



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)
163/4, Kutchery Road, Mylapore, Chennai - 600004
E mail i.d: aiubparf@gmail.com/ ubioatnng@gmail.com/ suryanarayananram@gmail.com

Com. P.B. Thomas
Chairman
Thiruvananthapuram
M: 09447177456

Com. Nitin Desai
President
Ahmedabad
M: 097277 60641

Com. S. Bagchi
Working President
Kolkata
M: 0983081586

Com. N. Govindarajulu
General Secretary
Chennai
M: 09841089111

Dear Comrades,

7th April , 2017

News of Interest 7th APR

MOTIVATIONAL QUOTES

**“BE MORE DEDICATED TO MAKING SOLID ACHIEVEMENTS THAN IN RUNNING AFTER SWIFT BUT
SYNTHETIC HAPPINESS.”**

A. P. J. ABDUL KALAM

HIGHLIGHTS

- 1. CASH MANAGEMENT BILLS, REVERSE REPO TO TAKE CARE OF EXCESS LIQUIDITY**
- 2. FARM LOAN WAIVER ENGENDERS A MORAL HAZARD, SAYS URJIT PATEL**
- 3. RBI PROMISES MORE EFFECTIVE STEPS TO TACKLE NPA PAINS**
- 4. ALL INDIA BANK EMPLOYEES’ ASSOCIATION GEARING UP TO TURN AROUND 10 WEAK BANKS**
- 5. AXIS-KOTAK MERGER BUZZ HAS NO GOVT BACKING**
- 6. SOME RESPITE FOR BANKS, NONE FOR BORROWERS**
- 7. NEFT TRANSFER TO GET QUICKER**

Business Standard

1. Cash management bills, reverse repo to take care of excess liquidity

Surplus not to push inflation up, says deputy governor Viral Acharya

The Reserve Bank of India (RBI) on Thursday said it would use instruments such as cash management bills and the reverse repo to manage excess liquidity to bring it closer to the neutral position. This will ensure that excess money does not stoke inflation.

It will use the Standing Deposit Facility (SDF) after amendments have been made to the RBI Act. This would give the regulator more flexibility to manage its liquidity operations, the RBI said in its first monetary policy for 2017-18. It expects liquidity conditions to remain in surplus in the short run.

Referring to the impact of excess liquidity on inflation, RBI Deputy Governor Viral Acharya said while liquidity was surplus, it was being drained out through a large quantity of "variable rate repos". "As of now we have no reason to believe that there is leakage happening through that into inflation numbers," the deputy governor said.

Following demonetisation in November 2016, a persistently large structural liquidity surplus impacted the banking system.

The RBI uses conventional and unconventional instruments to ensure that the money market rates remain aligned to the repo rate.

Remonetisation accelerated in January-March with the currency in circulation increasing cumulatively by about Rs 4,37,300 crore in the fourth quarter.

This reduced the surplus liquidity in the system to Rs 3,14,100 crore by the end of March. The RBI said it would continue to moderate liquidity so that money market rates remained consistent with the operating target and the stance of monetary policy.

There was a gradual decline in the magnitude of the surplus from its peak in early January 2017. After the expiry of securities issued under the Market Stabilisation Scheme (MSS), the RBI progressively moved to variable-rate reverse repo operations for sucking out surplus liquidity.

Dwelling on liquidity management operations in FY18, the RBI said the expansion in the currency in circulation would progressively drain out some of the surpluses associated with demonetisation.

The remaining effects will be managed with variable reverse repo auctions, for which it would prefer to use instruments with longer tenors.

It will continue to issue Treasury Bills and dated securities under the MSS to moderate liquidity from other sources. If required, durable liquidity will be managed through open market operations (OMO sales and purchases).

Fine-tuning operations in the form of variable rate repo/reverse repo auctions of various maturities will continue to be deployed.

The RBI had slapped the incremental cash reserve ratio (ICRR) of 100 per cent on bank deposits between September 16 and November 11, 2016, to draw out liquidity. It also used cash management bills (CMBs) and reverse repos to absorb liquidity. The peak level of liquidity absorbed had reached Rs 7,95,600 crore on January 4.

The ICRR was in place for one fortnight (starting December 9, 2016), helping to drain out excess liquidity of Rs 4 lakh crore. The RBI withdrew the measure after the limit on issuing securities under the MSS was hiked from Rs 30,000 crore to Rs 6 lakh crore.

Problem of plenty

* RBI will use SDF after amendments have been made to the RBI Act. This will give the regulator more flexibility to manage its liquidity operations

* It expects liquidity conditions to remain in surplus in the short run

* Remonetisation accelerated in Jan-Mar with currency in circulation increasing cumulatively by about Rs 4,37,300 cr in the fourth quarter

2. Farm loan waiver engenders a moral hazard, says Urjit Patel

Debt waivers also entail transfers from taxpayers to borrowers, says Patel

Abhijit Lele

Reserve Bank of India (RBI) Governor Urjit Patel on Thursday expressed displeasure over the current spate of farm loan waivers and said these adversely affect the culture of repayments as well as put a severe burden on the exchequer.

"I think it undermines an honest credit culture. It impacts credit discipline. It impacts incentives for future borrowers to repay. In other words, waivers engender a moral hazard," he said, after announcing the first bi-monthly monetary policy for 2017-18.

The RBI governor added, "We need to create a consensus that such loan waiver policies are eschewed. Otherwise, sub-sovereign fiscal challenges in this context could otherwise affect national balance sheets."

On Tuesday, the recently formed Bharatiya Janata Party (BJP) government in Uttar Pradesh (UP), being true to its election promises, approved waiver of farm loans for 21.5 million farmers. The amount written off was Rs 36,359 crore.

The state government plans to issue farmer bonds to repay the dues of banks, but there are posers on whether UP will find any takers for these bonds.

In Maharashtra, too, the state government, comprising the BJP and the Shiv Sena, is planning to cobble up a similar debt-waiver package.

Debt waivers also entail transfers from taxpayers to borrowers, said Patel.

"If on account of this overall government borrowing goes up, yields on government bonds also get impacted. Thereafter, it can also lead to crowding of the private borrowers as higher government borrowing can lead to increasing cost of borrowing for others," he said.

3. RBI promises more effective steps to tackle NPA pains

The present level of NPA resolution is untenable: Urjit Patel

Press Trust of India

The Reserve Bank of India (RBI) on Thursday said even though there had been a few positives on the bad loans front, the current level of dud loan resolution was untenable as there had been a deterioration in non-performing assets (NPA), and promised new measures to tackle the pain.

"The present level of NPA resolution is untenable," Governor Urjit Patel said while addressing the media after announcing the first bi-monthly policy for financial year 2017-18.

Deputy Governor S S Mundra, who heads the banking department, chipped in saying "we are yet to get the final result of Q4 which has just ended. But based on the figures that were available for the December quarter, the various indicators of the stressed assets have further deteriorated during this period."

He said the positives achieved by the banks include a slowdown in the accretion of fresh NPAs and stable provision coverage ratios.

The former commercial banker cautioned that the current situation will put pressure on capital for the banks, especially for the state-run ones.

As resolution of the stress comes into the foreground, Mundra said there was a need to understand that there cannot be a "one size fits all" approach and advocated adoption of various tools.

He reiterated RBI was also in talks with the government on how to improve the existing frameworks, and the discussions were centred on how to act faster on joint lenders' forum decisions, enhance the number and role of oversight committees, or whether to look at sector or size-specific problems while tackling resolution.

RBI has introduced a slew of instruments to tackle the NPA menace, which had crossed 9.5 per cent of the system or Rs 14 lakh crore as of December 2016, including strategic debt restructuring, 5/25 restructuring, joint lenders' forum and Prompt Corrective Action (PCA), which will be out by end-April.

Even as speculation rages if RBI will introduce a new instrument or tweak an existing one, Mundra said there can be a "relook" at the existing instruments.

"The message that we are trying to give is that all these instruments are meant for resolution in a serious sense and not for postponement of the problem. That will be the focus going forward," he said.

In the policy document, RBI also said a revised PCA framework will be introduced for banks in mid-April.

RBI also increased minimum capital requirement for asset reconstruction companies to Rs 100 crore from Rs 2 crore earlier. RBI also announced it will be tweaking the capital requirements for partial credit enhancement framework.

It has also decided not to activate the counter-cyclical capital buffer at this point of time.

Sidelights:

Still more scope for banks to cut rates

The Reserve Bank of India (RBI) on Thursday said there was more scope for banks to cut lending rates and also asked for a downward revision in the small savings rates administered by the government. After the last policy review in February, RBI Governor Urjit Patel had said there was scope for more rate cuts by banks, adding that the weighted average lending rate came down only 0.85-0.90 per cent, against a 1.75 per cent cut in policy rates since January 2015. Since then, banks have not lowered their lending rates. The lack of transmission has been one of the dominant worries expressed by the RBI during the past two years when it was in an accommodative stance. It may be noted the government had been blaming the higher rates being maintained both by the RBI as well as by banks for the slowdown in credit offtake which has hurt the economy. As of the second week of March, it hit a record low of around 3.5 per cent.

NEFT transfer to get quicker as RBI cuts clearance time

The Reserve Bank of India (RBI) has decided to slash clearance time for National Electronic Funds Transfers (NEFT), in an attempt to enhance efficiency of the electronic payments system and add to customer convenience. In line with the document on Vision-2018 for Payment and Settlement Systems, the NEFT settlement cycle will be reduced from hourly batches to half-hourly batches, the RBI said in the first bi-monthly monetary policy for 2017-18. "Consequently, 11 additional settlement batches will be introduced at 8.30 am onwards, taking the total number of half hourly settlement batches during the day to 23," newly-appointed Deputy Governor B P Kanungo said. This will enhance the efficiency of the NEFT system and add to customer convenience, he said. On promoting financial inclusion and literacy, it said the RBI is initiating a pilot project on financial literacy at the block level to explore innovative and participatory approaches to financial literacy.

Banking outlet guidelines by month-end

The Reserve Bank of India (RBI) will release by this month-end detailed guidelines on "banking outlet", aimed at covering the under-served areas. These will supersede the branch licensing guidelines in force, the central bank said in its first bi-monthly monetary policy of 2017-18 on Thursday. This bank authorisation scheme is one where the RBI is moving away from emphasis on a brick-and-mortar branch to fixed locations where banking service is available, RBI Deputy Governor N S Vishwanathan said. The RBI's branch licensing guidelines, while considering applications for opening branches, give weight to the nature and scope of banking facilities provided by banks to common persons, particularly in under-banked areas.

Financial Express

4. All India Bank Employees' Association gearing up to turn around 10 weak banks

The All India Bank Employees' Association (Aibea) is gearing up with its suggestions on turning around ten weak banks, said a top leader

By: IANS

The All India Bank Employees' Association (Aibea) is gearing up with its suggestions on turning around ten weak banks, said a top leader. "We are preparing with our viewpoints and suggestions to be made in the discussions with the respective banks," C.H. Venkatachalam, General Secretary of Aibea, told IANS late on Wednesday. "A meeting of the leaders of our unions in these 10 banks will be held in Chennai on April 13 and 14 for this purpose," Venkatachalam said. "We shall try our best to give positive suggestions to recover bad loans and to reduce expenses so that banks can bounce back to better health," he added. Contrary to its earlier stand of infusing fresh capital in strong banks, the central government has infused fresh capital totalling Rs 8,586 crore into 10 weak banks subject to commitment to quarterly milestones by bank boards, management, employees and unions, he said.

The government had earlier said it would infuse capital subject to the condition that SBI Caps will draw a bank-wise action plan based on which a tripartite agreement between the government, bank management and employee unions will be signed committing themselves towards certain milestones. According to Venkatachalam, the current thinking is that each bank would submit its turnaround plan to SBI Caps which in turn would study the same and make suggestions if any. On Aibea signing the agreement for restructuring with the management, Venkatachalam said: "In the original proposal, government wanted us to sign an MoU (Memorandum of Understanding) empowering SBI Caps and managements of banks to finalise an MoU on turnaround and unions to implement it."

"After our taking up with government, now, it is agreed the final MoU on turnaround will be discussed with unions before it is finalised. The MoU also includes a new clause that the interests of the employees and officers will be kept in mind while finalising the... document. So we have signed the present MoU," Venkatachalam said.

"We may have differences with the government on some of their policies. We may have differences with the management on some of our demands. But we have absolutely no problem in working for the betterment of our banks." "The public sector banks deal with people's money and these banks therefore belong to the people and the nation. We are committed for the successful performance of our banks and in their turnaround," Venkatachalam added.

Economic Times

5. Axis-Kotak merger buzz has no govt backing

By Sidhartha, TNN

Senior government officers told TOI that neither bank has approached the Centre with a plan and in any case the plan being discussed at length in the analyst community does not make sense. The government is the largest shareholder in private sector lender Axis Bank BSE 0.20 % through the Specified Undertakings of the erstwhile Unit Trust of India (SUUTI), which holds a 12% stake. SUUTI is part of the promoter group comprising the five government-owned general insurance companies the Life Insurance Corporation of India.

"There is no plan before us and we are not considering any such move," said a high-ranking officer. Sources said the government was looking at various options to offload its shares but would prefer to do so in the market. At current market value, Axis shares would fetch the government Rs 13,920 crore. Axis Bank had termed the reports as "baseless speculation".

In the past, the government has discussed options to sell the stake to Life Insurance Corporation but the move was thumbed down by the RBI.

In an interview to TOI on Tuesday, Kotak Mahindra vice chairman and MD Uday Kotak had told that his bank was open to various options for expansion, provided it made sense to the board. When asked specifically about the SUUTI stake, he had said: "I cannot answer that question because first SUUTI has to decide to offer. If SUUTI decides to offer, our board will look at the merits and evaluate it. Where is SUUTI's offer today? It's like an imagination."

Business Line

6. Some respite for banks, none for borrowers

RADHIKA MERWIN
BL RESEARCH BUREAU

By keeping rates unchanged and highlighting upside risks to inflation, the RBI has reinforced the near-zero possibility of future rate cuts. Banks are unlikely to tinker much with lending rates, which have already moved lower by a steep 70-90 basis points over the past three months.

Hence, it's time for borrowers to shop for best deals right away. Depositors fortunately can heave a sigh of relief, as sharp cuts in deposit rates are unlikely. New

measures announced by the RBI to manage surplus liquidity, should temper cuts in deposit rates.

Much to the relief of banks, the RBI did not hike the cash reserve ratio (CRR) to suck out excess liquidity. Instead, by raising the reverse repo rate (the rate at which banks lend short-term funds to the RBI) by 25 basis points to 6 per cent, the RBI has helped banks earn a tidy interest on their excess funds for a short period. With around ₹4.4-lakh crore of surplus liquidity in the system, banks can earn close to ₹100 crore more a month, due to the hike in reverse repo rate.

For the borrowers

SBI, in January, slashed its marginal cost of funds-based lending rate (MCLR) by 90 basis points. Other banks were quick to follow and there was a 70-80 basis point across-the-board reduction in lending rates (for new borrowers). Since the February 2017 policy announcement though, banks have not tinkered with their MCLR. But some banks have continued to trim deposit rates.

Bank of Baroda, Bank of India, HDFC Bank, Central Bank of India, IDBI, and SBI have reduced deposit rates by 10-25 basis points in certain tenures.

A look at the extent of reduction in deposit rates and MCLR over the last three months indicates that transmission has mostly happened entirely. This leaves little scope for further cuts. Lending rates could come down in fits and starts, as some banks pass on the leftover benefit of lower cost of funds.

Despite muted expectations, new borrowers have indeed reaped the benefit of lower borrowing costs in recent times. But, old borrowers, until recently, have not had any respite, as banks had kept their erstwhile benchmark lending rate — base rate — unchanged. SBI and HDFC Bank recently reduced their base rates by 15 and 25 basis points, respectively. Still, loans offered to new borrowers under the MCLR are much cheaper. SBI, for instance, offers home loans to new borrowers at a spread (mark-up over the MCLR) of 65 basis points.

With one-year MCLR at 8 per cent, the effective rate is now 8.65 per cent. In case of old borrowers, even after the base rate was cut to 9.1 per cent, the effective loan rate works out to 9.35 per cent (spread of 25 basis points).

What's in it for banks

The Centre's demonetisation move has left banks flush with deposits. With credit offtake remaining sluggish, banks have been lending excess funds to the RBI through the reverse repo option.

Banks can essentially borrow money for the short term under the liquidity adjustment facility (LAF).

Alternatively, banks can also lend their excess funds to the RBI and earn interest on them through the reverse repo option.

Over the past two months, banks have been lending funds from around ₹1 lakh crore to as high as ₹2 lakh crore under the variable reverse repo window.

Banks will now earn better interest on these funds, lending money for the short-term to the RBI at an attractive rate of 6 per cent.

With rates on short-term deposits cut aggressively, banks can make a good 2-3 per cent spread on such deposits, albeit for a short period.

7. NEFT transfer to get quicker

OUR BUREAU

To improve customer convenience, the Reserve Bank of India on Thursday said the settlement cycle of the National Electronic Funds Transfer (NEFT) system will be reduced from hourly batches to half-hourly batches. Consequently, 11 additional settlement batches will be introduced at 8.30 am onwards, taking the total number of half-hourly settlement batches during the day to 23. "This will enhance the efficiency of the NEFT system and add to customer convenience. The starting batch at 8.00 am and closing batch at 7.00 pm shall remain the same, as hitherto," the RBI said. The objective of the NEFT system is to establish an electronic funds transfer system to facilitate an efficient, secure, and expeditious system of funds transfer.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY