



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

7th November , 2018

### News of Interest 7<sup>th</sup> NOV

#### QUOTE OF THE DAY

‘CHANGE YOUR LIFE TODAY. DON'T GAMBLE ON THE FUTURE, ACT NOW, WITHOUT DELAY. ‘

SIMONE DE BEAUVOIR

#### HIGHLIGHTS

1. GOVT TO PRESS RBI AT NOV 19 MEET TO EASE LENDING, TRANSFER SURPLUS RESERVES
2. GOVT VS RBI: PATEL MAY RESIGN AT NEXT BOARD MEETING ON NOV 19, SAYS REPORT
3. SBI SOON EXPECT TO SEE A RS 6,000-CRORE WRITE-BACK FROM ESSAR ACCOUNT: RAJNISH KUMAR, CHAIRMAN
4. STATE-RUN BANKS NEED RS 1.2 TRILLION IN URGENT CAPITAL: CRISIL
5. RBI IS A SEAT BELT FOR GOVT: RAGHURAM RAJAN

#### Business Standard

##### 1. Govt to press RBI at Nov 19 meet to ease lending, transfer surplus reserves

RBI Governor Urjit Patel will be a key focus of the pressure from a group of directors who support the government's position, according to the New Delhi-based sources

Reuters

The Indian government intends to keep pressing demands for the country's central bank to relax lending curbs and hand over surplus reserves even if it risks provoking a resignation by the bank's governor, three sources familiar with the government's thinking told Reuters.

While there appeared to be a partial truce last week when the government said it respected the autonomy of the Reserve Bank of India (RBI), the sources said the

government will turn up the heat at the bank's central board of directors meeting on Nov. 19.

And RBI Governor Urjit Patel will be a key focus of the pressure from a group of directors who support the government's position, according to the New Delhi-based sources, who declined to be named due to the sensitivity of the matter.

"We want the RBI governor to accept the priorities of the economy and to discuss these with board members," said one of the sources, a senior government official with direct knowledge of deliberations. "If he wants to take decisions unilaterally, it will be better for him to quit."

Investors and traders warn that if Patel quits it will create uncertainty and undermine India's already-weak financial markets.

They have been hurt in recent weeks because of defaults by a major financing company.

A Finance Ministry spokesman declined to comment for this story. The RBI did not respond to an email seeking comment.

## **POTENTIALLY CATASTROPHIC**

Tensions between the two sides came to the fore last month when RBI Deputy Governor Viral Acharya gave a speech that blew the lid off a fractious dispute between the bank and the government of Prime Minister Narendra Modi on issues ranging from lending curbs to who controls the institution's reserves.

Acharya said that undermining central bank independence could be "potentially catastrophic, and he even cited meddling by the Argentine government in the affairs of its central bank in 2010 prompting big drops in that national financial markets - as a sign of how bad things can get.

For its part, government officials say they have been increasingly frustrated by the intransigence of Patel and his team to address its demands and engage in constructive dialogue.

The RBI has consistently pushed back against calls from the government to hand over more money from its reserves to help fund the fiscal deficit.

The ruling Hindu nationalist Bharatiya Janata Party is also keen to reduce curbs on the shadow banking sector and increase overall lending to small and medium-sized businesses. The aim is to help offset economic headwinds from low farm prices and high fuel prices ahead of a general election due by next May and key state elections in a few weeks.

"We will do everything to protect the interests of the economy," one of the members of the RBI central board told Reuters, noting the governor and his team would have to "explain, defend and justify" their decisions at the board meeting.

It is unclear, though, how the government will seek to exert pressure through the RBI's Central Board as the body is a largely symbolic one, which has never had a direct

say in the bank's directives and policies, according to two additional sources with knowledge of the law under which the central bank operates.

"The role of the board has typically been to supervise the workings of the RBI, like internal audit and recruitment. But the RBI is not really accountable to the board for regulatory and operational issues," said one of the sources, saying this would only change if the government invokes Section 7 of the RBI Act allowing it to dictate policy to the central bank.

"We don't know whether the board will supersede the RBI in that case," said the source. "This kind of situation has never arisen before."

Still, the government sources say they will find ways to increase pressure on the RBI and Patel via the board before moving to invoke Section 7.

"Patel and his team must recognise the period of an invisible RBI board is over," one of the New Delhi-based sources said, noting that the RBI will sooner or later have to fall in line.

Patel's predecessor Raghuram Rajan defended the RBI's call for autonomy saying that the central bank's responsibility is to secure financial stability and it has the right to say "no" to government proposals that could lead to instability.

"The RBI is something like a seatbelt," Rajan, who is a professor at the University of Chicago Booth School of Business, told CNBC-TV18.

"As a driver, being the government, it has the possibility of not putting on the seatbelt, but of course, if you do put on the seatbelt, you can get into an accident which can be quite severe."

N.R. Bhanumurthy, an economist at the National Institute of Public Finance and Policy, a New Delhi-based think tank, partly funded by the finance ministry said the RBI and the government were dealing with the same problem though there was a difference of opinion on how to solve it.

"While the government is looking for short-term solutions, the RBI is focused on long term solutions," he said, adding that despite disagreements, both could resolve their differences.

"If the RBI governor is forced to resign, it will be a huge setback for the economy."

## **2. Govt vs RBI: Patel may resign at next board meeting on Nov 19, says report**

People in the know say that he too may take a call on whether or not to continue, if Patel chooses to quit

BS Reporter

Urjit Patel might resign as RBI governor at the next board meeting on November 19, if the dispute between the central bank and the government escalates further, according to a report by [moneylife.in](http://moneylife.in).

The website quoted unnamed sources “who are in touch with the governor” as saying that Patel is not only tired of the fight with the government, but it has also been impacting his health in a big way.

Calling Patel “an unusual governor”, the author of the report, Sucheta Dalal, said he is extremely introverted and unimpressed by the trappings of power that the post brings with it. Unlike previous governors who reveled in the sprawling heritage bungalow at Altamount Road in Mumbai allotted to them, Patel had not even moved into it. This is primarily because it does not suit the needs of his aged mother who lives with him.

Interestingly, Viral Acharya, the deputy governor, who is at the center of the RBI-government faceoff, is also immune to the trappings of power and position associated with the job, the report said.

Acharya, who is on leave from the Stern School of Business, New York, lives in Juhu-Vile Parle, a suburb of Mumbai because he wants to be able to spend time with his parents during his Mumbai assignment.

People in the know say that he too may take a call on whether or not to continue, if Patel chooses to quit.

## **Financial express**

### **3. SBI soon expect to see a Rs 6,000-crore write-back from Essar account: Rajnish Kumar, Chairman**

By: [FE Bureau](#)

State Bank of India (SBI) on Monday reported a profit of Rs 945 crore for the three months to September. The lender reported a net interest margin of 2.88% in Q2FY19, slightly lower than the 2.95% in Q1FY19. The bank’s asset quality showed an improvement during the quarter with net non-performing assets (NPAs) falling sequentially to 4.84% from 5.29% in the quarter ended June. After announcement of the results, Rajnish Kumar, chairman, State Bank of India, told reporters that the lender had finally got complete “control over the demon of NPAs”. Excerpts:

#### **The country’s biggest lender has posted a profit after three quarters. How do you see the trend moving forward and can we expect this to continue?**

Though the profit is modest, there is no looking back. I believe we finally have a complete control over the demon of NPA. From here on, this number will only be bigger and better. In my opinion, a pick-up in resolution of stressed accounts will help improve profitability for corporate lenders. Going ahead, the bank expects some relief from the first list of accounts referred to the NCLT. Among those twelve accounts, Essar Steel is close to resolution. We soon expect to see a Rs 6,000-crore write-back from the Essar account.

#### **NBFCs have faced a liquidity crunch and a reduction confidence recently. How do you plan to deal with it?**

Things seem to be much better today than before (August and September, when the crisis began). Most of the NBFCs have been able to roll over the CPs (commercial papers) and hope they can make their repayment on time. SBI’s exposure to the non-banking financial companies (NBFCs) stands at Rs 1.5 lakh crore. We have bought NBFC loans worth Rs

5,250 crore in October and another Rs 15,940 crore worth of loan purchases in the pipeline. I am hopeful that we will achieve the target of Rs 45,000 crore by March.

### **What is the amount of exposure to the IL&FS group?**

Currently, IL&FS is not an issue for the bank as we have taken several measures to cover the potential risks. The bank has a total exposure of Rs 4,000 crore to 13-14 special purpose vehicles (SPVs) while Rs 250 crore to the holding group company. About Rs 90 crore is the equity share, where SBI holds a stake of 6.42%. The bank has made a provision of Rs 66 crore towards one NPA in the IL&FS exposure.

### **How do you read credit growth in the future?**

We reported double-digit loan growth in the September quarter. We expect the trend to continue.

### **Credit quality improved during the quarter....**

The slippage ratio has fallen to 2%, which is the lowest in six quarters. Most of the corporate slippages came from the already-identified watchlist. There was an increase in slippages in the retail and SME portfolio.

## **Economic Times**

### **4. State-run banks need Rs 1.2 trillion in urgent capital: Crisil**

PTI|

State-run lenders require an urgent Rs 1.2 trillion in capital in the next five months and government will have to take a bulk of the tab due to the weak market valuations of these NPA-saddled banks, says report.

This is a little more than double the budgeted Rs 53,000-crore of capital infusion for the current fiscal year, Crisil senior director Krishnan Sitharaman said in a report Tuesday.

If government decides to meet this need, this will put further pressure on the fiscal math's, thus its ability to meet the 3.3 percent fiscal deficit target for the current fiscal year. Already government has used up over 95 per cent of the deficit target or the market borrowings as of October end.

The report comes even as government is asking the Reserve Bank to lower the minimum capital requirements by getting it at par with global practices-something the central bank is uncomfortable to meet.

It has also reported to have turned down the finance ministry demand to transfer Rs 3.6 trillion of its over Rs 9.5 trillion reserves, which government wants to use to recapitalise the bleeding banks.

The Rs 1.2-trillion capital requirement to meet the Basel-III norms is Rs 21,000 crore more than the Rs 2.11 trillion estimate announced by government in October 2017, the report said.

Most of the required capital has to be infused into the 11 lenders which are under the prompt corrective action (PCA) framework of the RBI, wherein depletion in capital and return on assets, combined with a surge in non-performing assets, has resulted in the severe restrictions on normal operations, it said.

"Given their weak performance and low valuations, state-run banks have little ability to tap the market, which means government will have to provide most of the requirement it said.

"Given their weak performance and low valuations, state-run banks have little ability to tap the market, which means government will have to provide most of the requirement," it said.

Sitaraman said the Rs 1.5 trillion infused by government in the last three financial years has only helped them cover the losses of Rs 1.3 trillion incurred during the same period.

Profitability of state-run banks has been under pressure because of higher credit costs after the RBI tightened norms for recognition of stressed assets and their resolution, the report explained.

Most of the 21 state-owned banks have reported huge losses in recent years and a good number of them will be in the red this fiscal as well which will put a strain on the capital, notes the report.

As per the norms, the banks ought to have their tier-I capital at 9.5 percent, including a capital of conservation buffer (CCB) of 2.5 percent, it said, adding if the CCB were to be excluded, the capital requirement will fall to Rs 40,000 crore from Rs 1.2 trillion.

Meeting the CCB requirement, introduced following the 2008 global financial crisis, is becoming onerous for many state-run banks and those under PCA have had to recall their additional tier-1 bonds in recent times impacting their capital adequacy, it said.

Thirteen of the 21 state-owned banks had their tier-I ratio below the regulatory norm as of the June quarter, the report noted.

Moves like the consolidation of weaker banks with stronger ones like the tri-merger between Bank of Baroda, Dena Bank and Andhra Bank will help reduce the additional capital required, its associate director Vydianathan Ramaswamy said.

Listing other imperatives, he said the quantum of capital infusion has to increase, risk-weighted assets need to be brought down, and better-performing banks have to be nudged towards the market for capital.

## **Business Line**

### **5. RBI is a seat belt for govt: Raghuram Rajan**

PTI

Says its autonomy must be respected

Amid mounting tension between the Reserve Bank and the finance ministry, former RBI governor Raghuram Rajan on Tuesday said the central bank is like a seat belt in a car, without which accidents can happen.

Pitching for respecting the institutional autonomy of the RBI, he said the central bank has the liberty to say no if the government pushes it to be lenient.

Ahead of the November 19 meeting of RBI Board, he said the objective of the board is to protect the institution and not serve others' interests.

"The RBI is something like a seat belt. As a driver, the driver being the government, it has the possibility of not putting on a seat belt but of course if you do not put on your seat belt you get into an accident and the accident can be quite severe," he told CNBC TV18.

Historically, the relationship between the RBI and the government has been precisely this — the government wants to focus on improving growth and it does all it can within the limits set by the RBI which are based on financial stability.

"So, the government will push, will try and get the RBI to be more lenient," he said, adding the central bank would examine them in close details and in reference to risks to financial stability. "We (RBI) have responsibility for financial stability and therefore we have an authority to say no," he said.

### **Central bank's independence**

The RBI led by Governor Urjit Patel and the government have not been on the same page on different issues for some months now. The disagreements came out in open when RBI Deputy Governor Viral Acharya in a hard-hitting speech said failure to defend central bank's independence would "incur the wrath of the financial markets".

It later emerged that the government had used a never-before-used provision of the law to seek resolution of issues, including the easing of NPA norms, so that banks can kick-start lending and support growth, and transferring more dividend to boost liquidity -- issues which the central bank thinks cannot be relented.

"Of course the RBI doesn't say no out of petulance. It says it because it has examined the situation and believes that this take implies too much financial instability," Rajan said. "I think that relationship has gone on for a long and the fact that the RBI says no is not new. The government can keep asking and say please consider this, please consider that but at some point, it says okay I respect your decision, you are the financial stability regulator and I back off".

"Once you have appointed these Deputy Governors and Governor, you have to listen to them because that is what you have appointment them for, they are your safety belt," he said.

On the issue of the government citing Section 7 of the RBI Act that gives it powers to issue directions to RBI Governor on issues of public interest, Rajan said it would be best if each side respected each other's motivation and thoughts.

"And ultimately the RBI after listening to the government and hearing what the government's issues were provided the best professional answer it could and historically it has done that. I have no doubt it is doing that today. It has a responsibility to fulfill to the nation. It has to listen of course but at the end of it, after listening it has to make a decision because ultimately it has that responsibility," he said.

### **Role of RBI board**

On the role of the RBI board, he said its role historically has not been to take operational decisions but to focus on broader strategy as well as ensure good governance. "So, they are there to ensure that the government's money is well spent

in the RBI, for example, the RBI doesn't pay itself inordinate salaries and so on but also to serve as a sounding board which is why we have people from different walks of society, very eminent people," he said.

"So, my sense is the objective of the board is to protect the institution, not to serve others' interest; it is to protect the health of the institution but also to provide wide, sensible advice. The aim of the board is to be Rahul Dravid -- sensible, thoughtful and not, with due respect, Navjot Sidhu," he said.

### **State of economy**

On the state of the economy, Rajan said the situation is "much better" on the inflation front, for which both the government and the RBI deserve credit.

Also, India is growing faster than most other countries but there is a need to create jobs and there is "probably need (to do) somewhat more than where we are today.

"Where there is more worry is on the fiscal deficit front and here I am not talking just about the central government fiscal deficit which has been coming down but the aggregate fiscal deficit. Even as the central government is bringing it down, the states are taking it up. When you look at the total you find that over the last 3 or 4 years the aggregate fiscal deficit has actually gotten slightly worse and not better," he said.

Besides, the current account deficit (CAD) is blowing out partly because of the relatively weak exports and partly because of the price of oil has gone up. "It has come down recently but it is a risk that we cannot ignore at this point," Rajan said.

### **On NBFCs**

On the problems facing non-banking finance companies (NBFCs), he said the central bank needs to examine the liquidity problem much closer and solve the issue by putting liquidity in the market.

"I think the markets are somewhat nervous but I don't think given that NBFCs account for 17 to 18 per cent of assets, that this is an unmanageable problem. I think we can manage it, we have to look carefully at it, see what is really a solvency issue, what is a liquidity issue.

"Certainly on the solvency front, it is up to these privately managed entities to raise equity at this point when they still have the capacity and shore up their balance sheets. There is a tendency sometimes to run to the government and say please bail me out. I think first they have to exhibit everything they can do on their own before the government even contemplates anything on that sort," Rajan added.

In general, central banks, he said, avoid lending to direct entities. Lending to direct entities involves credit evaluation and central banks are not in fiscal function of bailing out entities.

With kind regards,

Yours Comradely,



**( N. GOVINDRAJULU )  
GENERAL SECRETARY**