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**Dear Comrades,**

**4<sup>th</sup> November , 2016**

**News of Interest 4th Nov**

**QUOTE OF THE DAY**

**“A CREATIVE MAN IS MOTIVATED BY THE DESIRE TO ACHIEVE, NOT BY THE DESIRE TO BEAT OTHERS.”**

**AYN RAND**

- 1. RBI ALLOWS BANKS TO ISSUE MASALA BONDS**
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- 3. GST RATES TO PULL DOWN INFLATION: FINMIN**
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Business standard

**1. RBI allows banks to issue masala bonds**

The RBI said, rupee bond route will open an additional avenue to raise funds for banks

Anup Roy

The Reserve Bank of India (RBI) on Thursday allowed banks to issue rupee-denominated bonds, or masala bonds, in the overseas market to shore up their capital base as well as for financing infrastructure and affordable housing.

To strengthen their capital base, banks can raise perpetual debt instruments, which can be considered for calculating a bank's additional tier-1 capital, or debt capital instrument that can go into calculating a bank's tier-2 capital. These bonds will be issued according to the Basel-III norms and therefore, will have loss absorption

clause. Under this clause, a bank can choose not to honour the coupon payment in case of financial stress. For financing infrastructure and affordable housing, the banks can issue long-term bonds, which doesn't have the loss absorption clause.

The central bank had first announced its intention for letting banks tap the overseas market with rupee bonds on August 25 when the RBI announced a slew of measures to develop the bond and currencies market. Companies were already allowed to raise money through masala bonds and a few issuances totaling Rs 7,472 crore have been done.

The rupee bond route will open an additional avenue to raise funds for banks and will help develop the market of rupee-denominated bonds abroad, the RBI said.

The borrowing by the banks would still has to be within the overall limit of foreign investment in corporate bonds, which is pegged at Rs 2,44,323 crore at present. Of this, foreign investors have exhausted Rs 1,66,120 crore so far.

## **2. HDFC, ICICI Bank cut home loan rate by 0.15%**

Competition heats up in the home loan business, with lenders reducing lending rates

Abhijit Lele

Competition is heating up in the home loan business, with lenders reducing lending rates. It started with State Bank of India (SBI) reducing its rate by 15 basis points (bps) early this week.

The country's largest lender ICICI Bank slashed lending rate by 15 bps to 9.20 per cent for home loans up to Rs 75 lakh. Soon, mortgage lender HDFC followed with downward revision in rate by 15 bps.

HDFC will charge 9.20 per cent rate for loans up to Rs 75 lakh and 9.30 per cent for those above Rs 75 lakh, effective November 4.

With credit to industry remaining tepid, lenders have trained guns on the retail segment to grow their loan book. While loans to industry have grown by just 0.9 per cent in 12 months ended September, home loans have shown a robust 18 per cent growth. The outstanding stock of home loans by banks was Rs 8.05 lakh crore, according to Reserve Bank of India data.

Home loans to salary earners and households — as a segment — has low rate of defaults. This gives banks comfort to expand business in this segment, bankers said.

SBI had cut rate by 15 bps. For women borrowers, the new rate is 9.10 bps. The bank has waived all processing fees for loans during the festive season, ending December.

The reduction in home loan rate is linked to revision in marginal cost of funds-based lending rates (MCLR). SBI cut its MCLR one-year loan rate by 15 bps to 8.95 per cent at the start of this month.

## **3. GST rates to pull down inflation:FinMin**

CEA says the Council has taken decision to bring down rate from 6% to 5% and move few products from 26% to 28% but many go from 26% to 18%

Indivjal Dhasmana & PTI

The finance ministry on Thursday said that the Goods and Services Tax (GST) Council's decision to impose five per cent tax on essential items would bring down inflation and levying a cess on luxury and sin goods over the peak rate would not burden the central kitty for compensation to states.

Chief Economic Adviser Arvind Subramanian said the Council's decision "should bring prices down. I don't think there is any fear on inflation because six per cent goes to five per cent. A few products move from 26 to 28 per cent but many go from 26 per cent to 18 per cent. On average this should probably serve to lower inflation."

If at all, the impact on inflation will be very small, he said. "Today's change should probably bring it down." He added the mood at the GST Council meeting was "very good" and the rate structure was unanimously decided.

Finance Secretary Ashok Lavasa said: "Now, you have a system by which additional burden of compensating the states is not being passed to consumers in a way it would have otherwise passed in terms of taxes. So, this is a very reasonable arrangement that has been agreed to, keeping in view the interest of the consumer and state governments." It also enables the central government to set apart a fund by which states will be compensated, he said.

About Rs 50,000 crore will be needed to compensate states for the loss of revenue from the roll-out of GST, which is to subsume a host of central and state taxes such as excise duty, service tax and value added tax, in the financial year beginning April 1.

The previous GST Council meeting headed by Finance Minister Arun Jaitley reached a consensus on the way states are to be compensated for any loss of revenue from implementation of the new indirect tax regime from April 1, 2017.

The base year for calculating the revenue of a state will be 2015-16 and secular growth rate of 14 per cent will be taken for calculating the likely revenue of each state in the first five years of implementation of GST. States getting lower revenue than this will be compensated by the Centre fully for the first five years.

Economic Times

#### **4. Five more banks join the UPI bandwagon**

By Pratik Bhakta, ET Bureau

Five new banks have joined the Unified Payments Interface (UPI) bandwagon, thereby taking the total number of banks using UPI to 26. The five latest entrants include public sector lenders, State Bank of India, Allahabad Bank and Bank of Baroda and two private banks HDFC Bank and IDFC Bank.

"These applications are currently in their final testing phase being active only in closed user groups, they are expected to go live for the public within the next six weeks," said bankers in the know of the matter, who did not wish to be identified.

The applications are currently live only for the banks' own customers and after being tested till they will be made available to the public through the android play store, bankers.

UPI is being provided by the National Payments Corporation of India (NPCI) which runs the domestic card transaction platform RuPay. It is supposed to do away with the entire business around adding beneficiaries for peer to peer online transactions. UPI apps can be downloaded from the android Play Store for transfer of funds in real time using the IMPS (Immediate Payments Service) railroads.

UPI had gone live with 21 banks in August this year but few of the major ones like State Bank of India, HDFC Bank and Bank of Baroda did not go live in the first tranche, thereby leaving a huge chunk of the bank customers deprived of the new service. Now more people are expected to use the payments interface.

#### **5. India witnessing 'jobless' growth: Kiran Mazumdar-Shaw**

Expressing concern over "jobless" growth in India and too many "stifling" regulations, biotechnology entrepreneur Kiran Mazumder-Shaw has called for formulation of pragmatic and visionary policies to create new employment opportunities.

"Yes, we are witnessing jobless growth (in India) but that's not because of automation. It's because of poor industrial and agricultural policies that are not creating infrastructure development, manufacturing and services jobs," she told

The Chairperson and MD of Biocon Ltd said restrictive e-regulations that try to protect conventional bricks and mortar jobs are an example of this.

"Unions are pushing back and governments are yielding. Until pragmatism is enforced we are likely to miss the opportunity of creating new jobs based on changing business models. One bright spark is the start-up culture," she said.

Biocon was rated among the world's top 10 employers in the biotechnology industry by an international science magazine last month.

Mazumder-Shaw was recently conferred with the highest French civil distinction, Chevalier de la Legion d'Honneur (Knight of the Legion of Honour) in recognition of her outstanding contribution and dedication to biosciences and innovative research in the field.

India, she said, needs pragmatic and visionary e-regulations that can unleash the power of e-commerce.

"We need to formulate policies that incentivise private sector to invest in mega infrastructure projects. We need to focus on universal healthcare and education for all that will create a large number of jobs", Mazumder-Shaw said.

"There are too many regulations that are stifling growth as indicated by our poor showing on the world index of ease of doing business " she said.

In the World Bank's latest 'Doing Business' report, India continues to rank low at 130th position in terms of ease of doing business, with the country seeing little or no improvement in dealing with construction permits, getting credit and other parameters.

Mazumder-Shaw also said that farm income in India obviously needs to go up, but technology would play a key role in this too.

"Creating unproductive jobs in agriculture is not the way to go. Mechanisation and agri-biotech are key to raising agricultural productivity and prosperity," she said.

## **6. Digital transactions: India 'much safer than most destinations'**

### OUR BUREAU

Despite the report of the ATM fraud/cyber attack on a couple of Indian banks a fortnight ago, India is still safer, compared to many other destinations, said an industry expert.

Even the US — the largest and most advanced economy in the world — still does not have two-factor authentication for credit card usage — a standard that has now become common in India.

Globally, fraud levels are around 4.76 basis points (100 basis points equals one percentage point) of total transactions while in India it is still a fraction — at just around 0.25 basis points, said Deepak Chandnani, CEO, Worldline (South Asia and Middle East). Worldline is a leading player in the digital payments and transaction services space in India. A significant portion of card swipes in the country goes through its IT networks.

“Fraud at ATMs in India have hitherto been extremely low, though this should not make us complacent,” he said.

Following the complaints from 641 customers about their card being misused/hacked, a forensic probe by SISA, a private information security auditor, is on and a report is expected in the next few days.

The exact nature of data compromise is not known yet. Given that fraudulent transactions have been conducted, at least the card-holder names, card numbers, validity dates, CVVs and/or ATM PINs could have been compromised.

### **Not fully secure**

Deepak cautions that while EMV chip with PIN and two-factor authentication are important steps towards making the payments network more secure, it does not mean that frauds are impossible.

A determined attacker with sufficient resources will still find ways to breach even the most sophisticated system; and so banks and processors need to be extremely vigilant, he said.

He said according to information available, the fraud was likely the result of the secure payment network (switch) of a third-party processor being infected by malware. This can negate the security provided by other precautions.

That said, issuers need to take steps to ensure that they and all their vendors strictly comply with all security standards. “Systems and processes need to be constantly evaluated to identify weaknesses and address them,” he added.

Asked about the learnings from this episode, Deepak provided what seemed a depressing assessment — that fraud and risk are an integral part of any payment and banking system in the world.

“Fraud has become an organised industry and fraudsters are constantly looking for ways to break into banking and payment systems,” he said. It’s very important to move quickly and decisively when a fraud has occurred, both to prevent further damage and also to restore confidence in the system, he added.

### **Customer education**

He said customers need to be educated so that they don’t part with sensitive information about their cards, bank accounts, etc., and are vigilant about transactions they do as well as pay attention to emails and messages from their banks.

This is especially important given the large number of new banks and the very large number of people who have recently become bank customers for the first time, he said.

## **7. Rupee stays in a narrow range**

Even as the global currency markets turn jittery ahead of the US Presidential elections next week, the Indian rupee continues to remain stuck in the narrow range of 66.4-67 for the sixth consecutive week.

The rupee touched a low of 66.93 and recovered to a high of 66.67 before closing at 66.75 on Thursday. The currency is likely to remain in the 66.4-67 range until the US election results are out on Wednesday. The US Federal Reserve meeting this week turned out to be a non-event. The Fed left rates unchanged but kept the chances alive for a rate hike in December.

### **The election impact**

The dollar index witnessed a sharp sell-off in the past week. News on FBI's fresh probe on Hillary Clinton's new emails helped Donald Trump take a slender lead over Hillary Clinton in a poll last week. This triggered a strong sell-off in the dollar index. The index fell 2 per cent last week to around 97 from 99. It is currently trading at around 97.2.

A win for Donald Trump may not be positive for global markets, at least in the short term. Risky assets, such as equities and emerging market currencies may witness a strong sell-off in the short term and might stabilise subsequently.

On the other hand, a win for Hillary Clinton may halt the fall in the dollar index and can lead to a strong reversal. The global equity markets may also see a strong rally.

Whatever be the outcome of the election, the chart suggests that there is room left for the dollar index to fall to 96.5 or even 96. A reversal from 96.5 or 96 may then take the index higher to 98 and 99 levels once again.

### **Rupee outlook**

As the rupee continues to remain in the 66.4-67 range, the outlook remains unchanged. A breakout on either side of 66.4 or 67 will decide the next trend for the currency.

If the rupee breaks above 66.4, it can rise to 66.3 initially. If it manages to break further above 66.3, it can strengthen to 66.

On the other hand, if the rupee falls below 67, it can test its next support at 67.2. A strong break below 67.2 may increase the pressure and drag it to 68 or even lower levels thereafter.

As is being reiterated over the past few weeks, the level of 66 is a key medium-term trend-deciding level. If the rupee fails to strengthen beyond 66, a subsequent reversal from there can keep the currency range-bound between 66 and 68 for some time.

But if the rupee breaks above 66, there is a strong likelihood of it strengthening to 65 thereafter.

## **8. RBI wants 10% of bank ATMs to dispense only ₹100 notes**

### **OUR BUREAU**

In order to ensure that genuine requirement of members of the public for ₹100 denomination banknotes are met, the Reserve Bank of India on Wednesday said it will conduct a pilot project wherein 10 per cent of ATMs in the country will be exclusively calibrated to dispense ₹100 banknotes.

The RBI, in a circular, advised banks to configure/calibrate 10 per cent of their ATMs to facilitate this arrangement.

As the process involved in configuring the requisite number of machines is not complex, the banks are required to complete the exercise within 15 days from the date of the circular and report compliance. For this purpose, the RBI said banks are free to select the branches with the sample covering relatively large number of centres/States.

The RBI has asked banks to share their feedback on the pilot after a lapse of two months.

This pilot project follows a review conducted by the RBI on the steps taken by banks for installing ATMs dispensing lower denomination banknotes. In this review, the RBI found that very few banks had taken any initiative in setting up ATMs dispensing lower denomination notes, including ₹100 denomination banknotes.

"In keeping with the objectives of clean note policy and to ensure that genuine requirement of members of public for ₹100 denomination banknotes are met, the banks should increase dispensation of ₹100 banknotes through ATMs which are widely used for distribution of banknotes for retail use," the RBI said.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**