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Dear Comrades,

8th December , 2016

News of Interest 8th Dec

QUOTE FOR THE DAY

“MOTIVATION IS THE ART OF GETTING PEOPLE TO DO WHAT YOU WANT THEM TO DO BECAUSE
THEY WANT TO DO IT.”

DWIGHT D. EISENHOWER

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BUSINESS STANDARD

1. India Inc disappointed as RBI keeps rates unchanged

Ficci president says that at this juncture, a 50 bps point cut in the repo rate would have provided the needed boost to the flagging industrial economy

Press Trust of India

With the Reserve Bank of India (RBI) belying expectations of a rate cut, India Inc on Wednesday expressed disappointment saying a rate cut was needed to provide a fillip to the flagging industrial economy and stimulate consumption that has been hit by demonetisation.

"At this juncture, a 50 bps point cut in the repo rate would have provided the needed boost to the flagging industrial economy. The consumption demand has been impacted post demonetisation and a rate cut would have given a strong signal to the consumers and to the industry as well," Ficci President Harshvardhan Neotia said.

"Amidst a highly uncertain global environment, the impetus for growth will have to come from the domestic economy," Neotia said.

Taking markets by surprise, the RBI on Wednesday kept the short-term lending rate unchanged even as the central bank lowered GDP (gross domestic product) growth rate to 7.1 per cent and short-term disruption in economic activities due to demonetisation.

All the six members of the Monetary Policy Committee headed by RBI Governor Urjit Patel voted in favour of the decision.

In view of disruption in economic activities due to demonetisation, the RBI lowered growth forecast from 7.6 per cent to 7.1 per cent for the current fiscal.

"The underlying message is that the things at this stage seem to be in a state of flux even as the RBI itself has revised downward the estimates of the GVA by 50 basis points. How the demonetisation would play out for growth, lending rates or even inflation is not clear," said Assocham President Sunil Kanoria.

Engineering Export Promotion Council (EEPC) India Chairman T S Bhasin said engineering exporters would look up to the central bank to restore normalcy in the domestic market by way of remonetisation of the currency.

"The exporting community is still facing problems with regard to production and reaching consignments to the ports. The exporters were also expecting some special window for the labour intensive sectors at least with regard to the lower rate of interest," Bhasin said.

The headline inflation is projected at 5 per cent by the fourth quarter of 2016-17 with risks tilted to the upside but lower than in the October policy review.

On demonetisation, it said, the withdrawal of old high-value currency notes could transiently interrupt some part of industrial activity in November-December due to delays in payments of wages and purchases of inputs, although a fuller assessment is awaited.

2. Asset quality decreases but pace of bad loan addition comes down: RBI

As a result of demonetisation, bankers believe there could be some pressure on asset quality, especially accounts

Nupur Anand

The Reserve Bank of India believes though the total bad loans in the system have swollen, the pace of the incremental addition has come down. This reflects well for the sector, as it indicates the worst is behind us. "From the September quarter results announced by banks, we have seen that while there has been an incremental percentage of gross and net NPAs (non-performing assets), there has been marginal reduction in restructured advances and slight uptick in overall stressed assets in the banking system. But, the formation of incremental NPA has decelerated," said RBI Deputy Governor S S Mundra at the bi-monthly monetary policy.

At the end of the quarter ended September, Gross NPAs (of 41 banks) increased to Rs 6,99,854 crore, compared with Rs 6,48,890 crore in the quarter ended June. However, the pace of additions has come down as the quarter-on-quarter addition

between June and September was Rs 50,964 crore. In the previous quarter, between March and June, the amount of bad loans added was higher at Rs 58,330 crore.

Mundra said another positive that has emerged is the provision coverage ratio in the system has slightly improved compared with the previous year and recoveries have been better at a time when write-offs have reduced to some extent.

Deputy Governor N S Vishwanathan said the recent amendments to rules on restructuring schemes such as 5/25 will aid recoveries and resolution and will also help in reducing accretion to NPAs. The central bank had earlier directed lenders that the last date for clean-up of the balance sheet stands at March 2017 and it was unlikely to be shifted.

As a result of demonetisation, bankers believe there could be some pressure on asset quality, especially accounts, but this will be transitory in nature and won't have a significant impact on NPAs in the banking system.

"Due to demonetisation, there has been a severe disruption in economic activity. However, this is unlikely to push NPAs up. Existing NPA accounts as well as the performing accounts have seen clients making payments and repayments for the dues. SBI continues to focus on recoveries post the demonetisation period," said Arundhati Bhattacharya, chairman, State Bank of India.

3. No rate cut from RBI: demonetisation dampens India Inc plans

The demonetisation of Rs 500 and Rs 1,000 notes came at a wrong time for the private sector

BS Reporter

The Indian corporate sector, looking forward to a rate cut on Wednesday, is facing a double whammy of high interest rates and falling sales due to demonetisation. Chief executive officers (CEOs) said they would now wait to take investment decisions till the economy improves, by April next year.

"The credit policy comes in the most unusual of circumstances and the Reserve Bank of India's decision to keep rates unchanged reflects all the current uncertainties. The US Fed's pending decision and the Opec (Organization of the Petroleum Exporting Countries) meeting seems to have weighed in heavily, beside the unprecedented effect of demonetisation. A rate cut, however, is not too far off, as it becomes increasingly unavoidable with inflation being contained and a lot of cash within the banking system. I would expect it to happen sooner than later," said Harsh Goenka, chairman of RPG Enterprises.

Harsh Mariwala, chairman of consumer products maker Marico, said a rate cut would have acted as a balancing factor at a time when consumer and retail activity has been impacted due to demonetisation. "It will now be a slow process of recovery as remonetisation pans out," he said.

The demonetisation of Rs 500 and Rs 1,000 notes came at a wrong time for the private sector, which wasn't investing in new projects anyway. Falling sales since demonetisation in the past one month has alarmed CEOs, who want to save cash till the economy recovers. The real estate, advertising and consumer durables sectors, and two-wheelers, cars and tractor sales are worst hit.

Rakesh Biyani, joint managing director of Future Retail, said as so much money had gone out of the system, it had become a worrying factor. "I hope the government would give some stimulus to boost demand," he said.

CEOs of real estate companies, who were expecting a rate cut of 25 to 50 basis points, are a disappointed lot. "It is a disappointment for all the industries including real estate. For developers to cut prices, their cost of funding should come down first," said Rajeev Talwar, CEO at DLF, the country's largest developer. Talwar said RBI's decision (of not cutting rates) will accentuate the liquidity conditions of property developers, barring a few large ones.

"Most of the small- and medium-sized companies have already asked for restructuring of their loans," he said.

Niranjan Hiranandani, managing director of Hiranandani Communities, said things were not looking up anyway for the sector and RBI's decision wasn't going to help the sector.

"The RBI governor was saying they have cut rates by 175 basis points, but banks have not passed on the rates. The realty sector needs a booster," said he.

Shishir Bajjal, chairman & managing director, Knight Frank India, said: "A rate cut could have been encouraging at this moment. However, it is disappointing that RBI decided against it. We were expecting a 25-basis point cut, which could have given an impetus to the beleaguered real estate sector."

4. Demonetisation dividend: Bank deposits rise to Rs 105.18 lakh crore

Deposits with Indian banks rose to R105.18 lakh crore between November 12 and November 25, up by R4.03 lakh crore, or 15.9%, over the same fortnight last year, according to data released by the Reserve Bank of India on Wednesday.

By: [FE Bureau](#)

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The amount includes deposits received by banks after the first two working days after the announcement of the decision to demonetise R500 and R1,000 notes on November 8. Non-food credit offtake grew a mere 6.99% y-o-y, lower than the 8.25% growth recorded in the fortnight ended November 11. In the year-ago period, non-food credit growth stood at 9.47%.

This was the highest rate of growth in deposits in over 15 months, topping last fortnight's 11.73%, while the non-food credit growth was the slowest in at least four years, slower even than the 8.25% registered at the end of last fortnight.

More than 90% of the total deposits of R105.18 lakh crore were in the form of time deposits. Of the incremental Rs.4.03 lakh crore that flowed in during the fortnight under review, just under R3 lakh crore came in as time deposits with the rest flowing into current and savings accounts.

5. Jan Dhan deposits slowed after govt apprised against misuse of account: CBDT

The Jan Dhan deposits have slowed down after the Centre warned against misusing such accounts for converting black money into white.

By: [FE Online](#)

The Jan Dhan deposits have slowed down after the Centre warned against misusing such accounts for converting black money into white. The NDA Government had also said that average deposit per Jan Dhan account at Rs 13,113 during November 8-December 2 is not alarming. Meanwhile, the Income tax department has come across several inconsistencies in cash deposits in Jan Dhan accounts and found that around Rs 1.64 crore deposited by those people who have never filed returns as their income shown is below the taxable limit.

The Central Board of Direct Taxes (CBDT) today once again said that its warning to people against permitting misuse of their accounts by unscrupulous elements. On Sunday, Ministry of Finance had said that the Investigation being conducted by the income tax department across the country into the sudden increase in cash deposits in Jan Dhan accounts have revealed several inconsistencies.

During a parivartan rally in Uttar Pradesh, Prime Minister Narendra Modi had asked poor people not to withdraw money from their Jan Dhan accounts. During his speech, the prime minister had focussed his entire speech around the inconvenience faced by the common public because of demonetisation and tried to put as something, which was for the betterment of the people of country.

Referring to reports of millions of rupees being deposited in Jan Dhan accounts allegedly by black money holders, Narendra Modi also said that not only the money should go to poor people, but black money holders should also go to jail.

Business Line

6. Jaitley admits to currency shortage

OUR BUREAU

Finance Minister Arun Jaitley admitted that there is a shortage of currency notes after the government's demonetisation decision on November 8, but said it is being addressed.

"The RBI every day releases a certain amount of currency. Some people feel there is a shortage. There is obviously a shortage and therefore there is a parallel movement on to make up that shortage by going digital," Jaitley said at the Petrotech 2016.

"A decision of this kind can lead to pain during transition, which is regrettable. But this was also factored in (when taking the decision)," he said. "In the whole process you find that today the phase we are passing through, we are at a major cusp of change."

Defending the government's move despite severe criticism from all quarters, including the media, Jaitley said, "What we would end up achieving is to lay down this new normal."

Talking about the long-term advantages of this new normal, he said it will mean more money in the banking system, more capacity of the banks to support the economy, to support growth, availability of low-cost funds with the banks in their current and savings accounts, more transactions coming in the banking system, which means more transactions coming in the taxation system.

The Finance Minister went on to say that at the pace at which digitisation is taking place post the November 8 decision, it will become a comfortable habit.

The government has been doing a regular review of the whole process and ensuring that banks are making all efforts to facilitate genuine transactions. In recent years, advancements in banking technology, progress in mobile banking and innovative technologies to facilitate digital payments have enabled a large number of small denomination transactions to be handled smoothly in the electronic mode.

In its endeavour to move towards the electronic payments, the Central Government Ministries/Departments have been crediting the salary and other payments for the majority of its employees electronically, direct into the designated bank accounts of the employees.

7. Decision to render Rs 500 and Rs 1000 notes invalid not taken in haste, says RBI

OUR BUREAU

The Reserve Bank of India on Wednesday said it has supplied more bank notes to the public during November 10 to December 5, 2016 period than it did in the whole of last three years even as it underscored hoarding of notes helps nobody's cause.

The central bank also emphasised that the decision to withdraw the legal tender status of the ₹500 and ₹1,000 notes with effect from November 9, 2016 has not been taken in haste but after detailed deliberations

R Gandhi, Deputy Governor, observed that the motivations for the decision are to deal with the problem of high quality counterfeit notes in these denominations and unearth black money that may be held in cash.

From 10th November 2016 to 5th December 2016, the Reserve Bank has supplied to the public banknotes of various denominations worth ₹ 3.81 lakh crore.

As regards lower denomination notes of ₹ 100, ₹ 50, ₹ 20 and ₹ 10, the Reserve Bank, over its counters and through bank branches all over the country, has supplied 1,910 crore pieces of denominations in this period. (₹ 100 – 850 crore, ₹ 50 – 180 crore, ₹ 20 – 310 crore and ₹ 10 – 570 crore).

Gandhi explained that "There had to be a high level of secrecy surrounding this decision and the fact is that such a large country was indeed taken by surprise when the decision was announced."

"The Reserve Bank and the Central Government were conscious of certain immediate difficulties that the public at large could face and all efforts were made to minimise them and mitigate them," said the Deputy Governor.

The problems of the common persons, according to Gandhi, were at the top of the policy makers' radar and all dispensations were calibrated to address them without at the same time jeopardising the achievement of the larger policy objectives.

The Deputy Governor reiterated that there is adequate supply of notes and hoarding of notes helps nobody's cause.

"We also strongly advocate the public to switch to digital payment modes given that there are several options, there are adequate safeguards and there is an increasing acceptability of this mode of payment by a large number of recipients," he said.

8. Demonetisation: Where it hurts and how much

The rendering of Rs 500 and Rs 1,000 banknotes into worthless paper, unless exchanged or deposited in banks, has resulted in a liquidity squeeze that will adversely affect many sectors of the economy. The worst hit will be those sectors that deal largely in cash.

Real Estate

City markets to be hit badly. Demand for residential space will contract, especially in micro markets. Capital values will decline as will the price of land. The only benefits will be in the long term and will arise out of a new transparency in the sector.

Diamond and Gems

Cash is the lubricant here. The hardest hit will be the cutters and polishers who anyway work on the lowest operating margins. Demand for gold might pick up in the long term. But it appears the small jewellery retailers are taking their last gasps.

Cement

The industry depends heavily on the real estate sector (60-65 per cent of consumption) and will feel some of the pain of lower demand in the short term.

Consumer Durables

With about 75 per cent of purchases in cash, demand will sag in the near future but, in the long run, people are expected to switch to transparent modes of payment.

Retail

Malls and shop owners have been complaining of lower footfall, and this is true right now, but in the long term customers will return and demand will pick up as smaller shops get wired to the cashless economy. High-end luxury goods retailers will find fewer people willing to make expensive purchases.

Steel

This, too, has a heavy customer in the real estate sector (30-35 per cent consumption). Expect demand to be affected, though not too badly, in the short term.

Banks and NBFCS

Benefits in increased savings. Banks with digital platforms will benefit from new traffic as will payment banks.

Automobiles

Demand for fancy vehicles will fall as part payments were often made in cash. Two-wheeler demand to be marginally impacted.

Aviation

The world's fastest growing aviation market could see a slowdown as people shun air travel. Traffic growth could be hit significantly.

Tourism

The holiday season is likely to be hit, with some trade experts saying travel companies could be affected by 10-15 per cent.

e-Commerce

The cash-on-delivery segment has been hit and this could dent sales of e-commerce firms. Some estimates say the adverse impact could be as much as 25 per cent to 30 per cent.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY