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**Dear Comrades,**

**11th August , 2017**

**News of Interest 11th AUG**

### **MOTIVATIONAL QUOTES**

**“RESPECT YOUR EFFORTS, RESPECT YOURSELF. SELF-RESPECT LEADS TO SELF-DISCIPLINE.  
WHEN YOU HAVE BOTH FIRMLY UNDER YOUR BELT, THAT'S REAL POWER. “**  
**CLINT EASTWOOD**

### **HIGHLIGHTS**

- 1. DEMONETISATION EFFECT: RBI'S DIVIDEND TO GOVT HALVES TO RS 30,659 CRORE**
- 2. BANK NPAS REGISTER A SIGNIFICANT GROWTH DURING JAN-JUN: FICCI-IBA SURVEY**
- 3. WHY RBI'S URJIT PATEL SHOULD FOLLOW FORMER FED CHAIRMAN BEN BERNANKE'S 'OPERATION TWIST'**
- 4. UNION BANK NET SINKS 30% IN Q1**
- 5. IOB CUTS LOSSES TO ₹499 CRORE IN FIRST QUARTER**

Business Standard

#### **1. Demonetisation effect: RBI's dividend to govt halves to Rs 30,659 crore**

The dividend paid is the lowest since 2011-12

Anup Roy

The Reserve Bank of India (RBI) will transfer Rs 30,659 crore of its surplus to the government for the financial year 2016-17, less than half of the Rs 65,876 crore it transferred a year earlier.

The RBI did not provide any reason for the decline in dividend but economists said this indicated the cost incurred by the central bank in printing new notes as well as in sterilising liquidity after old Rs 500 and Rs 1,000 currency notes were scrapped in November and subsequently returned to the banking system.

The dividend paid is the lowest since 2011-12, when the RBI had transferred Rs 16,010 crore of its surplus to the government. In 2012-13, the central bank paid Rs 33,010 crore. The RBI's financial year runs from July to June. The central bank is expected to publish its annual reports next week after its board met on Thursday to clear the accounts.

In 2012-13, the YH Malegam Committee recommended the central bank transfer its entire surplus to the government. The RBI has been transferring its entire surplus to the government since then. It paid Rs 52,679 crore in 2013-14 and Rs 65,896 crore in 2014-15.

In the Union Budget for 2017-18, the government had accounted for a dividend of Rs 74,901 crore from the RBI and other nationalised banks. An official later said the RBI's share would be Rs 58,000 crore.

RBI Governor Urjit Patel told a parliamentary panel in July that the central bank had not finished counting the old returned notes.

He has also said notes not returned remain the RBI's liability and cannot be passed on to the government as dividend.

The Union Budget had not accounted for any special dividend from the RBI against demonetisation, which some economists had estimated would be in the lakhs of crores of rupees.

The low actual dividends, meanwhile, will exert pressure on the government to meet its fiscal deficit. Care Ratings Chief Economist Madan Sabnavis said the fiscal deficit could increase from 3.2 per cent of the GDP to 3.4 per cent this year. At its peak, the excess liquidity parked by banks neared Rs 5 lakh crore, on which the central bank had to pay them 6 per cent interest. The average daily liquidity absorption continued to remain above Rs 2 lakh crore after demonetisation was announced.

According to Devendra Pant, chief economist of India Ratings & Research, the appreciation of the rupee against the dollar depressed returns, in rupee terms, on the RBI's foreign holdings. The rupee has appreciated by more than 6 per cent against the dollar since January.

## **2. Bank NPAs register a significant growth during Jan-Jun: Ficci-IBA Survey**

Metal, infrastructure and textile industries have recorded high level of NPAs

Press Trust of India

Banks with operations in India witnessed a significant rise in non-performing assets during the first half of 2017, according to a survey released on Thursday.

The Ficci-IBA survey carried out for January-June revealed that NPAs in public sector banks shot up considerably, with 91 per cent respondents from public sector banks reporting an increase.

Twenty public, private and foreign banks participated in the survey, which together represent 64 per cent of the banking industry, as classified by asset size.

Meanwhile, 71 per cent private and 50 per cent foreign bank respondents stated that their bad loans have increased during January-June.

Metal, infrastructure and textile industries have recorded high level of NPAs with at least 50 per cent of total respondents stating the same.

In the next six months (Jul-Dec 2017), participating banks expect sectors like infrastructure, automobiles and pharmaceuticals to drive credit growth.

Lenders also expressed hope that amendment of the Banking Regulation Act along with Insolvency and Bankruptcy Code will help in the resolution of stressed assets, which have ballooned in the recent past.

The banks suggested easing of provisioning norms for stressed assets and strengthening of legal infrastructure to facilitate quicker disposal of bad loans cases.

"The survey has been conducted at a time when NPAs are at a worrisome position, especially for the public sector banks," Ficci said in a statement releasing the survey.

The participating banks gave several suggestions to deal with the stressed assets. One is to set up industry committees to determine the valuation of large stressed accounts and get big PSUs in respective sectors to bid for the said accounts at such valuations.

About 35 per cent reported tightening of credit standards for large enterprises during the first half of 2017 and about 40 per cent expect further tightening in the next six months.

During January-June, a majority (75 per cent) of the respondent banks have reduced their Marginal Cost of Funds based lending rate, with 45 per cent of banks reducing it by more than 50 basis points, aided by adequate liquidity and low-cost deposits.

The survey observed that infrastructure sector continues to witness the largest increase in long term loans.

A majority welcomed the suggestion from the RBI about setting up of specialised Wholesale and Long Term Finance Banks.

Bankers' views were also sought on consolidation of other public sector banks post SBI merger.

"Some participating banks suggested exploring avenues of privatisation alongside merger of PSBs," Ficci said quoting the survey's findings.

Views were also sought on the idea of Bank Account Number portability that had been suggested by former RBI deputy governor S S Mundra.

Economic Times

### **3. Why RBI's Urjit Patel should follow former Fed chairman Ben Bernanke's 'Operation Twist'**

By *MC Govardhana Rangan*

Dr Y V Reddy as Reserve Bank of India governor had many run-ins with the government. One such prominent event was when he articulated the usefulness of Tobin Tax to temper overseas fund flows. In an unprecedented move, the then Finance Minister, P Chidambaram, forced the governor to recall his speech and clarify that no such proposal was on the horizon. That was January 12, 2005. The flow of US dollars fuelled asset prices across the board – from real estate, to stocks, to commodities, to precious metals. That lulled corporate into believing easy money is forever. When the tide turned those with dollar liabilities were whipsawed.

Within a few years of tackling the problem of plenty with the Greenback during Reddy's tenure, the country quickly moved to scarcity under Governor Duvvuri Subbarao in 2013. Subbarao and his successor, Raghuram Rajan, worked overtime to arrest the collapse of the rupee and come up with yet another special scheme to bring in US dollars.

Come 2017, life at the Reserve Bank of India (RBI) appears to have come a full circle. Yet again, it is a problem of plenty. The foreign exchange reserves are at a record high of \$393 billion. The RBI has purchased about \$50 billion from the market this year — both from the spot as well as the forward markets — to slow currency appreciation. But that's not helping.

Despite the Federal Reserve's U-turn to normalisation, the US dollar tide doesn't appear to be turning anytime soon. Contrary to textbook economics, which says that a reduction in interest rate will lead to a fall in the value of a currency, the Indian rupee rose to a two-year high when the Monetary Policy Committee cut the benchmark interest rate last week.

Something is amiss. India's current high real interest rate of about 4% along with its prudent policies of inflation targeting, and a tight fiscal policy, are drawing yield hungry global investors.

Overseas investors net bought Indian stocks and bonds worth a record Rs 1.75 lakh crore in 2017. The fact that global investors have almost exhausted their limits of Rs 4.32 lakh crore in both sovereign and corporate debt indicate how lucrative it is to own Indian fixed-income instruments.

The trust of global investors may be a matter of pride for an emerging economy like India, but it may be sowing the seeds of financial instability that poses challenges to Governor Urjit Patel, and make importers complacent, while creating anxious moments for exporters.

"An independent inflation targeting monetary policy does have implications for the FX market and capital flows," says Ananth Narayan, head of markets for ASEAN and South Asia at Standard Chartered Bank "Among other reasons, perceived high rupee returns may be one of the reasons for the current rupee outperformance. Foreign portfolio flows are coming in, and looking at the perceived high interest-rate differentials, more exporters may be hedging than importers."

When the currency surges 6.2% and capital flow is liberal, being a central banker with a mandate to control inflation with interest rate alone, is like getting thrown into the boxing ring with hands tied. Economists in general, call it the impossible trinity — an autonomous monetary policy, free capital movement, and exchange rate management.

The current record low inflation of 1.54% is abnormal for an emerging country like India. RBI's inflation mandate is forcing it to keep interest rate high with uncertainties like global financial risks when the impact of slow tightening by the Fed begins to pinch and commodity prices and crude turn.

The RBI can lower short-term rates, but keep longer term rates high to face uncertainties. While the limits on bond holdings may stop the flow into fixed-income instruments as we know, trust the market to find a way to circumvent it. The RBI may have to get bring down short-term interest rates, but keep the long tenor high to match its fear of uncertainties — from revival of price pressures, to global financial market turmoil.

Dr Reddy may not be the ideal guide here for Patel, but he can borrow from former Fed chairman Ben Bernanke's book. To help Main Street benefit from his loose monetary policy, Bernanke launched his 'Operation Twist'. He lowered yield on long-tenor securities by buying them with the sale proceeds of short-term notes. Patel can conduct an 'Operation Twist' in reverse.

Business Line

#### **4. Union Bank net sinks 30% in Q1**

OUR BUREAU

Loan-loss provisioning weighed down the financial performance of Union Bank of India with the net profit declining 30 per cent year-on-year (y-o-y) in the first quarter ended June 30.

Net profit in the reporting quarter stood at ₹117 crore against ₹166 crore in the year-ago quarter. However, the net profit was up 8 per cent compared with the preceding quarter.

Net interest income (the difference between interest earned and interest expended) rose 7 per cent to ₹2,243 crore.

Other income was up 36 per cent to ₹1,414 crore on the back of robust treasury income and core non-interest income.

Total advances rose 10 per cent to ₹ 2.95 lakh crore mainly due to healthy demand for retail, agriculture and micro, small and medium enterprise loans. Total deposits were up 11 per cent at ₹3.76 lakh crore.

Rajkiran Rai G, MD & CEO, said he expects loans and deposits to grow about 9 per cent and 8 per cent, respectively, in FY18.

Net interest margin, which moved down to 2.06 per cent from 2.28 per cent, is expected to move up to about 2.25 per cent.

In the reporting quarter, the bank made higher loan-loss provisions amounting to ₹1,876 crore (₹1,347 crore in the year-ago quarter). The quarter saw slippages amounting to ₹4,453 crore (₹3,603 crore)

Rai said his bank is eyeing recovery and up gradation in bad loan assets amounting to about ₹4,000 crore.

The Union Bank chief said his bank has an exposure aggregating ₹7,400 crore to 11 of the 12 large stressed accounts that the Reserve Bank of India has asked banks to proceed against under the Insolvency and Bankruptcy Code (IBC). The bank holds 30 per cent provisions in these accounts.

It will make additional provisions totalling ₹2,400 crore spread over the next three quarters.

On its own, the bank has proceeded under the IBC against an account with an exposure of ₹200 crore.

Further, action under IBC against 10 accounts with aggregate exposure of ₹1,400 crore is in the pipeline.

Rai said the bank is planning to raise ₹6,335 crore in FY18. Of this, it is expecting capital infusion of ₹1,500 crore from the government, ₹2,000 crore will be mopped up via a qualified institutional placement/rights issue/follow-on public offer, and the balance through Additional Tier-I bonds.

#### **5. IOB cuts losses to ₹499 crore in first quarter**

## OUR BUREAU

Indian Overseas Bank has significantly reduced its net losses to ₹499 crore for the quarter ended June 30, compared with a net loss of ₹1,450 crore in the year-ago quarter.

The bank continued to report positive growth in operating profit, which rose 12 per cent to ₹777 crore (₹691 crore in Q1 FY17). The bank set aside ₹1,608 crore towards provisions and contingencies (₹2,138 crore).

Gross non-performing assets (GNPAs) in the reporting quarter stood at ₹35,453 crore (₹33,913 crore), and net NPAs, at ₹20,166 crore (₹21,321 crore).

The gross NPA ratio rose to 23.60 per cent (22.39 per cent in the March 2017 quarter and 20.48 per cent in Q1 FY17) and the net NPA ratio, to 14.97 per cent (13.99 per cent and 13.97 per cent).

Recoveries in NPA accounts were significantly higher at ₹2,784 crore (₹1,465 crore). The provision-coverage ratio improved to 53.09 per cent (47.61 per cent).

Interest income fell to ₹4,187 crore (₹5,216 crore) due to reduction of interest rates. Non-interest income grew 51 per cent to ₹987 crore (₹652 crore).

Gross advances stood at ₹1,50,238 crore as against ₹1,65,556 crore in Q1 of the previous fiscal.

"The decline in advances was due to the bank rebalancing the credit portfolio with focus on mid-corporate, retail and MSME segments," according to a statement.

Total deposits stood at ₹2,10,748 crore (₹2,18,484 crore).

The bank has reduced the concentration of bulk deposits for a stable deposit profile and to reduce the cost of funds.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)**  
**GENERAL SECRETARY**