow it to supply to other developing countries will be a critical part in containing the pandemic globally.

In an exclusive interview to *PTI*, Gates, whose foundation is focusing on fighting the pandemic, called it the "next biggest thing" the world has been confronted with after the World War. The Microsoft co-founder said the world is looking to India for large scale production of Covid-19 vaccine once it is rolled out.

"Obviously, all of us want to get a vaccine out in India as fast as we can, once we know that it's very effective and very safe, and so the plans are coming into focus that sometime next year, it's very likely that roll-out will take place and take place in fairly big volume," he said.

"The world is also looking to India for some of that capacity to be available to other developing countries. Exactly what that allocation formula looks like will have to be figured out," Gates said.

Scientists and pharmaceutical companies globally are racing against time to find a vaccine for the coronavirus pandemic which has killed about 9,32,000 people and infected around 24 million. Some of the vaccine candidates have entered the third and final phase of testing.