



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
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Dear Comrades,

7th December , 2017

### News of Interest 7th DEC

#### MOTIVATIONAL QUOTES

“RESPECT FOR OURSELVES GUIDES OUR MORALS, RESPECT FOR OTHERS GUIDES OUR MANNERS.” LAURENCE STERNE

#### HIGHLIGHTS

1. RBI MPC KEEPS REPO RATE UNCHANGED AT 6%, TELLS BANKS TO SHAPE UP
2. WE ARE ALREADY ON THE UPTICK IN TERMS OF CREDIT GROWTH: RBI
3. ALLAHABAD BANK, UNITED BANK TO COME UP WITH ESOP PLANS
4. RBI TO RATIONALISE CHARGES ON DEBIT CARD TRANSACTIONS
5. RESERVE BANK WARNS OF RISKS TO 'UNREGULATED' CRYPTO-CURRENCIES

#### Business Standard

##### 1. RBI MPC keeps repo rate unchanged at 6%, tells banks to shape up

Says recap will be front-loaded for healthy banks; others have to prove efficiency

Anup Roy & Abhijit Lele

The Reserve Bank of India (RBI) kept its policy rate unchanged and stance neutral but its governor, Urjit Patel, set stiff conditions for ailing state-owned banks to receive fresh capital from the government.

Following the central bank's fifth bi-monthly monetary policy review, the repo rate, at which the RBI lends to banks, remained at 6 per cent.

All 10 economists and bond market dealers polled by *Business Standard* had predicted a pause.

Ravindra Dholakia, an external member of the monetary policy committee, voted for a 25 basis point cut in interest rates. But the other five committee members, including Patel, voted for a pause.

The policy statement said banks could widen previous interest rate cuts to outstanding loans, but bankers remained non-committal about this.

Among other important policy measures, the RBI said it would rationalise merchant discount rates for a wider adoption of digital payments.

One of the major announcements during the policy press conference was that the government's planned equity infusion into public sector banks was meant to make them healthy and not just to meet capital adequacy norms.

"This will be a reform and recap package and not just a recap package. This money is to be used to strengthen public sector banks' balance sheets so that we do not sow the seeds of the next boom and bust cycle of lending," Patel said in his opening remarks at the conference.

Recapitalisation will be front-loaded for prudent banks, which can use the fresh capital to lend apart from providing for asset losses.

Other banks will receive capital based on their progress towards reform in a time-bound manner.

"Governance reform for all public sector banks will feature as part of the overall plan," Patel said.

The Rs 2.11-lakh crore recapitalisation outlay announced by the government includes Rs 1.35 lakh crore to be raised through bonds. Budgetary allocations and market borrowings will contribute another Rs 76,000 crore. The government has infused Rs 58,848 crore in the last three-and-a-half years into public sector banks.

In its policy statement, the RBI revised its inflation forecast by 10 basis points for the second half of the financial year. It now expects retail inflation at 4.3-4.7 per cent in the third and fourth quarters. This includes a central government house rent allowance-induced addition of up to 35 basis points, a figure the RBI disseminated for the first time.

However, the policy statement said, "Inflation expectations of households surveyed by the Reserve Bank have already firmed up and any increase in food and fuel prices may further harden these expectations." Patel said there was a risk that companies could pass on rising input costs to customers, pushing up prices.

Fiscal slippages and monetary tightening by major global central banks could also push up inflation at home, the statement added. But a seasonal moderation in vegetable prices and the recent downward revision in the goods and services tax might mitigate some of the pressure on inflation, the RBI said.

The RBI said the economy could grow at 6.7 per cent for the full year, maintaining its earlier forecast. In the third and fourth quarters, the GDP growth rates could be 7 per cent and 7.8 per cent, respectively, said Michael Patra RBI executive director and member of the monetary policy committee. Gross value added during the second quarter ending September was 6.3 per cent.

Large-scale mobilisation of resources from the capital market by companies and recent reforms in ease of doing business would help push economic growth, Patel said.

"It is expected that liquidity conditions will be marginally in surplus by the end of the fiscal year," said RBI Deputy Governor Viral Acharya. The 'neutrality', or the point at which the system borrows on some day and parks excess funds on some, would be reached in the second half of 2018, Acharya said.

The policy statement said the stance remain neutral keeping in mind the output gap dynamics. The central bank would "watch the incoming data carefully," it said.

The RBI's neutral stance was expected, considering the prevailing global uncertainties. "There is no guarantee that oil prices will stick at \$60. The benefit that we have reaped of lower food prices may or may not reverse. It is also not clear if the rupee will depreciate as a consequence of monetary tightening by the central banks of advanced economies," said Indranil Pan, chief economist of IDFC Bank. Most economists, including Pan, do not expect a rate cut in the short term.

## **2. We are already on the uptick in terms of credit growth: RBI**

Urjit Patel said, 'We have a neutral stance, which means that data flow in the coming months and quarters will determine what we do regarding the policy'

BS Reporter

Reserve Bank of India (RBI) Governor Urjit Patel and senior officials spoke to the media after the fifth bi-monthly monetary policy review for FY18 on the central bank's decision to hold key interest rates, liquidity conditions, economic growth and bank credit. Edited excerpts:

### **If growth doesn't pick up and inflationary pressures continue, what will you give more importance to going ahead?**

**Urjit Patel:** We have a neutral stance, which means that data flow in the coming months and quarters will determine what we do regarding the policy. So the neutral stance is there for a reason — that all possibilities are on the table. We would look carefully at both inflation and growth data in the coming months. The change in our inflation projection is at the end of the day very small; it is 10 basis points compared to the October policy. And we are still retaining the growth outlook for the full year at what it was in the October policy.

### **The liquidity seems to be drying up and banks have already started raising bulk deposit rates. Will transmission of rates take place?**

**Patel:** You should look at the existing rate of bulk deposits and where it has been increased to. And then it is more of qualitative assessment, rather than a quantitative. To the best of my knowledge, the wholesale deposit rate was very low in the first place. Secondly, I don't know what you mean by 'liquidity drying up' because our weighted average call rate continues to be below the policy repo rate. So to me it is not at all clear, and we are still undertaking a fair bit of reverse repo operations. So liquidity drying up is just a wrong definition of what you are saying.

**Viral Acharya:** I think perhaps the market is adjusting to the fact that we have been in remarkably surplus conditions for a while, but we are nowhere

close to having reached neutrality. If you were neutral you would pump in liquidity on some days and absorb it on other days. We are still essentially absorbing liquidity, as the Governor says, to the tune of around Rs 20,000 crore to Rs 80,000 crore on a pretty persistent basis. I want to stress something which I mentioned in my remarks as well, which is that the foreign exchange operations in terms of buying dollars in the earlier part of the year was substantial. We injected close to over Rs 1 lakh crore of liquidity from RBI on top of the demonetisation-induced liquidity.

In a textbook operation, as soon as you inject liquidity you would actually sterilise it with an open market operation because otherwise you will lose control of your monetary policy. We have done it this time with a lag, because we were waiting for the liquidity conditions post demonetisation to normalise, and see whether currency in circulation stabilises.

**How difficult is the task of seeding bank accounts with Aadhaar going to be? How are banks prepared?**

**N S Vishwanathan:** We have said that initially the seeding should happen on a demographic basis as it can be done for a large number of people in one go. That we don't see as a problem. Ultimately, they will have to do the biometric (registration); that will take some time.

**Did the MPC consider shifting of monetary policy stance?**

**Patel:** We did not consider shifting the stance because nothing between October and now was significant enough in terms of the macro outcomes to warrant that. And as I said in the first question that was asked, we will look at the data in the coming months and the coming quarters, and decide on the policy based on that which is exactly what the neutral stance enjoins us to do.

**You had mentioned about the bank recapitalisation plan as a 'reform and recap' package. When do you expect the next cycle of lending to kick-start?**

**Patel:** You know the latest data on bank credit and adjusted bank credit, and total financial resources flows, suggest that we are already on the uptick in terms of the credit growth. So credit is already flowing in, more than what was the case in October and as the economy picks up, the demand for credit should go up and there is enough supply to ensure that lack of credit is not in the way of supporting higher growth. So the uptick in credit growth has already happened.

**Banks have continued to report fairly material divergences in bad loan reporting for FY17, there is a bit of confusion on what exactly is going on. Is there another round of asset quality review (AQR) being looked at? In private conversations, bankers say the RBI is moving the goalposts and hence these divergences are coming. Can you please help us understand?**

**Vishwanathan:** I think I must clarify two things, divergences on the basis of inspection used to happen in the past as well. What has changed is the transparency that we have brought in, in the form of disclosure of divergences when they are more than a certain percentage. So that's actually changed the narrative. So these divergences used to happen even prior to AQR sampling now. Second, I want to make it very clear there has been no change in goalposts, the rules are as they are. We have assessed the banks' classification based on the rules as they are today and we have found that in some of the cases they have not applied the rules correctly.

## **You have retained the GVA at 6.7 per cent. What would your projections be for Q3 and Q4 of FY18?**

**Michael Patra:** They are going to seven (per cent) and 7.8 per cent, respectively, so we're on an uptick from now.

Financial Express

### **3. Allahabad Bank, United Bank to come up with ESOP plans**

As part of capital raising plans, public sector lenders Allahabad Bank, United Bank have initiated process to make employees stakeholders by way of issuing employee stock option (ESOP)

By: PTI

As part of capital raising plans, public sector lenders Allahabad Bank, United Bank have initiated process to make employees stakeholders by way of issuing employee stock option (ESOP). Kolkata-headquartered United Bank of India and Allahabad Bank today said they will issue such stock options for their employees. The board of directors at a meeting held today approved the proposal to issue up to 5 crore equity shares in one or more tranches by way of ESOP/ESPS, United Bank said in a regulatory filing. Allahabad Bank said the board of directors of the bank will meet on December 12 to "consider a proposal to convene an extraordinary general meeting of shareholders of the bank for their consent/approval for issue of up to 5 crore new equity shares of bank in one of more tranches by way of employee share purchase scheme (ESPS). Earlier in March this year, the finance ministry had given its in-principle approval to allow public sector banks to offer stock options to their employees, aimed at retaining experienced hands with better incentives.

### **Business Line**

### **4. RBI to rationalise charges on debit card transactions**

PTI

The Reserve Bank today said it has decided to rationalise charges on debit card transactions based on category of merchants with a view to giving "further fillip" to digital payments.

In its 'Statement on Developmental and Regulatory Policies', released along with the resolution of Monetary Policy Committee (MPC), the RBI said that in recent times debit card transactions at 'Point of Sales' have shown significant growth.

### **RESTRUCTURING MDR**

"With a view to giving further fillip to acceptance of debit card payments for purchase of goods and services across a wider network of merchants, it has been decided to rationalise the framework for Merchant Discount Rate (MDR) applicable on debit card transactions based on the category of merchants," it said.

MDR is the rate charged to a merchant by a bank for providing debit and credit card services.

An RBI draft report had made a case for restructuring MDR on the basis of merchant turnover rather than the present slab-rate based on transaction value. According to the statement, a differentiated MDR for asset-light acceptance infrastructure and a cap on absolute amount of MDR per transaction will also be prescribed.

The revised MDR, RBI said, aims at achieving the twin objectives of increased usage of debit cards and ensuring sustainability of the business for the entities involved.

### **LEVEL PLAYING FIELD**

Meanwhile, the RBI also decided to permit overseas branches and subsidiaries of Indian banks to refinance External Commercial Borrowings of AAA rated corporates as well as Navratna and Maharatna PSUs, by raising fresh ECBs.

This is being done to “provide a level playing field” to overseas branches and subsidiaries of Indian banks. Currently Indian corporate are permitted to refinance their existing ECBs at a lower all-in-cost. The overseas branches and subsidiaries of Indian banks are, however, not permitted to extend such refinance.

## **5. Reserve Bank warns of risks to ‘unregulated’ crypto-currencies**

### **OUR BUREAU**

In the wake of a significant spurt in the valuation of many virtual currencies and the rapid growth in the Initial Coin Offerings (ICOs), the Reserve Bank of India has reiterated its concerns regarding the potential economic, financial, operational, legal and security-related risks associated with crypto-currencies.

The RBI has been cautioning the public about the risks involved in dealing with crypto-currencies, including bitcoins, litecoins, bbqcoins and dogecoins. The central bank also underscored that it has not given any licence/authorisation to any entity/company to operate such schemes or deal in crypto-currencies with VCs.

Crypto-currencies, being in digital form, are stored in digital/electronic media called electronic wallets. Therefore, the RBI said that they are prone to losses arising out of hacking, loss of password and malware attacks. Since they are not created by or traded through any authorised central registry or agency, the loss of the e-wallet could result in the permanent loss of the crypto-currency held in them.

“Payments by virtual currencies, such as bitcoins, take place on a peer-to-peer basis without an authorised central agency which regulates such payments. As such, there is no established framework for recourse to customer problems/disputes/charge backs, etc.,” the RBI said.

### **POTENTIAL THREATS**

The central bank observed that there is no underlying or backing of any asset for crypto-currencies. “As such, their value seems to be a matter of speculation. Huge volatility in the value of virtual currencies has been noticed in the recent past. Thus, users are exposed to potential losses on account of such volatility in value,” it said.

Referring to reports that crypto-currencies are being traded on exchange platforms set up in various jurisdictions, whose legal status is also unclear, the central bank said that traders are exposed to legal as well as financial risks.

With kind regards,

Yours Comradely,

A handwritten signature in blue ink, appearing to read 'N. Govindrajulu', with a long, sweeping flourish extending to the right.

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