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Dear Comrades,

9th November , 2016

News of Interest 9th Nov

QUOTE OF THE DAY: "MAN NEEDS HIS DIFFICULTIES BECAUSE THEY ARE NECESSARY TO ENJOY SUCCESS." A. P. J. ABDUL KALAM

- 1. MODI'S SURGICAL STRIKE ON BLACK MONEY**
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Business line:

1. Modi's surgical strike on black money

OUR BUREAU

ATM will not function till November 10

*** Banks will be closed on November 9, Wednesday.**

*** People can deposit from November 10 to December 30, 2016 in banks and post offices,**

*** Withdrawals from bank accounts will be limited to Rs. 10,000 a day and Rs. 20,000 a week.**

In a shock and awe move, Prime Minister Narendra Modi announced withdrawal of Rs.500 and Rs.1,000 notes in a bid to check black money and cross-border monetary transactions of counterfeit currency.

"Notes of Rs.500 and Rs.1,000 not valid from midnight November 8, 2016," said Modi in a late-evening address to the nation, evoking strong reactions from the man on the street to his political opponents.

While most financial experts and India Inc honchos said it was not unexpected, the timing of the announcement caught everyone by surprise. An obvious reason for this would be to ensure that unaccounted wealth is not siphoned off via other channels like gold or property. In his address, Modi asked people to exchange these notes for other denominations from November 10, 2016 till December 31, 2016. This can be done in banks and post-offices.

Government hospitals will continue to accept old Rs.500 and Rs.1,000 notes for 72 hours. Similarly, rail, airline and government bus ticket counters, as well as milk booths, petrol pumps, consumer cooperative societies, crematoriums and burial grounds, and foreign currency exchange facilities at airports will accept these notes for the next 72 hours. Transactions through debit and credit cards, cheques and demand drafts will continue as usual.

There will be a cap on ATM withdrawals from Rs.2,000 per day per card. This will be raised to Rs.4,000 in the coming days. New Rs.500 and Rs.2,000 notes will be issued on November 10.

"This is the biggest and the boldest step by the government for containing [black money](#). It is like a surgical strike on black money," said Revenue Secretary Hasmukh Adhia.

Soon after the Prime Minister's address, in a joint press conference Economic Affairs Secretary Shaktikanta Das and RBI Governor Urjit Patel said high denomination notes of Rs.500 and Rs.1,000 were being used for black-money transactions, terror financing and had also led to an inflow of fake currency into the country. "The long shadow of the ghost economy has been a problem of the real economy," Das said.

He noted that the economy grew by 30 per cent between 2011 and 2016 and currency notes in circulation rose by 40 per cent. In contrast, the circulation of ₹500 currency notes grew by 76 per cent and Rs.1,000 notes by 109 per cent. The RBI Governor said that despite the high number of fake currency, the security features of the currency have not been breached. "The RBI has ramped up production of the new series of notes," he said.

Das also announced the new series of Rs.500 and Rs.2,000 currency notes with new size specifications and security features.

Das warned that people with unaccounted income would be monitored and banks have installed video cameras to monitor the exchange of notes. "Do not allow yourself to be used for exchanging illegal cash," he appealed.

2. RBI issues new series of Rs 500, Rs 2,000 currency notes

PTI

Hours after Prime Minister Narendra Modi today announced the demonetisation of high value notes, the Reserve Bank today issued new series of notes for the Rs. 500 and Rs. 2,000 denomination with improved features and newer sizes.

The Rs. 2,000 note, which is a first under the denomination, will be called the 'Mahatma Gandhi (New) Series' and has the motif of the low-cost mission to Mars, the Mangalayan, on the reverse, the RBI said.

The base colour of the note will be magenta and the size of the note will be 66 mm by 166 mm, it said.

The new design in the Rs. 500 denomination will be in a different colour, size, theme, design and location of security features, it said.

The note, measuring 63 mm by 150 mm will be in a new colour - stone grey and the predominant theme will be Delhi's Red Fort, it said.

Both the new designs, Rs. 500 and Rs. 2,000, will be very friendly towards the visually-impaired by having features which make it accessible for all sections.

Earlier, Governor Urjit Patel said that the central bank has ramped up production of the new series of notes under the newer series.

The RBI has also started a helpline number for the citizens who may face any difficulties, economic affairs secretary Shaktikanta Das said.

Citizens can reach out to the RBI on 022-22602201, 022-22602944 starting tomorrow for any doubts and clarifications, he said.

3. RBI clears the air on note exchanges

PTI

After the government made a surprise announcement of making Rs. 1,000 and Rs.500 banknotes illegal from midnight, the monetary authority posted a 25-point detailed FAQs explaining the rationale behind the move.

The Reserve Bank of India said the most important reason for the ban was the abnormal rise in fake currencies of higher denomination, and also the higher incidence of black money in the system, but assured the public that a person who changed his higher value cash will get exactly the equal amount in lower denominations.

"You will get value for the entire volume of notes tendered at the bank branches/RBI offices," the central bank assured the public. But it was quick to add that there will be caps on the cash one can tender.

"One will get up to Rs. 4,000 in cash irrespective of the size of tender and anything over and above that will be receivable by way of credit to bank account," the RBI said pointing out that one cannot get the entire amount in cash as the scheme of withdrawal of old high denomination notes does not provide for it, given its objectives.

"The fake notes are used for anti-national and illegal activities. High denomination notes have been misused by terrorists and for hoarding black money. We as a nation remain a cash-based economy, hence the circulation of fake rupees continues to be a menace. To contain the rising incidence of fake notes and black

money, the scheme to withdraw high—denomination notes has been introduced,” RBI said.

Explaining the importance of the scheme, the RBI said the legal tender character of the notes in denominations of Rs. 500 and Rs. 1,000 stands withdrawn. In consequence, the withdrawn old high denomination notes cannot be used for transacting business and/or store of value for future usage.

The old notes can be exchanged for value at any of the 19 offices of the Reserve Bank, any of the bank branches or at any head post offices or sub—post offices.

For those who need higher amount of cash over and above the permitted Rs. 4,000, RBI said one can use balances in bank accounts to pay for other requirements by cheque or through electronic means such as online banking, mobile wallets, IMPS, credit/debit cards etc.

For those without any bank account, RBI said they can open an account with necessary KYV documents.

Even no frills accounts under the Jan Dhan Yojana can also avail of the exchange facility subject to the caps and other laid down limits in accord with norms and procedures.

But for all the exchanges, the person has to carry valid identity proofs. This can be done at any branches of the bank that one is banking with and can also be done at other bank branches provided one furnishes valid identity proof and bank account details.

A person with no personal account of her own can avail of this exchange facility via a relative/friend’s account with written permission. But while exchanging, one should provide the evidence of permission given by the account holder and own valid identity proof.

The exchange can also be done through a third party provided one gives a written authorisation letter with the bearer, who should also prove the identity.

On withdrawals/exchanges through ATMs, the RBI said banks will take time to recalibrate the ATMs. Once the ATMs are functional, one can withdraw upto a Rs. 2,000 per card per day up to November 18. The limit will be raised to Rs. 4,000 per day per card then onwards.

Even cash withdrawal through cheque/withdrawal slips is subject to a ceiling of Rs. 10,000 in a day within an overall limit of Rs. 20,000 in a week (including withdrawals from ATMs) for the first fortnight-up to November 24.

Higher value notes can be deposited/withdrawn through ATMs, cash deposit machines and cash recyclers.

But electronic transactions (NEFT/RTGS/IMPS/ online banking/mobile banking etc) can be done with no limits.

The scheme closes on December 30, 2016 until then one can exchange the banned notes at the branches of commercial banks, regional rural banks, urban cooperative banks, state cooperative banks and special RBI counters.

And those who failed to do will be offered a limited opportunity at specified offices of the RBI, along with necessary documentation as may be specified by the central bank.

Those who are outside the country can get their exchanges done by authorising in writing another person in the country to deposit the notes into your bank account with the authority letter and identity proof such as Aadhaar card, driving license, voter ID card, passport, NREGA card, PAN card etc.

Even NRIs can also deposit the banned notes to NRO account. A visiting foreigner can purchase forex equivalent to Rs. 5,000 using these illegal notes at airport exchange counters within 72 hrs after the notification, provided you present proof of purchasing these notes.

In case of emergencies like hospitalisation, travel, life saving drugs, one can use the old notes to pay for hospitalisation at government hospitals, to purchase bus tickets at government bus stands for travel by state or state PSU buses, train tickets and air tickets within 72 hrs after the notification.

More information is available at www.rbi.org.in and one can mail to the RBI control room at publicquery@rbi.org.in or just dial 022—22602201/22602944.

4. Has demonetisation ever helped?

OUR BUREAU

The Centre sprang a surprise on the 1.25 crore people of the country on Tuesday by demonetising Rs.500 and Rs.1,000 notes. But this is not the first time that this step has being taken.

In January 1946, the government withdrew Rs.1,000 and Rs.10,000 bank notes. However, in 1954, the higher denomination notes of Rs.1,000, Rs.5,000 and ₹10,000 were reintroduced.

Then, in January 1978, higher denomination notes of Rs.1,000, Rs5,000 and Rs.10,000 were again withdrawn during Janata Party rule to check black money circulation.

Now, in 2016, the NDA government has once again taken such a step to curb black money which it says is being used to finance terrorism.

However, has demonetisation of bank notes helped check the flow of black money in the economy, which has only increased manifold over the years? The jury's still out.

5. Govt looking to open the economy further: Jaitley

OUR BUREAU

Finance Minister Arun Jaitley said the government is working on measures to open the economy further and pitched for more investments to bridge the "investment deficit".

"We are looking to open out...we want to reform more, attract more investment, expand more in manufacturing and bridge the infrastructure deficit," he said at the India-UK Tech Summit organised by CII here on Tuesday.

Job creation

Apart from trade, the Minister said there is significant growth potential in the manufacturing sector. "The share of manufacturing has to increase from the

present 15 per cent to 25 per cent and that's where we will realise we are creating far more jobs and expanding far better," he said.

He further said there is also huge potential for growth in eastern India as well as in rural areas, which require a lot of investment.

Jaitley pointed out that the UK, which voted for Brexit, is looking at a world outside of Europe.

"I think one of the great strengths of the Indian economy is that even though we are growing at the fastest rate than any major economy, by our own standard we are still not satisfied," he said, stressing that there is a growing impatience in India for faster and higher economic growth.

"Normally it is the least developed and developing economies which have a tendency to cry for protectionism and that is a voice that's almost not heard in India," he said.

Addressing the session, UK Secretary of State for International Trade Liam Fox said the two countries have a "golden opportunity" to re-forge trading relationship.

"We are the natural partners of India and ready to help you, skill your workforce and grow your economy, boost bilateral trade and investment and cooperate on science and education," he said.

He also offered support to the Smart City programme, apart from strengthening bilateral trade and investment to help the Indian economy grow.

Financial Express:

6. World media reacts after PM Narendra Modi bans Rs 500, Rs 1,000 notes: From 'ambitious' to 'confusion', check out the reactions

[FE Online](#) |

Just a few hours after PM [Narendra Modi](#) announced the ban by the Bharatiya Janata Party ([BJP](#)) led NDA government on Rs 500 note, Rs 1,000 note and unveiled a new Rs 500 note plus a new denomination in the form of the Rs 2,000 note, the world media reacted with a bit of shock curiosity. Needless to say, tens of thousands of tourists and hundreds of thousands of globe-trotting businessmen are in India at any given point of time and as many are getting ready to jet down to the sub-continent on a daily basis and these media organisations would be the first to inform them about these changes that could well turn their jaunt here into a nightmare. After all, they would be the ones carrying the largest denomination notes and to find yourself in a strange country with all the currency in their pocket turned into so much useless paper, all these travellers would be searching for solutions. So, check out here what two foreign media organisations had to say about the momentous changes made by the Narendra Modi government on Tuesday night.

Amongst the first out of the blocks on covering this biggest newsbreak (yes, it is on par with the US elections in terms of import and consequences thereof) was the venerable BBC. It looked to believe that the step was not really well thought out: "Much of the government's new initiative remains mired in confusion. It is not clear exactly what will be the effect on the money supply or whether it will take out a lot of cash in circulation." Considering that the Indian hinterland is crucial to the implementation of all governmental policies, BBC added: "Questions arise as to the

impact in rural areas. Will they still use the old notes or will 'a black market in black market notes' emerge?"

The Washington Post in the US reacted in a positive manner. It called PM Narendra Modi's initiative as 'ambitious' and in keeping with his election time vow to initiate a crackdown against [black money](#). The Post said black money in India 'is estimated to total from \$400 billion to more than \$1 trillion'.

The Financial Times in UK also put out a story and said that, " India just took another big step in its long-running battle to crack down on the shadow economy." However, it quoted Eswar Prasad, an economics professor at Cornell University, as saying, "This move will at best put a modest and temporary crimp on illicit activities in the absence of other reforms." It also quoted Tushar Arora, an economist at HDFC Bank, as saying that the sudden step "might lead to some confusion in the near term" and there was the possibility of short-term cash shortages if the transition were not handled smoothly.

7. Modi government crackdown on black money: Real estate, jewellery stocks may take a hit

By [PTI](#)

Stock markets will remain open tomorrow and all risk management systems and surveillance measures have been beefed up to tackle any extreme volatility in the wake of demonetisation of certain currency notes and the US presidential election results.

Banks will remain closed tomorrow for the public to allow them time to cope with the government's decision to discontinue existing Rs 500 and Rs 1,000 currency notes with effect from midnight tonight.

However, the stock markets will remain open, and clearing and settlement systems will operate normally, exchange official said.

Sources said that the capital markets regulator Sebi and the stock exchanges have taken necessary steps to safeguard any extreme volatility due to the sudden measures announced by the government to check [black money](#) menace and counterfeiting of currency notes.

Besides, the risk management systems and surveillance measures have also been beefed up to tackle any extreme volatility that may arise due to the results of the US presidential elections expected tomorrow morning.

Marketmen said that the stocks from the real estate and jewellery sectors, which are known to involve huge cash transactions, may be affected in a big way, while the US results would have wider impact on currency, bullion and currency markets, among others.

The regulatory authorities and the exchanges would ensure that systems are in place to keep a check on any manipulative activity taking advantage of huge volatility expected in the markets.

8. No extra Narendra Modi govt handout for crisis-hit public sector banks even as NPAs hurt lenders

By: [Prasanta Sahu](#)

he Centre is unlikely to provide additional capital to public sector banks (PSBs) in the current fiscal, over and above R25,000 crore committed in the Budget, as officials feel lack of substantial progress on performance improvement parameters and a tight budget don't warrant extra allocation. The move comes at a time when analysts say that the committed government capital is hardly enough to address the non-performing asset (NPA) mess and accelerate credit growth, which was negative in June quarter.

In a recent report, rating agency Standard & Poor's estimated that PSBs need \$45 billion capital infusion by FY19. Against this, the Centre had announced a R70,000-crore (roughly \$11 billion) capital infusion plan for these banks spread over four years. As per the plan, it infused R25,000 crore in PSBs in FY16 and has budgeted a similar amount for FY17 as well.

Following criticism that the budgeted capitalisation was not enough, the finance ministry had assured that it would provide another R5,000 crore in FY17, if required. Sources told FE that this additional outlay was unlikely.

A sharp decline in profitability and mounting losses could wipe out the revenue reserves of some PSBs this fiscal and hamper their near-term ability to service coupon on additional tier 1 (AT1) bonds issued under Basel III capital regulations. As many as 13 of the 21 PSBs (taking State Bank of India and its associates as a consolidated entity) reported losses in FY16. Half of these 13 banks could make losses this fiscal as well, Crisil has noted. "As on date, 14 PSBs have R22,600 crore of AT1 bonds outstanding. While the government of India has committed capital support to PSBs to sustain their capital ratios above regulatory minimum, the coupon on AT1 bonds can only be serviced through current year's profit or from revenue reserves and hence any capital infusion by government alone cannot improve the bank's ability to service coupon on these bonds," Crisil said.

In July this year, the government announced announced R22,915 crore capital infusion in 13 PSBs including State Bank of India and [Punjab National Bank](#). However, it said 75% of that amount (about R17,186 crore) will be released immediately to the banks to provide liquidity support for lending operations as also to enable banks to raise funds from the market. The remaining R5,729 crore was to be released later based on performance, with particular reference to greater efficiency, growth of both credit and deposits and reduction in the cost of operations.

The June quarter witnessed a marginal decline in risk weighted assets (RWAs) of PSBs by 0.02%. At the same time, credit growth has declined 2.56%. Eight PSBs including State Bank of India, Central Bank of India, Corporation Bank, Bank of Baroda, Syndicate Bank, Punjab & Sind Bank, and United Bank of India have posted a negative credit growth rate and simultaneously an increase in RWAs during the quarter.

"Not many PSBs have shown significant improvement in performance parameters. So we expect substantial savings from R5,729 crore capital infusion linked to performance criteria," an official said. Savings and R3,075 crore unallocated budget (out of R25,000 crore) is likely to make available about R7,000-8,000 crore at the disposal of the government to infuse capital to very needy banks during the course of the year to meet capital adequacy norms, the official said.

Separately, even though PSBs were told to mobilise about R1.1 lakh crore additional capital from markets during FY16-FY19, analysts doubt the ability of the banks to raise capital at this juncture due to dip in their valuations.

Poor asset quality and weak capitalisation restrict the lending capacity of PSBs, thereby contributing to slower pace of economic revival in the country, analysts have said. The stressed assets (gross NPA and restructured loans) of public sector banks rose from R7.46 lakh crore (14.62% of gross advances) as on March 2016 to R7.83 lakh crore (15.74%) as on June 2016.

S&P said: "The government may have to increase the allocation if the banks are not able to secure capital from alternative sources, such as equity markets, additional tier-1 bonds, and insurance companies." The rating agency has included this assessment when it retained India's sovereign rating at "BBB-", the lowest investment grade, citing weak public finances.

The government's hands are also tied this year due to shortfall of R32,000 crore in spectrum auction revenue and very weak chances of achieving R20,500 crore in strategic sales of PSUs. As it could barely make up the shortfalls by tax revenue buoyancy (due to income disclosure scheme as well as higher taxes on petrol and diesel), it won't have room to allocate more funds to banks this year, another official said.

Business Standard:

9. Phasing out Rs 500, Rs 1,000 notes won't affect market liquidity: Patel

Arup Roychoudhury

On the day of the dramatic announcement by Prime Minister [Narendra Modi](#) to immediately phase out Rs 500 and Rs 1,000 notes, Reserve Bank of India (RBI)governor [Urjit Patel](#) said the move would put 23.2 billion banknotes out of circulation but would not affect liquidity in financial markets.

Soon after Modi's address to the nation, Patel addressed a press conference with deputy governor R Gandhi and the government's Economic Affairs Secretary Shaktikanta Das to explain the move and soothe the nerves of common people as well as investors.

Anticipating panic and rush at bank counters, Das announced that banks will open additional counters and work extra hours beginning Thursday to help people exchange the invalid Rs 500 and Rs 1,000 notes.

Das admitted the move would cause some initial discomfort to the masses. "We expect initial inconvenience of 15-20 days to the general public. By that time, the new Rs 500 and Rs 2,000 notes would have been properly circulated into the system.

Das said the new notes would be officially launched and initiated into circulation from November 10. He added the flow of the new denomination notes of Rs 2,000 would be regulated and closely monitored by RBI. He also said a new high-security Rs 1,000 note will be re-introduced at a later date.

"[RBI](#) and the government have set up control rooms in Mumbai and Delhi to avoid any crisis," Das said.

Gandhi said 16.5 billion Rs 500 notes and 6.7 billion Rs 1,000 notes would go out of circulation.

Banks will remain shut on Wednesday to allow stocking of smaller currency notes and the public will be allowed to tender their now-invalid Rs 500 and Rs 1,000 from

November 10. They can deposit any amount of the invalid currency in their bank accounts till December 30 and also exchange them for lower banknotes at special counters at banks and post offices till November 24, but with a limit of Rs 4,000 a day, Das said.

Banks will, however, report any unusual transaction to the Financial Intelligence Unit and tax authorities for scrutiny, he added.

Patel said the central bank had ramped up production of the new higher security currency notes of Rs 500 and Rs 2,000, which will replace the notes being taken out of circulation.


He linked the government decision to use high-denomination currency notes for terrorism financing and also for holding black money.

While overall currency circulation had increased by 40 per cent during 2011-2016, the circulation of Rs 500 notes had gone up by 76 per cent and that of Rs 1,000 by 109 per cent, Patel added.

The government imposed strict cash withdrawal limits – Rs 2,000 from ATM and Rs 10,000 from bank account in a day and Rs 20,000 in a week – Patel said there would be no impact on liquidity in the markets including financial markets. “The cash withdrawal limits will be relaxed gradually as small-currency denomination notes are adequately stocked with banks and ATMs and new currency notes come into wide circulation,” Das said.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY