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Dear Comrades,

12th December , 2018

News of Interest 12th DEC

MOTIVATIONAL QUOTES

“YOU JUST CAN’T BEAT THE PERSON WHO NEVER GIVES UP.”

BABE RUTH

HIGHLIGHTS

1. STATE POLLS A WAKE-UP CALL FOR BJP: CAN A NATIONWIDE FARM LOAN WAIVER HELP?
2. PSU BANKS IN FOCUS; CORPORATION BANK, PNB, UCO BANK UP OVER 5%
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Business Standard

1. State polls a wake-up call for BJP: Can a nationwide farm loan waiver help?

If experts are to be believed, a nationwide farm loan waiver covering the entire gamut of growers could be tried

[Archis Mohan](#) & [Sanjeeb Mukherjee](#) |

The Bharatiya Janata Party (BJP) might have lost the battles in Madhya Pradesh (MP), Chhattisgarh, and Rajasthan, but the war for 2019 still remains. And, the ruling party is most likely to go in for a course correction – like it did after losing the Assembly elections in 2015.

Failing to win any of the five states, results for which were declared on Tuesday, is a wake-up call for the BJP. The Lok Sabha elections slated 2019 are only four months away.

In 2015, the BJP had lost the Assembly elections in Delhi and Bihar. It had forced Prime Minister Narendra Modi's government at the Centre to adopt a "garib kalyan" (welfare of the poor) policy approach. The results were for all to see: In 2016 and 2017, the BJP was practically undefeatable.

This year, however, has been electorally disastrous for the BJP, which has not had a favourable outcome in even one election. It emerged as the single-largest party in Karnataka, but could not form the government as the Congress and the Janata Dal (Secular) took charge by forming a post-poll alliance.

Now, it has lost MP, Rajasthan and Chhattisgarh, where it was in power.

Too little, too late?

Experts said the government is now aware that providing cooking gas, affordable housing, electricity, as well as crop and health insurance to the poor have not been enough. Crisis in the farm sector, lack of jobs, and rural poverty are issues that need to be tackled.

As the results became clear, Prime Minister Modi on Tuesday evening tweeted: "Today's results will further our resolve to serve people and work even harder for the development of India."

The road ahead, however, is likely to be bumpy.

Rejuvenated by the recent victories, the Opposition too will make it as difficult as possible for the government. Congress President Rahul Gandhi said they would continue to question the government for its failures.

A win in 2019 for the BJP is not to be taken for granted, he said.

The ruling party has long been prepared for the eventuality that its performance in 2019 will not be a repeat of 2014, when it had won 282 seats in the Lok Sabha and had the opportunity to form the first single-party government since 1984.

Then, it had swept the Hindi heartland. Now, it hopes to recompense for losses in these states by winning seats in West Bengal, Odisha, and the Northeastern states.

Not a good barometer

An Assembly election, however, is not such a good barometer to forecast Lok Sabha elections.

In 2003, the BJP won Chhattisgarh, Rajasthan, and MP, but lost the 2004 Lok Sabha elections. In 2008, the BJP again won Chhattisgarh and MP, lost Rajasthan to Congress, and lost the 2009 Lok Sabha.

However, the BJP's 2013 wins in these three states did act as a precursor to the 2014 victory. There are other factors at work as well. The Congress

significantly improved its vote share in the three north Indian states. But, the BJP has been able to hold on to respectable vote shares in Rajasthan (38.3 per cent) and MP (41.1 per cent).

The vote shares of the Congress in these two states are 39.3 per cent and 41 per cent, respectively.

The Modi factor

A BJP strategist on Tuesday said the Opposition would discount the "Modi factor" in the Lok Sabha polls at its own peril.

Unlike the current round of Assembly polls, the PM would campaign more frenetically in the run-up to the Lok Sabha polls. However, unlike in 2014, the BJP will face a united Opposition in 2019, particularly in key states such as Uttar Pradesh and Bihar.

With the likelihood of BJP falling short of the majority mark, it would also need to make new friends and strengthen its equation with older ones, such as the Shiv Sena.

Modi continues to be popular in much of urban and semi-urban India, and his government is likely to take measures to shore up its acceptance in rural India. The Sangh Parivar has already indicated it wants the Modi government to pave the way for an early construction of a Ram temple in Ayodhya.

Farm spending should see an increase in the interim Budget, with a focus on more efficient transfer of subsidies directly into the bank accounts of farmers.

The government could replicate the Telangana model of direct transfers. The K Chandrashekar Rao-led Telangana Rashtra Samithi has leveraged its policies to win spectacularly in the state.

If experts are to be believed, a nationwide farm loan waiver covering the entire gamut of growers could be tried.

Farm economist Ashok Gulati said with the BJP losing its grip firmly over rural India, there looks like a strong possibility of a national farm loan waiver, something like what the Congress in 2009 to come back to power.

Gulati said this would cost the exchequer about Rs 4-5 trillion which the next government at the Centre will have to bear from its resources. So far, seven states have announced farm loan waivers totalling around Rs 1.9 trillion.

2. PSU banks in focus; Corporation Bank, PNB, Uco Bank up over 5%

Nifty PSU Bank index was up 2.5% at 2,876 at 02:35 pm, recovering 5% from its intra-day low of 2,747 on the NSE

SI Reporter

Shares of public sector undertaking (PSU) banks were in focus, with the Nifty PSU Bank index gaining more than 2% and bouncing back 4.4% from its early morning low, as the markets shrug off worries over Reserve Bank of India (RBI) governor's exit.

At 02:35 PM; Nifty PSU Bank index was up 2.5% at 2,876, recovering 5% from its intra-day low of 2,747 on the National Stock Exchange (NSE). In comparison, the Nifty 50 index was up 0.58% at 10,550, bouncing back 2% from its early morning low of 10,334.

The RBI governor, Dr. Urjit Patel, resigned from his position, effective 10th December 2018, citing personal reasons. The government has been seeking the relaxation of Prompt Corrective Action (PCA) norms for PSU banks, which if relaxed, would be positive for those banks, according to a brokerage firm.

"There are four major areas where the government and the RBI need to find a common ground the proposal to use the RBI's balance sheet to recapitalize public sector banks, easing norms for banks under the (PCA) mechanism, additional liquidity window for NBFCs and setting up of an independent regulator for payment systems outside the RBI," Motilal Oswal Securities said in a client note.

Meanwhile, shares of non-banking financial companies (NBFCs), housing finance company (HFCs) and microfinance institutions (MFIs) were too trading higher by up to 6% on the BSE on hopes of improving liquidity situation.

Shriram Transport Finance, Dewan Housing Finance Corporation (DHFL), Mahindra & Mahindra Financial Services, Equitas Holdings and LIC Housing Finance were up in the range of 3% to 6% on the BSE.

As regards to NBFCs, the brokerage firm believes while the liquidity situation has been improving over the past two months, higher cost of funds and slowdown in growth will impact the sector as a whole.

"We believe the impact will be particularly pronounced for wholesale financiers. HFCs with better parentage and higher share of pure retail home loans would have easier access to debt capital, in our view. Also, vehicle financiers have better pricing power, and thus, should be able to largely manage spreads in this environment. The RBI and government have been taking steps to improve the situation, which should address investor concerns," it added.

Financial Express

3. Promotor stake dilution: Kotak bank moves Bombay HC against decision

By: [FE Bureau](#)

As per the central bank's rules, the bank must reduce its promoter shareholding to 20% by December 31, 2018 and 15% by March 31, 2020.

Kotak Mahindra Bank on Monday filed a writ petition in the Bombay High Court against the Reserve Bank of India's (RBI) decision to overrule the issue of perpetual non-convertible preference shares (PNCPS) as a valid means of reducing promoter Uday Kotak's shareholding in the bank.

Following the bank's communication to the stock exchanges, its shares fell as much as 7.3% intraday before ending down 6.6% than their previous close at Rs 1,198.15.

On August 2, the bank had announced completion of the PNCPS issue, resulting in dilution of its promoter stake to 19.7% of paid-up capital. As per the central bank's rules, the bank must reduce its promoter shareholding to 20% by December 31, 2018 and 15% by March 31, 2020.

The RBI took exception with the PNCPS route for stake dilution and on August 14, the bank had communicated the same to the exchanges. "We continue to believe that we have met the requirement and will engage with the RBI in this behalf," it said.

On Monday, the bank said it has since clarified and conveyed to the RBI its position in relation to PNCPS being a part of paid-up capital and the legal basis on the matter of dilution of shareholding under the Banking Regulation Act. It has also shared with the central bank the opinions of eminent jurists and senior legal counsels of the country, which confirm its understanding of the rules.

"However, we have not heard from the RBI on the above matter. Given the milestone of December 31, 2018, the bank has been left with no option but to protect its interest. By way of abundant caution, the bank today filed a writ petition with the Hon'ble Bombay High Court to validate the bank's position," the private bank said on Monday.

Economic Times

4. Will banks benefit from new RBI governor Shaktikanta Das?

By Saikat Das, ET Bureau|

Das is said to know some government bankers with whom he had interacted during the demonetisation days more than two years ago. This too should help him in dealing with banks.

Shaktikanta Das, the new governor of the Reserve Bank of India, has revived banking industry's hopes that there could be some relaxation on stricter rules. At the same time, banks may stare at treasury gains amid expectation of falling bond yields.

His prolonged association with the government is likely to act as a catalyst, which should augur well for mutual policy framing.

"Bonds should rally expecting a softer interest rate regime next year," said Ashish Vaidya, head of markets for India at Singapore's DBS Bank. His association with the government will help. Short-term investor sentiment should be revived amid higher demand for sovereign bonds."

"Banks' credit too may expand in the coming quarters," said Vaidya.

The benchmark bond yield initially shot up 12 basis points on Wednesday, pulling prices down. But, it recouped its losses as state-owned banks are said to have stepped up buying at higher levels. Bond yields and prices move in opposite direction. The gauge ended at 7.52%, seven basis points lower than Monday's closing.

Public sector banks have been net buyers of government bonds in the past four trading sessions. A fall in yields will prove profitable for those banks that bought them at higher levels. The government's fiscal condition will improve if RBI shares its reserves.

"The government's prompt decision to appoint the new RBI governor displays maturity in handling a ticklish situation," said Bhaskar Panda, senior VP, Treasury Advisory Group, at HDFC Bank NSE -1.40 %. The new governor designate is an old hand so to speak, and is expected to provide appropriate solutions in the current situation."

"This should bring back confidence to the markets," he said.

In its bi-monthly policy, RBI hinted at possible change in rate cycle next year, citing softer rise in consumer prices.

Moreover, there are 11 banks that have been going through the central bank's austerity measures, known as prompt corrective action in regulatory parlance that restricts usual lending business. The government was believed to be seeking a relaxation of such norms, citing credit squeeze.

"Bank credit growth is likely to rise amid expected easing of select norms. Banks' profitability is also likely to rise," said a senior executive of a large foreign bank, who didn't want to be identified.

Das is said to know some government bankers with whom he had interacted during the demonetisation days more than two years ago. This too should help him in dealing with banks.

Business Line

5. RBI should take a relook at ownership guidelines of private banks, says CEPR

[OUR BUREAU](#)

The Reserve Bank of India needs to take a second look at the ownership guidelines for the country's private sector banks, with multiple – and sometimes ambiguous rules – placing serious restrictions on the expansion of domestically-grown large financial institutions, swadeshi think-tank, Centre for Economic Policy Research (CEPR), said in a recent paper.

The 'On Tap Licensing Guidelines', issued in August 2016, had for its objectives that "such a policy would increase the level of competition and bring new ideas in the system". However, these guidelines had elaborate prescriptions on ownership, including multi-layering, to ensure control on "ownership", the paper said.

According to RBI rules, promoters of private sector banks are required to dilute their shareholding to 15 per cent within 15 years of beginning operations. The rule aims to diversify the ownership and prevent concentration of power, thus leading to better governance.

Even as governance restrictions and regulations are strictly followed, India must not mistakenly train its guns on the issue – by killing entrepreneurship that is aligned with its domestic and global ambitions, the paper contends.

The paper said the complex rules have resulted in lack of interest among Indian institutions to set up new banks. Therefore, even after nearly two years having gone by since announcement of the on-tap guidelines, no institution has ventured to set up a bank, it pointed out.

The CEPR paper said that such shareholding dilution ends up with the foreign investors who are now the majority owners of Indian private sector banks. Four of the five top private banks in India are majority foreign-owned, it pointed out. The CEPR paper said that in the interest of creating large Indian private banks, the RBI should put its circular on dilution of owner's equity stake in private banks on hold and set up a committee to take a relook at issues surrounding economic ownership.

The RBI should refrain from aggravating the situation further by pushing for massive dilution by promoters to as low as 15 per cent. Instead, it seeks a higher limit of 26 per cent in sync with the voting cap.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**