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Dear Comrades,

11th January, 2017

News of Interest 11th Jan

QUOTE OF THE DAY

"KNOWING IS NOT ENOUGH; WE MUST APPLY. WILLING IS NOT ENOUGH; WE MUST DO."

JOHANN WOLFGANG VON GOETHE

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Business Standard

1. RBI autonomy fundamental, we have to maintain it: Bimal Jalan

On the impact of demonetisation, he said that there would be a decline in the rate of growth

Press Trust of India

A day after former RBI governor Y V Reddy flagged 'reputational risk' being faced by the central bank, another former governor Bimal Jalan on Tuesday said its autonomy is fundamental and needs to be maintained.

"...The autonomy of the RBI — that is a very fundamental fact and we have to maintain it and I hope the government would give attention to that part also," Jalan said in an interview to *CNBC TV18*.

Reddy regretted on Monday that the institutional identity of Reserve Bank of India has been damaged and stressed that for central bank "reputational risk is worst risk".

Jalan said one would have to wait and see how the relationship between the government and RBI develops which ultimately is a matter of coordination.

"...It is a matter of consultative approach and it is too early to be able to say how it will grow in...Autonomy of the RBI and autonomy is not what you call independence.

"RBI is a part of the economic system and there is always consultative process between the RBI and the government, but it is a process and when you talk about monetary policy — the autonomy of the RBI is that you can take very hard decisions," he said.

Jalan was RBI Governor from 1997 to 2003 and was succeeded by Reddy.

On the impact of demonetisation on growth, he said, "It is very difficult to go through the percentage points...But everybody agrees that there would be a decline in the rate of growth. How far it is due to demonetisation and how far it is the trend from 7.6 to 7.1, you have seen last year itself... Let us wait and see that is the best thing rather than forecasting at the moment."

When asked whether he would have advised the government to take such a big step, Jalan said: "It is a decision and whether a decision is right or wrong that can only be proved over a period of time. If the black money reduces, if the corruption reduces, certainly it is a worthwhile step although it has pained the not so well-off classes more."

However, he added that if the demonetisation decision leads to further administrative reforms, it would be a major gain.

The government had scrapped high value currency notes of Rs 500 and Rs 1000 from midnight of November 8.

2. Note ban may offset impact of falling Iran deposits at UCO Bank

Deposits have come down from a peak of around Rs 25,000 cr to Rs 2,200 cr at present

Namrata Acharya

A few quarters ago, UCO Bank posted a huge loss, turning out to be one of the worst-performing public sector banks (PSBs). While non-performing assets (NPAs) weighed heavy on the balance sheet, its weaning Iran deposits added to the cost of funds.

Deposits from the Iran accounts have come down from a peak of around Rs 25,000 crore to Rs 2,200 crore at present. But, after demonetisation, the bank has received close to Rs 24,000 crore as deposits, which would help the lender to offset the impact of falling deposits from the Iran accounts.

While deposits from Iran were zero cost, that from demonetisation will bear a minimum cost of four per cent; still, the bank sees a marginal improvement in net interest margin (NIM) on account of lower cost of funds.

"Without exchange, the total deposits were close to Rs 24,000 crore from demonetisation. It has to some extent helped offset the impact of outflow from Iran deposits, but it is also a temporary phenomenon. Of this, only 50 per cent has come to savings or current account, which will also be there for a temporary period of two to three months. There would definitely be some improvement in NIM, but not to a great extent," the lender's Managing Director and Chief Executive Officer R K Takkar told *Business Standard*.

Since 2012, UCO Bank has been enjoying interest-free deposits on account of the rupee-trade mechanism with Iran. UCO Bank was the only conduit for payment among banks to settle trade with Iran. Under the mechanism, 45 per cent of oil imports of Indian oil companies are settled in rupee denomination at UCO Bank. With sanctions on Iran being lifted, the bank's corpus of funds from the scheme has been shrinking.

Between the first and second quarter of the current financial year, the bank had seen losses come down, while margins are improving. The bank's net loss came down from about Rs 1,715 crore at the end of Q1 to about Rs 385 crore at the end of Q2 of FY17. The bank's NIM stood at 2.33 per cent at the end of September 2016, against 1.63 per cent at the end of Q1 of FY17.

The bank, which has seen almost no growth in credit off take so far in this financial year, is expecting three-four per cent credit growth this year on account of falling cost of funds. The bank on Tuesday reduced the MCLR (marginal cost of fund-based lending rate) across various tenure by 70-80 basis points. After the reduction, the MCLR of the bank for one-year tenure is 8.60 per cent.

"We have already reduced MCLR by 70-80 basis points. Now for one year, MCLR is at 8.60 per cent. Due to flow of funds due to demonetisation, the cost implications we have reduced," said Takkar.

Notably, with Bank of Baroda offering lowest interest rate of around 8.35 per cent on home loans, the bank would face intense competition in the home loan market. The bank is looking to have tie-ups with institutions and builders to push home loan products.

"There is a market for everybody; other than rates, what matters is turnaround rate. If we can tie up with builders, institutions and their employees, we can increase our home loan portfolio," Takkar said.

Times of India

3. Notes scrapped on government's prod, RBI tells House panel

TNN |

The Reserve Bank of India (RBI) has told a parliamentary panel that it recommended the scrapping of Rs 500 and Rs 1,000 notes on November 8 after a prod from the Centre a day before. The response is part of a 7-page note the central bank has sent to Parliament's standing committee on finance.

Stating that the government conveyed its advice on November 7, the RBI told the panel: "The central board of the RBI met on November 8, 2016. The board noted that a summary measure in the form of withdrawal of legal tender character of these... notes to contain the menace of counterfeit notes is proposed by the government."

It was observed that such a proposal could not have come at a more opportune time than coinciding with the introduction of MG (New) series of notes, the RBI said in its reply to the panel headed by Congress's Veerappa Moily. The response led some to say that it was at odds with the Centre's version that the recommendation to outlaw the notes had come from the RBI.

However, official sources denied that the RBI's response contradicts statements from the government — for instance, the one from coal minister Piyush Goyal in the Rajya Sabha during the debate on demonetization. "The response reflects only the formal part of the demonetization drill was followed. The fact is that the exercise got under way months ago and had covered some ground by May-June when consultations were held with ex-RBI governor Raghuram Rajan." There were several rounds of

discussions on the different aspects of the massive task. What happened on November 7, with the government writing to the RBI and the latter acting on the advice on November 8 before PM Modi announced the dramatic decision in his televised address to the nation, was the formal finale of the six month-long preparation which had RBI fully involved," said a government functionary.

Providing the background of the demonetization exercise and the preparations which went into it, the RBI has told the panel: "It occurred to government of India and the RBI that the introduction of new series of notes could provide a very rare and profound opportunity to tackle all the three problems of counterfeiting, terrorist financing and black money by demonetizing the bank notes in high denomination of Rs 500 and Rs 1000 or by withdrawing the legal tender status of bank notes. Though no firm decision was taken initially, whether to demonetize or not, preparations still went on for introduction of new series of notes, as that was needed in any case."

TOI had in its edition on November 9 exclusively reported that the preparation for the withdrawal of notes of Rs 500 and Rs 1000 had begun six months before it was announced. The RBI has told the parliamentary panel that it had "on May 27, 2016 recommended to the government that new series of bank notes with new design, including notes in the Rs 2000 denomination, be introduced. Government gave its final approval on June 7, 2016 and accordingly presses were advised in June 2016 to initiate production of new notes".

4. 13 co-operative banks deposited Rs 1,600 crore in banned notes post demonetisation

Pradeep Thakur

An on-going investigation by the Enforcement Directorate against 50 bank branches of ten leading banks across the country has raised suspicions of big money laundering operations across the country post demonetisation, using dormant and newly opened accounts. In one case, 13 cooperative banks had deposited around Rs 1,600 crore in the Mumbai branch of a commercial bank. Another cooperative bank in Surat deposited Rs 20 crore in demonetised notes in its account with the Bank of Baroda.

These 14 cooperative banks are among 300 the ED is currently investigating for suspected money laundering. According to sources, an ED audit of the ICICI Bank's BKC branch revealed that Rs 1,596 crore in banned currency notes were deposited by 13 cooperative banks between November 16 and 21 in accounts they had with the bank.

Within a week of the announcement of the demonetisation of Rs 500 and Rs 1,000 on November 8, the central bank had restricted these cooperative banks from accepting banned notes.

In another case in Mumbai, the agency had detected irregularities in deposits of Rs 196 crore in a cooperative bank which had earlier reported deposits of Rs 1,400 crore in banned notes to the Reserve Bank of India, after the demonetisation.

The agency has, meanwhile, started registering cases under the Prevention of Money Laundering Act and made some arrests. The ED registered a case in Delhi and arrested two managers of Axis Bank and a chartered accountant for laundering Rs 39 crore, after they were found misusing the banking channels.

The audit of bank branches revealed dormant accounts were used for deposit of banned notes. For instance, at the Punjab National Bank's Allahabad branch, the ED found details of 205 newly opened accounts where huge deposits in Rs 500 and Rs 1,000 notes were detected.

At the Axis Bank's Ranchi branch, details of 16 newly opened accounts were found which were used for deposits of banned notes. In Axis Bank's Jaipur branch, 11 cases of third party deposits without proper authorization were found. The agency could not find any documents pertaining to Rs 17 lakh in the branch. Similarly, the ED could not find any documents relating to exchanges of old notes in 43 cases at the same branch.

The ED is also probing 34 Jan Dhan accounts having cash deposits of more than Rs 10 lakh each. It has also examined bank accounts of top 80 jewelers spread over 16 cities with suspicious transactions.

Business Line

5. Centre mulls hike in service tax rate if GST rollout is delayed

SURABHI

The Centre could consider increasing the service tax rate in the coming Budget as a fall back option in case the rollout of the Goods and Services Tax (GST) is delayed beyond April 1.

"There is some thinking of an increase in the service tax rate in case the GST is not implemented from April. A higher rate will help improve revenue and also bring it closer to the proposed standard rate under GST," said a person familiar with the development.

The official, however, said there is no concrete proposal on such a move at present.

Most services are likely to be taxed at a higher rate of 18 per cent under GST against the current rate of 15 per cent. This was part of the four-tier rate structure approved by the GST Council at its meeting on November 3. The other three rates proposed under GST are 5 per cent, 12 per cent and 28 per cent.

The decision will however, be taken later in the month and closer to the presentation of the Union Budget on February 1.

"It has to be closely examined at the highest level before it is announced. On the other hand, there is a case to be made that the indirect tax structure should not be tweaked for just a few months before the GST rollout," he added, noting that taxpayers may not take it very favourably, especially after the impact of demonetisation.

Budget 2016-17 hiked the service tax rate to 15 per cent with the introduction of the Krishi Kalyan Cess at the rate of 0.5 per cent on all taxable services.

Finance Ministry officials, however, stressed that efforts are still on to roll out GST from April 1, 2017. "It is a tight schedule, but it is still very much doable. Much will depend on the January 16 meeting of the GST Council," said an official.

States are, however, pushing for a mid-year rollout of GST — from June 1 or September 1.

Sources said a higher service tax rate would also help the Centre raise additional revenue. "For whatever part of the fiscal that the GST is not implemented, a higher service tax rate will increase tax collections while paving the way for GST," said the source. Tax experts said such a move, while possible, would require the government to notify the increase in service tax rates immediately, like in the case of central excise and customs duty.

“Since the rate of taxation of services under GST will be close to 18 per cent, there is a possibility of an increase in the service tax rate,” said Pratik Jain, Partner and Leader Indirect Tax, PwC India.

At present, the service tax rate changes announced in the Budget come into effect from May or June, once the Finance Bill receives Presidential assent.

6. IndusInd Bank net up 29% on higher interest income

OUR BUREAU

IndusInd Bank’s net profit grew 29 per cent to ₹751 crore in the third quarter ended December 31, on the back of higher net interest income and other income. This was despite the banking sector being pre-occupied with demonetization woes.

The bank had posted a net profit of ₹581 crore in the corresponding year-ago period.

Commenting on the robust financial performance, Romesh Sobti, Managing Director and CEO, said the big driving engine for growth was net interest income (NII), which grew 35 per cent to ₹1,578.42 crore, from ₹1,173.42 crore in the same period last year. “This is not just a quarterly event that this quarter we grew our NII by 35 per cent, it has been the same for the last nine months.

The bank is slightly better positioned in a falling interest rate scenario as we have 70 per cent of our loan book at fixed rates. As rates fall on one side and cost of deposits go down, the yield doesn’t fall to the same extent because we have a large component of a fixed rate book,” Sobti said.

Branch network

As a result, net interest margin improved nine basis points year-on-year to 4 per cent. The bank is on course to achieve a network of 1,200 branches by FY17. Other income rose 21 per cent to ₹1,016.80 crore, from ₹839 crore in the same period last year. Deposits grew 38 per cent y-o-y to over ₹1.19 lakh crore with low-cost deposits (current account, savings account or CASA) growing 46 per cent and savings accounts growing 56 per cent. Hence, the ratio of CASA to total deposits grew significantly y-o-y by 206 basis points to 37.04 per cent.

Demonetization

On the surge in costs due to higher outgo on cash logistics, Sobti said the cost of moving cash, and the cost of re-calibrating ATMs, are immaterial, as the benefits of demonetization far outweigh the costs.

“There is a cost as cash had to be moved around quickly and air-freighted in some cases. I think the real cost is how quickly you moved your cash from the branches/vaults to the currency chests. As soon as you did that, technically that cash in the currency chest comes as cash reserve ratio. Our four currency chests could move out cash very quickly from vaults. This cost will vary from bank to bank,” Sobti said.

7. Note ban: Cash deals worth Rs. 25,000 cr move to digital mode

PTI

Post-demonetisation, cash-based transactions worth Rs. 25,000 crore have moved to the digital mode, says a survey.

The Economic Research Department of State Bank of India carried out the survey from December 30, 2016, to January 3, 2017, so as to understand the nuances of demonetisation. It showed that 15 per cent of transactions moved to electronic payments such as m-wallets and Point of Sale machines.

"This means that Rs. 25,000 crore of cash-based transactions have moved to digital in the last two months. If this is so, this is a good beginning," SBI Research said in its Ecowrap report.

This number could have been even higher because the behavioural shift has not happened yet and many merchants still prefer cash transactions when the amount is not large, the survey said, adding that a number of merchants are facing connectivity issues at POS machines.

It further noted that around 69 per cent of the respondents affirmed that their businesses were impacted and the overall decline in business is less than 50 per cent for the majority of the businesses that were impacted.

The construction sector and the informal road-side vendors seem to be the most hit, with 55 per cent and 71 per cent respondents saying that the business got reduced by more than 50 per cent.

In order to boost digital payments, the government should take on board new merchants, particularly small and marginal traders, grocery shops and the like on the digital platform by a more targeted approach, the report said.

"We also suggest that RBI should enhance the mobile wallet user limits further to shift more of the cash transactions to digital wallets. This may be done in steps with enabling IT infrastructure in place," it added.

8. India at exciting but challenging time: RBI Dy Governor Acharya

PTI

India, one of the world's fastest growing economies, is at an "exciting but challenging time" and has massive potential to become an "economic powerhouse", RBI's newly-appointed Deputy Governor and noted economist Viral Acharya has said.

Acharya, 42, said he was "thrilled" to have the opportunity to help advance India's economy by contributing to policies at the Reserve Bank of India (RBI) that can ensure the country's stable growth.

Appointed for a term of three years, Acharya would take charge on January 20. He would look after the Monetary Policy and Research cluster and would fill the post that became vacant after Urjit Patel was made RBI Governor.

The CV Starr Professor of Economics at the Department of Finance of New York University's Stern School of Business, Acharya said India is at an "exciting but challenging time" and as one of the world's fastest growing economies, it has the massive potential to become an "economic powerhouse".

"I am thrilled to have the opportunity to help advance India's economy by contributing to policies at the RBI that can ensure the country's stable growth and

are at the same time globally responsible,” Acharya said in a statement issued by NYU Stern here yesterday.

Acharya, also the Director of the NSE-NYU Stern Initiative on the Study of Indian Capital Markets, has received numerous awards and recognition for his research, including the recent Alexandre Lamfalussy Senior Research Fellowship of the Bank for International Settlements (BIS) for 2017 and the inaugural Banque de France and Toulouse School of Economics Junior Prize in Monetary Economics and Finance in 2011.

Acharya’s primary research interests are in the regulation of banks and financial institutions, measurement of systemic risk and understanding the nexus between sovereign and financial sector credit risks.

Peter Henry, Dean of NYU Stern, which is one of the US’ premier management education schools and research centers, described Acharya as an “outstanding and prolific scholar”, who will “undoubtedly bring breadth, depth and real-world insight to this prestigious policy post in such an important emerging market in the global economy”.

In his new role, Acharya will be in charge of monetary policy, foreign exchange and market operations, as well as research and statistics.

Like former RBI governor Raghuram Rajan, Acharya comes from an academic background and has also co-authored at least three papers.

Acharya has often praised Rajan for his work and once said “Raghu has been a great source of inspiration for me”.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY