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Dear Comrades,

25th November , 2016

News of Interest 25th Nov

QUOTE OF THE DAY

“DO THE DIFFICULT THINGS WHILE THEY ARE EASY AND DO THE GREAT THINGS WHILE THEY ARE SMALL. A JOURNEY OF A THOUSAND MILES MUST BEGIN WITH A SINGLE STEP.”

LAO TZU

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Business Standard

1. Now, bank deposits since Nov 8 may attract 60% income tax

Govt extends exemptions till December 15; bans Rs 1,000 notes, exchange of old currency

Indivjal Dhasmana

The Union Cabinet late on Thursday cleared a proposal to amend the Income Tax (I-T) Act to levy close to 60% deduction on unaccounted deposits in banks above a threshold, said sources.

The decision was purportedly prompted by a surge in deposits — about ~20,000 crore, according to some reports — in Jan Dhan accounts since November 8, when the central government announced the demonetisation of Rs 500 and Rs 1,000 currency notes. The amount deposited in this period is almost 50% of the total deposits in these accounts in the two years since their launch. The move is also aimed at preventing black money holders from circumventing existing I-T Act provisions.

Also, earlier in the day, the government, facing severe attacks over difficulties in implementing demonetisation, extended till December 15 the facility of using old Rs 500 notes in public utilities and included more services such as mobile recharge but stopped the over-the-counter exchange of defunct currencies and use of Rs 1,000 notes.

Payment towards pre-paid mobile top-up to a limit of Rs 500 per recharge has been allowed while purchase from consumer cooperative stores will be limited to Rs 5,000 at a time, an official release said. Also, payment of fees up to Rs 2,000 per student has been allowed in schools and colleges run by central and states governments, municipalities and local bodies.

Current and arrears dues payments will be limited to only water and electricity, a facility that will continue to be available only for individuals and households. However, the release said payments for the transactions under all the exempted categories will now be accepted only through old Rs 500 notes.

“Considering that the Ministry of Road Transport and Highways have continued the toll free arrangement at the toll plazas up to December 2, it has been decided that toll payment at these toll plazas may be made through old Rs 500 notes from December 3 to December 15,” it said.

Foreign citizens will now be permitted to exchange foreign currency up to Rs 5,000 per week. Necessary entry to this effect will be made in their passports, it said.

Explaining the reason for discontinuance of exchange of the defunct notes, the release said it has been observed that over-the-counter exchange of the old notes has shown a declining trend.

The Cabinet decision was called in the late evening.

Its reported decision was also significant since the current provision of 30% tax and 200% penalty could be circumvented by those who may deposit black money but pay tax in advance. In that case, imposing a penalty could become a vexed issue under the current I-T Act.

There was no official briefing on what transpired in the meeting as Parliament was in session.

However, sources said the government was keen to tax all unaccounted money deposited in bank accounts in denominations of old currency notes from November 10.

Earlier, officials said a 30-per cent tax plus a 200-per cent penalty on top of a possible prosecution in cases where black money holders took advantage of the 50-day window. This means a 90-per cent tax on black money holders.

However, there were lacunae in this as black money holders can pay advance tax on their deposits and file it in their returns. In that case, penalty could not be levied in the strict sense as it was for misreported or underreported income.

Sources said the government plans to bring an amendment to the Income Tax Act during the current winter session of Parliament.

2. Demonetisation: Vegetable growers feel the pinch

Fertilisers and pesticides dealers shift to credit sales

Sanjeeb Mukherjee Dilip K Jha & B Dasarath Reddy

Onion prices in most retail markets have softened by Rs 1-3 a kg in the past fortnight. Tomatoes have become cheaper by Rs 3-10 a kg since the Centre's demonetisation disruption.

This might mean a money problem for farmers, in buying seeds for the next crop. The recent decision to allow farmers old Rs 500 notes to purchase seeds from select state-run outlets might not help much, as a little more than 80 per cent of vegetable seeds used in the country are sold by private traders.

Cauliflower, cabbage, okra, brinjal, tomatoes and green chillies are among those produced during the rabi season, the big one for vegetables as it comes immediately after the monsoon.

"In Maharashtra, almost 99 per cent of the vegetable seeds industry is in private hands. Sowing area will get adversely impacted if the situation continues for a few more days," Sriram Gandhve, president of the Vegetable Growers Association of India, told this newspaper.

"Trade has come to the virtual halt in many parts," says Satish Kagliwal, founder-head, National Seed Association of India. "We have written to the government seeking relaxation in seed and fertiliser purchases, even with some riders. We are waiting for the response."

He said if the norms were not loosened, rabi vegetable sowing would take a massive hit, as almost 90 per cent of high yielding hybrid seeds, fertiliser or other agricultural inputs are sold by private players.

In Delhi's Azadpur Mandi (wholesale market), though the situation has improved in recent days, traders say supplies can dry up at any time. "Though fruit and vegetable arrivals have come down, prices have been fairly stable so far but the same can't be said about goods which are forward-sold from the Mandi," said a senior official from Mother Dairy's Safal, one of the biggest organised retail trading chains in North India.

For fertiliser and pesticides, most retailers and dealers have shifted to a system of credit, with some charging a premium of 15 per cent for farmers who aren't able to pay upfront.

If farmers don't have adequate cash till the middle of December, that might mean an end to the prime sowing season, with large tracts left fallow. "The Centre's directive to fertiliser companies to sell on credit to farmers can only happen if it releases a supplementary budget for subsidies, as the entire budgeted subsidy of Rs 70,000 crore has been exhausted. The government has paid subsidy for DAP and NPK only till July and for urea up to September," said Ravi Prasad, former president of the fertiliser division of Coromandel International, now spokesperson for the company.

He said in some parts, dealers were charging up to 24 per cent interest from farmers who are unable to pay cash up front, forcing many growers to switch to the less expensive NPK (costing around Rs 700 a bag) as compared to DAP (Rs 1,200 a bag).

Ankur Aggarwal, managing director of agro-chemicals company Crystal Crop, said there had been a 10 per cent rise in credit sales.

Times of India

3. Demonetisation: Monumental management failure, Manmohan Singh says

TNN

Former Prime Minister Manmohan Singh slammed the **demonetisation** of Rs 500 and Rs 1,000 notes as a "**monumental mismanagement**" that might dent GDP by 2%, prompting **finance minister Arun Jaitley** to hit back, saying that the maximum black money was generated during Singh's tenure.

Singh made an unusual intervention in the Rajya Sabha on Thursday, saying that the deaths of people and distress among the poor, farmers and small traders had convinced him that demonetisation had led to "organised loot and legalised plunder".

Arun Jaitley points to scams, attacks Congress

Those who did not consider the generation of so much black money and scams during their regime as a blunder are now finding the crusade against black money a blunder," finance minister Arun Jaitley said and rejected the claim that GDP growth would drop by 2% and accused the opposition of avoiding a debate.

"The government position is very clear from day one, that we are ready for debate... The opposition was finding excuses to avoid a discussion but Thursday morning, they were taken by surprise when we announced that the Prime Minister will participate in the debate. Now they are inventing and manufacturing reasons to escape the debate," Jaitley told the media outside Parliament.

In the Rajya Sabha, Jaitley and Prime Minister Narendra Modi heard Singh's seven-minute intervention in which he urged the government to find practical ways to give relief to a majority of people who are suffering and pointed out that 60 to 65 people had already lost their lives due to the move.

Reminding the government that 90% of the workforce was in the informal sector and 55% of those in agriculture were in distress, Singh said, "These measures convince me that the way the scheme has been implemented, it is a monumental management failure and, in fact, it is a case of organised loot and legalised plunder of the common people."

Singh, who has also been finance minister and RBI governor, said, "The national income, that is the GDP of the country, can decline by about two percentage points as a result of what has been done. This is an underestimate, not an overestimate."

Noting that demonetisation could weaken and erode people's confidence in the currency and banking system, Singh quoted John Maynard Keynes to counter Modi's appeal to the people to bear with him for 50 days. "Those who say demonetisation is good in the long run should recall the quote: 'In the long run we are all dead'."

The finance minister joined issue, saying: "The maximum black money was generated during 2004-14 and the period witnessed various scams like 2G and coal scam".

"We are not surprised that they did not like the anti-black money measures the government has taken. The steps that the government has taken are the right steps which are being implemented in the right manner. As far as the Indian economy is concerned, including India's GDP, it is going to be a positive impact," Jaitley said.

4. SBI undercuts all, slashes rates to lure corporate customers away from others

With the cost of funds falling fast, State Bank of India (SBI) is resorting to deep rate cuts of as much as 150-175 basis points to wean away corporate customers from other banks.

By: Shayan Ghosh

With the cost of funds falling fast, State Bank of India (SBI) is resorting to deep rate cuts of as much as 150-175 basis points to wean away corporate customers from other banks.

SBI believed to have offered to take over an exposure of Rs 3,000 crore to GVK's Mumbai International Airport (MIAL) at 1.75 percentage points below the current rate on the loan.

According to two bankers familiar with the development, SBI has offered to take on the exposure at 9.75%, a rate that is unlikely to be matched by others. While the existing set of lenders, including IDBI Bank, was willing to lower the rate from 11.5%, SBI has undercut them all.

MIAL's total borrowings, bankers said, were around Rs 8,000 crore at the end of March 2016 and the company reported a loss of Rs 85.16 crore on revenues of Rs 2,691 crore in the same period. The net loss in the previous year was Rs 319.21 crore on Rs 2,376.6 crore in revenues.

"As a corporate policy, we do not comment or respond to any speculation in the media," a GVK spokesperson said in reply to an email.

Meanwhile, SBI deputy managing director J Packirisamy declined to respond saying the bank did not comment on individual accounts.

While SBI's one-year marginal cost of funds based lending rate (MCLR) is the lowest in the banking system at 8.9%, MCLRs of other banks are in the range of 8.95-9.45%.

The lack of lending opportunities in the corporate sector is prompting lenders to acquire clients by lowering interest rates. Over the last one year the corporate credit growth of several banks has been sustained by refinance deals.

Generally, public sector banks have reported muted growth in the corporate sector over the past year or so while private sector banks have done relatively better. ICICI Bank reported an 8.4% year-on-year (y-o-y) growth in corporate loans in Q2FY17 while SBI's large corporate loans grew 10.17% y-o-y.

Reserve Bank of India (RBI) data show credit to large industries was Rs 21.78 lakh crore at the end of the fortnight ended September 30, a rise of 1.4% y-o-y. The growth in the comparable fortnight of 2015 was 5.5% y-o-y. Meanwhile, total loans to all industries stood at Rs 26.52 lakh crore at the end of the September 30 fortnight, up a meagre 0.9% y-o-y.

SBI chairman Arundhati Bhattacharya had explained to FE some months back that banks were growing their corporate books primarily by "refinancing lenders who had lent at higher rates and where projects have been completed and the risks have been mitigated". Bhattacharya observed that whenever there was an option to refinance an account, it would be done at an attractive rate since the project risks would have been mitigated and cash flows would have started coming in. The SBI chairman had

added there would always be some undercutting because AAA and AA accounts are few and far between and so there is competition.

Speaking to analysts, ICICI Bank MD & CEO Chanda Kochhar recently said that her bank would continue to focus on lending to better rated clients and work towards reducing exposures in sectors impacted by the challenging operating environment.

FE had reported how SBI acquired customers such as Hindalco, Nuclear Power Corporation and Gujarat Urja Vikas Nigam by offering them interest rates which were at least 50 bps lower than what they were paying. In the case of Hindalco, the company was able to negotiate money from SBI at 10.2%, 300 basis points lower than it had been borrowing at.

5. Credit and deposit ratios in banks falls to 6-year low at 72.7 per cent

The credit-deposit ratio of the banking system, or the proportion of deposits deployed as loans, dropped 155 basis points to 72.7%, the lowest in six years, in the fortnight ended November 11, data released by the Reserve Bank of India showed.

By: [Shritama Bose](#)

The credit-deposit ratio (CDR) of the banking system, or the proportion of deposits deployed as loans, dropped 155 basis points to 72.7%, the lowest in six years, in the fortnight ended November 11, data released by the Reserve Bank of India (RBI) showed.

The non-food credit growth during the fortnight hit an at least four-year low of 8.25% on a year-on-year basis, while food credit fell 14.3%.

The last time the CDR had seen a sharper drop was during the fortnight ended April 29, when it fell by 1.65% from the fortnight ago to 75.93%.

The sharp fall in the ratio was primarily because of a jump in the denominator, or a sharp increase in deposits with the banking system, which negated a fall in the credit outgo. During the fortnight under review, total deposits with banks rose by Rs 1.3 lakh crore, or 1.3%, whereas bank credit declined 0.8% to Rs 73.53 lakh crore.

The cash in hand with banks rose nearly 275% from the end of the previous fortnight to Rs 2.47 lakh crore, the highest in at least seven years.

The money parked by banks with the RBI through reverse repo operations under the central bank's liquidity adjustment facility hit a record high of Rs 4.3 lakh crore as on November 22.

The fortnight included November 10 and 11, the first two working days after the demonetisation of Rs 500 and Rs 1,000 currency notes was announced, triggering a deluge of inflows into bank deposits.

Banks have been unable to ramp up lending in the absence of investments by the private sector.

Analysts expect the demonetisation of high-value notes to delay the onset of an economic recovery and a resultant rise in private investments.

In a note dated November 23, Morgan Stanley wrote, "Given that the growth recovery has still not taken full hold, the impact of this demonetisation and the temporary uncertainty that may be created by implementation of the GST (Goods and Services Tax) starting in April 2017 could delay the private corporate capex recovery."

6. Brace for more cash blues as the next salary date nears

G NAGA SRIDHAR

Come December first week, banks may face immense pressure in disbursing cash when customers withdraw their salaries credited in bank accounts.

According to bankers, there will be pressure for all stake holders during December 1-7 when salaries are disbursed for government and private sector employees across the country.

According to government data, the Centre's total salary and allowances bill for 2016-17 is ₹1.84 lakh crore.

This implies that about ₹15,350 crore will have to be disbursed to 10 million Central government employees and pensioners.

In addition, there are government employees in 29 States, about 40 lakh IT and BPO professionals and scores of people working in the corporate and private sectors.

"Going by the general pattern, about 50-70 percent of salary is withdrawn in the first one week from salary accounts. We expect big cash crunch next week," a senior official of Andhra Bank told *Business Line*.

According to an Executive Director of a public sector bank, cash is getting exhausted by lunch hour in many branches in semi-urban and rural areas even today.

"The continuing restrictions on cash withdrawal/daily limits are an indication that things are not right yet. Even if limit is hiked, banks should be provided enough cash to disburse," he added. Interestingly, the Chief Minister of Telangana, K Chandrasekhara Rao, after a review of the demonetisation drive had expressed the view that the State Government might be able to pay just 15 days salary to its employees going by the trend of falling revenues in various departments and the financial situation in the State.

Meanwhile, Andhra Pradesh Chief Minister, N Chandrababu Naidu, has on Thursday conducted a review meeting to gauge the preparedness of salary payments on December 1 and address cash crunch issues.

A senior official in the Finance Department of Telangana, said: "We have no problem in paying salaries to our staff through transfers. But ensuring cash availability is not in our reach." The Telangana Government has requested the RBI to provide change for ₹5 crore for disbursement of salaries and to facilitate providing at ₹10,000 in cash for each of the State government employee.

It remains to be seen how these issues are addressed.

7. Jaitley to bank chiefs: push digital banking on mission mode

K. R. SRIVATS

Finance Minister Arun Jaitley on Thursday urged bank chiefs to take steps on a "mission mode" to promote "digital banking" in the country.

There is need to expedite the roll out of digital infrastructure including point of sale machines (PoS) so that "digital mode" quickly becomes an alternative banking channel for doing business in the country, Jaitley told reporters after a video-conference to review meeting with chief executives of public and private sector banks

At the review meeting, Jaitley emphasised that physical currency must shrink while the economy should expand, shifting focus to digital currency. He said that one of the major objectives of withdrawing ₹500 and ₹1,000 notes was to move the Indian economy further towards digital transactions. Several decisions were taken at today's review meeting. To further digital banking, most banks have already begun a promotional exercise by waiving — up to end December — merchant discount rate (MDR) charges on debit cards.

Banks will now be focussing on significantly stepping-up transactions in mission mode through alternate banking channels such as NEFT, mobile wallets, pre-paid cards, QR codes, pay-roll cards, debit and credit cards and Unified Payments Interface (UPI).

Semi-urban, rural focus

Apart from urban areas, banks will increase and sustain their focus on semi-urban and rural areas. This outreach would be backed up by an advertising campaign from Indian Banks' Association (IBA) including demonstration videos on how to use cards and other modes for cash less transactions. The Centre has now set up a task force headed by Anil Kumar Khachi, Additional Secretary in the Department of Financial Services, to oversee the entire expansion, particularly the Point of Sale (PoS) machines, said Jaitley. He said already 40 crore active cards (both in debit and credit) are in usage out of the nearly 80 crore cards issued till date.

"Contrary to perception that adoption of digital mode will be a far cry, this is a change that is already happening in the country. They (banks) need to use this opportunity to further capitalise on this change. They (banks) should see this as an business opportunity," Jaitley noted.

Despite efforts of the payments industry in India to expand the PoS machines network, not much growth has happened in the recent years. India still is stuck with PoS universe of about 1.2 million with no tangible growth.

8. Associate banks' merger exercise on track: SBI chief

OUR BUREAU

State Bank of India Chairperson Arundhati Bhattacharya today confirmed that the merger of associate banks with SBI itself is on track and remains unaffected by the demonetisation move.

"There is a separate team working on this and they are not into demonetisation exercise," she told reporters in Coimbatore.

She conceded that the demonetisation exercise has impacted branch working. "But this has not impacted any other team working alongside. So the merger exercise is on track. We have to receive the Government approval, there are several steps along the way. Once approved, we will come together" she said, unwilling to commit on a timeline.

The SBI chief is in the city to take part in a leadership summit titled 'Insight – The DNA of Success' -- organised by Isha Leadership Academy, later today.

After a breakfast meeting with select customers early in the day, Bhattacharya reached the regional office of the bank here, planted the 10000th sapling at the SBI premises, and highlighted some of its CSR activities.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY