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Dear Comrades,

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News of Interest 21st

MOTIVATIONAL QUOTES

“KNOWLEDGE IS POWER. INFORMATION IS LIBERATING. EDUCATION IS THE PREMISE OF PROGRESS, IN EVERY SOCIETY, IN EVERY FAMILY.”
KOFI ANNAN

HIGHLIGHTS

1. M PATRA PUSHED FOR RATE HIKE AT RBI'S MONETARY POLICY REVIEW MEET
2. EX-RBI GOVERNOR RANGARAJAN SEES LENDING RATES REMAINING HIGH
3. ATMS GO DRY ON DEMAND-SUPPLY MISMATCH
4. ONE IN TWO PUBLIC SECTOR BANKS MAY REQUIRE 'PROMPT CORRECTIVE ACTION': FITCH
5. AIRTEL PAYMENTS BANK LOOKING TO GROW GOVT BUSINESS

Business Standard

1. M Patra pushed for rate hike at RBI's monetary policy review meet

But minutes of meeting show executive director voting for status quo

Abhijit Lele

At its review of monetary policy earlier this month, the central bank's decision-making panel formally voted unanimously to keep rates unchanged but, before that, one member had urged the case for an increase.

Giving primacy to tackling inflation concerns, M Patra, executive director at the central bank and member of the Monetary Policy Committee (MPC), wanted a pre-emptive 25 basis points (bps) rise in the policy rate.

The minutes of the meeting, issued on Thursday, show all six members — three external and three from RBI — voting for the status quo. In the February review, the decision was to change the policy stance from 'accommodative' to 'neutral'. The panel met again on April 5 and 6; it decided to continue with a neutral stance. It had cut the repo rate by 175 bps from January 2015.

Patra had, however, earlier recommended staying ahead of the inflation curve. "I believe a pre-emptive 25 bps increase in the policy rate now will point us better at the (inflation) target of four per cent to which the Committee has committed explicitly. It will also obviate the need for back-loaded policy action later, when inflation is unacceptably high and entrenched," he'd said, according to the minutes.

Patra, also with responsibility at the monetary policy department of RBI, said: "True to projections made at the time of the last meeting of the Committee, inflation is turning up. It seems to me that it is coming out of the U-shaped compression imposed by demonetisation and is now positioned on a rising slope. Several factors merit pre-emptive concern."

Urjit Patel, the RBI chief and also on the MPC, said the outlook for inflation faced several other risks. Input costs had been rising, which could be passed on to output prices as demand strengthened. Further risk were implementation of the House Rent Allowance recommended by the pay commission for government staffers and the coming national goods and services tax. These could alter the inflation turn in 2017-18.

He also pointed to uncertainty about the crude oil price trajectory. And, heightened geopolitical risks continue to impart financial volatility in global markets, the governor had said.

Ravindra Dholakia, member and a professor at the Indian Institute of Management, Ahmedabad, said with the surplus liquidity (after demonetisation) in the system, any change in the policy rate was not desirable at this stage. The liquidity position was expected to return soon to the normal level consistent with the neutral stance.

Viral V Acharya, deputy governor and looking after monetary policy, said with the balanced nature of risks and uncertainty that abound, "I lean towards continuing the neutral stance and pause" for now.

He'd wanted the central bank to focus on important issues like resolving of banks' stressed assets and correcting weak bank balance-sheets; also, more durable mopping of surplus liquidity still around after demonetisation. Such liquidity was keeping short-term money market rates away from the policy rate.

Unleashing the potential of capital markets further, by enhancing liquidity in the corporate bond market, and improving the ease and suite of financial hedging options also merited attention, Acharya had said.

2. Ex-RBI governor Rangarajan sees lending rates remaining high

He was replying to question on possibility of rate cuts after surge in deposits post-demonetisation

Press Trust of India

Former Reserve Bank governor C Rangarajan on Thursday said the high degree of non-performing assets will impede lending rate cuts despite a liquidity glut after the note-ban.

"The possibility of the banks reducing lending rates is not very much in the horizon. There may be some small adjustments. But I do not see the lending rates coming down because the banks do feel the pressure of the stressed assets," he said.

He was replying to a specific question on the possibility of interest rate cuts after the surge in deposits after note ban.

"The basic profitability of a bank comes out of lending. Therefore the question really is whether banks will be in a position to lend more. Perhaps in the current fiscal, one can see pick up in the credit growth," he said.

There were sharp rate cuts in January after the surge of deposits, where the banks are reported to have mopped up a bulk of the over Rs 12 trillion in banned currency notes as deposits.

However, the RBI wants the banks to do more, saying the transmission of its previous cuts is yet to be complete.

The issue was also discussed at the last meeting of the monetary policy committee (MPC).

A high percentage of NPAs which are hovering around the ten per cent mark at present decreases the quantum of interest-paying loans for the banks, and hurts the core interest income and margins.

Rangarajan, the former chairman of Prime Minister's Economic Advisory Council, said a normal monsoon as predicted by the weather department will help boost overall economic growth this fiscal.

"In 2017-18, we should see some improvement over last year because the impact of the disturbances were felt in the last quarter and some part of the third quarter. Much will also depend on monsoons. If the monsoon is normal, then one could expect improvement in GDP growth," he said, referring to the waning impact of demonetisation on economic activity.

Rangarajan was speaking on the sidelines of Panel Discussion organised by the Icfai Foundation for Higher Education.

In the panel discussion, Rangarajan said research in any field cannot be taken up as a routine exercise.

He also suggested that there should be a system for tightening the standards for taking up research programmes in Universities and educational institutions.

Economic Times

3. ATMs go dry on demand-supply mismatch

BY PRATIK BHAKTA

Wondering why many ATMs are putting up 'no cash' signs many months after demonetisation? Here is the answer: Withdrawals from automated teller machines have reached the pre-demonetisation level, but the supply of currency from banks to ATMs is 50% of pre-November 8 levels, squeezing customers and impacting revenue of ATM operators.

Interbank ATM withdrawals topped Rs 1 lakh crore in March, almost equal to the level in October last year and double the amount in December, according to data from National Payments Corporation of India (NPCI).

"Since the limits on ATM withdrawals were removed, we found the average ticket size of each transaction has risen to Rs 4,000, which is equal to the pre-demonetisation

days. The average size was Rs 2,000 between November and February," said Loney Antony, managing director of Hitachi Payment Services, which manages around 50,000 ATMs in the country. "While demand has crept up, we are receiving only of the cash we are demanding from banks which is causing machines to go dry."

Before November 8, banks' supply to ATMs was an average Rs 12 lakh per booth, but this has now dropped to Rs 6 lakh per booth.

To be sure, the cash crunch which resulted in long queues and scuffles outside banks and ATMs during the days immediately following demonetisation has eased substantially. But a shortage is being noticed in a few pockets across the country in the past few weeks owing to higher withdrawals for cash payments.

Consumers are said to be reverting to cash payments amid complaints about banks charging fees for digital payments. Also, the Reserve Bank of India (RBI) seems to be hinting to banks that they need to manage cash better between branches and ATMs.

The total currency in circulation among public has still not reached pre-demonetisation levels. According to data released by RBI, the currency in circulation was Rs 12.6 lakh crore as on March 31 of this year compared with Rs 17 lakh crore as on October 28 last year, the week before demonetisation.

"Higher withdrawals, coupled with insufficient cash supply from banks led to acute crisis in major cities such as Hyderabad, Pune, Mumbai and Surat. The situation seems to have been under control in Delhi-NCR," said a top executive at a cash logistics company.

Whenever the customer of one bank swipes his card at the ATM of another bank, the transaction is routed through the National Financial Switch, which is managed by NPCI. This data helps capture the trend.

In October, the amount of interbank withdrawals stood at Rs 1.1 lakh crore through almost 30 crore transactions. It plummeted to Rs 48,420 crore in December, but climbed to Rs 85,480 crore in January. The data show amount of money withdrawn in March was double the figure in December.

RBI data on debit card transactions at ATMs, both for own bank and different bank, establish the upward trajectory. In February, the total value of debit card withdrawals stood at Rs 1.9 lakh crore compared with about Rs 1 lakh crore in December. The figure was Rs 2.5 lakh crore in October last year. RBI is yet to come out with the numbers for March.

While supply-side constraints have been flagged, ATM companies say banks are not serious about replenishing teller machines because most are leased out on a pay per use model and idle machines do not affect banks' revenue.

"It is our revenue which is taking a hit since lack of cash is causing around 20% of our network to remain down," said Antony. "Between November and mid-January, because of lack of cash, the entire industry is believed to have lost Rs 700 crore in revenue for which we have not been compensated."

Business Line

4. One in two public sector banks may require 'prompt corrective action': Fitch

OUR BUREAU

More than half the country's state-owned banks would breach at least one of the four thresholds specified by the Reserve Bank of India under its revised "prompt

corrective action" (PCA) framework, mainly owing to high non-performing loans (NPLs), according to Fitch Ratings.

The credit rating agency felt that the RBI may use the PCA framework to identify weak banks as candidates for mergers.

The RBI has tightened the thresholds — for capital ratios, NPLs, profitability and leverage — at which banks enter the PCA framework. Fitch underscored that this appears to be an acknowledgement of the significant asset-quality stress in the system and that more banks are in need of regulatory intervention.

"PCA was previously viewed as an extraordinary step, which the RBI urged banks to make great efforts to avoid. That now looks likely to change. More than half of state-owned banks would breach at least one of the new thresholds, mainly owing to high NPLs, based on their latest financial reports," said the agency.

The new PCA framework will be invoked on the basis of the banks' FY17 financials.

Fitch observed that the RBI has also given itself greater discretion in terms of the measures it can use to intervene in banks once they fall under the PCA framework, which suggests it has recognised a need to take corrective action at an earlier stage when banks run into difficulties.

The previous PCA, in contrast, explicitly reserved the most interventionist actions for banks that had breached more extreme thresholds.

"It is possible that intervention could involve forcing banks to conserve capital, if other actions do not address problems. The risk of non-performance on bank capital instruments may therefore have risen," said Fitch.

Flagging the possibility of the RBI using the PCA framework to identify weak banks as candidates for mergers, the agency said State Bank of India took over five smaller lenders earlier this month, and further consolidation could be part of the overall strategy to clean up the banking system.

However, such mergers would also require the support of the government, it added.

5. Airtel Payments Bank looking to grow govt business

ANIL URS

Airtel Payments Bank, a payments bank licence holder, after tasting success in handling payments for Bescom (a power supply company in Karnataka), is now looking to handle more such government-to-consumer (G2C) payments.

"We have approached the State government to take up BWSSB, BBMP and other government digital payments made by consumers," C Surendran, CEO-Karnataka, Bharti Airtel, told *BusinessLine*.

The payments bank, following its launch in December last year, has made rapid strides in areas where bank branches or ATMs are not present. The company is also targeting its 23 million Airtel mobile users.

"Airtel Payments Bank has a base of around three lakh customers, mainly in rural areas, and we are aggressively making our presence felt in urban areas," said Surendran.

After three months of operations in the State, "we have 70,000 merchant establishments and 25,000 retailers as banking points," he added.

Airtel Payments Bank is currently utilising the parent company Bharti Airtel's infrastructure and touch points, especially to receive payments.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY