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Dear Comrades,

29th November , 2016

News of Interest 29th Nov

QUOTE OF THE DAY

“I BELIEVE THAT YOUNG PEOPLE ARE LOOKING FOR ANSWERS TO THE BIG QUESTIONS JUST LIKE EVERYONE ELSE, AND THAT THEY RESPECT INTELLIGENT COMMENT TO HELP GUIDE THEM THROUGH TOUGH TIMES.”

BILL KURTIS

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Business Standard

1. After RBI's CRR spanner, banks can't cut lending rates as much as expected

Scrambling to manage liquidity, lenders want compensation to tide over the crisis
[Anup Roy](#) & [Abhijit Lele](#)

Upset by the Reserve Bank of India's (RBI) decision to charge the entire deposits that banks collected between September 16 and November 11 as a reserve requirement, bankers have said they would not be able to cut lending rates as much as was expected of them.

Banks would now be scrambling to manage enough liquidity for their healthy functioning even as the general public continues to pour in deposits of old high-value notes and the restriction of cash withdrawal prevents adequate outflow of the money deposited.

In a surprise announcement on Friday, RBI had said an incremental cash reserve ratio (CRR) of 100% would need to be maintained on deposits collected during the period mentioned above. Under normal circumstances, CRR is only four% of deposits. Banks don't earn any interest on CRR.

Sensing a liquidity shortage, RBI on Monday conducted an unprecedented level of liquidity infusion to the tune of Rs 3.3 lakh crore, in which banks bid for as much as Rs 4.5 lakh crore. The central bank said it would conduct a liquidity infusion auction of Rs 1 lakh crore on Tuesday as well, to help banks tide over the liquidity crisis.

The net effect is that instead of parking Rs 5 lakh crore at RBI under the reverse-repo window, banks are now rushing to borrow money from RBI.

Predictably, bond yields shot up on Monday. The 10-year bond yield closed at 6.32%, from its Friday's close of 6.23%.

Banks had mobilised deposits of Rs 3.24 lakh crore between September 16 and November 11, which will cease to earn any interest for banks till RBI reviews the decision, which is likely on December 9. At the same time, banks will continue to pay interest on these deposits to their customers.

Analysts say it is a skewed negative carry-on cash and banks will be hard-pressed. State Bank of India (SBI) chairman Arundhati Bhattacharya put it bluntly in an interview to a TV channel. "We do think the banks need to be compensated for this. I believe RBI is well cognisant of the fact."

Talking to Business Standard, she clarified she had no specific mode of compensation in mind but would still expect the government or RBI to compensate some of the losses.

"It would have been good if our earnings were not hurt like this. I don't have any specific compensation in mind, but let's see if we get something from the government or RBI," Bhattacharya said. However, she conceded that RBI might not have much of an option beyond CRR.

"They didn't have the limit for market stabilisation scheme (MSS) and I am told cash management bills are for managing government liquidity mismatches. So, RBI probably did what was best available to them," she said, adding the ability to cut rates sharply would be impacted by a hit in earnings.

Other bankers agreed with her assessment.

"It becomes somewhat difficult to pass on the benefits of lower cost of funds. It is expected to be a short-term situation, as RBI will revise the decision on December 9 or earlier," said K P Nair, deputy managing director, IDBI Bank.

Interestingly, RBI will come out with its monetary policy review next week, two days before it revisits the CRR hike. Therefore, even if RBI cuts interest rates sharply, banks would unlikely be in a hurry to cut their lending rates.

Already, the Opposition parties have started pointing fingers at RBI's inefficiency in implementing demonetisation. Market participants are also not much behind in their tone of criticism.

Jamal Mecklai, chief executive officer at Mecklai Financial, told Business Standard last week that the demonetisation exercise had shaved off some credibility of RBI, and foreign investors wouldn't take it kindly. "If I have to put my money in this scenario, I would have to be careful."

Analysts and economists are unanimous in saying that interest rates will not come down in a hurry. "The imposition of this drastic control measure is because adequate collateral of government securities is not available at RBI window and, hence, this step of impounding all excess reserves at zero interest cost to RBI," said SBI Group Chief Economist Soumya Kanti Ghosh.

According to him, the total CRR requirement for banks would shoot up to ~8 lakh crore, much more than what the banks were managing through deposits.

"Communication regarding forward guidance in terms of what constitutes 'reactive policy' based on market developments and decisions based on the medium-term outlook must be given by RBI," wrote Ghosh in his paper.

"Banks could delay cutting their lending rates given that they have promised at least three to four% interest rate to savings account depositors, but will not be receiving any interest on the deposits impounded for CRR," said Dharmakirti Joshi, chief economist at CRISIL, adding: "RBI's prognosis on downside to growth due to demonetisation will be the key factor driving repo rate decision on December 6-7."

RBI Governor Urjit Patel told news agency PTI in an interview that the decision will be revised once the government issues adequate quantum of bonds under the MSS. Later, talking to reporters, Economic Affairs Secretary Shaktikanta Das said the government was reviewing the proposal from RBI about increasing the MSS ceiling from the present ~30,000 crore.

Bank of America Merrill Lynch (BofA-ML) expect the RBI to cut rates by 25 basis points in its December 6-7 policy and 50 basis points by April 2017. The deposit accretion and black money conversion "should allow banks to cut lending rates even in October-March busy industrial season," said Indranil Sen Gupta, India economist of BofA-ML. The rate cuts would be necessitated as demonetisation would likely hurt economic growth, he added.

2. Bandhan Bank, UCO and United Bank of India cut deposit rate

One of the factors that led to the rate cut was huge deposit mobilisation after demonetisation

Namrata Acharya

Following State Bank of India footprints, several other banks have already slashed interest rates on deposits.

Effective from Monday, Bandhan Bank reduced interest rates on deposits by 25 basis points to 8 per cent (the highest rate of fixed deposit), which it is offering on one-year tenure for less than Rs one crore. The rate cut, among other things, has been necessitated by huge pool of deposit which the bank received post demonetisation, said C S Ghosh, MD and CEO, Bandhan Bank. At present, the deposit base of Bandhan Bank stands at around Rs 20,300 crore. Out of this, around Rs 2,700 crore was received by the bank after November 8.

"We are going slow on lending at the moment. One of the factors that led to the rate cut in deposit was huge deposit mobilisation after demonetisation," said Ghosh.

Public-sector lender UCO Bank too has reduced interest rates deposits after demonetisation by 75-100 basis points across maturities. Since demonetisation,

the bank received close to Rs 18000 crore as deposits. Out of this, the withdrawals were about Rs 5,000 crore, leading to a net accretion of deposits by around Rs 12000 crore.

"We recently reduced interest rates on bulk deposits. Also, higher incremental cash reserve ratio would mean additional cost for bank. So we may not be able to pass on the benefit of rate cut on deposits to our customers," said R K Takkar, chairman and managing director, UCO Bank.

United Bank of India (UBI) too had reduced interest rates by 25 to 100 basis points in term deposits across maturities effective November 18th. The bank has received about Rs 8,000 crore deposits since demonetisation.

"Recently we reduced interest rates on deposits. We will see if there is an additional room for further 25 basis points cut in interest rates later," said Pawan Kumar Bajaj, Managing Director & Chief Executive Officer, United Bank of India. The bank expects the incremental CRR to impact its net interest margin by four to five basis points, he added.

After surge in deposits in banks due to demonetisation, Reserve Bank of India had introduced an incremental cash reserve ratio (CRR) of 100 per cent for the fortnight beginning Saturday.

As on November 23rd, total deposits in banks under Jan Dhan accounts alone stood at around Rs 72,834.72 crore, of which the addition since November 9th was around Rs 27,000 crore.

Pointers

* Highest term deposit rate by Bandhan Bank now stands at 8% (0.50% extra for senior citizens) against 8.25 % earlier.

* Bandhan Bank saw deposits surge by around Rs 2,700 crore since demonetisation

* UCO Bank has reduced interest rate on term deposits by 75-100 basis points across maturities.

* United Bank of India too had reduced interest rates by 25 to 100 basis points.

* Net accretion in Jan Dhan account after November 9th alone has been around Rs 27,000 crore.

3. Tax cheats being allowed to get away freely: Good Black vs Bad Black is what govt classification is based on

After the stern warning given whenever a black money scheme is rolled out—and there have been many over the past few decades—honest taxpayers believe this will be the last time tax-cheats will be allowed to get away lightly.

By: The Financial Express

After the stern warning given whenever a black money scheme is rolled out—and there have been many over the past few decades—honest taxpayers believe this will be the last time tax-cheats will be allowed to get away lightly. And so, after the Income Disclosure Scheme (IDS) which levied a tax-cum-penalty of 45%, most took the government seriously when it said, when caught, tax-cheats would pay a 200% penalty or an effective tax of around 90%—given those in the highest income bracket pay a 35% tax rate anyway, this seemed reasonable. Not only has that hope been

belied within just a few weeks, the government has even created new categories of tax-thieves, and the not-so-bad among them are to pay a much lower tax rate.

Those who got caught in the demonetisation aftermath were supposed to pay a 90% tax going by the government's previous statements since the penalty rate was 200%. What has now been proposed in the amendments moved by the finance minister is that a person who discloses the cash holdings voluntarily—so, IDS was not the last voluntary disclosure scheme—will pay a tax-cum-penalty of 50%. Since 25% of the income disclosed will, in addition, be locked in an interest-free deposit for four years, this implies an additional 6-7% tax based on the current rates for fixed deposits, taking the effective tax rate down from 90% to around 56-57%.

If, however, the tax-cheat chooses not to use this scheme linked to a new Pradhan Mantri Garib Kalyan Yojana, he will be taxed at a 75% rate (including penalties) though the taxman has the option of taking this up to 85%. In addition, since the existing provisions of Section 270A will remain on the statute, this will apply to tax-cheats caught in the normal course of investigations, not those caught out by the demonetisation. These tax-cheats will pay the 200% penalty—it is 50% for under-reporting of income—or an effective tax of 90%. Why there should be another scheme for tax-cheats to come clean is not clear, what's even less clear is why the penalties have been dropped so dramatically and why there are new categories of tax thieves being created.

4. Black money: Despite Centre's warning, misuse of Jan Dhan accounts rampant

Deposits in Jan Dhan accounts are surging relentlessly. In just 14 days — between November 10 and 23 — Rs 27,197 crore was added to these accounts, which was more than 60% of the inflows during the previous 770 days.

By: [FE Bureau](#)

Deposits in Jan Dhan accounts are surging relentlessly. In just 14 days — between November 10 and 23 — Rs 27,197 crore was added to these accounts, which was more than 60% of the inflows during the previous 770 days. It is obvious that these accounts, integral to the Modi government's plan for financial inclusion and direct benefit transfer, are being rampantly misused by black money holders post-demonetisation, possibly with the involvement of bank officials.

Prime Minister [Narendra Modi](#) in his radio address "Mann ki Baat" on Sunday warned of strict action against those using Jan Dhan accounts to launder black money under the recently amended benami law. Curiously, Kolkata-based United Bank of India (UBI) has been receiving disproportionately higher Jan Dhan deposits. UBI, one-sixth of Bank of Baroda (BoB) in terms of assets, held Rs 7,238 crore in Jan Dhan accounts as on November 23, up from Rs 5,582 crore on November 9; BoB had Rs 3,269 crore as Jan Dhan deposits on November 9 and Rs 5,679 crore a fortnight later. Even UBI's regional rural banks reported a 56% jump in deposits to about Rs 1,992 crore during the period. According to a report, West Bengal leads the pack of states where Jan Dhan deposits surged the most in the past two weeks.

The government had earlier announced that small deposits made in the banks by artisans, workers, housewives, etc, would not be questioned, up to an exemption limit of Rs 2.5 lakh.

However, there won't be a blanket waiver from scrutiny for below R2.5 lakh deposits, sources said, given the spurt in Jan Dhan funds.

Since Jan Dhan accounts cannot hold more than R50,000 without know-your-customer compliance, the fresh deposits in them mostly tend to be slightly lower than that. Jan Dhan accounts, along with Aadhaar seeding and mobile phones, form the Modi government's "JAM" trinity for financial inclusion. Modi launched the Pradhan Mantri Jan Dhan Yojana in August 2014. As the government kept public sector banks on their toes, in just over a year, 25.68 crore accounts were opened and 19.52 crore RuPay cards were issued under the scheme, but it later turned out that a sizeable number of accounts remained zero-balance ones. Accounts with nil deposits were 77% of the total at the end of September 2014, but thanks to various government schemes and transfer of subsidies, only 23% of the accounts showed nil balance two years later.

5. Why Centre is providing black money holders yet another opportunity by amending I-T Act?

RADHIKA MERWIN
BL RESEARCH BUREAU

It has been nearly three weeks since the Centre's demonetisation move that led to the withdrawal of legal tender status of notes worth about Rs 15 lakh crore.

According to the latest data put out by the RBI, about 56 per cent of such notes have come back into circulation. Between November 10 upto November 27, ₹ 8,44,982 crore worth of notes have been exchanged or deposited (exchange amounted to ₹ 33,948 crore and deposits amounted to ₹ 8,11,033 crore).

Has this higher than expected money finding its way back into circulation, prompted the Centre to come out with the Pradhan Mantri Garib Kalyan Yojana 2016?

Easy gains

As per most initial estimates, 20 per cent of the total value of the old notes (Rs 15 lakh crore) was pegged to be in black, and was not expected to come back into circulation.

The ₹3 lakh crore-odd worth of notes would have become useless come December 30. On the RBI's balance sheet, liability in the form of 'notes issued', would have been extinguished to that extent, leading to an increase in reserves. The surplus transferred to the Centre by way of dividends would fill up its coffers. An easy windfall gain, no doubt.

To ensure that hoarders are dissuaded from tendering their booty, the Centre has been dangling the stick and issuing warnings that cash deposits of above ₹2.5 lakh could attract tax plus a 200 per cent penalty, in case of income mismatch.

But a substantial amount of money has still managed to come back into circulation, robbing the Centre of its possible bounty.

Additional revenue

This leaves the task of examining each high value deposit to the income-tax department which may not have the necessary wherewithal to deal with the massive amount of data flow.

To counter some of these issues, the Centre on Monday came out with Pradhan Mantri Garib Kalyan Yojana 2016 to enable people with undisclosed income to come clean.

They would have to fork out a tax of 30 per cent and penalty of 10 per cent. A surcharge in the form of cess of 33 per cent will have to be paid on the tax, taking

the total levy to 50 per cent. This is slightly higher than the 45 per cent that was payable under the Income Declaration Scheme (IDS) 2016.

To be fair, it could be that the initial estimates of black money were overstated and the money that has come back is legit. Either ways, the Centre is doing all it can to make the demonetisation move worth its while.

6. Banks reissuing soiled notes to beat cash crunch

RUTAM VORA

In order to tide over the currency shortage at branch level in urban and rural pockets, public and private sector banks have started issuing soiled but issuable legal tender to their customers.

The shortage of currency notes mounted after the demonetisation of ₹500 and ₹1,000 bills, which has compelled banks to put soiled currency notes of ₹50, ₹20 and ₹10 denomination back into circulation.

According to sources, the stock of valid legal tender has hit a rock bottom at most banks and currency chests. Several bank branches and the currency chests store soiled notes to be remitted to the RBI. But with the sudden announcement of demonetisation of 86 per cent of the total notes in circulation, many of the banks, fearing severe shortage of notes, held back the soiled notes in their lockers.

"The RBI normally makes pulp of these soiled notes, which can no longer be circulated. But the shortage of the currency is such that these banks have put these soiled notes back into circulation. They are dangerous from the hygiene point of view. These are dirty and fragile notes, which can't be used further, still we see them into circulation," said a senior banker.

RBI definition

As per the RBI's definition, soiled notes are those which have become dirty and slightly cut without its vital information such as number, watermark and governor's signature being affected.

A general manager of a public sector bank said, "There are issuable and non-issuable soiled notes. So, even if it falls under the category of soiled notes, they can be still issuable. With severe cash shortage, several banks are using these notes to meet the immediate demand for cash." According to banking experts, two types of notes usually come into circulation.

"First are the newly printed notes, the second are those which are reissued for circulation by the RBI. The soiled notes are the third category. These soiled notes are coming back into circulation. There is no stock of new notes hence banks are now reissuing even the non-issuable notes in certain areas," said CH Venkatachalam, General Secretary, All-India Bank Employees' Association.

In July this year, the RBI had directed all banks to exchange a maximum of 20 pieces of soiled notes with a limit up to ₹5,000 per day. This exchange, targeted to withdraw soiled notes from the circulation, was allowed over the counter free of charge.

7. Accept IDS payments till 2017; don't ask source: IBA to banks

PTI

With the last date for paying the first instalment of due taxes and penalty under the one-time black money window IDS nearing, banks have been asked to ensure that such payments are accepted without any hassle and the source of funds is not sought from the declarant.

The Indian Banks' Association (IBA) has written a letter to all its members in which it referred to a recent CBDT communication to RBI which cited a complaint from a declarant that he/ she could not deposit the payment as a bank branch in Bengaluru allegedly refused to accept the tax and penalty as per plan of the Income Declaration Scheme (IDS) that ended on September 30.

CBDT, which is the I-T department's policy-making body, noted that the scheme stipulates that a minimum amount of 25 per cent of the tax, surcharge and penalty is to be paid by November 30, 2016.

"Accordingly, all the member banks are requested to make note of the...time schedule and as directed accept payments under IDS 2016 up to September 30, 2017 and also for such cases the banks should not seek source of funds," it said adding, "we request you to sensitise your branches accordingly."

It added that the recent communication from the Central Board of Direct Taxes to the RBI, subsequently sent to the IBA for action, had said it "has been alleged that the bank authorities are refusing to accept payment stating that since IDS 2016 has closed on September 30, the banks cannot accept the challan beyond the date".

The CBDT has also appended the scheme of the IDS which stipulates that a minimum amount of 25 per cent of the tax, surcharge and penalty is to be paid by November 30, 2016; a further amount of 25 per cent of the tax, surcharge and penalty to be paid by March 31 next year; and the balance amount to be paid on or before September 30, 2017.

The I-T department only yesterday issued advertisements in this regard in leading national dailies stating that non—payment of the first instalment of tax and penalty by November 30 on the part of declarants will render their declaration under IDS as "invalid".

As per official data, 64,275 declarants had disclosed an amount of Rs 65,250 crore under IDS, which would yield about Rs 30,000 crore in taxes to the government.

The four—month IDS was a one—time window, beginning June, given to black money holders to declare their stash and come clean by paying 45 per cent tax and penalty.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY