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Govt not looking at any other proposal for PSB merger

PTI New Delhi | February 11, 2019 BUSINESSLINE

First-ever three-way consolidation of PSBs will come into force on April 1

The government is not considering any other merger proposal in public sector banks at the moment as it would wait for completion of the amalgamation of Dena Bank and Vijaya Bank with Bank of Baroda (BoB), official sources said.

The Union Cabinet last month approved the merger of these three banks to create the country's third-largest lender.

The process of amalgamation is going on according to the schedule, the sources said. They added that the other proposal would be considered after the stabilisation of this three-way merger.

Share-swap ratio

Last month, boards of the three banks also cleared the share-swap ratio for the proposed amalgamation.

According to the Scheme of Amalgamation announced by BoB, shareholders of Vijaya Bank would get 402 equity shares of BoB for every 1,000 shares held in the bank.

In the case of Dena Bank, the shareholders would get 110 shares of BoB for every 1,000 shares owned in the bank.

The scheme would come into force on April 1.

The amalgamation would be the first-ever three-way consolidation of banks in India, with a combined business of ☐ 14.82 lakh crore, making it the third-largest bank after State Bank of India and ICICI Bank. The merger would also create the second-largest PSB.

After the merger, the number of PSBs will come down to 18.

In September 2018, the Alternative Mechanism, headed by Union Minister Arun Jaitley, gave in-principle approval for the merger of the three banks to create a global-sized lender.

Wage rise not so fruitful for farm workers

Radheshyam Jadhav Pune | February 11, 2019 BUSINESSLINE

Occupational category	1993-94	2004-05	2011-12
Legislators, senior officials and managers	530	918	1052
Professionals	392	574	743
Elementary occupations	74	86	138
Service workers and shop and market sales workers	148	179	251
Clerks	274	372	446
Technicians and associate professionals	301	393	479
Craft and related trades workers	141	158	212
Skilled agricultural and fishery workers	120	128	177
Plant and machine operators and assemblers	176	195	254

ILO report shows daily earnings of agricultural labourers rising just 48% over nearly 2 decades

Real average daily wages for skilled agricultural workers increased just by 48 per cent from 1993–94 to 2011–12 while for legislators, senior officials and managers, it increased by 98 per cent over this nearly two-decade-long period.

Analysis of the figures from the International Labour Organisation's (ILO) India Wage Report shows that agriculture labourers need as much support as farmers.

The real average daily wages for a skilled agricultural labourer was ☐120 in 1993-94 while it became ☐177 in 2011-12. For legislators, senior officials and managers, it increased to ☐1,052 in 2011-12 from ☐530 in 1993-94. For professionals, it increased by 90 per cent. The occupational category of agricultural labourers and fishery workers is just above that of machine operators and assemblers who got the lowest (44 per cent) increase during this period.

High & dry

However, while announcing direct income support of ☐6,000 annually to farmers in the interim Budget, the Centre left agriculture labourers high and dry though rural casual labourers constitute the single largest segment of the country's workforce. Most agricultural workers are asset-less or asset-poor. There are 14.43 crore agricultural labourers, who constitute 55 per cent of the people involved in agriculture in India.

"The Pay Commissions were a contributing factor, which also had an impact on the wages of the private sector, particularly in the upper quintile of the wage distribution. The ratio between the best-paid occupation and the lowest ranked was 7.2 in 1993-94, increased to 10.7 in 2004-05 and declined to 7.6 in 2011-12," the report states.

Who is better?

But the condition of agricultural labourers is better when compared to non-agriculture labourers.

Since 1993-94, casual workers in agriculture experienced higher wage growth compared to non-agricultural casual workers, the rate rising from 2.2 per cent during the period 1993-94 to 2004-05 to 6.6 per cent during the period 2004-05 to 2011-12.

The ILO report, quoting experts, states that the high growth in the construction sector GDP has resulted in demand for construction workers, which has in turn led to a scarcity of workers in rural areas and a resultant rise in agricultural wages.

Another group of experts has argued that the rise in nominal wages is due to an increase in area, production and yield of principal crops and periodic revisions of support prices. The other factors that explain the growth in real wages are the demographic transition, the impact of migration, the effect of MGNREGA and the overall fallout of social spending in rural areas, the report states.

Surveying India's unemployment numbers

Mahesh Vyas FEBRUARY 09, 2019
THE HINDU

India's labour participation rate, very low by world standards, fell sharply after demonetisation. Women bore the brunt

Monthly measurement of the unemployment rate is one of the requirements of the Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF). The SDDS — India was one of the early signatories —was established in 1996 to help countries access the international capital markets by providing adequate economic and financial information publicly. India complies with many requirements of the SDDS, but it has taken an exception with respect to the measurement of unemployment.

The Government of India does not produce any measure of monthly unemployment rate, nor does it have any plans to do so. Official plans to measure unemployment at an annual and quarterly frequency is in a

shambles. This does not befit India's claims to be the fastest growing economy and as the biggest beneficiary of a famed demographic dividend.

The Centre for Monitoring India Economy (CMIE), a private enterprise, has demonstrated over the past three years that fast frequency measures of unemployment can be made and that seeking an exception on SDDS compliance is unnecessary.

Higher frequency survey

The CMIE decided to fill India's gap in generating fast frequency measures of household well-being in 2014. In its household **survey,** called the Consumer Pyramids Household Survey (CPHS), the sample size was 172,365 as compared to that of the official National Sample Survey Organisation (NSSO), which was 101,724. In both surveys, the sample selection method has been broadly the same.

The CPHS is comprehensive, surveying its entire sample every four months. Each survey is a wave. The CPHS is also a continuous survey, and so, for example, three waves are completed in a year. The CMIE's CPHS thus has a much larger sample and is conducted at a much higher frequency than the NSSO's.

Further, the CPHS is conducted as face-to-face interviews necessarily using GPS-enabled smartphones or tablets. Intense validation systems ensure high fidelity of data capture. All validations are conducted in real-time while the teams are in the field. The data capture machinery ensures delivery of high quality data in real time obviating the need for any further "cleaning", post field operations.

Once the data is collected and validated in real-time, it is automatically deployed for estimations without any human intervention.

In 2016, the CMIE added questions regarding employment/unemployment to the CPHS. Since then, the CMIE has been generating labour market indicators regularly and making these freely available for public use (https://bit.ly/2OxLAs4).

A difference between the CPHS and the NSSO surveys is the reference period of the employment status of a respondent. While the NSSO tries to capture the status for an entire year and for a week, the CPHS captures the status as on the day of the survey. This could be as one of four factors: employed; unemployed willing to work and actively looking for a job; unemployed willing to work but not actively looking for a job, and unemployed but neither willing nor looking for a job.

Since the recall period in the CPHS is of the day of the survey (or the immediate preceding day in the case of daily wage labourers) and the classification is elementary, the CPHS has been able to capture the status fairly accurately with no challenges of the respondent's ability to recall or interpret the status. In contrast, the NSSO's system is quite complex.

The large CPHS sample is distributed evenly across rural and urban regions for every week of the execution cycle of 16 weeks of a wave. It is this machinery that enables us to understand the Indian labour market with fast-frequency measures. So what do these fast-frequency measures tell us?

Key findings

The most important message from the data is that India's labour participation rate is very low by world standards and that even this low participation rate fell very sharply after demonetisation. The average labour participation rate was 47% during January-October 2016. The world average is about 66%.

Immediately after demonetisation in November 2016, India's labour participation rate fell to 45%; 2% of the working age population, i.e. about 13 million, moved out of labour markets. That is a lot of people who were willing to work who decided that they did not want to work any more.

The data show that it was not the employed who lost jobs and decided to stop working. The employed mostly retained their jobs. But it was largely the unemployed who decided that the labour markets had been so badly vitiated after demonetisation that they gave up looking for jobs any

further. In short, they lost hope of finding jobs in the aftermath of demonetisation.

As more and more unemployed left the labour market, the unemployment rate fell. This is because the unemployment rate is the ratio of the unemployed to the total labour force. This fall gave misleading or at least confusing signals, almost implying that the unemployment rate was falling in a positive sense. In reality it was a reflection of an exodus of the unemployed from the labour markets — a fall in the labour participation rate. And this underlines the much greater importance of the labour participation rate.

On female labour

Specifically, India's female labour participation rate is very low. Official statistics have always shown that India's female labour participation rate is low and falling. Researchers have shown that this fall is because of rising household incomes that reduce the need for women to join the labour force; increased enrolment in higher education by women which delays their entry into the labour force, and cultural and security factors that keep women away from the labour market in India. Further, it is evident that employers are also biased against hiring women.

The CPHS shows that the situation with respect to women's participation in the labour force is extremely poor — much poorer than what the official agencies tell us. The entire brunt of demonetisation was borne by women. Their labour participation fell sharply while that of men did not.

After the demonetisation jolt came the Goods and Services Tax shock of July 2017 that drove away small enterprises which could not compete in a tax-compliant environment out of business. This caused a substantial loss of jobs. Preliminary estimates suggest that employment shrunk by 11 million in 2018. The brunt of this was again borne largely by women. But men too were also impacted.

Male labour participation rate was 74.5% in 2016. This dropped to 72.4% in 2017 and then to 71.7% in 2018. In contrast, female labour participation was as low as 15.5% in 2016 which dropped to 11.9% in

2017 and then 11% in 2018. Urban female labour participation rates fell faster than rural female participation. In urban India it dropped from 15.2% in 2016 to 10.5% in 2018. The corresponding values for rural women were 15.6% and 11.3%, respectively.

Although female labour participation is substantially much lower than male participation, the few women who venture to get employment find it much more difficult to find jobs than men. The unemployment rate for men was 4.9% in 2018 and that for women in the same year was much higher — 14.9%.

This higher unemployment rate faced by women in spite of a very low participation rate indicates a bias against employing women. Drawing women into the labour force by removing the impediments they face to at least bring their participation levels close to global standards is critically important for India to gain from the demographic dividend opportunity it has. This window of opportunity is open only till 2030. By not using a good data monitoring machinery, the Indian government is keeping both itself and the citizenry in the dark.

RBI unlikely to transfer contingency fund to govt.

SPECIAL CORRESPONDENT
MUMBAI , FEBRUARY 06, 2019/
THE HINDU

Centre has sought Rs.27,330 crore

The Reserve Bank of India (RBI) is unlikely to give in to the government's demand of transferring funds that was set aside for contingency reserves in 2016-17 and 2017-18, according to sources.

A total of Rs.27,330 crore — Rs.13,140 crore in FY17 and Rs.14,190 crore in FY18 — was set aside by the RBI for the contingency fund.

The sources said there was no precedence of such a dividend being paid, that is, from funds that have already been set aside for contingencies. Finance Minister Piyush Goyal, in a written response to the Rajya Sabha,

had said: "The government has requested the RBI for providing an interim surplus for the financial year 2018-19 on the analogy of previous financial year and transfer of the amount withheld from the surplus of 2016-17 and 2017-18."

Statutory audit

At the same time, the RBI has now decided to conduct statutory audit of its account twice a year, so that it can transfer the surplus to the government as many times. The government has been demanding more funds as dividend from the RBI which has become a bone of contention.

A six-member committee headed by former RBI Governor Bimal Jalan has been formed to review the economic capital framework of the central bank. The committee would submit its report within 90 days from the date of its first meeting.

RBI raises collateral-free farm loan limit to Rs.1.6 lakh

PTI MUMBAI, FEBRUARY 07, 2019
THE HINDU

The Reserve Bank of India has also decided to set up an internal working group to review agricultural credit and arrive at a workable policy solution

The Reserve Bank of India (RBI) on Thursday raised the limit of collateral-free agricultural **loans** to Rs.1.6 lakh from the current Rs.1 lakh with a view to help small and marginal farmers.

The Central bank also decided to set up an internal working group (IWG) to review agricultural credit and arrive at a workable policy solution.

The Interim Budget had also announced measures to boost the farming sector in addition to annual payment of Rs.6,000 to small and marginal farmers.

Currently, the banks are mandated to extend collateral-free agricultural loans up to Rs.1 lakh. This limit was fixed in the year 2010.

“Keeping in view the overall inflation and rise in **agriculture** input costs since then, it has been decided to raise the limit for collateral-free agriculture loans from Rs.1 lakh to Rs.1.6 lakh.

“This will enhance coverage of small and marginal farmers in the formal credit system,” said the Central bank’s “Statement on Developmental and Regulatory Policies”.

A circular in this regard will be issued shortly, it added.

It further said agricultural credit growth has been significant over the years.

In spite of this, there remain issues related to agricultural credit such as regional disparity and the extent of coverage, among others.

“There is also the issue of deepening long-term agricultural credit for capital formation,” the RBI said while announcing setting up of the IWG.

The IWG will examine issues related to agricultural credit and arrive at workable solutions and policy initiatives.

RBI slaps penalty on Syndicate, Axis Bank

SPECIAL CORRESPONDENT/
THE HINDU

MUMBAI, FEBRUARY 05, 2019

The Reserve Bank of India has slapped a Rs.1-crore penalty on Syndicate Bank and Rs.20 lakh on Axis Bank for violating norms. The penalty on Syndicate Bank is due to non-compliance with the directions regarding frauds and risk management systems. Axis Bank was fined for contravention of the directions on detection and impounding of counterfeit notes and installation of note sorting machines, the central bank said.

State-run banks spurn risky lending to conserve capital

The RBI placing restrictions on credit to unrated borrowers, or on expansion of high RWAs for banks under prompt corrective action (PCA), has also led to a fall in RWAs

Steep losses, bad loan provisioning eat into lenders' capital

Radhika Merwin | February 10, 2019 |

BL Research Bureau

THE HINDU BusinessLine

The Reserve Bank of India (RBI), in its Monetary Policy last week, tweaked norms for risk-weights on bank loans to NBFCs in a bid to free up capital for lending. But many public sector banks (PSBs) may well choose to shore up their capital ratios rather than grow their loan books.

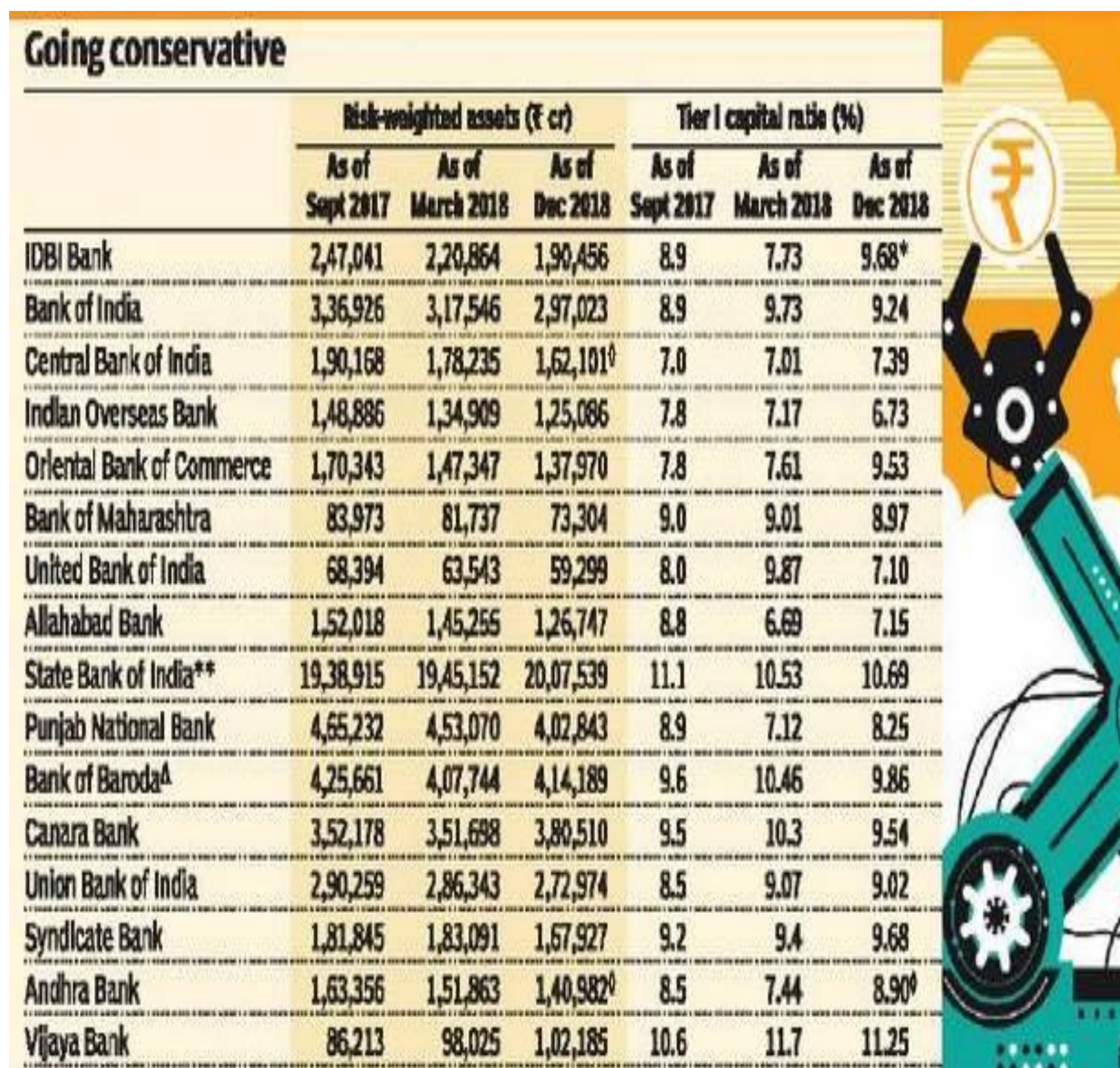
In the past one-and-a-half years, PSBs have done just that — consolidate their loan books and reduce their exposure to risky assets. Despite the Centre's massive capital infusion of Rs.88,000 crore into PSBs in FY18, these banks have since either shrunk their loan books or grown them only modestly.

Importantly, they have reduced their risk-weighted assets (RWAs) by a faster pace (than decline in loans), implying they have been moving to safer and less risky loans assets.

Between the September 2017 (before the mega bank recap) and December 2018 quarters, the RWAs for most PSBs fell 15-20 per cent.

In the nine months ended December 2018 alone, RWAs fell 6-13 per cent for many PSBs. The RBI's February 2018 circular on stressed assets had led to a steep rise in bad loans provisioning in the March 2018 quarter, eating into banks' capital. Paring exposure to risky assets has eased up their capital.

The RBI placing restrictions on credit to unrated borrowers, or on expansion of high RWAs for banks under prompt corrective action (PCA), has also led to a fall in RWAs.



Going conservative

	Risk-weighted assets (₹ cr)			Tier I capital ratio (%)		
	As of Sept 2017	As of March 2018	As of Dec 2018	As of Sept 2017	As of March 2018	As of Dec 2018
IDBI Bank	2,47,041	2,20,864	1,90,456	8.9	7.73	9.68*
Bank of India	3,36,926	3,17,546	2,97,023	8.9	9.73	9.24
Central Bank of India	1,90,168	1,78,235	1,62,101ϕ	7.0	7.01	7.39
Indian Overseas Bank	1,48,886	1,34,909	1,25,086	7.8	7.17	6.73
Oriental Bank of Commerce	1,70,343	1,47,347	1,37,970	7.8	7.61	9.53
Bank of Maharashtra	83,973	81,737	73,304	9.0	9.01	8.97
United Bank of India	68,394	63,543	59,299	8.0	9.87	7.10
Allahabad Bank	1,52,018	1,45,255	1,26,747	8.8	6.69	7.15
State Bank of India**	19,38,915	19,45,152	20,07,539	11.1	10.53	10.69
Punjab National Bank	4,65,232	4,53,070	4,02,843	8.9	7.12	8.25
Bank of BarodaΔ	4,25,661	4,07,744	4,14,189	9.6	10.46	9.86
Canara Bank	3,52,178	3,51,698	3,80,510	9.5	10.3	9.54
Union Bank of India	2,90,259	2,86,343	2,72,974	8.5	9.07	9.02
Syndicate Bank	1,81,845	1,83,091	1,67,927	9.2	9.4	9.68
Andhra Bank	1,63,356	1,51,863	1,40,982ϕ	8.5	7.44	8.90ϕ
Vijaya Bank	86,213	98,025	1,02,185	10.6	11.7	11.25

*12.6% considering capital infusion from LIC of ₹2,588 cr in Dec 2018 & ₹2,437 cr in Jan 2019; **for SBI group; ϕFor Sep 2018; ΔComputed from available info
Source: Company presentations, Basel III disclosures

But non-PCA banks, such as Bank of Baroda and Punjab National Bank, have also reduced their exposure to risky assets since September 2017. For SBI, (as a group) too, RWAs moderated between March and September 2018.

Borrower profile

RBI regulations require that the amount of capital a bank holds is pegged to the profile of its borrowers; riskier the borrowers, higher the capital needed.

The central bank assigns different 'risk weights' to different types of loans based on the possible defaults for each category. Loans to the Central government have a 0 per cent risk weight while those to commercial real estate have a 100 per cent weight. Capital ratios are determined with RWA as denominator and hence a decrease in RWAs eases up capital.

Numbers reveal that between the September 2017 and March 2018 quarters, the tier I capital ratio for weaker PSBs (placed under PCA) fell notably despite the massive capital infusion by the Centre and reduction in the banks' RWAs. Banks such as IOB, Corporation Bank, Allahabad Bank, PNB and Andhra Bank were just about meeting their tier 1 capital ratio requirement of 7 per cent as of March 2018.

The RBI's February 2018 circular — that did away with all old restructuring schemes — forced the banks to accelerate the NPA recognition exercise. This led to around Rs.1.2-lakh crore of NPAs being added to the system and PSBs together reporting an eye-watering loss of Rs.62,000 crore in the March 2018 quarter alone.

Further shrinking

In a bid to ease up pressure on capital, PSBs continued to shrink their RWAs in the nine months up to December 2018, and their RWAs fell 6-13 per cent.

This, along with the Centre's capital infusion and moderation in bad loan accretion, has helped improve the tier I capital ratio for some banks. Even so, some, such as UCO Bank and IOB, are just about meeting the requirement.

India's service sector activity slips for second straight month; employment rises

PTI

NEW DELHI, FEBRUARY 05, 2019

THE HINDU

The seasonally adjusted Nikkei India Services Business Activity Index fell from 53.2 in December to 52.2 in January, indicating a softer expansion in output

The country's services sector activity fell for the second straight month in January, as new orders rose at the slowest rate in four months; despite which companies continued to hire staff, a monthly survey said on Tuesday.

The seasonally adjusted Nikkei India Services Business Activity Index fell from 53.2 in December to 52.2 in January, indicating a softer expansion in output.

Despite easing marginally, the services PMI was in the expansion territory for the eighth straight month. In PMI parlance, a print above 50 means expansion, while a score below that denotes contraction.

"Expansion rates in the Indian service sector have been at similarly modest levels for the past four months, with January data extending the recent trend," said Pollyanna De Lima, Principal Economist at IHS Markit, and author of the report.

Ms. Lima further noted that there is some sign that growth may run out of steam, in the short-term at least, as seen by the weakest improvement in demand for four months and relatively subdued optimism.

According to the survey, a key factor restricting the rise in services activity was a softer expansion in new work and a moderate increase in sales, that was the weakest in four months.

Meanwhile, services employment continued to expand, with job creation at a three-month high.

"The increasing willingness of companies to hire workers should help reduce still high levels of unemployment in the country," Ms. Lima said.

On the prices front, a softer increase in prices charged for the provision of services was evident in January, with 97% of firms leaving their fees unchanged during the month.

According to experts, the signs of easing inflationary pressures indicate that the Reserve Bank of India (RBI) is likely to adopt an accommodative monetary policy stance.

The RBI's Monetary Policy Committee (MPC) is currently under way and the outcome of the meeting is scheduled for February 7.

Meanwhile, the seasonally adjusted Nikkei India Composite PMI Output Index, that maps both the manufacturing and services industry, was at 53.6 in January, unchanged from December, and indicative of a solid expansion in private sector activity.

"Output growth in the private sector held steady for now, supported by a strengthening manufacturing industry. Should data for services carry on a downward path, we could see a slowdown in GDP expansion in the final quarter of FY18," Ms. Lima said.

Meanwhile, the government on January 31, revised the economic growth rate upwards to 7.2% for 2017-18 from the 6.7% estimated earlier, mainly driven by performance of farm sector.

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