AIBEA's Banking News

9 APRIL 2019

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Capitalism's income inequality is national emergency: Ray Dalio of Bridgewater

Bloomberg | April 8, 2019

THE FINANCIAL EXPRESS

While President Donald Trump is focused on the national emergency he's declared to secure the southern U.S. border, the billionaire founder of the world's biggest hedge fund is more worried about losing the American dream

While President Donald Trump is focused on the national emergency he's declared to secure the southern U.S. border, the billionaire founder of the world's biggest hedge fund is more worried about losing the American dream.

Capitalism must be reformed because it's not producing enough opportunities for most Americans, creating an income gap that threatens to spark conflict, Ray Dalio, the Bridgewater Associates co-chairman, said in an interview airing Sunday on CBS's "60 Minutes."

"If I was the president of the United States," Dalio said, "what I would do is recognize that this is a national emergency." It has to come from the top, he said: "If you look at history, if you have a group of people who have very different economic conditions, and you have an economic downturn, you have conflict."

While Dalio, 69, previously has focused on inequality and warned about the dangers of populism, he's started to focus on what he terms the existential threats they present to American society.

Dalio cited four major countries in the 1930s that "chose not to be democracies because they wanted leadership to bring order to the conflict." While he's not saying the U.S. will go there, it's an unfair and unproductive issue that "threatens to split us," he said.

"The American dream is lost," he said. "For the most part we don't even talk about what is the American dream. And it's very different from when I was growing up."

The Republican idea that cutting taxes on the rich promotes productivity "doesn't make any sense to me at all," and the wealthy must pay more, Dalio said. "The important thing is to take those tax dollars and make them productive," he added.

Dalio Philanthropies and Connecticut Governor Ned Lamont, a Democrat, announced a partnership on April 5 to improve public education and economic opportunity, with $100 million from the state matched by $100 million from Dalio plus $100 million from other philanthropists and business leaders.

Thanks to Bridgewater's asset base and investing success over time, Dalio has a fortune that the Bloomberg Billionaires Index estimates at $16.9 billion.

"It doesn't need to be abandoned," Dalio said of capitalism on CBS. "Like a car, like anything, a plane, a school system, anything, it needs to be reformed in order to work better."

Income Gap

Dalio, expressed similar sentiments in an essay posted April 4 on LinkedIn. He pointed to statistics including that the bottom 60 percent of income-earners in the U.S. keep falling further behind the top 40 percent — and that the percentage of children who grow up to earn more than their parents has fallen to 50 percent today from 90 percent in 1970.

The income gap is about as high as ever, and the wealth gap is the highest since the late 1930s because the wealth of the top 1 percent of the population is more than that of the bottom 90 percent combined, Dalio said.

"Disparity in wealth, especially when accompanied by disparity in values, leads to increasing conflict and, in the government, that manifests itself in the form of populism of the left and populism of the right and often in revolutions of one sort or another," Dalio wrote.

Don't allow LVB to merge with IHFL, AIBEA tells RBI

Our Bureau New Delhi | April 08, 2019

BusinessLine

The All India Bank Employees' Association (AIBEA) has urged RBI Governor Shakthikanta Das to not allow theproposed merger of Lakshmi Vilas Bank (LVB) with Indiabulls Housing Finance Ltd (IHFL).

The central bank should instead merge LVB with one of the public sector banks, AIBEA General Secretary CH Venkatachalam said in a letter to the RBI Governor.

"Taking into account the fragile health of LVB, it is necessary for RBI to take a holistic view and merge it with one of the public sector banks in public interest, instead of allowing LVB to merge with IBH," Venkatachalam said.

'PSB recapitalisation and resolution of stressed assets under IBC to improve bank credit offtake'

Our Bureau Mumbai | April 05, 2019

BusinessLine

Recapitalisation of public sector banks (PSBs), the ongoing improvement in their financials, and resolution of stressed assets under the Insolvency and Bankruptcy Code are expected to improve bank credit offtake, according to Reserve Bank of India's latest monetary policy report.

This is also expected to support investment and aggregate demand in the economy, the report said. On February 20, the government had approved Rs.48,239-crore capital infusion into 12 PSBs.

The RBI report observed that credit offtake continued to be buoyant with some moderation in interest rates on new loans since February 2019.

In response to the 25 basis point (bps) reduction in the policy repo rate on February 7, some banks have reduced their lending rates under the marginal cost of funds-based lending rate (MCLR) system. One basis point equals one-hundredth of a percentage point.

Following the reduction in policy rate by 25 bps in February, 38 banks have reduced their one-year MCLR so far (till March-end 2019) in the range of 1-106 bps. However, 24 banks, mostly foreign lenders, increased their MCLRs in the range of 5-113 bps during the same period, the report said.

While the median term deposit rate (all maturities) of banks declined by 3 basis points, the one-year median MCLR declined by 5 bps during the easing phase so far.

The year-on-year (y-o-y) growth was higher at 14.4 per cent (up to March 15, 2019) from 11 per cent a year ago. Of the incremental credit extended by scheduled commercial banks as on March 15, 47.4 per cent was provided by PSBs, 48.9 per cent by private sector banks, and 3.7 per cent by foreign banks. The report said incremental credit flows are also getting increasingly broad-based, with services accounting for the highest share (at 45 per cent in February 2019 against 35 per cent in February 2018), against personal loans (at 31.9 per cent in February 2019 against 48.2 per cent in February 2018).

Credit growth to industry, which turned positive in November 2017 after more than a year-long contraction, improved to 15.2 per cent in February 2019 against 4 per cent in February 2018. The share of credit to agriculture, however, moderated to 7.90 per cent in February 2019 against 12.8 per cent in February 2018.

Apex court ruling on stressed assets: Government and RBI can fix issue, says CEA

Our Bureau New Delhi | April 05, 2019

'Don't think the IBC needs to be changed'

The Government and the Reserve Bank of India (RBI) will work together to ensure smooth implementation of the Supreme Court's recent ruling on the RBI's February 12, 2018, stressed assets circular, Chief Economic Advisor Krishnamurthy Subramanian said.

The apex court ruling in Dharani Sugars versus Union of India and others does not impact ongoing cases or resolutions or the credit culture in the country, he told reporters on the sidelines of the CII Annual Session 2019 in the Capital on Thursday.

Subramanian also said he does not see any change coming to the Insolvency and Bankruptcy Code (IBC) on account of the apex court ruling." I don't think it (change to IBC) should be necessitated, but it's too early to say," he added.

Krishnamurthy's remarks on the Supreme Court ruling on the RBI's stressed assets circular came on a day when the RBI Governor Shaktikanta Das said that the central bank will issue a revised circular to deal with the stressed assets situation in the banking system.

While the Supreme Court has struck down the February 12 circular on resolution of stressed assets, the apex court had upheld the constitutional validity of Section 35AA of the Banking Regulation Act.

VUCA world

Meanwhile, addressing a session on 'Navigating Volatility, Uncertainty, Complexity and Ambiguity (VUCA)' at the CII Annual Session, Krishnamurthy said innovativeness is the key to surviving in the VUCA world.

Firms operating in the sectors which are subject to moderate competition are the ones which need to be most sensitive to innovation, he said.

Subramanian said globally, there has been a significant increase in uncertainty. Interestingly, though, in India, uncertainty has reduced over time despite spikes during events such as demonetisation and GST.

Thriving in a VUCA world, he said, requires 'Aision, Understanding, Clarity and Agility'.

New tech

Borge Brende, President, Member of the Managing Board, World Economic Forum, said countries that excel in implementing new technologies such as Artificial Intelligence, Internet of Things, etc. will emerge as the most prosperous. "India has huge opportunity in this," he said.

Some of the input factors are already in place: the largest exporter of ICT, second largest English-speaking population and young workforce. It was now up to the government and citizens to formulate an aggressive reform agenda involving investment in education, R&D and infrastructure. In addition, a reduction in red-tape is required, as also greater openness to inward investments and investing abroad.

"Innovativeness and entrepreneurship are key to leadership in Industry 4.0," Brende said.

Last week, the lenders said they would pursue resolution plan for the carrier in a time-bound manner under the present legal and regulatory framework. "The lenders are cognisant that the outcome of efforts of the lenders will depend on the interest shown by the parties on sale of stake in the company," the statement issued by lenders had said.

India’s economic growth driven by domestic demand, need to focus on exports, says World Bank

PTI | April 8, 2019

THE FINANCIAL EXPRESS

Responding to a question, the World bank official said the focus of the next government should be on reducing the stimulus of domestic demand.

India’s economic growth driven by domestic demand, need to focus on exports, says World Bank

India’s economic growth in recent years has been “too much” driven by domestic demand and its exports were about one third of its potential, a World Bank official said, asserting that the next government needs to focus on export-led growth. Praising attempts to liberalize markets within India, Hans Timmer, World Bank Chief Economist for the South Asia Region said “that is what is needed to become more competitive.”

“At the same time you’ve seen also of the last couple of years that the current account deficit widened – an indication that increasingly growth came from the non-tradable sector — from the domestic sector, and that makes it difficult to export more,” Timmer told PTI in an interview. The polling for first phase of seven-phase parliamentary polls in the country is scheduled to take place on April 11, with the last phase on May 19 and the results will be announced on May 23.

In the last five years, he said, India’s overall growth was “too much” driven by domestic demand, which resulted in double digit growth of imports, and four to five per cent growth in exports. “In more recent months, that turned around somewhat. But the broader picture was that that’s a minus,” he said. “The pluses were that we have seen the GST trying to create more flexibility within the country, so that it’s easier to trade between states. That’s what you need if you want to trade also with foreign countries,” he said.

Responding to a question, the World bank official said the focus of the next government should be on reducing the stimulus of domestic demand. "That would be one. I think looking at trade liberalization on the import side – that would be another to create more competition. I would look at what people feel as impediment in the labour market. Is it difficult to go to those new jobs? What about the startups of young people – do they feel restrictions or not?" he said, adding that it is also about female labour force participation. "I think, the most important thing is the understanding that you need export-led growth because that's where you increase productivity when you compete in international markets; that's where you gain knowledge by interacting with competitors and with customers abroad. And so, it is that mindset," the top World Bank official said. India, Timmer said, is exporting only 10 per cent of its GDP.

"What they should have exported is 30 per cent of the export of GDP, given all their characteristics. India is a big country, so normally a big country doesn't export that much in per cent of their GDP because when you're small you're a lot more open. "But even for India, 30 percent would have been normal if you look at the experience of other countries. It's only 10 per cent. So that's an enormous gap. And the gap is widening in the last couple of years," he told PTI. According to him, friction between India and Pakistan is unhelpful to the trade and economic growth in the region. "The lack of regional integration is not the main course of the underperformance in exports. And that's often the assumption. When people look at South Asia, immediately the problem of very limited regional integration jumps up," he said.

A latest report of the World bank on South Asia, he said, asserts that the economic under performance of South Asian countries is mainly because they are locked on fundamental issues within the domestic economies that have prevented the countries to become much more export-led, like one sees in East Asia. Trade liberalization, flexible labour markets skills, trying to address the big problem of the difference between the formal economy and the informal economy, he said are some of his recommendations for the South Asian countries.

"So, it's a lot of domestic issues also. It's not just trade policies. A lot of domestic issues that have to be addressed to unleash that potential that has not been utilized now in exports. It's not one single issue that can solve …," he said. Responding to a question, Timmer said the South Asian countries need to learn from China. "The fact that China has been so competitive for so long means that China did something right whereas South Asia didn't do it right. There was a clear focus in China to have export-led growth and to integrate into global markets. And you see a sharp increase in productivity at all. This is not an explanation that we couldn't compete. Somehow, the Chinese did it better than South Asia," he said. The top bank official asserted that China is a "big opportunity" for South Asia.

"The slowdown in China is not a cyclical slowdown. It's not because they don't demand anymore. They are slowing down because of the supply side. They're running out of cheap labour in general because of their success. They are no longer that competitive, and they have now that policy that they want to rebalance their economy much more towards domestic services, less towards exports," he said. That means that it has become easier to export to China which is very important, Timmer said. "It has become easier to compete with the Chinese. So for me China is, what is happening at the moment, is a big opportunity for South Asia," he stressed.

Are unconditional cash transfers desirable?

V Kumaraswamy | April 07, 2019

THE HINDU BusinessLine

Demonstrative impact Sending bright students to a different setting can have a beneficial impact

Creating more jobs, improving human capital and raising people's skills through a set of conditional transfers is a better option

Recently the Congress has announced its promise of income transfer ofRs.72,000 for the poorest 5 crore families costing the Central government Rs.3,60,000 crore, potentially becoming bigger than our Defence Budget.

One side of evaluation is the feasibility of mopping this amount without fiscal stress. But the other side to look at whether this is the most optimal solution to bring about the desired impact on the target, which is what we will focus on.

Inequalities of income arise from three other forms of inequality: (i) inequalities in human capital (levels of health, literacy, skills, etc.), (ii) Inequalities in opportunities (in education, jobs, etc.), and (iii) inequalities in living conditions.

In the long term, these can be corrected only by better healthcare, education and skilling, creating sustainable jobs and the industrial competitiveness to create jobs, housing and medical infrastructure for poorer sections, etc.

But in the short to medium term (say 3-5 years) the inequalities can be more urgently addressed by 'redistribution' of wealth, income, reservations etc.

Thomas Piketty, the renowned French economist, classifies the redistributions into two categories — direct and fiscal. Some examples of direct redistribution to labour are fixation of minimum wages higher than what is required to compensate for inflation and gains in productivity, prescribing social contributions, ESIC, etc. This increases the cost of labour for employers who may shift to mechanisation and thus has a negative fallout in terms of jobs created for the target.

Fiscal transfers tax the richer through income taxes or a wider cross section through indirect taxes like GST. This has the beneficial effect of not increasing direct cost of labour, and thus not decreasing demand for labour. The scheme in discussion falls in this category. Let's see the demerits.

Firstly, this form of income transfer is addictive. The amount is too huge to be spent on short-term measures, without measures to set right the structural defects of human capital inequality. Once started, the political system especially in India simply lacks the will to withdraw it even when its purpose is achieved. But more importantly the political system forgets its duty to address the long-term issues. We have seen this in reservations, free electricity, etc.

A scheme of this magnitude simply cannot ignore the need for balance between the short and the long term. The scheme should spend at least 60-70 per cent in addressing inequality of human capital and the balance in income transfers.

Conditional entitlements

Even if it is not able to take any steps for long-term correction, it can make the 60-70 per cent as conditional entitlements like providing adult education with free dinners, prenatal counselling and child delivery with free inoculations, skill acquisition with one year's free apprenticeship, linking usage of toilets with one free gas refill, etc.

Unconditional entitlements are prone to backlash — any sign of withdrawal can result in attack and even killing — in this case political suicide and hence no political party will dare withdraw.

Secondly in the words of Piketty, "the cost of substantial fiscal redistribution would be considerable, because it would decrease the return on investments (for individuals) in human capital and thus decrease the incentives for individuals to make such investments …". Illustrating, if wages earned by a 8th Std pass is Rs.60,000 on average and that of a 12th std pass Rs.90,000 per annum, his family will decide on sending wards to school based on these incremental returns on investments.

However, if Rs.72,000 is guaranteed, the incremental returns to investment up to 8th std and 12th std becomesRs.(-) 12,000 and Rs.18,000 per annum respectively.

If in the neighbourhood illiteracy does not attract social opprobrium, the family might conclude why educate anyone up to 8th Std to earn Rs.60,000 when he can sit at home and get Rs.72,000. This will save them their investments. This outcome will seriously dent our ability to address the long-term issues.

Thirdly, research on the impact of neighbourhood, family status and social settings have led to conclusions like, 'inequality of educational opportunity is reproduced from generation to generation', 'students from modest background are less motivated to pursue lengthy courses of study', '(it is) the immediate social environment that inequality inevitably originates'.

The surroundings have a huge inertial impact on perpetuation of inequalities and need far greater and immediate attention to get the basics right.

Widespread initiatives like sending some bright students to different settings so that they have demonstrative impact, forcibly setting toilets in the poorest 10-15 per cent of families in poor neighbourhoods so that it creates peer pressure on others to follow suit, setting up model farms with improved agricultural practices, model houses in slums, etc. should be initiated to tackle this highly under-appreciated impediment on equalising inequality.

To give credit where it is due, given the labour market conditions (high levels of unemployment), fiscal or direct income transfers are a far more effective tool than increments in minimum wages and other mandated payments by employers. Given high possibilities of mechanisation, such measures would have driven more enterprises away from labour and worsened the problem.

One way perhaps to strike a balance may be to issue equivalent value coupons eligible for exchange in areas we desire them to consume – education, purchase of food, clothing, building materials for housing, use in public toilets, buying medical services, payment of insurance premiums for crops, life, cattle etc.

A succession of poverty band aids starting with farm loan write-offs, educational loan write-offs, transfer of Rs.6,000 to farmers (per family) and now this Rs.72,000 to the bottom 5 crore people is a clear sign and admission of failure of our reforms to address the concerns of the poorest sections of our society.

Income transfer looks not the most optimal solution at present. Even so, one wishes that if it gets implemented the information does percolate properly and every one of the families takes due advantage of it to get out of poverty for sure, without leakages plaguing this initiative as well.

New loan pricing scheme may be put off

Manojit Saha
MUMBAI, MARCH 28, 2019
THE HINDU

RBI yet to release final guidelines

Banks will be getting more time to migrate to the new loan pricing regime which was scheduled to be implemented from April 1. This new pricing scheme, based on an external benchmark, will be applicable for floating rate loans extended to individuals and small businesses.

Bankers said with the central bank yet to come up with the final guidelines, the introduction of the scheme was expected to be postponed.

During the December monetary policy review — the last such review by former RBI Governor Urjit Patel — the central bank had said that all new floating rate retail loans such as housing and auto loans, and floating rate loans extended by banks to micro and small enterprises from April 1, 2019, should be linked to an external benchmark. RBI also said that the final guidelines would be issued by December-end.

“The final guidelines on the loan pricing based on external benchmark are yet to be released by RBI. Banks would need some time to prepare after the final norms are issued. So, it is likely to be postponed,” said a banking industry official.

Last week, the RBI indefinitely postponed the implementation of IND-AS, a new accounting policy for banks.

While RBI had given four options to banks to choose the external benchmark, most banks were zooming in on repo rate, the key policy rate of RBI, as the external benchmark.

Most banks have opposed the decision of linking lending rates to an external benchmark saying their cost of funds is not linked to those external benchmarks. They argued that lending rates should depend on the cost of funds.

SBI rate

State Bank of India, in order to make the cost of funds responsive to an external benchmark, has already linked its savings bank rate with repo rate, with effect from May 1. At the current repo rate of 6.25%, SBI's savings rate has been fixed at 3.5%.

RBI has also mandated that the spread over the benchmark rate, which will be decided by banks at the inception of the loan, should remain unchanged through the tenure of the loan, unless the borrower's credit assessment undergoes a substantial change or as agreed upon in the loan contract.

'Linking small loans to external benchmark after further talks'

SPECIAL CORRESPONDENT

MUMBAI, APRIL 04, 2019

THE HINDU

RBI factors in issues such as interest rate risk management, system upgrade

The proposal to link small floating rate loans with an external benchmark for improving monetary transmission seems to have taken a back seat, with the Reserve Bank of India (RBI) deciding to hold further consultation with stakeholders before implementing such a scheme.

"Taking into account the feedback received during discussions held with stakeholders on issues such as management of interest rate risk by banks — from fixed interest rate linked liabilities against floating interest rate linked assets — and the related difficulties, and the lead time required for

IT system upgradation, it has been decided to hold further consultations with stakeholders and work out an effective mechanism for transmission of rates," the RBI said in a statement during the first bimonthly policy review of the current financial year.

Policy Nuggets

Liquidity support
To ease liquidity pressures, RBI announced an increase in the Facility to Avail Liquidity Support for Liquidity Coverage Ratio, from 13% to 15% of banks' net demand and time liabilities (NDTL); to be implemented in phases up to April 2020. Banks can then dip into government bonds held under SLR to the extent of 17% of NDTL

Committee on Housing Finance Securitisation
A panel will assess the state of housing finance securitisation markets in India, study the best international practices and lessons learnt from the global financial crisis. This will enable better management of credit and liquidity risks and help lower costs of mortgage finance. Composition and terms of reference to be announced soon; report by end August

Forex facilities by NBFCs
Resident Indians can now avail foreign exchange facilities towards overseas education expenses, medical treatment abroad, business travel and private visits from non-deposit taking NBFCs, as RBI plans to give licence to these entities for such activities. The aim is to improve ease of undertaking forex transactions

Time taken to address grievance
Time taken by different payment systems to resolve customer complaints varies. For prompt complaint redressal by all e-payment systems, RBI is planning a framework on Turn Around Time for resolution of complaints and compensation framework across all such systems

Downward revision in GDP and inflation projections reveals near-term global headwinds; and lower-than-anticipated rainfall might add to uncertainties. Categorising additional 2% of excess SLR for LCR calculation will help infuse liquidity

— RAJNISH KUMAR, Chairman, SBI

Banks have transmitted the rate reduction to the tune of 10 to 12 basis points. Going forward, with this additional cut and improvement in the liquidity position, banks would take a call on further transmission.

SUNIL MEHTA, MD & CEO, Punjab National Bank & Chairman, IBA

Dec. proposal

During the December review of monetary policy, the RBI had proposed to implement the system of linking floating rate personal or retail loans, and floating rate loans to Micro and Small Enterprises, to an external benchmark from April 1, 2019. At present, all loans are linked to the Marginal Cost of Fund based Lending Rate (MCLR). Banks opposed the move to link loan rate to an external benchmark on the grounds that lending rates are a function of cost of funds and change in an external benchmark like repo rate does not have much impact on their cost of funds.

IL&FS arm's gross NPAs stand at 90%

SPECIAL CORRESPONDENT
MUMBAI, APRIL 03, 2019
THE HINDU

IL&FS Financial Services Ltd. (IFIN) — the non-banking finance arm of infrastructure conglomerate IL&FS — reported a gross non-performing asset (NPA) ratio of 90% as at end December, IL&FS' new management said.

"The gross NPAs were around 5% in March 2018," said Uday Kotak, who was appointed as the non-executive chairman of IL&FS.

He was briefing the media as the new management completed six months. It is unusual for any lender to report 90% gross NPAs and it is probably for the first time, in recent times, that a lender had reported such a delinquency.

IFIN's total exposure as on March 31, 2019 was Rs.18,805 crore, of which external exposure was Rs.10,656 crore and exposure to the group, Rs.6,949 crore. About Rs.1,300 crore is categorised as 'other assets.'

The board of IL&FS was restructured with Vineet Nayyar as executive vice-chairman and C.S. Rajan the managing director.

Rest of the new board comprises Bijay Kumar as deputy managing director and G.C. Chaturvedi, Nand Kishore, Malini Shankar and N. Srinivasan as non-executive directors. The troubled group has a debt of about Rs.90,000 crore of which bank loans are 50-55%. While the new management had initiated several steps to monetise the assets of the group companies, it declined to share any projections or timeline on the recoveries. "We are not saying that any of the creditors will be compromised," said N. Srinivasan.

SC verdict could delay resolution of stressed assets

[Manojit Saha](#)
MUMBAI, APRIL 02, 2019
THE HINDU

Prospects of recovering Rs.3.8 lakh crore loans is uncertain; lenders can still refer cases to NCLT without citing February 12 circular, say bankers

The prospect of recovering Rs.3.8 lakh crore of stressed loans of over 70 large borrowers has become uncertain after the Supreme Court (SC) quashed the controversial February 12, 2018 circular of the Reserve Bank of India (RBI) on resolution of stressed assets.

The circular, which was opposed by banks as well as industry players, directed lenders to classify a loan account as stressed and start resolution process within one day of default. If banks start resolution of an asset, they have to set aside higher capital, known as provision in banking parlance. Banks were also asked to refer all loan accounts of over Rs.2,000 crore for bankruptcy proceedings if resolution is not achieved in 180 days. Also, all the existing loan restructuring facilities like corporate debt restructuring were withdrawn and Insolvency and Bankruptcy Code (IBC) became the only option for resolution of stressed assets.

Bankers and other stakeholders said resolution of stressed assets could now be delayed. "The current SC ruling, quashing the February 12 [2018] RBI circular on NPAs may have its own merit. However, with respect to an escalation of default cases, this ruling will raise significant questions around the timely reporting and resolution under IBC — the primary reason behind IBC's enactment," said Vikram Babbar, partner and financial services lead, forensic and integrity services, EY.

Adds to uncertainty

"We believe that the development will be negative for lenders and may prolong the recovery phase for the banks. It also adds to uncertainty on the existing accounts' classification, provision requirements etc," said Lalitabh Shrivastawa, analyst, Sharekhan by BNP Paribas. Anil Gupta, sector head — financial sector ratings, ICRA, said the total estimated debt impact due to the circular is of Rs.3.8 lakh crore across 70 large borrowers, and 92% of this debt was classified as non-performing by banks as on March 31, 2018.

"Banks have made provisions of over 25-40% on these accounts and hence, should not impact the reported asset quality of profitability numbers.

However, the resolution process, which was expected to be expedited, may get delayed," Mr. Gupta said. Bankers said they still had the option to refer an account to NCLT without referring to the circular. But what happens to the cases referred to NCLT that cited the circular is uncertain. The way forward, according to bankers, is that, the RBI should file a review petition with the Supreme Court, and think of an alternative mechanism for solving the issue.

Breather for a sector choking with stressed assets

Piyush Pandey

MUMBAI, APRIL 02, 2019 THE HINDU

'Bankers will now get time to finalise the resolution plan for about 13 GW of power projects'

The Supreme Court's order on Tuesday quashing the February 12 circular of the RBI has come as a huge breather to the power sector which is staring at 66,000 mega watts (MW) of stressed power assets worth Rs.1.8 lakh crore.

"[The] SC order has provided great relief to the power sector's stressed assets. This would provide time for bankers to finalise the resolution plan for about 13 GW of projects which are presently in their final stages, and a high-level empowered committee under the Chairmanship of the Cabinet Secretary to submit its report on corrective actions that the government intends to initiate to mitigate stress factors," Ashok Khurana, director general, Association of Power Producers (APP), told ***The Hindu***.

The RBI circular had mandated banks to either immediately resolve all bad loans above Rs.2,000 crore or file for insolvency resolution under the IBC.

"Over Rs.40,000 crore of payments is due from the government owned discoms. If we get the money, issues of 13GW of power units will be resolved. Another 25-30 GW of issues can be resolved through discussion between the power producers and lenders," Mr. Khurana added.

Cyril Shroff, managing partner, Cyril Amarchand Mangaldas, sees the SC judgment as a major development.

"This shows how proactive the judiciary has been. Whilst it's too early to say, but if banks voluntarily still invoke IBC, the practical impact will be minimal," Mr. Mangaldas said.

"The Supreme Court's verdict, along with recent CCEA, MoP and MoC notifications implementing the recommendations of the high level empowered committee, will provide much needed respite and impetus to regulatory reform in the power sector," Amit Kapur, joint managing partner, J. Sagar Associates, which represented the petitioners said. Besides power, other sectors like shipping, infrastructure, telecommunications and sugar also benefit from the judgment.

Welcoming the judgment, Vijay G. Kalantri, president, All India Association of Industries (AIAI) said, "The RBI circular had adversely impacted various resolution plans which were under process between lenders and debtors. The democratic resolution process of negotiation between lenders and debtors had come to a halt by this circular. Especially, infrastructure, shipping, power and other manufacturing companies were compelled to undergo insolvency proceedings under the NCLT and IBC."

Core sectors' growth slows down to 2.1% in February

PTINEW DELHI, APRIL 01, 2019

THE HINDU

Production of crude oil and refinery products contracted by 6.1%, and 0.8%, respectively, in February

The growth of eight core sectors slowed down to 2.1% in February due to fall in output of crude oil and refinery products, official data showed on Monday.

Eight infrastructure sectors — coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity — had expanded by 5.4% in February 2018.

Production of crude oil and refinery products contracted by 6.1%, and 0.8%, respectively, in February.

Growth rate of production of fertiliser, steel, cement and electricity slowed to 2.5%, 4.9%, 8% and 0.7% in February as against 5.2%, 5%, 23% and 4.6% in the same month of 2018, respectively.

However, coal and natural gas output grew by 7.3%, and 3.8%, respectively, in the month under review.

Sluggish infrastructure sector growth will also have impact on the Index of Industrial Production (IIP) as these segments account for about 41% of the total factory output.

According to the Commerce and Industry Ministry data, during April-February 2018-19, the eight sectors recorded a flat growth rate of 4.3% over the same period previous fiscal.

RBI tweaks NPA divergence disclosure norms

PTIMUMBAI, APRIL 01, 2019

THE HINDU

The Reserve Bank of India on Monday asked banks to disclose bad loan divergences in their financial statements if the additional provisioning exceeds 10% of profit before provision and contingencies.

In a notification, the RBI said it is observed that some banks, on account of low or negative net profit after tax, are required to disclose divergences even where the additional provisioning assessed by RBI is small, which is contrary to the regulatory intent that only material divergences should be disclosed.

Therefore, it has been decided that henceforth, banks should disclose divergences, if "the additional provisioning for NPAs assessed by RBI exceeds 10% of the reported profit before provisions and contingencies for the reference period".

Earlier, banks were to make suitable disclosures if the additional provisioning requirements assessed by RBI exceeded 15% of the published net profits after tax for the reference period.

The RBI further said disclosure has also to be made if the additional gross NPAs identified by RBI exceed 15% of the published incremental gross NPAs for the reference period.

In another notification regarding large exposures framework (LEF), the RBI said non-centrally cleared derivatives exposures will be outside the purview of exposure limits till April 1, 2020.

However, banks must compute these exposures separately and report to the Department of Banking Regulation on quarterly basis, it added.

When growth is inclusive, a universal basic income is not necessary: Rathin Roy

Manojit Saha MARCH 28, 2019

THE HINDU

Such a scheme will be fiscally prudent only when spending is reduced on things such as health, education and irrigation

Rathin Roy*, a member of the Prime Minister's Economic Advisory Council, and Director, National Institute of Public Finance and Policy, says inflation targeting is not a technocratic exercise. Rather, it should be a political decision. Edited excerpts from a conversation with The Hindu:*

The Congress party has promised Universal Basic Income (UBI) if they come to power? What are your views on such a scheme?

India is not a developed economy. So, when someone proposes a UBI in India, the first question I ask is why an UBI? The economy is at least growing at 6% and has grown at 8% in the past. Are we saying that an economy that grows at these rates is unable to secure the participation of the majority? And, therefore, the state needs to compensate them by giving them an income? If you are saying that, I do not mind, but then give up the pretense of inclusive growth. When growth is inclusive, an UBI is not necessary.

Is such a scheme fiscally prudent?

Sure. Then you have to spend less on other things such as health, education, irrigation etc. Then, it is fiscally prudent. Or, you increase the total size of the state, in which case, somebody, a firm, an household, will either spend less or save less.

There are consequences, but I can always make it fiscally affordable.

Do you think, all the subsidies should be abolished if such a scheme is implemented?

The purpose of subsidies is not to increase income. If we are abolishing subsidies, then we are saying subsidies such as credit to farmers, agriculture inputs and the like are no longer necessary. We provide mid-day meals to school kids, which is subsidised. Will you cut that? The objective of mid-day meal was not to increase income, it was to provide meals to children in school so that they attend school and also overcome problems such as hunger. We have to think very carefully about it [abolishing subsidy].

Coming to the implementation of GST, there are still many rates. Do you think that should come down?

Any economist will tell that the number of rates should be much fewer than what we have now. But you ask a politician, they have political compulsions. All I can tell the politicians is that, the more rates you have, the lower will be the compliance. The more complicated you make a tax, the more diverse you make it, the less of a single tax it becomes, the less efficient it becomes in terms of less administration and, therefore, compliance. It is a trade-off. Having said that, I see a consensus coming around that we are landing up with about three rates. So, I am confident that in the medium-term, we will come up with an effective GST regime with a limited number of rates.

There are concerns over slowing growth. Do you think the country needs a stimulus?

I think a growth rate of 6.5-7.5% [next fiscal] is possible, depending on circumstances that prevail both within the country and outside, which are, to some extent, exogenous such as performance of agriculture or global trade. A growth rate of 6.5-7.5% is eminently achievable, given our current institutional framework.

A higher growth rate than 7.5% is only an aspiration unless we make some fundamental reforms. What underlines low growth in India is low productivity. And, what underlies low productivity in India is poor institutions and weak governance. I see no impulse, whatsoever, for fundamental reforms. So, I have to accept that productivity will remain low, and in that circumstances do not overheat the economy by giving a stimulus and settle for 7.5%.

We have tricky situation so far as inflation is concerned. While the headline numbers are low, core inflation is high. Do you think that RBI needs to be cautious in cutting rates?

I do not think that the instruments at RBI's disposal allow it to micro-manage inflation.

The inflation target is probably the broadest in the world. It is very difficult to think of a country where the inflation target spans 400 basis points. That being said, I am very happy with 5%, I am also happy with 4% and also with 3%. If you want to reconsider this entire framework, then the time to do it is now, because this particular inflation targeting regime ends in 2021. These are actually things which cannot be done at the last minute.

Careful advance planning and thinking about what kind of framework we want next time and what should the instrumentation ought to be, has to begin now. I don't have the answer but we need to ask — is the CPI right target or we should be targeting core inflation? Should we have a relatively narrow band within which RBI targets inflation, but allows for higher inflation in that narrow band? What are the trade-offs involved in keeping inflation at or below 4%? Does the finance ministry or the government of India have a view on what the inflation target ought to be? Because setting the inflation target is not a technocratic exercise. But in India it has ended up being one. The inflation target is a political decision, and the ultimate owner of the setting of the inflation target has to be the government of the day.

Centre must not look upon the Reserve Bank as a cash cow: ex-RBI board member

K. Bharat Kumar CHENNAI , MARCH 23, 2019

THE HINDU

Mutuality between the two needed: Dr. Indira Rajaraman

The central government being fiscally dependent on the Reserve Bank of India (RBI) is undesirable, according to Dr. Indira Rajaraman, former member of RBI's central board. Delivering the Nani Palkivala Memorial lecture in the city on Saturday, she said, "The ₹68,000 crore that the RBI has paid to the government in the form of dividend or interim dividend since July 2018, forms 92% of the Centre's entire income from dividends from all public sector financial institutions." This, she added, "is very bad, as it makes the government fiscally dependent on the RBI."

It means the Centre would then look upon the RBI as a cash cow and start questioning every rupee that the central bank spends, she said. "What the central bank does is foundational for the nation, and hence it must have the freedom to choose its areas of expenditure, including choice of employees.

"They need good training, remuneration, pension and housing. If the government constrains this, it is the people of India who will suffer." She cited the example of China, which fully pays for its central bank employees' PhDs in globally-acclaimed institutions in the West. "The RBI cannot be treated on par with a department of the Government of India. It is very separate, special" said Dr. Rajaraman, who was on the faculty of Indian Institute of Management Bangalore, and a member of the 13th Finance Commission.

RBI is among the leanest and most efficient organisations in the country, with a headcount of about 15,000 executing myriad functions, she said.

According to her, the RBI Act is clear that the government, as sovereign, is supreme and the RBI Governor functions under the pleasure of the government. "The regulator is a monopoly issuer of currency and hence the sovereign has to have ultimate control over such an issuer." She felt that the media had played a role in building up the persona of the RBI Governor, who is not the chairman of the central bank board, but only convenes the board meetings and presides over them, she said. Dr. Rajaraman added, "There should be mutuality between the RBI and the government."

Critical role

The RBI's monetary policy is formulated keeping in mind the fiscal policy of the government, she said. "So, the RBI should be free to be critical of the government's fiscal policy."

She added that the central bank must also be free to question the measurement of inflation. "After all, the consumer price index- based inflation is the measure by which RBI is judged. So, there should be professional mutual respect between the government and the RBI."

It was normal for governments and central banks to differ over interest rates, where the former would want low rates to spur growth, while the latter would be keen to raise rates if inflation seemed dangerously high. However, what was different in the recent "outbreak of hostilities", as she called it, between the government and the RBI was the invocation of Section 7 of the RBI Act, which had never been invoked.

"Sec. 7(2) leaves us in no doubt that the functioning of the RBI is entrusted to the central board of the bank. Clause 3 of the section sets out the role of the Governor; it clearly states that the Governor exercises powers vested in him by the central board."

The government not only questioned the decisions of the RBI, but also the process by which those decisions were arrived at. "The government was entirely within its powers to question the process," she said.

She also said it was 'unfortunate' that the services of director on RBI's board, Nachiket Mor, were terminated just a year into his second four-year stint, in October 2018.

"The Centre has the right to recall these nominations but it created ill-feeling. It was said that the termination was due to his being the country director of the Bill & Melinda Gates Foundation in India, resulting in conflict of interest, but that information was available at the time he was reappointed. So, it reflects poorly on the government's due diligence if it did not know this."

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