



ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)

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Dear Comrades,

12th November, 2018

News of Interest 12th NOV

MOTIVATIONAL QUOTES

'IN NATURE, LIGHT CREATES THE COLOR. IN THE PICTURE, COLOR CREATES THE LIGHT.'

HANS HOFMANN

HIGHLIGHTS

- 1. BANKING SYSTEM NEEDS TO ENSURE LIQUIDITY IN MARKET, SAYS ARUN JAITLEY**
- 2. ON RBI, MODI GOVT SHOULD AVOID THE BUG OF MOVING FAST AND BREAKING THINGS**
- 3. INDIAN BANK Q2 PROFIT SLIPS 67 PER CENT AT RS 150 CRORE**
- 4. PAYMENTS MAJORS VISA, MASTERCARD AND AMERICAN EXPRESS MAY BE TAXED ON INDIA INCOME**
- 5. RBI VS GOVT: THE 18 WISE MEN TASKED WITH SUPERVISION OF THE MINT STREET**

Business Standard

1. Banking system needs to ensure liquidity in market, says Arun Jaitley

Jaitley's comments come at a time when both the RBI and the government are witnessing a tense relationship that has spilled out in the public

Somesh Jha

Finance Minister (FM) Arun Jaitley on Sunday called for an enabling environment to improve the credit ability of banks and provide liquidity to the market, at a time when the government has suggested a slew of measures from the Reserve Bank of India (RBI) to improve the cash flow in the economy.

"A strong banking system will be able to improve credit in those sectors which need credit. MSMEs (micro, small and medium enterprises) need credit. NBFCs (non-banking finance companies) need credit, as a large part of the lending is done by them and their ability to lend cannot be reduced," Jaitley said, adding, "The strength of the banking system has to improve. Banks must be in a position to give credit, so that the liquidity of the market is maintained."

Jaitley was speaking at state-run Union Bank of India's 100th-anniversary celebrations in Mumbai over video conferencing. The FM said the government's immediate target was to strengthen the banking system, highlighting the fact that it had committed to pumping in close to Rs 3 trillion towards the recapitalisation of banks in the last four years.

Following the FM's address, during the same event, Minister of State for Finance Shiv Pratap Shukla said that "one or two institutions are weakening the banks", without referring to any institution directly. "But banks need to show courage and move ahead," he said.

The minister's comments come at a time when both the RBI and the government are witnessing a tense relationship that has spilled out in the public. The RBI showed signs of discomfort following the government's move earlier last month to invoke a rare provision under the RBI Act to initiate dialogue on a dozen of issues where they do not seem to see eye to eye.

Among various suggestions, the government has particularly requested the RBI for a special refinance window for NBFCs, a facility for banks to raise \$30 billion, a review of the capital adequacy norms of banks and the need for high-risk weights for credit to MSMEs, enhancement of opportunities for rectification, and restructuring of MSMEs' loan accounts.

Stressing how the government's recapitalisation exercise helped public sector banks (PSBs) to get out of a "challenging" phase and improve lending capacity, Jaitley said "the whole system" needed to ensure liquidity was available in the market and the lending ability of banks is strengthened.

"The future of our economy and its growth depends upon this lending capacity. Therefore, we have to target in ourselves and in our policies... the whole system has to target itself in a direction where we improve the credit-giving ability of banks and we improve the liquidity available as far as markets are concerned," the FM said. He added this will boost economic growth, helping the government in earning more revenues and reaching out to the poor.

He said PSBs have an onerous responsibility in a competitive environment as it cannot rely on retail banking like their private sector counterparts. "That would have been an easier course to adopt," Jaitley said, adding banks lend to all sectors of the economy, besides growing its network across the length and breadth of the country. Jaitley also said there is a need to bring down non-performing assets (NPAs) in the banking system in order to support growth.

About a dozen suggestions made by the government to the banking regulator will be discussed in the forthcoming board meeting of the central board of the RBI on November 19.

Some other suggestions were related to the application of Basel III norms to banks that are not internationally active, building up a capital conservation buffer during periods of stress, the need for keeping the RBI capital adequacy norms at 1 per cent higher than Basel III norms, the efficacy of the framework for prompt corrective action for banks in restoring banks to health.

The government had initiated a dialogue on these issues through a series of letters sent to the RBI in October, invoking consultation process under Section 7 of the RBI Act. According to it, the central government may issue directions to the RBI as it may "consider necessary in public interest" after consultation with the RBI Governor. Section 7 deals with 'management' of RBI and has never been invoked by the government to invoke directions to the regulator so far.

Jaitley also said the goods and services tax (GST) implementation was a "monumental reform" which had caused disruption on economic growth only for two quarters, hitting out at "critics and cynics" who blame it for hurting the economy.

The remarks come a day after former RBI Governor Raghuram Rajan blamed the indirect taxation reform, which came into force on July 1, 2017, for derailing India's growth story. Jaitley did not name Rajan.

"You will always have critics and cynics who will come up and say it (GST) slowed down India's growth," Jaitley said, speaking at state-run Union Bank of India's 100th-anniversary celebrations event here over a video link.

The FM said after suffering for two quarters, growth increased to 7 per cent, then to 7.7 per cent and went up till 8.2 per cent last quarter and specifically pointed out that this is much higher than the 5-6 per cent expansion achieved between 2012 and 2014.

2. On RBI, Modi govt should avoid the bug of moving fast and breaking things

Just when the RBI could be most effective, government overreach has brought relations to a dangerous low

Andy Mukherjee

India's government and the central bank have had disagreements, but the relationship has never looked so irretrievably broken as it does now.

Before the global financial crisis, the finance ministry saw the Reserve Bank of India as an incompetent regulator, one that managed the state-dominated banking industry by keeping it puny and primitive.

In that view, Indian lenders didn't know how to model risks, and a conservative central bank wasn't letting them use credit derivatives to manage them. Pressure from Finance Minister P Chidambaram to open up the banking industry to foreign competition almost led to the resignation of then RBI Governor Y V Reddy. The spat, which never became public, was soon overshadowed by the 2008 meltdown, when the central bank won global praise for its mistrust of high finance.

That reputation was in tatters by the time of the 2013 taper tantrum, when India was hit by massive capital outflows. Appointing the former IMF Chief Economist Raghuram Rajan as governor helped stabilize asset prices and mend the central bank's reputation. But a change of government in 2014, followed by an acceptance of Rajan's old recommendation to narrow the RBI's policy remit to the single-minded pursuit of an inflation target, revived the campaign to chip away at the institution's authority in other matters.

Rajan strongly opposed the idea of handing supervision of the government securities market to the stock-market regulator. He also resisted subjecting the central bank's regulatory decisions to an appellate authority. Had he failed to do so, his successor Urjit Patel's bank cleanup drive – which has included lending restrictions on 11 state-run lenders and the ouster of CEOs at a couple of non-state banks – would have been bogged down in an appeals process.

Not that Patel got a free pass. When stranded power companies challenged the central bank's February order that banks take defaulted firms to the bankruptcy tribunal, a court asked the government to consider using Section 7 of the RBI Act to start a dialogue with the monetary authority. That article, which has never been triggered, says the government may (in the public interest) give directions to the central bank after consulting with it.

Emboldened by the court order, government officials began writing letters seeking Patel's views on everything from nonperforming power-sector assets to lending restrictions on state-run banks and a liquidity squeeze following the bankruptcy of a systemically important infrastructure lender. They didn't invoke Section 7, but to build pressure on the governor, they cited it anyway.

This overreach has led to a delicate moment in the institution's 83-year history. In a speech about what happens when politicians toy with central-bank independence, RBI Deputy Governor Viral Acharya brought up Argentina in 2010. That annoyed the finance ministry. Just as in the Latin American example, New Delhi is bullying the central bank to transfer some of its resources to the government.

One way to recapitalize banks would be to prune the RBI's balance sheet by \$60 billion, and use the capital freed up in process, the government's chief economic adviser suggested in early 2017. I wrote at the time that this wouldn't sit well with investors: There were serious questions about the RBI's independence following an ill-conceived demonetization adventure just a few months earlier.

What I didn't realize then was that the bigger consequence of demonetization was to make voodoo economics chic. Although outlawing of 86 percent of India's currency failed to yield a fiscal bonanza, media reports suggest the government still believes the central bank has \$50 billion in excess capital.

Fourteen years ago, when New Delhi wanted to take \$5 billion a year for three years from the RBI's foreign-exchange reserves for infrastructure, there was a lively debate, but nobody demanded the ouster of the central bank's boss. It seems that policy-making in India, as elsewhere, has caught the Silicon Valley bug of moving fast and breaking things. There's now open speculation that Patel may resign at an RBI board meeting Nov. 19.

The curmudgeonly RBI needs to do more to protect consumers and foster competition. But its reputation for honesty is a major asset in a country rife with corruption. And if \$200 billion in bad loans keeps old doubts about the central bank's competence alive, now at least it has the tools – such as a modern bankruptcy law – to act boldly. Why atrophy those newly acquired muscles? If inflation targeting succeeds in anchoring price expectations, the economy could operate with a permanently lower cost of capital.

For the avowedly pro-business government of Prime Minister Narendra Modi to lose sight of the benefits of such a shift (including a freer capital account) and lunge for the trite socialism of a state-directed credit binge is regressive.

Undermining the RBI in the name of the public interest, just when the institution finally has some capacity to serve the public, would be a real shame.

Financial Express

3. Indian Bank Q2 profit slips 67 per cent at Rs 150 crore

By: PTI

State-owned Indian Bank Friday reported a 66.7 per cent dip in its net profit at Rs 150.1 crore for the second quarter ended September on account of increase in bad loans.

Bank's net profit in the corresponding July-September quarter of 2017-18 was at Rs 451.5 crore. However, total income of the bank increased to Rs 5,129.16 crore for the September quarter this year, from Rs 4,874.16 crore in the same period of the previous fiscal, the bank said in a regulatory filing.

Asset quality deteriorated with the gross non-performing assets (NPAs) rising up to 7.16 per cent of the gross advances as on end-September 2018, as against

6. 67 per cent by September 2017.

Net NPAs, too increased to 4.23 per cent of the net advances at the end of second quarter of this fiscal, from 3.41 per cent in the year-ago period. The bank's provisioning for bad loans and contingencies was raised to Rs 1,004.3 crore for the July-September quarter, up from Rs 744.55 crore for the same period a year earlier.

Provisioning for bad loans alone stood at Rs 752.47 crore, up from Rs 633.36 crore as on September 30, 2017.

Provision Coverage Ratio stood at 60.82 per cent as on September 30, 2018. During the half year, the bank has appropriated the recovery of Rs 94.61 crore in a fully provided NPA account in accordance with the resolution plan approved by the National Company Law Tribunal (NCLT).

Based on a legal opinion obtained and pending issuance of final order on the appeal filed, the amount recovered has been considered as part of NPA recovery, it said.

Economic Times

4. Payments majors Visa, Mastercard and American Express may be taxed on India income

By *Sachin Dave* , ET Bureau

Global payments companies such as Visa, MasterCard and American Express may have to pay around 15% tax on their India income as they set up servers locally to comply with a central bank directive on data storage.

The Reserve Bank had ordered payments companies to locally store data on all transactions taking place within India from October 15. Visa, MasterCard and American Express said they had taken steps to comply with the regulation.

These companies are currently out of the tax net in India, as they do not have a 'permanent establishment' in the country — they operate here through offices in jurisdictions such as Singapore and store data on servers located in countries like the US and Ireland. Permanent establishment, or place of business, is a concept in taxation that determines where an organisation is required to pay tax.

Servers on Rent

After they move servers to India, the companies will be treated as having a permanent establishment here, triggering domestic taxes, said experts.

"As per tax treaties India has with various countries, the server on which a website or data or software is stored and through which it is accessible is a piece of equipment having a physical location. Such location can be considered as a fixed place of business of the enterprise that owns or leases and operates the server," said Dilip Lakhani, a tax expert.

While the corporate profit of Indian companies is taxed at 30%, these payment companies may be taxed at about 15%, the rate levied on companies that have invested in India through their arms in countries like Singapore with which India has tax treaties.

Most of the major payment companies are already looking at ways to deal with the likely tax implication, said people in the know.

"While the tax outgo for payment system providers would go up if they set up their own servers in India, most companies may either set up a separate special purpose vehicle or just use the servers of an unrelated Indian company," said Jeenendra Bhandari, partner at advisory firm MGB. The payment company will use the servers by paying a rent so that there will be no permanent establishment, he added.

But this doesn't mean there will be no taxation. "Definitely having servers in India would have tax implications in India and will be an unintended outcome of this rule," said Bhandari.

MasterCard did not respond to ET's queries. Visa and American Express said they had submitted plans to comply with the regulations to the central bank, while the RBI didn't respond to an email seeking comment.

"On data localisation, Visa has completed the key requirement of storing its Indian data locally and is equipped to facilitate regulatory access to payment transaction data of Indian cardholders. We are currently implementing our

solution in line with our plan submitted to the RBI,” said a Visa spokesperson.

“Compliance with local laws and regulations is a top priority for us in all the countries we operate in. We confirm that we have submitted a report to the RBI detailing our approach to comply with the directive,” said Vibha Bajaj, head of public affairs and communications at American Express India.

There could be other tax implications as well. In the past, MasterCard was embroiled in a dispute with the tax department over whether its India income could be taxed. As per a June order of the Advance Authority of Ruling, some portion of the fees paid by customers to the Indian arm of the company should be treated as royalty and taxed domestically.

Tax implication over the RBI circular may be a prelude to a bigger worry that many other companies such as Google and Apple may face. India is looking to bring in a data protection law whereby domestic data must be stored on servers located in India.

Business Line

5. RBI vs Govt: The 18 wise men tasked with supervision of the Mint Street

PTI

As an unprecedented fight plays out between the RBI and the government, it is the central bank’s 18 board members who are being keenly watched for their next course of action — they are not only central bankers and government officials but also business leaders, economists and activists.

The RBI board is scheduled to meet next on November 19 amid an ongoing tussle with the government on multiple fronts.

Going by the public utterances of the RBI and government officials so far, the contentious issues are how to manage the huge surplus the RBI has accumulated, how should it deal with errant lenders and borrowers amid a persisting bad loan crisis and what could be the ‘public interest’ for the government to dictate directions so that it is not seen as an attack on the central bank’s autonomy.

As per the RBI Web site, its central board currently has 18 members, though the provision is that it can go up to 21.

The members include Governor Urjit Patel and his four deputies as ‘full-time official directors’, while the remaining 13 have been nominated by the government, including two Finance Ministry officials — Economic Affairs Secretary Subhash Chandra Garg and Financial Services Secretary Rajiv Kumar.

Swadeshi ideologue S Gurumurthy and cooperative banker Satish Marathe, have been nominated by the government as “part-time non-official directors”.

The entire board is appointed by the government under the RBI Act, which mandates the central board with “general superintendence and direction of the Reserve Bank’s affairs”. The government can nominate 10 ‘non-official’ directors from various fields and two government officials. The four non-official directors are one each from the four regional boards of the RBI.

Besides Patel, the four official directors are NS Vishwanathan and Viral Acharya, both of whom have gone public with their direct or indirect criticism of any attempt to undermine the RBI's autonomy, as also BP Kanungo and MK Jain.

The business leaders on the RBI board include Tata group chief Natarajan Chandrasekaran, former Mahindra group veteran Bharat Narotam Doshi, Team lease Services co-founder Manish Sabharwal and Sun Pharma chief Dilip Shanghvi.

The other members are Sudhir Mankad (retired IAS officer), Ashok Gulati (agricultural economist), Prasanna Mohanty (ex-IAS officer and economist), Sachin Chaturvedi of Delhi-based think-tank Research and Information System for Developing Countries (RIS) and Revathy Iyer (a former Deputy Comptroller and Auditor General).

With kind regards,

Yours Comradely,



(**N. GOVINDRAJULU**)
GENERAL SECRETARY