



**ALL INDIA UNION BANK PENSIONERS AND RETIREES FEDERATION**  
(Affiliated to All India Bank Pensioners & Retirees Confederation – AIBPARC)  
163/4, Kutchery Road, Mylapore, Chennai - 600004

E mail i.d: [aiubparf@gmail.com](mailto:aiubparf@gmail.com)/ [ubioatnng@gmail.com](mailto:ubioatnng@gmail.com)/ [suryanarayananram@gmail.com](mailto:suryanarayananram@gmail.com)

<b>Com. P.B. Thomas</b> Chairman Thiruvananthapuram M: 09447177456	<b>Com. Nitin Desai</b> President Ahmedabad M: 097277 60641	<b>Com. S. Bagchi</b> Working President Kolkata M: 0983081586	<b>Com. N. Govindarajulu</b> General Secretary Chennai M: 09841089111
---	--	--	--

Dear Comrades,

13th November , 2018

### News of Interest 13<sup>th</sup> NOV

#### MOTIVATIONAL QUOTES

*'EACH DAY, I COME IN WITH A POSITIVE ATTITUDE, TRYING TO GET BETTER. '*

*STEFON DIGGS*

#### **HIGHLIGHTS**

1. GOVT VS RBI: URJIT PATEL MEETS PM NARENDRA MODI AMID ONGOING TUSSELE
2. BELEAGUERED IL&FS' BOARD TO SELL STAKE IN 2 CLEARING SERVICES SUBSIDIARIES
3. RBI VS GOVT: FORCING RBI TO PART WITH RESERVES COULD SET A BAD PRECEDENT
4. UCO BANK SEEKS RS 7000 CRORE CAPITAL FROM THE GOVERNMENT
5. BOI POSTS ₹1,156-CR LOSS IN Q2 ON BAD LOANS

#### **Business Standard**

##### **1. Govt vs RBI: Urjit Patel meets PM Narendra Modi amid ongoing tussle**

Talks come ahead of the meeting of the RBI's central board on November 19  
Abhijit Lele

Reserve Bank of India Governor Urjit Patel met Prime Minister Narendra Modi on Friday to iron out issues on which the government and the central bank are not seeing eye to eye.

Sources said Patel was in New Delhi on Friday, when he met Modi and senior officials in the Prime Minister's Office (PMO).

Some of the government's demands the Reserve Bank of India (RBI) may accede to include relaxing prompt corrective action (PCA) norms for some banks and a special dispensation for micro, small and medium enterprises.

Top officials of the PMO didn't respond to text messages from Business Standard. However, sources in Mumbai termed it a "routine meeting" and said some of the issues that had been the flashpoint between the central bank and the government were discussed.

"The emphasis is on working on solutions though there may be some differences," the source said.

These talks come ahead of the upcoming meeting of the central board of the RBI on November 19, when the RBI and the government are supposed to hold formal talks on matters highlighted by the finance ministry.

It is not clear if an agreement has been worked out to ease liquidity for non-banking finance companies (NBFCs) and the RBI parting with its substantial part of its surplus. The RBI is not convinced about a liquidity crunch in the NBFC sector whereas the government has pressed the need to maintain the cash flow in the sector.

Further, the government has demanded a review of the economic capital framework of the RBI. The framework governs the risk capital that the RBI is required to keep with itself along with the amount of surplus that needs to be transferred to the Central government.

Over the past few days, the government and the RBI have had discussions in a bid to arrive at common ground on at least two demands of the government — easing PCA norms for some banks along with aligning the regulatory capital requirement of banks with international norms and a special dispensation for MSMEs.

Tension between the RBI and the government escalated particularly after the finance ministry initiated discussions with the regulator under the never-used-before Section 7 (1) of the RBI Act. The provision empowers the government to issue directions to the RBI, following consultations with the governor. The RBI had shown signs of discomfort with Deputy Governor Viral Acharya going public and talking about maintaining the independence of the central bank and how a potential compromise could be "potentially catastrophic" for the economy.

Among various demands, the finance ministry has suggested to the RBI doing away with the requirement of an exposure limit of 20 per cent of foreign portfolio investments in corporate bond portfolios of a single corporate group; removing the requirements of mandatory hedging for infrastructure loans of less than 10 years' maturity; setting up a special refinance window for non-banking finance companies, housing finance companies and mutual funds; creating a facility for banks to raise \$30 billion; and a review of the economic capital framework for bringing it in line with the requirements of the RBI Act.

Other suggestions were related to the application of Basel III norms to banks that are not internationally active, requirement for 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 PCA for banks in restoring banks to health, the need for high-risk weights for credit to micro, small and medium enterprises (MSMEs), and enhancing opportunities for rectifying and restructuring MSMEs' loan accounts.

## **2. Beleaguered IL&FS' board to sell stake in 2 clearing services subsidiaries**

The new board has requested NHA and Ministry of Road Transport to settle claims filed by IL&FS' companies for concessions

Advait Rao Palepu

The board of directors of Infrastructure Leasing and Financial Services (IL&FS) has decided to sell the firm's stake in IL&FS Securities Services (ISSL) and ISSL Settlement and Transaction Services (ISTSL). The two subsidiaries are engaged in professional clearing services and equity and other derivatives, and commodities derivatives services, respectively, said a company spokesperson.

Arpwood Capital and JM Financial are the financial and transaction advisors, while Alvarez and Marsal are the resolution consultants.

A statement from the board says they are "cognizant that these steps would advance the process for putting together resolution plan(s) for the IL&FS group, based on market interest and price discovery for the assets. Any binding transaction for the sale of assets, and the resulting resolution plan(s), will be subject to requisite approvals before the transactions are implemented."

IL&FS has a 81.24 per cent shareholding, followed by IL&FS Employee Welfare Trust with 9 per cent, ORIX Corporation, Japan with 4.75 per cent and Croupier Prive Mauritius with 5 per cent.

## **Financial Express**

### **3. RBI vs Govt: Forcing RBI to part with reserves could set a bad precedent**

By: [Renu Kohli](#)

First, RBI deputy governor Viral Acharya delivered a speech warning the government that asking the central bank to part with its reserves would have market consequences. Thereafter, Indian Express reported the government was pressing RBI to pay a whopping Rs 3.6 trillion out of its total Rs 9.6 trillion reserves. Then the government clarified it wasn't asking for Rs 3.6 trillion but only proposing to fix an appropriate economic capital framework of RBI. But the "intent" is now quite clear—the government wants to lay its hands on a large chunk of reserves that it thinks is "surplus capital". At stake are two questions: One, can the government, as the owner of the central bank, force the Governor to pay out its reserves? Many expert opinions have jumped in support that the sovereign has every right to invoke Section 7 of the RBI Act and direct the central bank to pay up, implying it can withdraw as much capital as it wants—maybe even leave just a bare minimum of Rs5 crore original capital contribution as per RBI Act 1934! That is certainly not the intent however, which leads us to the second question, by how much? This is what the government is alluding to—

fix an appropriate economic capital framework, and thus estimate the surplus that it could lay its hands on.

But who should decide on a sensitive issue that has far reaching macro-stability consequences as former Governor Raghuram Rajan recently explained in several interviews? Press reports indicate this could be discussed at the forthcoming board meeting scheduled for November 19. Can RBI board members, outside RBI, with hardly any expertise or experience in macro-stability policymaking, delve into such an issue? If they do and force RBI to pay up, it would be setting a dangerous precedent. Any future government could follow suit, asking for more!

RBI's current policy of paying dividend to the government is already based on recommendations given by Malegam Technical Committee-II with domain knowledge. Accordingly, it transferred 100% profits for three years beginning FY14. The present government wanted more; the Economic Survey 2015-16 made the case that RBI had significant excess reserves that could be used to recapitalise public sector banks [Box 1.6: Addressing the Twin Balance Sheet Challenge, page 19: Economic Survey, 2015-16]. The government could have set up another expert committee then itself to examine an "appropriate economic capital framework of RBI" for recommendations. Why is it rushing towards this hara-kiri just before a general election?

We don't claim to have any expert knowledge on what is an adequate reserve or capital level for a central bank but would trust RBI more. If the present and former governors with expert domain knowledge are publicly making a case against such a capital transfer, the government ought to have respected such opinions. But, instead, it seems it is sticking to the view expressed in the Economic Survey—that RBI holds significant surplus capital relative to the 16% median value of a sample of 37 countries. Now, it is well known that relying on such a statistical measure can be dangerous for justifying policy actions as it does not reflect country-specific concerns. Specifically, nearly 72% of RBI's capital is composed of "currency and gold revaluation reserves" which have risen faster because of a weakening currency over the last decade or so. But then, we are also the fastest-growing economy in the world with rising per capita income and stable inflation; so the medium- to long-run trend would be that of sustained currency appreciation that could erode these reserves at an equally rapid pace! More importantly, and as Rajan explained, the transfer mechanism of any such surplus could be illusory with potential long-run consequences on money supply and macroeconomic stability.

Assume hypothetically that RBI's board does fix a new capital framework at say, 16% of total assets. This could release 10% surplus capital which is about `3.8 trillion. Also, presume that, because of concerns expressed by RBI, the government agrees to just `1 trillion and not the entire amount. Some opinions seem to be veering to this end, reasoning that long-run consequences could be manageable given the central bank is currently a net seller in the currency market. But, imagine that six months down the line, a newly elected coalition government presents a white paper on continued financial sector distress and fiscal strains left over by the previous government and asks for another `2 trillion in 'public interest'! How would RBI say no?

Then, again, if for some reason, median reserves fall significantly below 16% in the future across economies, nothing stops a future government from revisiting the capital framework of RBI again in that case! This is precisely the kind of slippery slope that democracies are prone to. If non-experts are allowed to set

frameworks that could test even the most skilled expert, we would be laying the road to unmitigated uncertainties. We are only too familiar with how one-time loan waivers for genuine farmers' concerns degenerated into a political instrument. One hopes the government would not push our most valued institution down that path.

The current urgency seems to be of recapitalisation of public sector banks who can then resume lending as early signs of economic activity seem to be tapering off. In this regard, and fairly so, the government needs to be asked more pertinent questions than it has been so far. Why has it been reluctant to infuse more capital from its own budgetary resources? The only amount it committed was Rs 0.7 trillion in August 2015 stretched over four years under the Indradhanush plan. In January 2018, it decided to issue Rs 1.35 trillion recapitalisation bonds whose interest cost would accrue to the budget. The government could have easily proactively contributed much more considering the significant oil tax revenues it had gained. Or, if the government had other expenditure priorities, then it should have moved on the reform path to privatise some of the insolvent public sector banks, instead of eyeing RBI's balance sheet and extend artificial life-support to these entities; the sales proceeds could have been used as capital support for the financially sustainable ones. When the government is rightly credited with enacting and operationalising the Insolvency and Bankruptcy Code (IBC), that is forcing ownership changes of defaulting firms, it should also have looked within and applied the same yardstick to the banks it owned. Had it done that, it wouldn't now be pressing RBI to relax PCA norms as it is reported doing so by invoking Section 7, thereby raising serious questions about RBI's autonomy.

The government may be right in blaming the previous government and RBI for letting banks lend to unviable projects. But the public display of lack of trust in the central bank, even to judge the liquidity situation facing NBFCs, is not the way forward. Just as it failed in the November 2016 demonetisation to find `3-4 trillion of black money, the government should not again be disheartened if experts such as Malegam point out that the RBI Act 1934 (section 47) simply does not have a provision to transfer past reserves. This is not the first time the banking system has high NPA levels—a resolute government should let RBI function to the best of its capability without constraining its operational freedom.

## **Economic Times**

### **4. Uco Bank seeks Rs 7000 crore capital from the government**

*By Atmadip Ray*

State-run lender Uco Bank has requested the government to inject Rs 7000 crore to prop up capital, which has gone below the regulatory minimum.

The bank's capital adequacy ratio slipped to 7.57% against the stipulated 9% while its net loss widened to Rs 1136 crore in the September quarter owing to fresh slippages worth Rs 2000 crore. Net loss was Rs 623 crore in the year ago period.

Managing director AK Goel, who assumed charge on November 2, expects the government to infuse capital by March. There was however no confirmation from the government on the size of capital infusion.

The government owns 90.8% in the Kolkata-based lender, which may not be in a position to raise capital from the market before March 2020 for its losses.

"We hope to turnaround in the next financial year," Goel said Monday after announcing its financial results.

Despite business squeeze, the bank's operating profit doubled to Rs 506 crore as against Rs 244 crore in the year ago period. Goel attributed the rise in operating profit to lowering of cost of deposits. Its advances shrunk to Rs 116596 crore at the end of September from Rs 123813 crore a year back.

The bank's executive director Charan Singh said the loan book shrunk as the lender cut down its overseas exposure by 55% to Rs 10,000 crore while domestic loan book remained flat.

Uco Bank has been under Reserve Bank of India's prompt corrective action framework due to poor asset quality and erosion of capital.

One-fourth of its loan assets remained non-performing while there has been a marginal improvement in gross NPA ratio to 25.71% at the end of September from 25.71% at the end of September from 25.71% a quarter back. The ratio was 19.74% a year ago.

Goel said the bank is focusing on recovery of bad loans while much would depend on the speed of resolution of bad loans under the bankruptcy court.

Uco has referred 124 defaulting loan accounts involving Rs 17750 crore to the National Company Law Tribunal (NCLT) under Insolvency & Bankruptcy Code while 84 cases involving Rs 13443 crore have been admitted for resolution so far.

## **Business Line**

### **5. BoI posts ₹1,156-cr loss in Q2 on bad loans**

#### OUR BUREAU

Public sector lender Bank of India posted a net loss of ₹1,156 crore in the second quarter of this fiscal against a net profit of ₹179 crore logged in the same period last year due to a steep rise in bad loan provisioning.

Its net profit in the June quarter was at ₹95.11 crore. "The net profit was impacted by higher loan loss provisions due to non-performing assets and mark-to-market provisioning," the lender said, adding that the recovery of ₹1,800 crore from the sale of assets being processed under the NCLT has been postponed to the third quarter of the fiscal.

Total income down 7%

Total income fell by nearly 7 per cent to ₹10,800 crore for the quarter ended September 30, from ₹11,600 crore in the same period a year ago.

Net interest income was ₹2,927 crore, against ₹2,908 crore in the same period a year ago, while non-interest income stood at ₹1,030 crore in the quarter under review, which was lower than ₹1,706 crore in September 2017, "primarily due to persistent hardening of G-Sec yield", the bank said.

The lender's provisioning rose by 71 per cent to ₹3,343 crore (₹1,953.30 crore). Gross non-performing assets (NPA) soared to ₹61,561 crore, or 16.36 per cent of gross advances by September-end 2018. It was significantly lower at 12.62 per cent last year.

However, on sequential basis, gross NPAs were down compared to 16.66 per cent as on June 30, 2018. Net NPAs also rose to ₹25,994.15 crore, or 7.64 per cent of net assets, against 6.47 per cent a year ago.

#### Recovery and up gradation

The lender said this is the first time the recovery and up gradation during the quarter, at ₹2,698 crore, surpassed fresh slippages of ₹2,624 crore.

Bank of India was placed under the prompt corrective action norms by the Reserve Bank of India in December last year due to "high net NPA, insufficient CET1 Capital and negative ROA for two consequent years".

With kind regards,

Yours Comradely,



( **N. GOVINDRAJULU** )  
**GENERAL SECRETARY**

..