AIBEA's Banking News

10 TO 21 NOVEMBER 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

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AT HYDERABAD
24TH TO 26TH NOVEMBER, 2018

THEME
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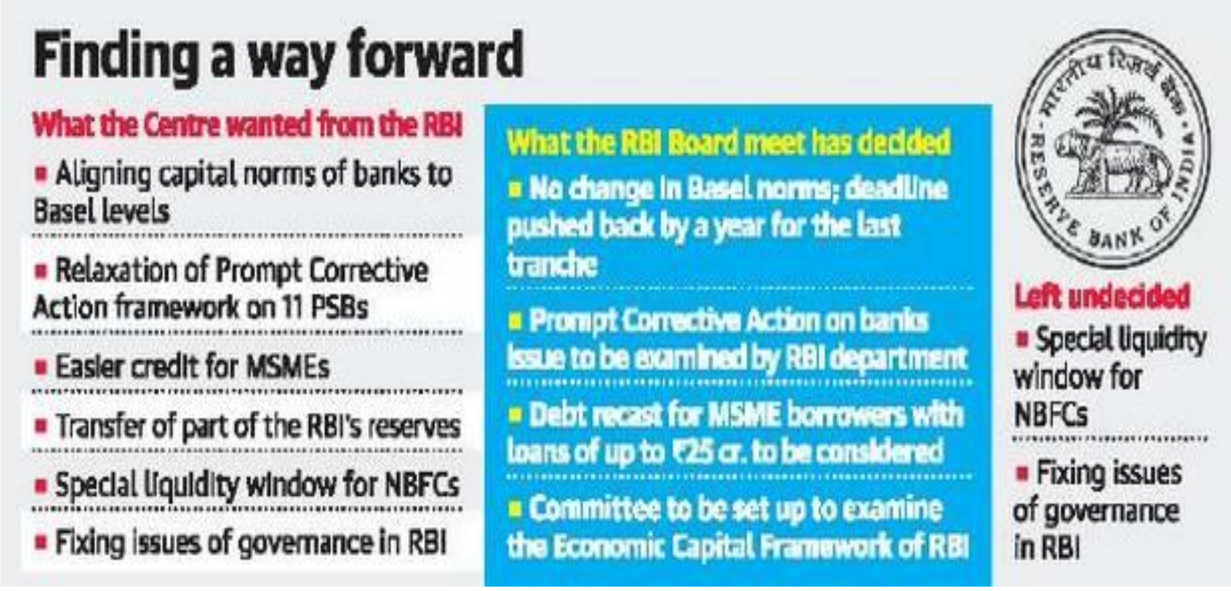
Govt-RBI call truce after a marathon board meeting

Manojit Saha
MUMBAI, NOVEMBER 19, 2018
THE HINDU

Panel to review economic capital for future earnings

The tension between the government and the Reserve Bank of India appeared to have defused for the time being with both parties agreeing to settle for a middle ground at the end of an over nine-hour board meeting on Monday.

The most contentious issue that the central bank and finance ministry locked horn was the issue of RBI's capital. Now, while RBI has agreed for setting up of an expert committee on the economic capital framework (ECF) its mandate is restricted to future earnings and not the existing reserves, sources privy to the board deliberations told The Hindu. The membership and terms of reference of the committee will be decided by the finance minister and RBI governor.



Finding a way forward

What the Centre wanted from the RBI

- Aligning capital norms of banks to Basel levels
- Relaxation of Prompt Corrective Action framework on 11 PSBs
- Easier credit for MSMEs
- Transfer of part of the RBI's reserves
- Special liquidity window for NBFCs
- Fixing issues of governance in RBI

What the RBI Board meet has decided

- No change in Basel norms; deadline pushed back by a year for the last tranche
- Prompt Corrective Action on banks issue to be examined by RBI department
- Debt recast for MSME borrowers with loans of up to ₹25 cr. to be considered
- Committee to be set up to examine the Economic Capital Framework of RBI

Left undecided

- Special liquidity window for NBFCs
- Fixing issues of governance in RBI

“The board decided to constitute an expert committee to examine the ECF, the membership and terms of reference of which will be jointly determined by the Government of India and the RBI,” RBI said in a statement.

Sources indicate there were detailed presentations by RBI on the issue of economic capital as well as other issues like prompt corrective action framework.

On the PCA, Board for Financial Supervision (BFS) of RBI will review the norms and will take a call if some of the parameters like net non-performing asset (NPA) ratio could be relaxed so that some of the banks come out of the PCA. There are 11 public sector banks out of 21 that are on PCA. The BFS consists of governor, four deputy governors and few other board members.

Another significant decision was relief to the micro, small and medium enterprises - the sector which is badly hit due to twin blows of demonetisation and patchy implementation of Goods and Service Tax (GST).

"The Board also advised that the RBI should consider a scheme for restructuring of stressed standard assets of MSME borrowers with aggregate credit facilities of up to Rs.250 million [Rs.25 crore], subject to such conditions as are necessary for ensuring financial stability," RBI said.

On the issue of capital adequacy ratio, after much deliberation to reduce it to 8%, it was finally retained at 9%. However, the deadline for implementing the last tranche of 0.625% under the capital conservation Buffer (CCB), has been extended by one year, that is, up to March 31, 2020.

Two other important issues that could not be discussed — liquidity for non-banking financial companies and governance issues of RBI- and those will be taken up in the next board meeting, scheduled on 14 December, sources said.

Sources added, the meeting board meeting proceeded amicably contrary to expectation. The tension between RBI and the government was started with the latter referred to section 7 of the RBI Act for consultation on these issues. Section 7 gives the power to the government to issue direction to RBI.

"The objective was to takeout RBI from the front page of newspapers," said a person privy to the board discussions, indicating that proceedings were smooth unlike the last meeting held on October 23.

A new bank scam using Google Maps loophole

Gautam S. Mengle
MUMBAI, NOVEMBER 19, 2018
THE HINDU

Con artists edit bank contact details and get customers to share Personal Identification Numbers

Scamsters seem to have stumbled upon a gold mine in the form of a loophole in the Google Maps interface. Taking advantage of the fact that on Google Maps, an establishment's contact details can be edited by anyone, a group of Thane-based con artists have been putting up their own contact numbers and getting customers who call them into revealing sensitive account details.

According to the Maharashtra cyber police, the trend began over a month ago. Police officers said that if one searches for a particular branch of a bank on Google, the results include the Google Maps page. But the contact information on the page, such as the address and phone number, can be edited by anyone as part of Google's User Generated Content policy.

"We have received at least three complaints from the Bank of India (BoI) over the last one month. In all three instances, we immediately notified the authorities at Google," Superintendent of Police Balsing Rajput of the State cyber police said.

Mr. Rajput said many customers search online for their bank's contact details, and after getting the incorrect number, call it with their queries. Unknown to them, they are actually speaking to a scamster who, under some pretext, convinces them to reveal details such as their Personal Identification Numbers (PIN) or the CVV numbers of their debit and credit cards, enabling the scamsters to withdraw money from their accounts.

A BoI spokesperson said, "After these incidents came to our notice, we modified the contact details on these branch listings on Google Maps. We asked users to use only Bank of India's official website to search for branch contact details."

When contacted, a Google spokesperson said, "Overall, allowing users to suggest edits provides comprehensive and up-to-date info, but we recognise there may be occasional inaccuracies or bad edits suggested by them. When this happens, we do our best to address the issue as quickly as possible. The Google Safety Center outlines tips to help consumers stay safe online."

‘Corruption no longer among top 3 hurdles to doing business in India’

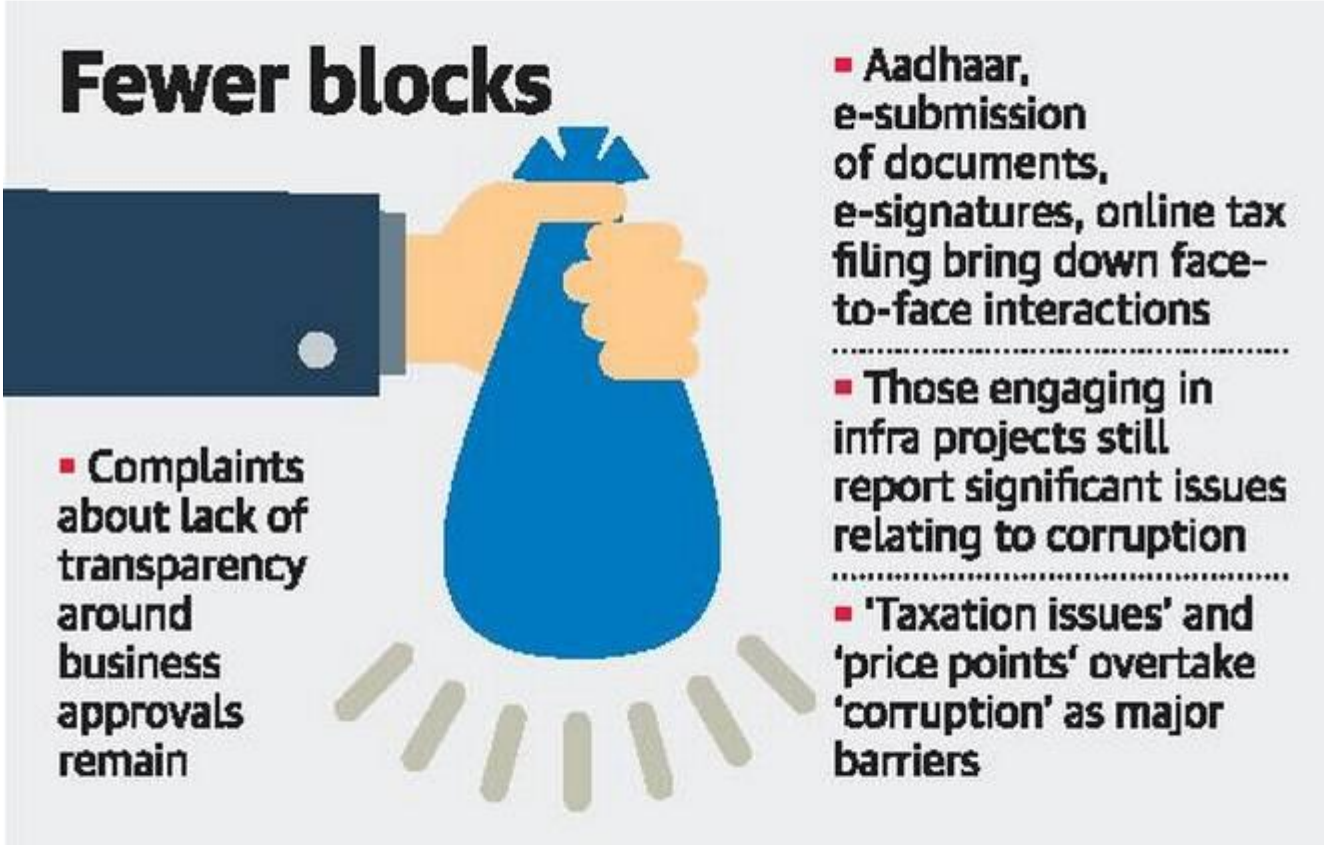
SPECIAL CORRESPONDENT

NEW DELHI, NOVEMBER 19, 2018

THE HINDU

Number of firms seeing it as a big barrier has fallen: U.K. India Business Council

The perception among U.K. businesses that corruption is a major barrier in doing business in India has halved, according to the latest edition of the U.K. India Business Council’s Ease of Doing Business report compared with what it was in 2015.


Fewer blocks
▪ Aadhaar, e-submission of documents, e-signatures, online tax filing bring down face-to-face interactions
▪ Those engaging in infra projects still report significant issues relating to corruption
▪ 'Taxation issues' and 'price points' overtake 'corruption' as major barriers
▪ Complaints about lack of transparency around business approvals remain

‘Halved since 2015’

“Since the first report was launched, there has been a considerable year-on-year fall in the number of companies that viewed ‘corruption’ as a major barrier – from 34% in 2016 to 25% in 2017, halving since 2015, where it stood at 51%,” the report said. “This decline shows a major improvement, indicating that the current government’s efforts to mitigate corruption appear to be delivering tangible and much-desired results.

“Those identifying ‘corruption’ as a major barrier has declined far more dramatically over the four-year course of this survey among those currently doing business in India [decline of 27% in the last two years] where it is no longer considered a ‘top-three’ barrier compared to those not currently active in India,” the report added.

The report noted that initiatives such as Aadhaar, electronic submission of government documents, acceptance of electronic signatures, and the push to file taxes online, have all reduced face-to-face interactions where corruption is most likely to take place.

“The extent of digitalisation, however, varies markedly across sectors, as does corruption, with those engaging in infrastructure projects still reporting significant issues relating to corruption,” the report added.

‘Taxation issues’ and ‘price points’ overtook ‘corruption’ as major barriers identified by 36% and 29% of respondents, respectively, the report said. However, the proportion of respondents identifying ‘taxation issues’ was 3% lower in 2018 than 2017, which, the report said, suggests that businesses may be starting to adjust to the GST.

“Those currently doing business in India cite ‘taxation issues’ as a consistent barrier, whilst those looking to enter the Indian market understandably rate ‘identifying a suitable partner’ as their most salient issue after a considerable decline in reports of ‘legal and regulatory impediments’ from 2017 to 2018,” the report said. “The key issue for those outside India is increasingly market demand for their products and services relative to government and bureaucracy-related barriers.”

While most of the respondents agreed that the government’s ‘e-biz’ initiative towards faster clearances would improve the business environment, they also said that there remain significant complaints about around the lack of transparency around business approvals, particularly in the case of statutory approvals for investments.

RBI-Centre tussle: RBI carries the bat

Raghuvir Srinivasan

CHENNAI, NOVEMBER 19, 2018

THE HINDU

The Reserve Bank of India seems to have carried the day, after all, in Monday's marathon 9-hour board meeting.

Going by the brief statement that it put out, of the six deliveries that it had to play, the RBI has shouldered arms to two — PCA relaxation and capital framework which have been referred for expert study; deftly glanced two more — on liquidity for NBFCs and governance of the central bank — to the next board meet, and effectively fended off the last two bouncers on capital norms and MSME borrowings.

Interestingly, of the two issues on which the RBI has seemingly conceded, the concessions are minimal and appear mainly designed for optics so that the government can have something to take back to Delhi from Mumbai.

The deferment by a year for a part of the additional capital framework is a small give-away in the face of the Centre's demand for relaxation of the capital ratio itself.

Similarly, the MSME credit recast concession is not a big one considering the demand from the Centre was for easier NPA norms for the sector and more credit flow.

Finally, after all the pre-match sledging, the game seems to have gone off smoothly with both sides playing responsibly.

NDA govt. divested twice as much as UPA, DIPAM data shows

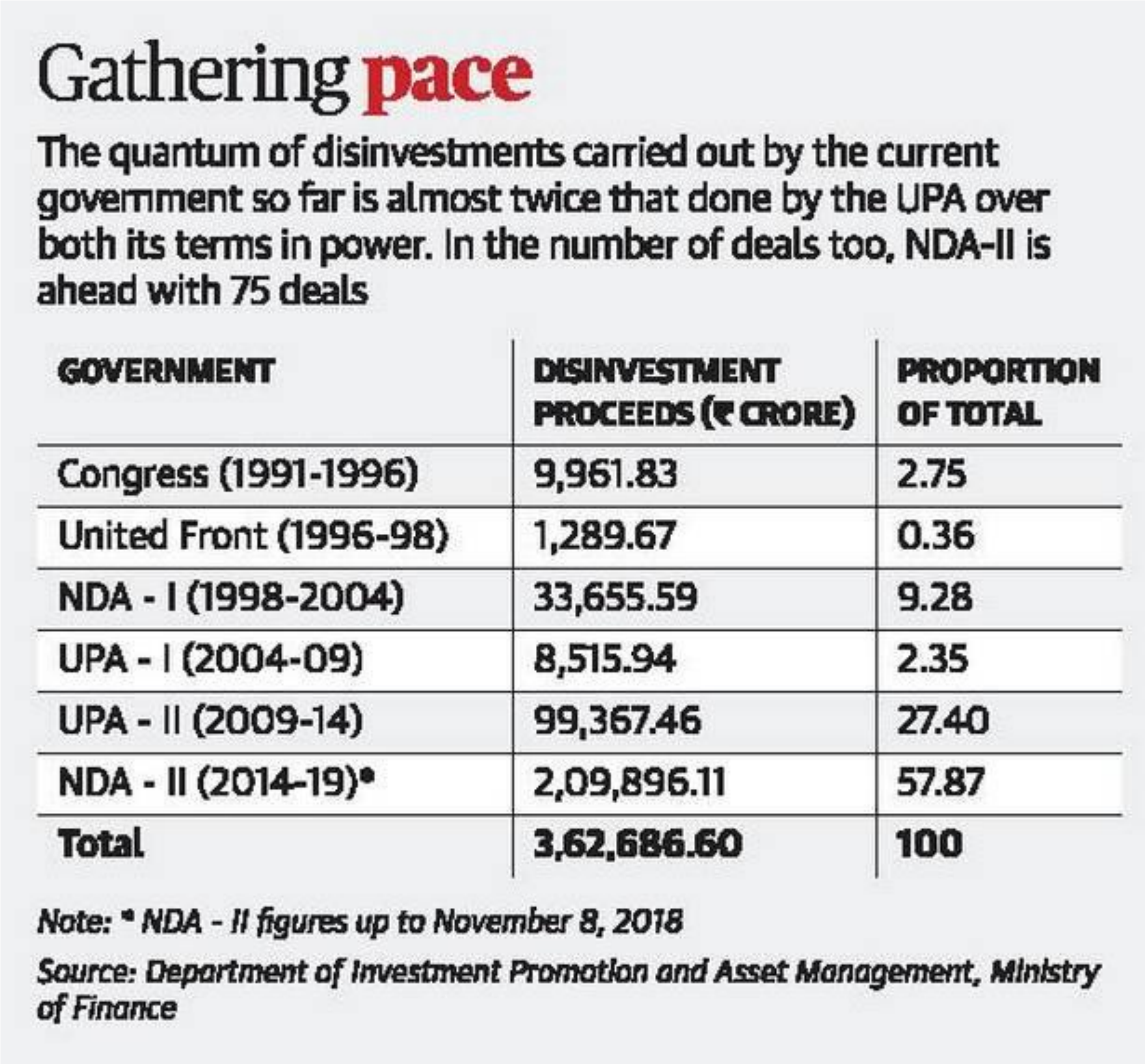
T.C.A. Sharad Raghavan

NEW DELHI , NOVEMBER 18, 2018

THE HINDU

Rs.2.1 lakh crore stake sale done in the last four years alone, finds The Hindu

The current NDA government accounts for a whopping 58% of all the disinvestment that has taken place since 1991, an analysis by ***The Hindu*** of data released by the Department of Investment and Public Asset Management (DIPAM) showed.



Gathering pace

The quantum of disinvestments carried out by the current government so far is almost twice that done by the UPA over both its terms in power. In the number of deals too, NDA-II is ahead with 75 deals

GOVERNMENT	DISINVESTMENT PROCEEDS (₹ CRORE)	PROPORTION OF TOTAL
Congress (1991-1996)	9,961.83	2.75
United Front (1996-98)	1,289.67	0.36
NDA - I (1998-2004)	33,655.59	9.28
UPA - I (2004-09)	8,515.94	2.35
UPA - II (2009-14)	99,367.46	27.40
NDA - II (2014-19)*	2,09,896.11	57.87
Total	**3,62,686.60**	**100**

*Note: * NDA - II figures up to November 8, 2018*

Source: Department of Investment Promotion and Asset Management, Ministry of Finance

The data showed disinvestments worth about Rs.3.63 lakh crore have taken place since 1991, out of which about Rs.2.1 lakh crore came in the last four years alone, with five months still left in this financial year. The disinvestment done by the current government so far is already almost twice that done by the UPA government over both its terms in power.

In the number of deals too, the current NDA administration seems ahead with 75 deals compared with 33 deals in UPA-II.

Further, the government has set a target of Rs.80,000 crore of disinvestments for this financial year, of which it has so far achieved only Rs.15,247.11 crore. If it does manage to meet its target, then the present government's share in total disinvestment since 1991 will go up to nearly 65%.

Last year, the government had set a disinvestment target of Rs.72,500 crore, which it overshot significantly by collecting Rs.1,00,056.91 crore.

"The government needs all the revenue it can get to meet its fiscal deficit target," an economist working closely with the government said on the condition of anonymity. "Most of the disinvestment needs to take place. These are loss-making companies. But the manner in which it is getting the disinvestment proceeds in some cases is problematic. Take the ONGC-HPCL deal, where ONGC bought some Rs.36,000 worth of HPCL shares from the government. How is that disinvestment, if ONGC is a government-owned company itself?"

ONGC had in January 2018 bought 51.1% of HPCL for Rs.36,915 crore from the government, which went towards meeting that fiscal year's disinvestment target. The government is also reportedly considering ordering several public sector oil companies to buy back shares from the government amounting to about Rs.10,000-Rs.20,000 crore. Another deal in the making is BPCL and IOC buying 26% each in GAIL, which would give the government another Rs.20,000 crore.

"What you are doing is you are finding ways of transferring capital from the companies to the government coffer over and above the dividends you are getting from those companies," Pronab Sen, former Chief

Statistician of India, said. "Disinvestment basically means when the government is reducing its holdings in effect, directly or indirectly. What they are doing is they are retaining control over the PSUs, but they are bringing down the value of the PSUs."

RBI board meet strikes a middle ground

OUR BUREAU |

MUMBAI, NOVEMBER 19

THE HINDU BusinessLine

After a marathon nine-hour meeting, the Reserve Bank of India's central board on Monday took the middle ground in a bid to defuse rising tension between the government and the central bank.

On the one hand, the board has accommodated some of the demands of the government, including setting up a committee to review the Economic Capital Framework (ECF); on the other, it allowed the central bank to take the final decision on relaxing the Prompt Corrective Action (PCA) framework.

However, no decision was taken on issues related to easing credit flow to MSMEs.

The board decided to constitute an expert committee to examine the ECF to determine the level of reserves the central bank should hold vis-a-vis its assets so that the excess can be transferred to the government. This was one of the key demands of the government. The membership and terms of reference of the new committee will be jointly determined by the government and the RBI.

With regard to banks under PCA, which restricts banks' ability to lend and expand operations, the board decided that the matter would be examined by the Board for Financial Supervision (BFS) of the RBI.

The government wants the PCA framework relaxed so that the 11 public sector banks, which are under the framework, can step up lending to support growth

The board also advised that the RBI should consider a scheme for restructuring stressed standard assets of micro, small and medium enterprise (MSME) borrowers with aggregate credit facilities of up to Rs.25 crores. But the demands of some of the board members, representing the government view, for easing credit flow to MSMEs, opening a separate liquidity for non-banking finance companies, and a differential capital adequacy regime (with banks having global presence following Basel-III capital adequacy norms and purely domestic banks with relatively lower capital adequacy prescription) were not met. The RBI statement was silent on these issues.

The meeting, which was expected to be stormy in the backdrop of government nominees and some independent directors and RBI Deputy Governor on the central board publicly airing their differences on a host of issues, is understood to have been cordial.

The board also decided to ease capital pressure on banks by allowing them one more year to meet the Capital Conservation Buffer (CCB). This buffer is aimed at ensuring that banks build up capital buffers during non-stress periods so that they can be drawn down when losses are incurred. The board decided to extend the transition period to implement the last tranche of 0.625 per cent under CCB, by one year — up to March 31, 2020. By March-end 2020, banks can now achieve CCB of 2.5 per cent of their risk-weighted assets.

However, the capital to risk-weighted assets ratio, which is the amount of capital banks need to hold for making loans and absorbing possible losses, has been retained at 9 per cent.

How far can the rupee strengthen?

A study on the rupee over the last 10 years indicates that the current recovery can extend further in the coming weeks

A study of the historical movements in the currency indicates it could test 69 and 68 in the coming months

GURUMURTHY K

THE HINDU BusinessLine

The rupee is finally getting a breather. After getting knocked down badly since the beginning of 2018, the currency is getting some relief as the market approaches the year end.

The currency tumbled to its all-time low of 74.48 in early October and has recovered sharply from there over the last few weeks. The rupee has reversed higher by about 4 per cent from the record lows and is currently trading at 71.65.

Dragging factors

A strong surge in crude oil prices and foreign portfolio investors (FPI) pulling out money from the Indian debt segment have been keeping the rupee under pressure since the beginning of this year. Crude oil (WTI) prices surged from around $58 per barrel in February to $77 in October increasing the concerns of India’s trade and current account deficit widening. FPIs have pulled out $7.7 billion from debt and $5.2 billion from equities this year.

Apart from these two factors, the strength in the US dollar and the rate hikes from the US Federal Reserve have also been weighing on the rupee.

The turnaround

However, things have turned around over the last few weeks. A sharp downward reversal in crude oil prices have helped the rupee recover from record lows. Crude oil (WTI) prices have been falling sharply over the last six consecutive weeks. WTI crude has plummeted about 28 per cent, wiping out all the gains made through this year, from around $77 in October to test $55 per barrel last week. The prices have bounced from there and are currently trading at $57. This has helped the rupee recover from its all-time low of 74.48 to the current levels of 71.65.

What next?

So, how far can the rupee strengthen against the US dollar? A study on the rupee over the last 10 years indicates that the current recovery can extend further in the coming weeks.

A Fibonacci retracement study on five different legs of the movements (from a high to new low) in the rupee from 2008 shows a specific trend. The rupee has always retraced to a level in between the 50 per cent and the 61.8 per cent Fibonacci retracement support. For instance, rupee fell from 43.85 (June 2011) to 54.3 (December 2011). Thereafter, the currency recovered to 48.6 (February 2012) – the level which falls in between 49.08 (the 50 per cent Fibonacci retracement level) and 47.84 (61.8 per cent retracement level).

Similarly, the rupee had recovered from 51.38 (October 2012) to 68.85 (August 2013) up to 58.33 – a level close to the 61.8 per cent retracement support level of 58.05.

If this trend continues, then there is a strong likelihood of the rupee strengthening towards 69 and 68 against the US dollar in the coming weeks. The levels of 69 and 67.75 are the 50 per cent and 61.8 per cent retracement supports of the recent fall from 63.59 (January 2018) to 74.48 (October 2018).

A near-term resistance is in the 71.20-71.10 region. An intermediate pull-back move to 72 or even 72.5 cannot be ruled out before the rupee heads towards 70 and 69. On the charts, the level of 69 is a strong long-term resistance that can cap the upside of the current leg of up move in the rupee.

Gaps in RBI's policy framework

Predominantly bank-centric, the RBI doesn't have an integrated view of the financial system

BL CHANDAK

THE HINDU BusinessLine

An economy is only as strong and efficient as its financial system, which influences the pattern of production, distribution, consumption, investment, credit flow and, thereby, the nature and level of economic activities. Financial system reforms and building up of institutional and legal infrastructure have been undertaken since 1991 to to help create a stable, resilient and efficient financial sector.

Despite these, the financial system is systemically more vulnerable and unstable today than ever before. Growing imbalances between the financial and real sectors affect the 'India Growth Story' despite sound fundamentals, proactive policy measures and high growth potential.

Repeated non-realisation of the growth numbers and false starts to green shoots underscore limitations of policy-makers' insight into growth-impacting factors and solution thereof. Anxiety and uncertainty are growing among businesses; more so among smaller ones. How long should one wait for the 'India Growth Story' to come good? Why do well-intended policy measures remain less effective and even counterproductive? Persistent under-performance of the economy, large gaps between planned/projected targets and outcomes and growing vulnerability of the financial system indicate that some basic lacuna in the policy-making exercises.

Missing factor

The RBI's policy framework is primarily bank-centric. However, a major portion of the nation's credit, savings and investment are managed by non-bank finance channels . Being bank-centric would mean not getting an integrated view of the financial system.

The non-banking channels (trade credit, finance firms, moneylenders, businesses' own equity/capital, etc) are the predominant source of business credit. The Subramanian Committee on Revenue Neutral Rates under GST, 2015 found that 94.3 lakh units registered with the income tax department had total goods and services turnover of Rs.240 lakh crore in FY14. So the average quarterly sales of these units were Rs.60 lakh crore.

The total working capital outstanding from banks was about Rs.20 lakh crore in FY14. Assuming an average working-capital cycle of three months, bank credit meets only a third of the working capital needs of these units; two-thirds come from non-bank channels.

Also, bank finance is minuscule ***vis-à-vis*** the turnover in the farm products sector, goods and services produced by units below the income-tax threshold and unaccounted transactions. If these are added, working capital financing from banks form a very small base (far less than one-third) of aggregate business turnover financing volume. The third and fourth All India Census of SSIs/MSMEs found that only 5 per cent of the MSMEs had institutional credit.

Policy disorder

The financial system policy framework and its understanding are predominantly bank-centric. Working dynamics of banks and other non-bank financing channels are different. Further, the two-way interaction and feedback loop between banks and non-bank channels do impact the dynamics of bank finance. As such, even the bank finance picture is diluted/distorted.

A sound and stable financial sector framework cannot be built on such a narrow and distorted base. Due to this, the outcome of well intended policy reforms is muted — in some cases they even aggravate the problems they intend to cure.

A case in point is the faltering of bank-centric development financing strategy for MSMEs. Adequate and timely credit to the sector remain elusive. Even after 70 years, MSMEs are worse of now than ever before. Protracted deterioration in their NPA (non-performing asset) position shows dysfunctionality of various remedial/recovery measures taken over the last two decades.

Payment, liquidity and credit risks in the banking and non-bank financing channels are interlinked and interdependent. They form an integrated financial base of a business. A default/delay in realising trade debts impacts a firm’s ability to meet commitment to its bank. Late payment or default in non-bank channels can set in chain reaction. Bank-centric NPA policy will remain less effective till the payment system is set right in non-bank channels.

Over the last 24 years (starting from PLR in 1994 followed by BPLR, Base Rate, MCLR), the RBI is yet to arrive at a suitable monetary policy base which can improve monetary policy transmission. Real changes in credit volume, liquidity and interest rates — the transmission channels — are determined more by the cumulative effects of millions of day-to-day credit-based business transactions than changes in money market variables.

Flawed financial sector policy framework leads to a perverse financial intermediation and risk-return structure which incentivises trading, import, cash purchases, financial investment and retail loans rather than production, capex, and business credit. It impacts the financial structure of firms, fund flows across firms/sectors, credit creation/distribution and ultimately output growth.

Big Data gaps

Disconnect between the world of finance and economics, segmented and distorted understanding of the financial system and limited ground-level experience have impacted RBI’s skill to contextualise/decipher Big Data.

The RBI seems to be indifferent to anomalous and unusual trends in its time series data and findings of its own studies/reports. Some of the glaring gaps in the RBI’s Big Data analytics include:

The RBI has been carrying out annual study of financials of private corporate sector on sample basis for the last 68 years. This data form the base for estimation of capital formation in the private corporate sector. There are large variations from the long-term trend in the composition of assets — steady increase in share of financial investment (annual average of 22 per cent in the 2000s against 12 per cent in the 1990s) and corresponding decline in fixed assets’ share in the total assets (annual average of 67 per cent in 1990s against 59 per cent in the 2000s).

These have serious implications on the industry’s output, productivity, competitiveness. These are also reflected in the RBI’s own specific corporate financial studies, which carry this data without any meaningful explanation.

The RBI has not read the clear warning signals emanating from abnormal growth trends in certain variables such as corporate deposits with banks and Chinese imports. The other areas of concern are the impediments to circular flow of funds between banks and corporates during 2004-08; surge in sub-PLR lending share in bank credit from 2001 to 2007; steady increase in the share of big-ticket loans; and persistent rise in cash economy despite spread of digital banking, financial inclusion, mass opening of Jan Dhan accounts, etc.

Insight into interconnectedness of risks among financial sector, real sector and non-bank financial channels can be helpful in diagnosing growth-impacting factors. Besides taking an integrated view of the financial system, the RBI needs to strengthen market intelligence, convert Big Data analytics into actionable-knowledge, and improve its understanding of ground realities.

India’s services sector boom has failed on the jobs front

Services conundrum The significant rise in jobs in the construction sector masks the tepid growth in other services sectors

The striking divergence in the services sector’s contribution to GDP and employment growth is bound to have adverse welfare implications

CP CHANDRASEKHAR / JAYATI GHOSH

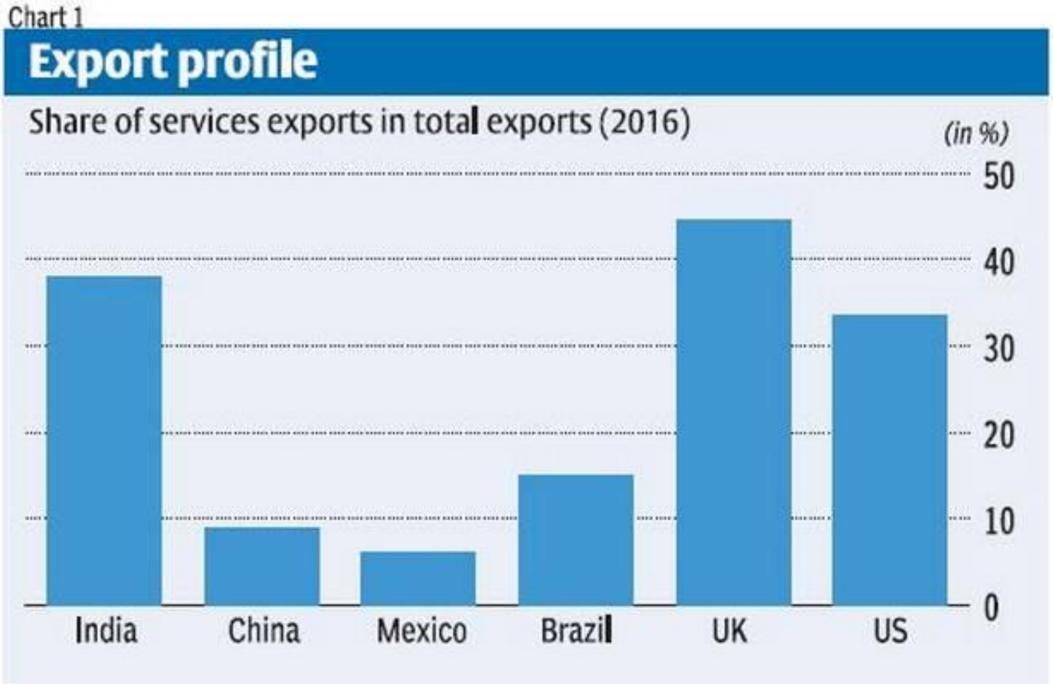
THE HINDU BusinessLine

As is widely recognised, India’s economic growth since the 1990s has largely been on account of an expansion of the services sector, in which exports are seen as having played an important role. The rise in the share of services in GDP was particularly sharp after 1996-97 amounting to 6.8 percentage points over the subsequent 10 years as compared with just 1.9 percentage points during the previous 10 years. In the event, services as a group came to dominate the Indian economy, accounting for more than half its GDP.

The official Economic Survey 2013-14 noted that: “India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9 per cent, just below China’s 10.9 per cent, during the last 11-year period from 2001 to 2012.” This trend has continued. Between 2011-12 and 2016-17, gross value added from services grew at 8.7 per cent per annum and accounted for 58 per cent of the increase in total GVA.

Export surge

This growth in services has been accompanied by a significant increase in the exports of services. India’s success in the services exports area has meant that its share of services in total exports (38 per cent) is much higher than in countries such as China, Mexico and Brazil and close to ratios in the UK and the US (Chart 1). That success has raised India’s share in world services exports from 0.6 per cent in 1990 to around 3.5 per cent in 2017.



The normal presumption that follows is that diversification into high productivity, and in some cases tradable, services accounts for India's premature increase in the relative share of services in total GDP. However, India's National Accounts Statistics indicate that the set of "new" and more productive services — transport, storage and communication, financial services, and real estate and professional services — together accounted for only 28.5 per cent of total gross value added (GVA) in 2016-17. Add on public administration and defence and the railways and the figure rises to 34.2 per cent.

That still leaves close to half of the 65 per cent share of total GVA from services unaccounted for. Trade, repair services and hotels and restaurants, dominated by the retail trade, alone account for 11.1 per cent of GVA and 'other services' for another 6.9 per cent.

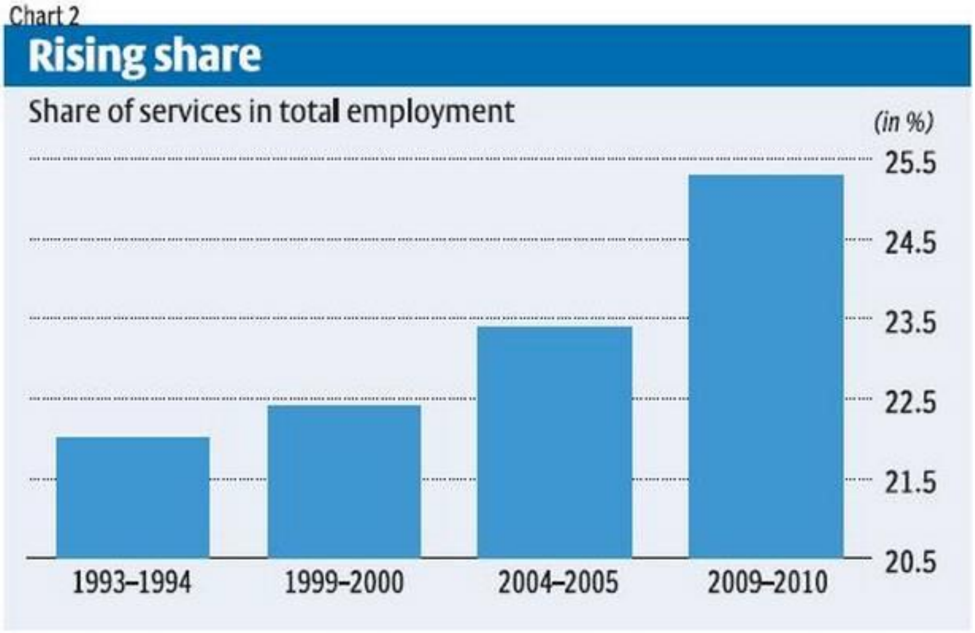
This composition suggests that, while 'new' modern services do play an important role in the Indian economy, so do traditional unorganised services, which are known to be characterised by extremely low earnings, and which grow because of the inadequate employment opportunities in the primary and secondary sectors.

The jobs puzzle

However, what is striking is that, despite the presence of unorganised services, the share of the services sector in total employment was relatively low, and despite the expansion of services, the growth of employment in this sector has been limited.

Between 1999-00 and 2004-05, employment in the tertiary sector increased by only 22 per cent, whereas GDP at constant prices contributed by the services sector expanded by 44 per cent. Tertiary sector employment in 2009-10 amounted to only 25 per cent of the work force, despite the fact that around 55 per cent of GDP came from this sector (Chart 2).

An examination of the sectoral composition of the workforce across the quinquennial surveys of the National Sample Survey Organisation reveals that the share of services in employment increased by far less than the huge increase in its share in GDP.

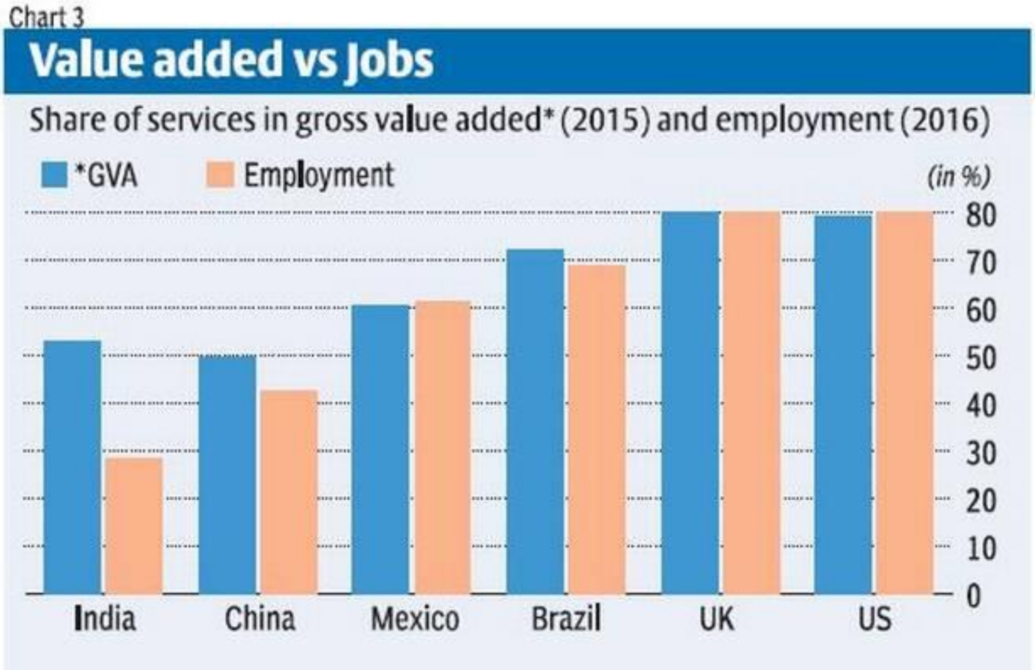


In fact, as Chart 3 illustrates, India is unusual in terms of the wide divergence of the shares of the services sector in total gross value added and employment. As compared with 50 and 42 per cent in China, 60 and

61 per cent in Mexico, and 72 and 69 per cent in Brazil, the GVA and employment shares in India were 53 and 29 per cent.

According to The Economic Survey 2016-17: “Among the top 15 services producer countries, the services sector accounts for more than two-thirds of total employment in 2016 in most of them except India, China and Mexico where the shares are low. India has the lowest share of 28.6 per cent.”

If the economy muddled along despite this failure of its most dynamic sector to make an anywhere near proportionate contribution to employment relative to its contribution to value added, it was because of a substantial increase in employment in the construction sector. Total employment in the construction sector rose from 17 million in 2000 to 50 million in 2011–12, doubling over the years from 2004–05, mainly because of increased employment in rural construction. In the event, the share of the construction sector in total employment rose from 4.4 per cent in 1999–2000 to 10.5 per cent in 2011–12.



The weak responsiveness of employment to an increase in services production is possibly because high productivity services contributed so little to employment, that even significant low wage employment in traditional services that contribute little to GDP could not restore a semblance of proportionality between employment and output growth.

For example, within the modern services, financial intermediation and real estate, renting and business activities together recorded an increase in employment share of only one percentage point between 1999-00 and 2009-10. These are the ‘boom’ sectors that have generated the new rich of post-reform India.

The IT factor

Even the much-celebrated growth of IT and IT-enabled services has not been accompanied by a proportionate growth in employment. According to a study by the Central Statistical Organisation the share of ICT services in total GDP had increased from 3 per cent in 2000-01 to 6 per cent in 2007-08; and in service sector GDP it went up from 6 per cent in 2000-01 to 10 per cent in 2007-08.

On the other hand, going by NSS figures, employment in computer related activities (Category 72 of National Industrial Classification) which increased from 314 million in 1999-00 to 963 million in 2004-05, accounted for 0.2 per cent of the work force. That figure rose to just 0.4 in 2009-10. If we consider categories 65 to 74 which covers all business services including financial intermediation, and real estate, renting and business activities, the share of employment in that sector was just 1.7 per cent in 2004-05 and 2.2 per cent in 2009-10. This explains in large measure the lack of correspondence of the shares of services in GDP and employment.

If a high growth sector like services does not contribute to absorbing the large numbers of under- and unemployed workers in India, the welfare implications of the growth trajectory are bound to be adverse. This is a factor that is ignored by those who laud India’s alternative growth model, which involves premature diversification in favour of high productivity services, without adequate development of a manufacturing base.

Easing tensions between RBI, govt positive for INR assets: report

PTI

THE HINDU BusinessLine

Singapore, Nov 20 - Easing tensions between the Reserve Bank of India (RBI) and the government was likely to be positive for Indian Rupee (INR) assets, particularly as the central bank was seen to retain its operational autonomy, said a leading Singapore bank.

Knee jerk gains in bonds are likely, before returning to familiar drivers particularly in midst of the sharp overnight sell-off in the US markets, said the DBS Banking Group in its report on Tuesday.

INR bonds have retained recent gains but struggled to make further headway.

It further pointed out that the 10-year yields (generic) rallied until the September quarter to test past 8.1 per cent, before easing to 7.7 per cent this month. Lower oil and firmer rupee (+3.2 per cent month-to-date) have benefited INR bonds, as domestic and foreign investors made a return.

But public sector banks have also sold into the recent bond rally to trim treasury losses; holdings are down INR 290 billion (USD 3.9 billion) in October-November after INR 265 billion purchases in Q3.

Foreign investors have turned net buyers, with USD 700 million inflows yet far in November, reversing part of October’s USD 1.4 billion outflows.

Banking system liquidity is in deficit in this holiday-shortened week and will get a hand from the RBI’s open market operations, according to DBS.

The next tranche of INR 80 billion bond buybacks will be conducted on November 22. The 10-Year yields are likely to hover in the 7.65-7.85 per cent range, with bears to monitor domestic fiscal concerns and oil price direction. Implied rates have pushed back rate hike expectations to Q2 19, with the easing hike-premium keeping short-end rates down.

RBI to inject Rs 8,000 cr liquidity on Nov 22

PTI | MUMBAI, NOVEMBER 19

The Reserve Bank said on Monday it will inject Rs.8,000 crore into the system through purchase of government securities on November 22. "Based on an assessment of prevailing liquidity conditions and also of the durable liquidity needs going forward, the RBI has decided to conduct purchase of the following government securities under Open Market Operations for an aggregate amount of Rs.8,000 crore on Thursday...," it said in a statement.

Govt, RBI step back from the brink, signal uneasy truce

After a nine- hour RBI board meeting on Monday, RBI has decided to make concessions on capital adequacy and referred the reserves issue to an expert panel

The government and RBI have been sparring over how much capital the central bank needs and how tough its lending rules should be

Nov 20 2018 | Gopika Gopakumar & Remya Nair

Mumbai/New Delhi: In the end, expectations of an escalation of the confrontation were belied. The government and the Reserve Bank of India (RBI) stepped back from the brink and found a middle ground, giving both sides crucial space to revisit their positions.

Given that the contentious issue of liquidity—particularly pertaining to non-banking financial companies (NBFCs)—is yet to be addressed to the satisfaction of the union government, the truce is an uneasy one. The finance ministry believes NBFCs are facing an acute liquidity crisis, which was spilling over into the real estate sector and small businesses.

After a marathon board meeting that lasted more than nine hourson Monday, RBI made concessions on capital adequacy of banks, while two contentious issues of transfer of surplus reserves and relaxing norms for weak banks were referred to committees.

With this, the threat of invoking Section 7 of the Reserve Bank of India Act, 1934, that would have brought the central bank-government relationship to a new low now seems to have passed.

The board has advised RBI to let banks recast loans up to Rs.25 crore given to micro, small and medium enterprises (MSMEs).

The issue of transfer of excess RBI reserves to the central government has been referred to an expert committee, the membership and terms of reference of which would be finalized jointly by the government and RBI, the central bank said in a statement.

Fixing the economic capital framework of RBI or the capital required by the central bank in different risk scenarios has also been a sore point.

Fixing a capital framework could free up RBI's surplus reserves for transfer to the central government. The government is struggling to meet its fiscal deficit target of 3.3% of gross domestic product in the face of lacklustre tax collections, and a massive surplus transfer will help it in bridging the gap.

The central bank contends that the reserves are crucial for it to ring fence the country at the time of a crisis.

Further, the board did not yield to demands of bringing down the capital adequacy ratio in line with bare minimum levels prescribed by Basel III norms. However, it has yielded and provided another year for implementation of the capital conservation buffers.

“The Board, while deciding to retain the CRAR (capital to risk weighted asset ratio) at 9%, agreed to extend the transition period for implementing the last tranche of 0.625% under the Capital Conservation Buffer (CCB), by one year, i.e., up to March 31, 2020,” RBI said in the statement.

The issue of easing the prompt corrective action (PCA) framework for weak banks has also been referred to a committee, with the government pushing for a review to allow a few state-run banks out of this framework. Eleven of the 21 state-run banks are under RBI’s PCA framework, which the government believes is restricting credit flow to key sectors of the economy, including MSMEs.

“The meeting was very comprehensive and ended on a cordial note and did not see any voting by members,” said a board member on condition of anonymity.

The next meeting of the RBI board is likely to take place on 14 December.

However, there seems to be no consensus on addressing the liquidity shortage faced by NBFCs flagged by the union government. Instead, RBI announced that it would inject Rs.8,000 crore liquidity through open market operations on 22 November.

To ease the liquidity crunch faced by NBFCs, State Bank of India had in October announced that it would buy loans worth Rs.45,000 crore from non-banks.

In addition, to ease the liquidity squeeze faced by housing financiers, the refinance window of National Housing Bank was increased to Rs.30,000 crore.

RBI board decisions: MSME loan restructuring scheme in the works

Scheme for MSMEs with maximum loans of up to Rs.25 crore will be subject to conditions that are necessary for 'ensuring financial stability', says RBI

The government is said to think that demonetisation and GST have negatively affected MSMEs and squeezing credit to them at this time will push them into further trouble

Nov 20 2018 | Asit Ranjan MishraGireesh Chandra Prasad

live mint

New Delhi: The Reserve Bank of India (RBI) will consider a scheme for restructuring of stressed assets of micro, small and medium enterprises (MSMEs) with loans of up to Rs.25 crore on the advice of its board which met on Monday. However, the MSME loan restructuring scheme will be subject to conditions that are necessary for "ensuring financial stability", RBI said in a statement after a nine-hour marathon meeting.

At the last RBI board meeting on 23 October, independent directors and government nominees had asked the central bank about the number of MSMEs facing credit default. RBI said it did not have the data readily available to it and promised to submit the data in the November meeting.

"The government thinks that demonetisation and the goods and services tax (GST) have negatively affected the MSME sector and squeezing credit to them at this time may put them in further trouble," a person with knowledge of the discussions within the RBI board said, speaking under condition of anonymity.

The government is also worried that squeezing of liquidity at a time of ongoing elections in five states and ahead of general election in early 2019 may dent it politically, the person said.

The latest liquidity crunch faced by MSMEs started with the unearthing of the PNB fraud after which banks turned reluctant to offer trade finance to small businesses, said Chandrakant Salunkhe, founder and president of SME Chamber of India.

Nirav Modi and his uncle Mehul Choksi are the prime accused in the Rs.13,000 crore fraud at the Punjab National Bank in Mumbai that came to light in February this year.

Non-banking financial companies (NBFCs), a key source of funds for small businesses, saw their liquidity drying up after debt-laden Infrastructure Leasing and Financial Services (IL&FS) started defaulting on loan repayments, leading to the government superseding its board in early October.

Industry representatives say the latest cash crunch covers trade finance, working capital requirements and investments into plant and machinery.

Salunkhe said that about 900,000 MSMEs have closed down over the last couple of years since demonetisation in November 2016. The hardship faced by the sector prompted Prime Minister Narendra Modi to announce a series of steps to improve their access to credit on 2 November, including sanction of loans up to Rs.1 crore in less than an hour to help small firms that seek finance and market access. According to Giriraj Singh, minister of state for MSMEs, there are 65 million MSMEs in the country that provide 120 million jobs.

“Out of the 15 lakh (incorporated) companies in the country, 15,000 are medium-sized ones. If the liquidity crisis is not resolved, none of these will graduate into larger companies in the next few years,” said Salunkhe.

The issue of liquidity was earlier dealt with at length at the Financial Stability and Development Council meeting chaired by finance minister Arun Jaitley. During that meeting, finance ministry officials asked RBI not to let the NBFC liquidity issue get out of hand as there was a risk of it spilling over into other sectors. RBI officials said there is robust credit growth and it does not have any data that suggest NBFCs are facing a liquidity crunch. At this stage, Jaitley advised banking secretary to provide necessary data to RBI in this regard.

ICICI Bank to raise Rs.25,000 crore to fill void left by NBFCs

ICICI Bank intends to issue NCDs and other fixed-income securities for raising funds in the year ahead

Nov 20 2018 | Anirudh Laskar

live mint

Mumbai: ICICI Bank Ltd has drawn up a plan to raise as much as Rs.25,000 crore for on-lending as India's second largest private lender seeks to fill in the vacuum left by non-banking financial companies (NBFCs), which are facing a liquidity squeeze. ICICI Bank intends to issue non-convertible debentures (NCDs) and other fixed-income securities for raising funds in the year ahead, according to a document sent recently to shareholders after its annual general meeting.

in that document, ICICI Bank its board has been authorized through a general resolution to borrow the funds by way of issuance of non-convertible securities, including but not limited to bonds, and NCDs in one or more tranches on a private placement basis.

A spokesperson for ICICI Bank did not respond to an emailed query.

The lender's move is aimed at capitalizing on the growing opportunity to deploy more money towards road, power and infrastructure projects, a space that has been hitherto dominated by NBFCs.

NBFCs began to face a funding crisis because of a liquidity squeeze that surfaced following defaults by Infrastructure Leasing and Financial Services Ltd (IL&FS) and DSP Mutual Fund sold commercial papersworth around Rs.300 crore of housing finance firm DHFL at higher yields in September.

Banking industry experts said ICICI Bank's step is a well-thought out one as it comes at an opportune time when NBFCs are finding it tough to borrow money from banks and mutual funds.

“This appears to be a sensible move by ICICI Bank to secure shareholder approval for this enabling resolution to raise capital. In an environment where NBFCs are facing liquidity issues and deployment opportunities are beginning to emerge, there is an opportunity for well-capitalized banks to raise debt at attractive rates and deploy it comfortably in retail as well as wholesale projects,” said Krishnan A.S.V., lead analyst for banking and financial services at SBICAP Securities Ltd.

“With NBFCs slowing their pace of disbursements, banks are also benefited by a conducive pricing environment with asset yields likely to reflect a gradual return of banks’ pricing power. ICICI Bank has a strong deposit franchise and should find it relatively easier to raise up to Rs.25,000 crore as tier-II capital,” he said.

UBS Securities in a September report predicted tighter liquidity conditions can translate into lower growth and margins for NBFCs going ahead. A reversal in liquidity could imply that funding for NBFCs may remain tight going forward, the financial services firm said. “….They are likely to see lower growth and/or margins ahead,” said Gautam Chhaochharia, head of research, India at UBS Securities. This is where lenders like ICICI Bank are seeing an opportunity. “Private banks like ICICI Bank and HDFC Bank would be key beneficiaries due to shift in borrowing profile for NBFCs,” said Jignesh Shial, Kushan Parikh and Himanshu Taluja of Emkay Global in a September report.

Suresh Ganapathy, head of financial sector research at Macquarie, said NBFCs are facing troubles in terms of borrowing money and deploying them, but banks are still fine in the market. “A large part of this money could be used for helping the lending businesses of ICICI Bank’s international operations. The market is vibrant enough for the bank to raise this kind of capital through bonds or NCDs,” said Ganapathy.

NBFCs, typically, raise funds either from banks or mutual funds. Banks typically finance up to 60% of NBFC’s fund needs while about 30-35% comes from fixed income mutual funds. In the last one-and-a-half years, NBFCs have been increasingly approaching mutual funds for their funding requirements because banks have tightened their lending to NBFCs as their own non-performing assets grew.

NBFCs are also facing refinancing risks with their commercial papers (CPs) and NCDs set to mature before the end of this financial year. Papers worth about Rs.78,380 crore of various debt mutual fund schemes, are pending redemption between October and March.

Rating agencies and research analysts have been painting a bleak outlook for the Rs.28.4 trillion industry of NBFCs and home financiers, which led to sharp decline in stocks of NBFCs. This crisis for NBFCs has created a new business avenue for bank, especially in lending to large infrastructure projects.

Brokerage Emkay Global said that 12% of DHFL's liabilities is maturing in three months against 9% of its total assets.

Cholamandalam Finance has 15% liabilities maturing in three months against 7% of its total assets. Shriram Transport faces a similar issue.

In June, rating agency Icra Ltd estimated that retail-focused NBFCs—with an estimated portfolio size of Rs.7.5 trillion—will need Rs.3.8-4 trillion of fresh debt funding in FY2019 to support their envisaged portfolio growth of about 20% in FY2019.

"About 50% NCDs and CPs of NBFC borrowings were largely at a fixed rate, while 35-37% of bank borrowings get repriced on a quarterly or annual basis. As the share of bank borrowings begins to increase from Q2 FY2018 and borrowings with annual reset dates are expected to get repriced from August-September, retail NBFCs are expected to face increased pricing pressure in the second half of FY2019," said Icra.