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Dear Comrades,

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News of Interest 18th APR

MOTIVATIONAL QUOTES

**"ALL YOU NEED IN THIS LIFE IS IGNORANCE AND CONFIDENCE,
AND THEN SUCCESS IS SURE. "**

MARK TWAIN

HIGHLIGHTS

- 1. LOW CREDIT GROWTH, HIGH GDP SUGGEST DECOUPLING: SBI**
- 2. RELIEF TO CONSUMERS, UNDER GST, TAX RATES FOR MOST GOODS TO FALL**
- 3. AFTER SBI MERGER, NOW PUNJAB NATIONAL BANK AND BANK OF BARODA MAY TAKE OVER SMALLER LENDERS**
- 4. DCB BANK REPORTS STRONG CORE PERFORMANCE**
- 5. CYBER SECURITY: REGULATORS LOOKING AT EMERGENCY RESPONSE TEAM**

Business Standard

1. Low credit growth, high GDP suggest decoupling: SBI

Loan growth plummeted to a whopping six decadal low of 5.08 per cent in fiscal 2017
[Press Trust of India](#)

The State Bank of India (SBI) said a steep decline in credit growth, which hit a multi-decadal low in 2016-17 despite the economy clipping at around 7 per cent, suggests decoupling of credit growth and GDP.

Loan growth plummeted to a whopping six decadal low of 5.08 per cent in fiscal 2017, against 10.7 per cent a year ago, according to the Reserve Bank of India (RBI) data. This was the lowest since 1953-54, when credit demand recorded only 1.7 per cent growth.

"Earlier the math was very clear: if GDP grows at 7 per cent credit growth should be at 14-15 per cent. But now it seems a decoupling of the two has happened. There is no relationship between GDP and credit growth now," SBI managing director Rajnish Kumar told reporters in Mumbai on Monday.

According to economists, usually credit growth is faster than nominal GDP growth but now it is trailing the nominal GDP growth by a wider margin.

The low advances growth is on account of the impaired balance sheets of banks and weak demand for credit from industries, which are raising short-term funds from the debt market now, which is comparatively cheaper as well.

Kumar said demand for corporate credit or project finance has not picked up despite the economy faring better but consumption demand by way of home and auto loans as well as personal loans is growing at a very good pace.

Asked about the currency shortage which customers have recently experienced, Kumar said the issue is not across the country but in certain geographies.

"It is very important that cash inflow and outflow should balance very quickly so that the problem of currency shortages in some pockets appearing from time to time is resolved," Kumar said.

He said for SBI the outflow of funds is more than what it has received by the way of deposits and so it is more dependent on RBI for fresh supply of currency.

On the merger of the five associate banks, Kumar said the data merger of these banks will begin from April 24, starting with State Bank of Travancore.

The nation's largest lender has merged its five associate banks -- State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore -- and Bharatiya Mahila Bank with itself effective April 1.

The bank also is the process of putting up a new organisational structure to handle more branches which have gone to 24,000 post-merger from 17,000 earlier.

Kumar was talking to the media after inaugurating a heritage gallery of the Bank of Bombay at SBI's local head office at BKC. The gallery displays the rare and invaluable documents of the Bank of Bombay, which was one of the initial entities of the present-day SBI.

The Bank of Bombay and its two siblings-- Bank of Bengal and Bank of Madras--were the dominant lenders in the 19th and early 20th centuries in the country. In 1920, these three presidency banks were amalgamated to form the Imperial Bank of India, which later become the SBI after Parliament in 1955 passed the SBI Act.

Financial Express

2. Relief to consumers, under GST, tax rates for most goods to fall

Real tax incidence, not nominal rate, to be basis for fitment.

By: Sumit Jha

The Goods and Services Tax (GST) Council's resolve to minimise rate shocks will result in reduction in the nominal tax rates for a vast majority of goods. Half of the items in the Consumer Price Index (CPI) basket will be exempt from GST and another tenth will be taxed at the lowest rate of 5%. The balance CPI goods would come under either of the two standard rates of 12% or 18%, rather than the highest rate of 28%.

Though the current nominal tax rates for some CPI goods and many other mass-consumption and everyday use items like mobile phones, refrigerators, cosmetics and baked food are close to the highest GST rate of 28%, these too will likely fall under 18% GST, sources privy to the discussions in the council's technical committee on fitment of rates told FE.

The government had iterated that the GST rate for an item will be, to the extent possible, the one that is nearest to the current rate. However, according to the sources, what the council will take into account is the real tax incidence at present rather than the nominal rate. For instance, if the nominal tax rate on an item with maximum retail price of `150 and ex-factory price of `100 is 26.5% (12.5% excise and 14% VAT), the real tax incidence on the price to the consumer could be just over 22%, as the excise duty is virtually levied on the ex-factory price, with abatement for post-manufacturing value addition.

Manufacturing units below the `1.5-crore turnover threshold enjoy excise exemption and currently pay only VAT on the final products. If the items manufactured by such units are brought under 28% GST rate, for the reason that nominal tax rate on the items is close to it, they would be hit hard. So the council would take the real excise incidence on the ex-factory value of the item as the basis for GST rate determination. Assuming that half of the sector manufacturing the item mentioned above is excise exempt, the real tax incidence, when nominal tax rate is 26.5%, could be just 18%

"Under the GST regime, tax would apply on the transaction value of the product. Therefore, the correct excise incidence would be the actual excise duty paid expressed as a percentage of the final price to the customer," said R Muralidharan, senior director, Deloitte Haskins & Sells.

However, items that currently suffer a real tax incidence around 28% and above will come under the highest GST rate of 28%, and so will the four demerit items — tobacco and tobacco products, aerated beverages, luxury cars and pan masala — on which the nominal taxes now are 40-60%, including cesses. Analysts also noted that since the VAT rates on items vary across the states, the fitment of GST rates should be on the basis of the weighted average VAT incidence.

Currently, over 300 items are exempt from excise duty and an average of 100 items are exempt from state VAT.

Economic Times

3. After SBI merger, now Punjab National Bank and Bank of Baroda may take over smaller lenders

BY DHEERAJ TIWARI

The government is working on a road map for the overhaul of state-run lenders that involves the next round of consolidation, public offers in the next few months by banks to raise fresh capital, and changes in the hiring policy, including increased lateral entry. This could see Punjab National Bank BSE 1.92 % (PNB) and Bank of Baroda BSE 0.23 % taking over smaller lenders, said a senior finance ministry official.

The government is actively looking at candidates for consolidation with the Prime Minister's Office keen on having a few large banks rather than several smaller ones, he said. "We may start with some low-hanging fruit. For example, Punjab & Sind Bank can be merged into Punjab National Bank. Big lenders like Bank of Baroda can take over some turnaround banks in the southern region, like Indian Overseas Bank," the official said, adding that various permutations and combinations are being discussed. The banks couldn't immediately be reached for comment.

No decision has been made as yet and these plans are only at the proposal stage.

This comes as the finance ministry is working closely with the Reserve Bank of India to address non-performing assets. Last week, RBI had unveiled stricter norms under the revised prompt corrective action framework, which may force lenders to consolidate in case they don't meet the regulatory requirements.

"Primarily, we are only going to be matchmakers, but, yes, if RBI feels that such action is necessitated in terms of regulatory requirements, we may act accordingly," said the official cited above, hinting that the government will also suggest options to the lenders.

"All these plans are fluid, as we also need to take clearances from the Competition Commission, as followed in the case of Bharatiya Mahila Bank and SBI merger," he said.

Business Line

4. DCB Bank reports strong core performance

RADHIKA MERWIN
BL RESEARCH BUREAU

The stock of DCB Bank that announced its March quarter results last Friday, is down 4 per cent today, owing to the 24 per cent y-o-y decline in net profit during the March quarter.

A closer look at the numbers, though, does not paint a gloomy picture. Thanks to a healthy 22 per cent growth in net advances as of March 2017, the bank's core net interest income, has in fact grown by 31 per cent y-o-y during the March quarter.

But what has led to the decline in net profit despite the strong core performance, is the negligible tax during the same quarter last year, which has optically pulled down the earnings performance. The bank's pre-tax profit has posted a 17 per cent y-o-y increase during the latest March quarter.

On the asset quality front, the bank has seen a marginal slippage, with gross non performing assets (GNPA) increasing sequentially by 11 per cent in the March quarter.

GNPA has inched up slightly from 1.55 per cent of loans during the December quarter to 1.59 per cent during the March quarter.

Net NPA (net of provisions) too have gone up marginally from 0.74 per cent to 0.79 per cent during this period, with provision coverage ratio falling by about 2 percentage points.

NPAs have inched up in mortgages, Agri Inclusive Banking (AIB), corporate, and CV segments. Mortgage contributes a chunk (43 per cent) of the bank's loans, with 70-75 per cent constituting the LAP (loan against property) portfolio.

Slippages moderating are a positive for the bank. However, going ahead, the bank's continued focus on diversifying loan book and containing slippages will be keenly watched. Also given its size, loan growth should not be an issue. Nonetheless, pace of addition of branches and its consequent impact on the bank's cost to income ratio will be crucial drivers of earnings.

The bank has completed almost 70 per cent of the 150 new branches roll out plan announced in October 2015 and aims to cross 300 + branches by December 2017.

5. Cyber security: regulators looking at emergency response team

OUR BUREAU

Following the recent cyber attacks, including the one attempted in Union Bank of India's US Dollar Nostro Account, financial sector regulators are looking to set up a Computer Emergency Response Team for the Financial Sector (CERT-Fin).

The CERT-Fin will be on the lines of CERT-In, which has been designated under Section 70B of the Information Technology (Amendment) Act 2008 to serve as the national agency to perform a host of functions in the area of cyber security.

CERT-In performs functions such as collection, analysis and dissemination of information on cyber incidents; forecast and alerts of cyber security incidents; emergency measures for handling cyber security incidents; coordination of cyber incident response activities.

In Union Bank of India's case \$171 million was debited from its account without authorisation of its treasury department in a cyber-hacking operation.

The bank, which immediately raised the alarm, managed to retrieve the money following intervention at the highest level of the government.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**