In India, some farmers take banks for a ride

REUTERS, *Supali, India*

TWO years ago, Vilas Yelmar took out a 200,000 rupee bank loan to develop a small grape orchard in a dusty hamlet southeast of Mumbai.

The bank has repeatedly asked for the loan to be repaid, but Yelmar, whose annual income has risen to 2 million rupees, has spent the money on a new sport utility vehicle and a lavish family wedding.

He is one of an increasing number of 'wilful' defaulters in Asia's third-largest economy, where banks are under government pressure to lend to farmers. Two-thirds of the population depend on agriculture for their livelihood and, to boost productivity - annual agricultural growth is just 3 percent - India has this year raised the farm lending target for banks by a fifth to more than $100 billion.

"My brother was the village head so it had to be a big wedding. That's where the money went," said Yelmar, speaking the local Marathi language, and proudly showing off his new SUV which he uses to ferry barrels of diesel and fertilisers.

"Paying off the bank loan is not really my priority," said the 39-year-old, who lives in a simple, yet spacious, house next to his 4-acre orchard near the main irrigation channel.

REUTERS

Farm labourers prune grapevines in an orchard at Supali village, around 350km southeast of Mumbai.

Banks and government officials do not have data on just how many subprime farmers are abusing the cheap loan system, but they are giving banks a multi-billion-dollar headache.

State Bank of India, which accounts for about a quarter of India's total loans, including the one to Yelmar, said about $1.4 billion, or 9 percent of its farm loans, turned bad in the year to end-March. Bankers bemoan the rise in 'wilful' defaults among those taking agricultural loans - and using them to marry off their daughters, build extensions for their farmhouses, or become lenders themselves.

Defaults also tend to increase when elections loom as farmers hope the government, desperate for their votes, will bail them out. The government bailed out farmers in 2008 with a $12.5 billion loan waiver, but a struggling economy and swollen fiscal deficit make another rescue unlikely.

"Agriculture loans are more retractable, depending on what type of whispers go around. If the whispers are about elections and debt waivers then interest payments drop," said SBI Chairman Pratip Chaudhuri, noting the rise in defaults is a big concern for the bank.

Under the government's targets, banks have to go out of their way to lend to poor and marginal farmers who may not be able to repay the loans. If banks fail to meet the targets, the RBI locks up the shortfall for five years in a fund that returns just 4-5 percent a year.

Bad farm loans contributed nearly 44 percent of new non-performing loans (NPLs) in fiscal year 2011, and have jumped 150 percent in the past two years. In the year to March 2011, sour agriculture loans almost doubled to 3.5 percent of total loans by s tate-run banks, which account for about 70 percent of India's total loans and deposits.

"The pace at which agri-NPLs have increased has been worrisome," said Suresh Ganapathy, an analyst with Macquarie Research. "The willingness to repay has been affected by debt waivers ... and that has created a moral hazard."

Yelmar, who said he doesn't want his children to have to resort to farming, got a heavy interest rate discount of 3 percent on his SBI loan, thanks to government handouts, compared to the 14-15 percent interest corporate borrowers are asked to pay. Some lenders even offer zero interest on farm loans.

But, for the banks, getting any money back can be an issue.

"The cost of servicing an agriculture loan is very high. During every harvest, you need an army of people to go out there and collect dues from each farmer," said Michael Andrade, senior vice-president for agri-lending at HDFC Bank (HDBK.NS: Quote, Profile, Research). "This increases your costs, and hurts profitability, bottom lines."

For years, unpredictable rainfall decided the pace of farm loan defaults in India, where nearly half the arable land is rain-fed. A drought triggers an increase in defaults.

"You can't do anything if there's a drought. It erases the entire year's returns," says Babasaheb Mahadev Parekar, 29, a sugarcane farmer from Korti village, 10 km (6 miles) from Supali. Parekar's extended family of 16 children lives in a small house by a narrow canal that is used to water crops.

Parekar is struggling to repay a 275,000 rupee loan that he and his brothers took out from SBI in mid-2009. With interest, the loan has swelled to 416,000 rupees. The Parekars wanted to use the money for land levelling, but the worst drought in nearly four decades wiped out their crops. The following year, a bumper cane yield could have helped them repay the loan, but Parekar's father had a heart attack, which ate into savings, and last year the family spent the rest on a wedding, leaving SBI waiting in vain to get its loan back.

"We desperately need more loans, but banks are not willing to give as we have defaulted," said Parekar who fell back on farming when he failed to find a job after graduating.

Once branded as defaulters, other banks won't lend them money, so Parekar plans to borrow from money lenders to pay off the SBI loan and then apply for new farm loans.

The head of farm loans at SBI's Pandharpur branch, which lent to both Parekar and Yelmar, said: "When it comes to repayment, farmers give the least importance to the bank. We need to constantly chase them."

"It's not like they say they won't pay up. They keep postponing. They keep saying: we don't have money, when we do, we'll pay. So, all banks can do is wait," he added.

The pressure on banks to help farmers has been ratcheted up by an increase in suicides in recent years, as cash-strapped farmers turned to money lenders charging interest as high as 12 percent a month. Bank lending to small farmers more than doubled over five years, but farm output growth averaged just 3 percent over that period.

To also protect farmers from unscrupulous money lenders, banks were told they could not attach farmland as collateral for loans, making them unsecured and a bigger risk. In most countries, farmland is used as collateral for such loans, though in the United States, the Farm Credit System and private lenders are increasingly accepting farm cashflow and assets such as $200,000 combine harvesters to set against loans.

There is also no government incentive for banks to lend towards irrigation or newer techniques to boost productivity and prevent drought. Bankers complain that a large chunk of farm loans goes only to buy seeds or fertilizers, rather than on mechanisation. India is the world's second-biggest producer of rice, cotton, wheat and sugar, but its productivity is way below the world average.

India's banks now want policy reforms and regulatory intervention to make the business of farm lending more viable.

"This is a policy issue," SBI's Chaudhuri said. "If there's an incentive for term loans, capital formation in agriculture would increase."

Others say more needs to be done to boost infrastructure which, in turn, should help farmers become more productive.

"Flogging the banks alone is not going to work," said another senior SBI executive. "Government agencies have to become active - they need to provide roads, Internet and the infrastructure. How else do we reach the interiors?"

In the meantime, with increased pressure on their assets and rising corporate defaults, banks are having to show some muscle to get their money back - setting up recovery camps and "boosting collections through persistence," said N. Seshadri, executive director at Bank of India.

SBI has started naming and shaming wilful defaulters by putting their pictures in newspapers to get them to pay up.

World growth at risk as US employment stumbles

AFP

People seeking jobs wait in a line that stretches down the block from a youth centre to speak to over 60 employers at an employment fair in this May 3 file photo in the Queens borough of New York.

REUTERS, *Washington/London*

THE world's economic outlook darkened on Friday as reports showed US employment growth slowing sharply, Chinese factory output barely growing and European manufacturing falling deeper into malaise.

In a shock that sent global equity markets into a dive, the US economy added just 69,000 jobs in May, less than half what analysts expected and well below what is seen as needed to keep the jobless rate moving lower. Readings for the prior two months were also revised down, while the unemployment rate rose for the first time in almost a year, to 8.2 percent.

The Labour Department report dealt a blow to confidence in the US economic recovery, which until recently had contrasted with Europe's deteriorating economic situation and seemingly intractable political crisis over government budget deficits.

"The negative employment data caps the recent deterioration in global economic data. From China to Europe to the US, all the data have shown real slowing," said John Kilduff, partner at Again Capital LLC in New York.

The jobs figures, which raised expectations for another possible round of monetary easing from the Federal Reserve, also carried an important political dimension.

If sustained, the weakness in employment could threaten President Barack Obama's bid for reelection in November. His challenger Mitt Romney said the data was "devastating news" for American workers.

Worsening economic conditions were also being felt in major emerging countries such as Brazil and India, causing some economists to wonder just where growth is going to come from.

"The global economy downshifted sharply in May, and judging by these data, the US followed suit," said Michelle Girard, economist at RBS.

US stocks fell sharply as the employment numbers compounded worries about upcoming elections in Greece and banking troubles in Spain, pushing the Dow Jones industrial average down over 2 percent on the day, and negative for the year. Treasury bond yields, in contrast, continued to hit record lows across the board as investors scurried for safety.

In Britain, manufacturing activity shrank at its fastest pace in three years last month as the global economic slowdown hit demand for its goods.

Markit's Euro zone Manufacturing Purchasing Managers' Index dropped to 45.1 in May from 45.9 in April, slightly above a preliminary reading but marking its lowest level since June 2009.

It has been below the 50 mark that divides growth from contraction for 10 months. Similarly, the output index fell to 44.6 from April's 46.1, also the lowest since June 2009.

US manufacturing proved a bit more resilient, with the Institute for Supply Management's index falling modestly in May but still at a respectable level of 53.5. New orders also rose to their highest since April of 2011.

Earlier data from France and from Germany, Europe's largest economy, showed their manufacturing sectors contracted at the fastest pace in nearly three years. It was only German strength that had prevented the euro zone falling into recession in the first quarter.

Italy's factories contracted for the tenth straight month, while in Spain the PMI fell below that of Greece's, and posted the lowest reading of all the countries surveyed.

The news in Britain, linked inexorably to the fortunes of the euro zone, was little better.

The UK economy is mired in its second recession in two years and its PMI plunged to 45.9 last month, its lowest reading since May 2009 and the second-steepest fall in the survey's 20-year history. Analysts had expected a more modest dip to 49.8.

India cuts petrol price after public furore

REUTERS, *New Delhi*

STATE-RUN oil refiners have agreed to a partial rollback of last month's petrol price increase, a move that was expected after a public outcry over the steepest rise in the country's history.

With effect from Sunday, retail petrol prices will be cut by 2.02 rupees a litre including taxes in New Delhi, state-run Indian Oil Corp, the biggest fuel retailer in the country, said in a statement.

The three state-run fuel retailers -- including Bharat Petroleum Corp and Hindustan Petroleum Corp -- tend to move their prices in tandem.

Last month, the companies raised petrol prices by 6.28 rupees a litre, excluding taxes. That translated into 7.54 rupees a litre increase after local taxes in Delhi. The Delhi state government later gave a tax relief, restoring the increase to 6.28 rupees a litre.

Investors and economists had cheered the decision to raise petrol prices for the first time in six months, which allowed the companies to recover some of the losses they had racked up due to higher oil prices and a plunging rupee.

Every one rupee fall in value of the Indian currency against the dollar requires an increase of 0.77 rupees/litre in retail price of petrol, while every dollar decline in delivered prices of Singapore gasoline means prices need to go up by 0.34 rupees.

But the reform provoked dissent within the ruling Congress party-led coalition, furious street protests and a national strike on Thursday organised by opposition parties seeking to exploit popular anger with the increase.

SIGNING CEREMONY OF ETP PROJECT BETWEEN PAKIZA GROUP AND PENTA REI SRL ITALY

Rafiqul Islam Khan, Chairman and Managing Director of Pakiza Group and **Eng. Felice Iraca,** CEO Penta Rei SRL Italy exchange documents of a deal at Pakiza Group Head office in Dhaka for ETP project recently. Penta Rei will set up a complete well equiped modern ETP Plant at Pakiza Dyeing and Printing Industries Ltd - a sister concern of Pakiza Group at Savar Dhaka. High officials of RJM Corporation, ETS and Pakiza Group were also present.