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Dear Comrades,

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News of Interest 8th JUNE

MOTIVATIONAL QUOTES

“SILENCE IS ONE OF THE HARDEST ARGUMENTS TO REFUTE. “
JOSH BILLINGS

HIGHLIGHTS

- 1. RBI KEEPS DOOR OPEN TO CUT RATES, IS WATCHFUL OF INCOMING DATA**
- 2. FARM LOAN WAIVERS MAY HARM FISCAL DISCIPLINE; STROKE INFLATION: RBI**
- 3. BANKS BAD LOANS CRISIS: SFIO LAUNCHES CRACKDOWN AGAINST BIG DEFAULTERS**
- 4. LOWERING SLR WILL NOT NUDGE BANKS TO RAISE LENDING**
- 5. RBI INTERNAL ADVISORY PANEL TO SOON ADDRESS STRESSED ASSETS PROBLEM**

Business Standard

1. RBI keeps door open to cut rates, is watchful of incoming data

Pause for now, keeps policy stance neutral with 5-to-1 vote to maintain status quo in interest rates

Anup Roy

The six-member monetary policy committee (MPC) of the Reserve Bank of India (RBI) on Wednesday voted five-to-one to keep interest rates unchanged, preferring to remain watchful of incoming data.

Ravindra Dholakia, an external member of the MPC and professor at the Indian Institute of Management, Ahmedabad, was the dissenting voter.

Even as the central bank's official policy stance continued to remain "neutral", the language used by RBI officials gave the impression to the market that the central bank had embraced an accommodative stance once again. The central bank kept the possibility of a future rate cut open as a "premature action at this stage risks disruptive policy reversals later and the loss of credibility".

The stance was changed from accommodative to neutral in the last policy in February.

Retail inflation at 2.99 per cent in April "surprised on the downside and imparted high uncertainty to the (RBI inflation) outlook," Urjit Patel, RBI governor, said in his opening remarks at the policy press conference.

The RBI now expects consumer price inflation (CPI) in the range of 2-3.5 per cent in the first half of the fiscal year and 3.5-4.5 per cent in the second half. Earlier, the central bank was expecting an average 4.5 per cent in the first half and 5 per cent in the second half.

"We will watch carefully in next few months the incoming data on inflation as well as the indicators of real economic activity," said Viral Acharya, RBI deputy governor in charge of monetary policy.

The impact of demonetisation on food prices still lingered on and there was a supply glut in pulses, the central bank said.

"The current state of the economy underscores the need to revive private investment, restore banking sector health and remove infrastructural bottlenecks. Monetary policy can play a more effective role only when these factors are in place," the policy document said.

Patel once again warned against farm debt waivers. "Unless there is an existing fiscal space in state government budgets or some space is found, the likelihood of going down this slippery path and dissipating the important gains that we have made in fiscal rectitude over the last two to three years can come undone," he said.

"Past episodes in our country have shown that when there are significant fiscal slippages, they permeate through to inflation sooner or later. It is a path that we need to track very carefully before it gets out of hand," he added.

Acharya urged banks to pass on benefits of lower rates. But bankers said they had done what they could.

"Banks have played their role in effective monetary policy transmission by downward revision of their lending rates. However, the demand for credit is yet to pick up. Growth is the result of many more complex factors and not the repo rate alone," said R P Marathe, CEO and MD of Bank of Maharashtra.

The market interpreted the policy as "quite a dovish one" with adequate hints of rate cuts in the future. Analysts were largely expecting the repo rate to remain at the current 6.25 per cent for an extended period, at least for the whole of 2017. Now that assumption could be tested.

"In our view, policy rates could remain unchanged in the foreseeable future if it is indeed strict inflation targeting that the RBI is pursuing," said Abheek Barua, chief economist, HDFC Bank.

"However, it could also be the case that the RBI is reluctant to change its stance too soon. Therefore, if the monthly inflation momentum moves closer to the lower end of the RBI's projected path, then a rate cut cannot be ruled out," Barua said.

Yields on the 10-year gilt closed at 6.56 per cent, down from their previous close of 6.64 per cent, as rate cut hopes increased after the RBI policy. The rupee closed 0.15 per cent stronger at 64.33 to a dollar.

The central bank also lowered the 2017-18 gross value added estimate by 10 basis points to 7.3 per cent.

In continuation with its earlier practice of lowering mandatory bond holdings by banks to improve the liquidity coverage ratio to 100 per cent, the central bank cut the statutory liquidity ratio by 50 basis points to 20 per cent of a bank's deposit base.

The RBI also wanted rupee denominated bonds or masala bonds to be harmonised with external commercial borrowing norms and therefore imposed restrictions on maturity, all-in-one cost ceiling and entities who could invest in these.

The central bank reduced the risk weights and provisioning on housing loans, which should help lower home loan interest rates.

2. Farm loan waivers may harm fiscal discipline; stoke inflation: RBI

In April, the Uttar Pradesh government had waived farm loans worth Rs 36,000 crore
Abhijit Lele

The Reserve Bank of India (RBI) on Wednesday warned that large-scale farm loan waivers by state governments will severely harm the country's fiscal health and may spur inflation.

RBI Governor Urjit Patel said unless state governments' budgets allow that fiscal space to go in for a loan waiver, it would be risky to tread on that path.

The risk of fiscal slippages, which by and large can lead to inflation, has risen with the announcements of large farm loan waivers. The risk of going down the "slippery path" of waiver could dissipate the important gains that the states made in fiscal rectitude over the past two-three years, Patel said addressing media after second monetary policy review for FY18.

Early this month, the Maharashtra government announced loan waivers in the state for small and marginal farmers. It plans to implement the waiver before October 31. With this decision, about 10.7 million farmers with less than five acres of land would be eligible for benefits. The fiscal burden of the scheme is estimated at Rs 30,000 crore.

In April, the Uttar Pradesh government had waived farm loans worth Rs 36,000 crore.

Like the RBI, the National Bank for Agriculture and Rural Development (Nabard) has also flagged adverse effects of waving off credit. There should not be omnibus waivers and such schemes should be designed only for the needy, the Nabard had said in April.

Farmers in Madhya Pradesh, too, have been agitating since June 1, seeking loan waivers, higher minimum support prices and other benefits. There has been a clamour for similar schemes in other states such as Haryana and Tamil Nadu.

Financial Express

3. Banks bad loans crisis: SFIO launches crackdown against big defaulters

In a fresh crackdown against defaulters, the Serious Fraud Investigation Office (SFIO) has started probing details of certain non-performing asset (NPA) accounts of public sector banks in which, prima facie, there is a violation of rules

By: Banikinkar Pattanayak

In a fresh crackdown against defaulters, the Serious Fraud Investigation Office (SFIO) has started probing details of certain non-performing asset (NPA) accounts of public sector banks in which, prima facie, there is a violation of rules. An established steel company, which is among the biggest defaulters, is on top of the SFIO radar for possible violation of rules, which includes diversion of funds for purposes other than what it had cited to get loans, official sources said. A diversified conglomerate, with interests ranging from consumer electronics to DTH services, is another such large defaulter whose loan accounts are also being looked into, the sources added. While 90% of bad loans could be a result of "genuine business failures or other concerns", possible fraud can't be ruled out in at least 10% of cases, one of the sources said. "The SFIO is getting into details of these accounts where there is a prima facie case for fraud," he added. In case of any contravention of rules by these defaulters, appropriate action will follow." As of December 2016, commercial banks had stressed assets (both gross NPA and restructured standard advances) worth Rs 9.64 lakh crore, with most in public sector banks. The massive bad debts have led to a "twin balance sheet problem" — over-leveraged companies and bad-loan-encumbered banks — severely denting investments in the economy. Sources had earlier told FE that the government could launch a crackdown on 5-10 big firms that are perceived to be among the top wilful defaulters of the 50-odd companies that account for the bulk of banks' massive bad loans. Banking sources said the government is exploring all the possible angles on toxic assets.

There is a thinking that promoters of some of the big defaulters — whose criminal intent of avoiding payments wilfully and/or diversion of funds, prima facie, are established — should feel the heat. The SFIO action is one of the raft of measures that the government and the Reserve Bank of India (RBI) have announced or are working on to resolve the bad debt issue. Last month, through an ordinance amending the Banking Regulation (Amendment) Act, 2017, the Centre authorised the RBI to direct banking companies to resolve specific cases of bad loans by initiating resolution process under the new insolvency law, where required. The central bank can now give directions on even specific cases of defaults, a practice it had generally avoided earlier. After the promulgation of the ordinance, the RBI, too, took a series of steps, including the one to make the joint lenders' forum more effective, and directed banks to not break any rules and to meet all deadlines.

NPAs reached 9% of total advances by September 2016, double their level a year earlier. Importantly, more than four-fifths of the NPAs were in the public sector banks, where the NPA ratio had touched almost 12%. A sample of 39 top banks showed NPAs accounted for Rs 6,97,409 crore — or 9.3% of their advances — as of December 2016.

Business Line

4. Lowering SLR will not nudge banks to raise lending

RADHIKA MERWIN

The RBI lowering the total SLR requirement (statutory liquidity) — government securities held by banks — by 50 basis points to 20 per cent, offers leeway to banks to free up funds and deploy in lending.

But banks are unlikely to do so immediately. By keeping the ceiling on the amount of SLR securities that can be held under the 'Held to Maturity' (HTM) category unchanged at 20.5 per cent, the RBI has also not made it less viable for banks to stock up excess government securities than mandated.

On the housing loan front, however, lowering risk-weights in certain buckets and reducing the standard provisioning requirement from 0.4 per cent to 0.25 per cent, should prompt banks to push forth lending in this segment.

Banks are currently required to hold 20.5 per cent of deposits as SLR. The RBI's 50 bps cut can free up close to ₹57,000 crore of funds. But banks may not loosen up their kitty immediately.

This is because banks prefer to carry excess investments and park funds in highly safe assets, particularly when lending opportunities are weak. Banks, on an average, continue to invest 3-5 per cent more than the mandated requirement.

What could have forced the hands of banks to some extent, is the reduction in the ceiling of Hthe TM. This, the RBI has kept unchanged at 20.5 per cent.

Banks are allowed to keep a portion of their SLR securities under the HTM, which do not have to be adjusted to reflect their market value at the end of every quarter.

In the past, banks were allowed to hold more securities in the HTM category than the mandated level of SLR. But since January 2016, banks have to align their HTM portfolio with the total SLR requirement.

Banks that carried excess SLR could park the surplus in the AFS (available-for-sale) book but had to mark-to-market such investments at quarterly or at more frequent intervals. The RBI not reducing the ceiling on HTM along with the total SLR requirement, will now prompt banks to still hold higher than mandated government securities without having to bear the risk of volatility in their treasury income.

The RBI's tweak on SLR will, for now, only give banks more flexibility to meet their liquidity coverage ratio (LCR) requirement.

From January 2015, banks are required to meet the guidelines on the minimum LCR as per Basel-III. The main objective of LCR is to ensure that banks maintain sufficient liquid assets to meet obligations in a 30-day stress scenario. Banks have to maintain LCR of 100 per cent by January 2019.

Home loan push

The RBI's reduction in risk-weights is for home loans in the ₹30-75 lakh and above ₹75 lakh categories. This will have two implications.

One, banks with relatively weak capital position can now look to incrementally lend to the housing segment. This will lead to increased competition in the space, benefiting customers.

Two, the savings on the capital front arising from lower risk-weights and across-the-board reduction in standard provisioning, can be transmitted to home loan borrowers in the form of lower lending rates.

The extent of pass-through will depend on each banks' home loan portfolio (proportion of loans in the above ₹30-lakh category) and capital position, among other factors.

5. RBI internal advisory panel to soon address stressed assets problem

OUR BUREAU

To tackle the problem of stressed assets in the banking sector, the Reserve Bank of India will shortly convene a meeting of its internal advisory committee, which will focus on resolution of a few large accounts, said NS Vishwanathan, Deputy Governor.

"We have decided to focus on a few large stressed accounts...and accordingly a set of accounts have been identified based on objective criteria," he said.

The Deputy Governor said the central bank held a series of meetings with the stakeholders — banks, rating agencies, asset reconstruction companies, private equity firms and investors — and the required modifications to the restructuring guidelines are in the works and the feedback received from these stakeholders are being built into the final guidelines.

"Overall, the RBI has a strategy to deal with the resolution of the large assets and we are working in a calculated manner and we hope to see some resolutions coming through," said Vishwanathan.

Governor Urjit Patel observed that as the government and the RBI embark on resolving the twin debt hangover problems — over-leveraged corporate sector and stressed banking sector — the central bank felt that more targeted interventions that can unfreeze credit to help the stress-free but recently slowing sectors of the economy borrow at better terms are likely to work better.

Viral Acharya, Deputy Governor, observed that the accommodative policy of 2015 and 2016 failed to revive investment as it did not get fully transmitted by the stressed banks to the indebted sectors.

"The RBI, in partnership, with the government has embarked on resolving this stress in a decisive manner.

"In the meantime, what is likely to work better than interest rate policy in responding to growth challenges is the targeted intervention to create greater lending capacity for the healthier sectors of the economy that have recently slowed down," he explained.

According to ICRA, asset quality woes of the banking sector are likely to continue this fiscal (FY18) even as fresh non-performing asset (NPA) generation rate continues to show signs of moderation, said the credit rating agency in a report.

The agency sees advances under strategic debt restructuring (SDR) to remain a risk to the asset quality in FY18.

ICRA has projected gross non-performing assets (GNPAs) to increase to ₹7.5-7.7 lakh crore (9.7-10 per cent) by the end of FY17 and to ₹8.2-8.5 lakh crore (9.9-10.3 per cent) by the end of FY18 with upside risks in case slower resolution of SDR accounts leads to higher slippages.

With kind regards,

Yours Comradely,



(N. GOVINDRAJULU)
GENERAL SECRETARY