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Dear Comrades,

17th November , 2016

News of Interest 17th Nov

QUOTE OF THE DAY

“A GOOD PLAN VIOLENTLY EXECUTED NOW IS BETTER THAN A PERFECT PLAN EXECUTED NEXT WEEK. “

GEORGE S. PATTON

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Business Standard

1. SBI cuts deposit rates by 15 basis points

AXIS Bank reduces MCLR lending rate by up to 20 basis points

Abhijit Lele |

Even as huge amount of cash pouring into bank accounts, the country's largest lender State Bank of India (SBI) has decided to cut interest rates by 15 basis points (bps) on term deposits between one and three years.

SBI officials said there could be more rate cut on deposits and loans. Meanwhile, private sector lender Axis Bank slashed its marginal cost of fund-based lending rate (MCLR) to price by up to 20 bps, in keeping with its stance to pass on the benefits of

reduction in cost to customers. The bank reduced its MCLR by 15 bps across all tenors up to one year and by 20 bps for two and three year's tenure.

The MCLR cut will be applicable from 18 November. Elaborating the rationale behind deposit rate cut, SBI senior executives said the bank was seating on excess statutory liquidity ratio (SLR) of 5.5 per cent over minimum required by rules. It is not only because of large inflow of money into the banks after the Centre's decision to scrap currency notes (Rs 500, Rs 1,000) as legal tender.

Slow credit growth is also a reason for the cut. So, there are challenges of deploying money. When a bank invests these excess funds in to bond markets, returns are less as yields have fallen, a SBI executive said.

SBI's deposit base grew by 13.76 per cent to Rs 18, 58,999 crore and it raised the guidance for deposit growth to 15-15.5 per cent, from 13.5 per cent. This revision comes on the back of a surge in money deposited in current and savings accounts (CASA) after the government scrapped Rs 500 and Rs 1,000 notes as legal tender.

The bank's gross advances rose by 8.11 per cent to Rs 14,81,831 crore. While retail credits — home, personal and vehicle loans — grew by 20.4 per cent to Rs 3,50,465 crore, loans to small enterprises shrunk by six per cent to Rs 1,66,052 crore.

2. Demonetisation: LIC extends grace period for premium payment

Renewal premium of policies, where grace period ends between November 9 and 30, can now be paid without penal interest

Press Trust of India

Life Insurance Corporation (LIC) on Wednesday said it has extended the grace period for policyholders for payment of renewal premium in the wake of demonetisation move, which has led to a cash crunch and long queues at banks and post offices for exchanging now-invalid notes.

The government demonetised higher denomination notes of Rs 500 and Rs 1,000 from the midnight of November 8. "To ensure our policyholders do not experience difficulty in paying renewal premiums, LIC has given certain concessions," the state-run insurance behemoth said in a statement in Mumbai.

Renewal premium of policies, where grace period ends between November 9 and 30, can now be paid without penal interest if payment is made before November 30, it said.

Submission of other requirements, including a declaration of good health or medical reports, if required under such policies, is also being waived up to November 30, the statement added.

Financial Express

3. Indelible inking begins in banks, some banks use 'dhobi ink'

Several banks have started implementing the new plan to apply indelible ink on finger of the right hand of customers in some metro cities to ensure one-time exchange of old Rs 500 and Rs 1,000 notes of upto Rs 4,500.

By: [FE Online](#)

Several banks have started implementing the new plan to apply indelible ink on finger of the right hand of customers in some metro cities to ensure one-time exchange of old Rs 500 and Rs 1,000 notes of upto Rs 4,500. As per officials, the

step would prevent operators of black-money from using other people's accounts to exchange old notes, even though the latest step in demonetisation drive of the Centre could impact those without bank accounts and have more than Rs 4,500 in old currency notes.

They told 'The Indian Express' that the limit of Rs 4,500 would be reviewed after November 24. Yesterday 11 branches of State Bank of India (SBI) and some branches of Bank of India, Canara Bank and the RBI's Delhi office started using the ink on fingers of people exchanging old notes of Rs 500 and Rs 1,000.

An official of Karnataka government-run Mysore Paints and Varnish Ltd (MPVL), the only recognised producer of the indelible ink in the country said it had received orders for 2.9 lakh 5-ml bottles, each costing Rs 116, from several banks. Harakumar, general manager, MPVL said that some amount of ink which was available through the Election Commission and other authorities was dispatched to banks through the RBI. The company will be producing ink at the rate of 37,000 bottles per day for dispatch to banks.

However, with indelible ink not reaching most of the branches, banks looked for other ways to make sure that the same people did not exchange old currency more than once. While some banks exchanged currency against a single identity card only once, same cannot be used for the next 15 days for this purpose, the SBI's headquarters in Tamil Nadu directed branches to use "dhobi ink", or the ink used by washer men and women to mark clothes.

4. Demonetisation may cause inflation to fall under 4 %; here's why

Even though demonetisation of high-value notes will impact consumption in the short run, it is expected to pull down retail inflation to below 4% in November reading from 4.2% in October, a senior finance ministry official said on Wednesday.

By: Prasanta Sahu

Even though demonetisation of high-value notes will impact consumption in the short run, it is expected to pull down retail inflation to below 4% in November reading from 4.2% in October, a senior finance ministry official said on Wednesday. He also said the move could give space to the monetary policy committee (MPC) to further cut interest rate in the coming months.

Besides hurting luxury items and consumer goods, cash crunch due to demonetisation could also bring down the prices of essential items, the official who didn't wish to be named said. "We expect CPI (consumer price index) to decline further to below 4% due to demonetisation and other factors," the official added.

The CPI-based inflation rose 4.2% year-on-year, the slowest pace of annual increase since August 2015, as prices of food items including pulses turned cheaper, according to latest government data.

The likely subdued inflation print might give room to the MPC to further cut policy interest rate by 25 basis points in December, the official said.

The MPC is scheduled to meet during December 6-7 for the next monetary policy review. In its first policy review on October 4, the newly constituted MPC cut the repo rate by 25 bps to 6.25%.

Further rate cut would act as a booster to the economy that temporarily slowed due to squeeze in demand after demonetisation, the official said. He added that there would be scope for the central bank to bring down interest rate further by 25 bps by March 31 next year.

On November 8, the Centre announced that all existing R500 and R1,000 notes would no longer be legal tender to crack down on black money holders, tax evaders and terror financiers.

According to SBI Research, demonetisation could result in inflow of about Rs 5 lakh crore deposits into the banking system. Higher liquidity would bring down deposit rates as well as lending rates of banks, analysts have said.

“This development should benefit the banking system in the form of a higher level of low-cost deposits, although this benefit may not be apparent on a near-term basis (due to likely withdrawals by people when currency supply increases),” rating agency Moody’s said on Wednesday.

5. Consequences of demonetisation: All you want to know

Expect some pain for unorganised labour, the service industry and the farm sector in the medium-term

By: Madan Sabnavis

When the bold step to demonetise existing 500- and 1,000-rupee currency notes was taken last week, the ‘little inconvenience’ that went as a suffix pointed to the adjustments that had to be made by households which had to convert these notes into deposits or partly back into cash with the new currency notes. The inconvenience was conceived in terms of the honest man or woman standing in queues to follow the rules of the game for the larger cause of unearthing black money.

It wasn’t hence exactly a demonetisation exercise—as it does not dispense with the value of a note—but one that simply replaces the existing notes with new ones, thereby addressing the issues of counterfeit currency and black money. In countries where currency notes are demonetised, the denominations simply disappear from the system. While it has been argued at various fora that we need to move away from a cash economy to a virtual one, this particular move does not really connote the same as theoretically one can, over a period of time, exchange X number of old 500-rupee notes for the same number of the new 500-rupee notes.

It is true that when such measures are taken there would be distortions in the equilibrium. Also, all possibilities cannot be addressed, and while the issues concerning households’ cash management was paramount in the government’s mind, there are other challenges that have come to the fore which need addressing.

The first is agriculture. This is one sector where all transactions are in cash and, given the values involved, involve the higher denomination notes. The withdrawal of the old currency notes has put pressure on the mandis; farmers are having problems in selling their produce as both the parties have to agree on the mode of payment. This has the potential to lead to localised shortages which would not really matter but for the fact that it can lead to price increases that can reverse inflation’s downward trend of the last few months. At the broader level, the fact that this sector is monetised through cash—and is mostly not tech-savvy—does flag the issue of the grand design of having a common market for agricultural products, which will not really take off until these loose ends are tied.

The second is the unorganised manufacturing sector that falls in the category of SMEs. These units work on the basis of cash, with purchases being made through this mode; all do not have access to credit and their creditworthiness could be of a lower grade. These units would find it a challenge to convert their currency—any time-lag in their operation can affect their functioning and hence there is a concern here. Wage payments, mostly made in cash—as labour in this segment is unorganised, and employed on a daily basis—also becomes a consequent problem. The shortage of

currency notes and the restrictions on withdrawals have a short-term impact on these units which must strive hard to meet these requirements.

The services segment is probably the one that is impacted with greater intensity as the decline in business levels is irreversible. Restaurants, transport operators and trade in particulars are witnessing lower levels of activity which will not increase once normalcy is restored. Hence, unlike consumer goods, where there can be a deferment of demand to normal times, a meal excluded today will not be carried forward. The same could hold for tourism too where plans would not be deferred by regular tourists. Foreign tourism, in particular, will be affected the most as several tourist spots in the country do not accept cards and insist on cash, which becomes a nuisance for tourists. This is one area that will probably take some more time to recover, thus impacting overall production levels in the country.

Therefore, the mission to remove old notes and substitute these with new ones has to be accomplished fast so that the negative impact on these sectors is reversed. The government did time it well to ensure that it did not come in the way of the festival-demand season so that growth impulses would remain in the manufacturing sector. However, the present demonetisation period coincides with the harvest season which goes on till December; farmers will find it testing while selling their produce. There had to be a trade-off since almost any time-period would be associated with specific economic activity.

To the credit of the government, it must be added that the entire Jan Dhan Scheme laid the foundation for ensuring that everyone had access to a bank account so that monetary transactions are lowered and funds transferred to these accounts. However, this habit has not yet caught on. This has led to the present challenges in the farming sector in particular.

This clean-up operation would cause some dislocation and discomfort for the economic agents and households, but would, in one stroke, remove black money from the system, though the actual quantity will be known only by the end of the year. Black money is not held in just currency, but also in property and gold. Hence, this would be just one part of the story. In the medium-term, there could be correction in prices of property, though overall inflation should remain neutral as cash was not being used in a big way to spur demand of non-food items. The price of gold could decline to an extent, but given that we are price-takers in bullion, this will still be driven by the relation between gold and the dollar. GDP growth would get affected in Q3 and probably also in Q4, but should mean-revert in FY18. The speed of recovery will depend on whether or not the system stabilises after the 50-day period following the announcement. The government too may not really be affected much, considering black money would not come forward to be taxed and penalised.

Therefore, this exercise—probably the first of its kind given the scale—is more of a strong signalling mechanism, one that sends out a warning that the government will spare no effort to cull out black money in the system. It will definitely move people to the system of using plastic cards and other online and mobile applications in course of time and hold less cash. Currency will probably be held now onwards more for 'precautionary purposes' and not 'transactions purpose' or 'speculative purpose' as defined by conventional macro-economic theory. This will be good for efficiency.

The author is chief economist, CARE Ratings. Views are personal

Business Line

6. May take a month to recalibrate majority of ATMs: NCR India

ATM-maker NCR India is quite hopeful that "majority" of ATMs deployed under its name by banks will get "recalibrated" in the next four-to-six weeks, a top official said.

Recalibration of the nearly one lakh NCR-run ATMs — out of the total 2.2 lakh ATMs in the country — would lead to such machines dispensing ₹2,000 currency notes, which are new and smaller in size than the demonetised ₹500 and ₹1,000 notes.

"Recalibration will not be a tedious exercise or a lengthy process. But there is a need for at least one service engineer from our end and one from the custodian's to be present. It's an engineering change and cannot be done by any cash-in-transit agency or the custodian alone," Ashok Shankar, Head of Solutions Marketing & Deployment, NCR India, told *BusinessLine*. Already, some banks have done pilots and some ATMs have started dispensing ₹2,000 notes, he said.

Ever since the government announced de-monetisation on November 8, the common man has been put to serious inconvenience. "The main reason it is taking time (for recalibration) is that our engineers have to go out physically and do the recalibration on each and every ATM. The currency note has been changed and hence the need for recalibration," Shankar said.

Currently, NCR India has nearly 1,000 engineers under its fold and its ATM coverage spanned 4,000 locations across the country. India today has 130 ATMs per million people. This is expected to increase to 200-220 ATMs per million by 2020, according to engineering consultancy services firm Dastur. In the US, there are 1,500 ATMs per million people, and in China the figure is 350 ATMs per million.

7. Bank deposit to see sharp decline once withdrawal norms ease: Moody's

OUR BUREAU

The withdrawal of the Rs 500 and Rs 1,000 denomination bank notes may provide a strong impetus to greater use of the formal financial system - the banking system - for the intermediation of commercial transactions, especially in the retail segment, according to Moody's Investors Service.

The global credit rating agency observed that the government move has meant that a large proportion of the population will have to access banking channels at least once, so as to convert their existing holdings into the new legal tender. The demonetised notes account for around 86 per cent of the existing currency in circulation and around 9.5 per cent of GDP.

For first-time users, studies have shown that they tend to keep using the banking system once they initiate the process. Therefore, Moody's expects a material proportion of the first-time/very infrequent users to become more sticky customers of the banks. This development should also benefit the banking system in the form of a higher level of low-cost deposits, although this benefit may not be apparent on a near-term basis.

Cash deposits

In addition, retail payments systems, which remain dominated by the banks, will be a clear beneficiary of the demonetisation move as people may see these channels as being much more convenient compared to the hassle they may experience in transitioning to the new denomination notes.

The agency assessed that currently, the banks are experiencing significant inflows into their deposit base as customers deposit their existing holdings of the demonetised notes, a trend that will continue for the next 3-4 weeks. "But, as cash availability increases and the current restrictions on cash withdrawals are lifted, sharp declines in the deposit base will occur in the near future.

"Once this volatile subsides and stability is achieved, possibly around three months from now, we estimate that bank deposits will increase by around 1-2 per cent compared to what they would have been without the demonetization scheme," said Moody's.

The agency's expectation of a relatively low level of increase in deposits is based on the assumption that the role of cash – as a medium of transaction – will not change materially in the near term in India's economy.

However, as the cash intensity of the economy reduces over the medium term, driven by a combination of the informal economy coming into the ambit of the formal one and a higher proportion of cashless payments, bank deposit levels may benefit in a more meaningful fashion, it added.

LAP and MFIs: asset quality to deteriorate

Apart from the impact on funding conditions, Moody's expects asset quality to deteriorate in the loans against property (LAP) segment. A significant part of the LAP client base would have an informal economy component and may be impacted by demonetization. The impact would be even more if lenders turn cautious on this segment as easy refinancing has played a key part in putting a lid on non-performing loans (NPLs) in this segment.

The micro-finance segments would be impacted significantly during the transition from the old notes to the new ones as transactions in this segment are predominantly cash based. However, once the transition is completed, asset quality may stabilise.

Moody's assessed that the broader asset quality of the banking system would be impacted if economic conditions remain affected beyond the transition period. Both corporate and SME customers remain fragile, and are not in a position to absorb a sustained period of economic weakness.

8. Withdrawal symptoms: Bank loan disbursements, repayments to be hit

G NAGA SRIDHAR
NS VAGEESH

Demonetisation will hit the business of banks in the third quarter of this fiscal.

The adverse impact will be driven by both internal/operational and external factors, according to experts.

"For the last one week, normal business operations such as processing of loan applications have been impacted in many branches, including those in key centres such as Mumbai," a top executive of Bank of Maharashtra told *BusinessLine*.

This is either due to lack of follow-up from customers or pressure on staff on account of currency exchange/accepting deposits, he added.

According to Madan Sabnavis, Chief Economist, Care Ratings, one fallout of demonetisation will be fall in demand for consumer durables and automobiles in this

quarter although this may improve subsequently. Capacity utilisation of many industries is still low and therefore credit demand is also low. As a result, the performance of banks is likely to be affected, he said.

“While the housing sector (mortgages) has been buoyant till now, there could be some negative impact for this sector in the third quarter since small builders receive a part of the cost (down-payment/ margins) in cash,” he added.

Credit growth

Housing and auto loans, along with others, have been the mainstay of credit growth for banks in the first two quarters of the current financial year. For instance, SBI reported over 20 per cent growth in home, auto and other personal loans, which drove its retail loan portfolio.

However, the impact on business depends on the nature of branches. Transactions at big currency branches could be more affected than those in smaller/non-currency branches. The situation is being watched keenly to see how things will pan out.

Santanu Mukherjee, MD, State Bank of Hyderabad, said that he would not be able to “immediately” comment on the impact on other business transactions. “There are staff to attend to different functions. I need to wait for data,” he added.

Operational difficulties may be overcome in the weeks ahead once the supply of new notes increases and public pressure eases. But back-office work, such as accounting and data reporting, might continue as the deadline for exchange of currency is till the end of this quarter.

Some bankers also expressed concern over asset quality/ loan repayments in segments such as micro, small and medium enterprises (MSMEs), which might face some hiccups from demonetisation.

9. TMB begins hunt for next chief

L N REVATHY

Tamilnad Mercantile Bank has invited applications from prospective candidates for the post of Managing Director-cum-Chief Executive Officer.

The 95-year-old Thoothukudi-headquartered bank's search has commenced at least seven months ahead of the current managing director, H S Upendra Kamath's term in office ends.

Bank sources maintained that this was not unusual. Kamath's three-year term ends in July 2017.

Inviting applications from prospective bankers – retired or serving, the bank has said the post would be a contractual one for a period of three years.

The bank would offer a salary of Rs. 45 lakhs per annum with “excellent perks”. Going by past announcements, the incumbent is being offered Rs. 3 lakh/ annum more than the current MD's salary.

This salary, the announcement says, “Could be relaxed in the case of candidates with exceptional credentials”.

The deadline for receipt of applications is December 7.

This community-dominated bank is one of the few banks in the country with huge reserves. The bank has consistently declared dividends, perceived to be the highest in the industry.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY