AIBEA's Banking News

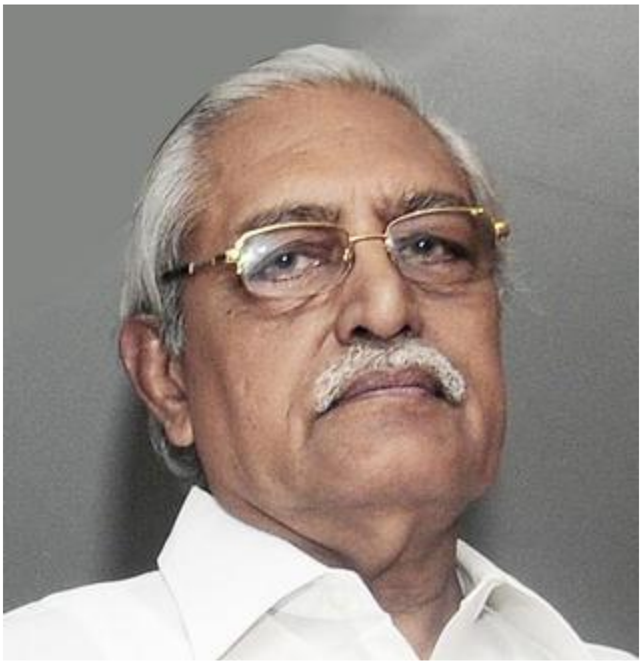
4 JULY 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

AIBEA wants clarity on 'transfer' of Rs. 2,026 cr from PNB Pension Fund

VINSON KURIAN, THIRUVANANTHAPURAM, JULY 3:

THE HINDU BusinessLine



CH Venkatachalam, General Secretary, AIBEA

Transfer effected to enable the bank show artificial profit, alleges General Secretary CH Venkatachalam

All India Bank Employees' Association (AIBEA) has written to the Centre seeking clarifications over the reported transfer of Rs 2,026 crore from Punjab National Bank (PNB) Employees Pension Fund to the bank's profit and loss account.

We are receiving anxious queries from bank employees and retirees about the fund transfer effected to allegedly enable the bank show artificial profit," C.H Venkatachalam, General Secretary, AIBEA, wrote to the Secretary, Financial Services.

The letter quoted from item 5 of the auditor's independent report which mentioned that: "...we draw attention to Note 6 regarding change in valuation of plan assets of long-term benefits from book value to fair value, resulting in increase in the value of plan value assets by Rs 388.07 crore in respect of pension fund and by Rs 53.08 crore in gratuity fund."

Clause 11 of the balance sheet of March 31, 2017 said that: "In accordance with the AS-15, during the current quarter, while considering the fair value of plan assets relating to pension and gratuity fund being long-term assets benefits of employees, interest accrued on investments has also been taken into account as against principal amount in earlier quarters/years."

Consequent to this, employer contribution to pension and gratuity funds representing excess of fair value of plan assets over present value obligation amounting to Rs 2,026 crore has been credited to 'Payments to and provisions for employee cost during the current quarter/year.'

"From the above and allied information, we learn that the employee cost has become negative in the last quarter of 2016-17 and the total employee cost for the year has also come down," Venkatachalam said in the letter.

Read along with information that Rs 2,026 crore has been credited to employee cost due to excess value in pension fund, it means that the amount has been taken from the pension fund to the employee cost account in the P&L account.

Since the accounting procedure was changed as on March 31, 2016, from book value to fair value, it is not clear as to why this was not adhered to in Q1, Q2 and Q3 of 2016-17 and implemented only in Q4.

The government has not appointed a Workman Employee Director in banks; so there is no scope to know what transpired while finalising the balance sheet.

"However, a nominee director of the Finance Ministry serves on the board of banks, including PNB. Hence the government should be aware of the factual position," Venkatachalam said.

New chiefs of 2 PSU banks take charge

OUR BUREAU BUSINESSLINE MUMBAI, JULY 1:

Union Bank of India said Rajkiran Rai G has assumed charge as Managing Director & CEO.

Prior to his elevation as MD & CEO of Union Bank of India, Rai was Executive Director of Oriental Bank of Commerce. He started his career in 1986 as an Agricultural Finance Officer in Central Bank of India.

Rai has been appointed by the government to head Union Bank of India for a period of three years from the date of his taking over charge of the post or until further orders, whichever is earlier, according to a finance ministry notification.

New chief assumes charge at Syndicate Bank

Syndicate Bank, in a statement, said **Melwyn Rego** has assumed charge as Managing Director & CEO.

Prior to joining Syndicate Bank, Rego was MD & CEO of Bank of India. He started his career with IDBI Bank Ltd in 1984 and rose to the position of Deputy Managing Director.

Bank of England staff vote for first strike in 50 years

A general view shows the Bank of England in the City of London, Britain April 19, 2017.

REUTERS/ McKay By Sarah Mills | LONDON

Bank of England staff have voted to hold their first strike in more than 50 years in a push for higher pay, a union said on Monday, adding to pressure for an end to tight controls on public sector wages in Britain.

Unite, Britain's biggest union, said maintenance and security staff at the 323-year-old institution would strike for four days from July 31 after they were awarded a 1 percent pay rise.

That period coincides with the bank's next monetary policy meeting.

British Prime Minister Theresa May has come under increasing pressure from members of parliament to end a below-inflation 1 percent cap on public sector pay rises that has been in place since 2013 as part of efforts to cut government spending.

Although this cap does not apply to the independent Bank of England, it operates in an environment of pay restraint for public officials. Strike action would be potentially embarrassing for an institution whose policymakers have focussed heavily on prospects for wage growth.

The Bank, which employs some 3,600 people, said Unite balloted around 2 percent of its workforce.

"Should the strike go ahead, the Bank has plans in place so that all sites can continue to operate effectively. We will continue to have discussions with Unite and hope that there will be a positive outcome," the BoE said in a statement.

Unite said some Bank staff earned less than 20,000 pounds ($25,700) a year so a 1 percent pay rise would potentially leave them facing financial hardship.

The union called on Bank of England Governor Mark Carney to intervene, saying it would look to escalate the action if the dispute was not settled.

Workers in Britain have suffered a protracted hit to their spending power after the global financial crisis due to inflation rising faster than wages for most of the past decade.

Government hell bent on destroying public sector:
CPI on Air India divestment

Stating that "where there's a will, there's a way", the CPI said there are possibilities the Air India can be brought out of losses if the government is "honest". "The CPI demands that the government appoint an expert committee to advise Air India to come out of losses, withdraw the decision of disinvestment and stop privatisation," it added

By: PTI | New Delhi | Published:July 3, 2017 THE INDIAN EXPRESS

The Union Cabinet had on June 28 cleared disinvestment of Air India, which has floundered amid stiff competition from no-frills rivals and reported heavy losses

The CPI on Monday condemned the Narendra Modi government's decision to clear disinvestment of national carrier Air India and accused it of being "hell-bent on destroying" the public sector without trying to set things right. The Left party said the government should set up a panel of experts to advise the beleaguered airline to come out of losses, withdraw disinvestment and stop its privatisation.

"The CPI severely condemns the move. The NDA government is hell bent on destroying the public sector, without making any serious efforts to set right things in loss making public sector enterprises and industries," the CPI alleged in a statement. Terming Air India as "one of the jewels" of public sector in the country, it observed the national airline was in losses due to the alleged "inefficiency" of administration.

Stating that "where there's a will, there's a way", the CPI said there are possibilities the Air India can be brought out of losses if the government is "honest". "The CPI demands that the government appoint an expert committee to advise Air India to come out of losses, withdraw the decision of disinvestment and stop privatisation," it added.

The Union Cabinet had on June 28 cleared disinvestment of Air India, which has floundered amid stiff competition from no-frills rivals and reported heavy losses. Announcing the decision, Finance Minister Arun Jaitley had said an in-principal approval for divestment of Air India has been taken, but did not say if it would be an outright sale or partial divestment.

CID arrests three bank employees in Rs 173-crore loan fraud case

Sources said that the accused bank officials had processed the loan applications without verifying the documents and ultimately the loans became non-performing assets that led to huge losses.

THE NEW INDIAN EXPRESS

THE CID on Wednesday arrested three employees of United Bank of India (UBI) for their alleged involvement in a Rs 173 crore loan fraud case. The accused — Kedarnath Prusty, Manik Mohan Mishra and Pradip Kumar Gangopadhyay — were part of a gang that was involved in procuring loans from National Small Industries Corporation (NSIC) in the name of several fake companies, sources said. NSIC gives loans to help establish small companies.

"All the three UBI officials have been arrested for being part of a fraud where loans were procured using forged documents in the name of fake companies. This incurred a loss of about Rs 173 crore to NSIC," ADG (CID) Rajesh Kumar told The Indian Express. The accused trio have been remanded to 14-day police custody.

As per sources, the CID had arrested four officials of NSIC last November who had floated 63 bogus companies to procure loans. Sources said that the accused bank officials had processed the loan applications without verifying the documents and ultimately the loans became non-performing assets that led to huge losses.

On July 26 last year, NSIC had lodged a complaint with North Police station in Bidhannagar. Later, the case was transferred to the CID.

Modi's DeMo Gambit Failed: Costs Exceed Gains And Farm Anger Is The Final Piece Of Evidence

R Jagannathan - Jun 14, 2017, **THE WIRE**

SNAPSHOT

Good politics begins with accepting that DeMo did not work. Hiding the truth can hurt Modi more than acknowledging it – directly or indirectly.

But DeMo is his ultimate test. If he learns from this, his next two years may still be his best.

It is time for a *mea culpa* on demonetisation. This writer has been largely positive on the medium-to-long-term benefits of *notebandi*, as opposed to its short-term downsides, including a fall in gross domestic product (GDP) growth rates for one or two quarters. Now, and especially after the farmer agitations for loan waivers, I believe that the negative side of the ledger on demonetisation (DeMo) is larger than the positive. It has failed.

The critics have been right for the wrong reasons. They did not have a better crystal ball on DeMo's side-effects than the optimists; but they did have a deeper animus against the Narendra Modi government that the optimists, including me, did not have. Thus, they were faster to pick up the negative signals than the rest of us.

The bottom line on DeMo, seven months after Modi announced that he was withdrawing the legal tender status of Rs 500 and Rs 1,000 notes from 8 November, is that the costs are outweighing the benefits. And the rising demand for fiscally ruinous farm loan waivers surely has a direct link to DeMo. Maybe loan waivers would have happened anyway in the run-up to 2019, but it is equally clear that DeMo has emptied many *mandis* of cash, and the demand for ready harvested crops has collapsed in many parts of the country, as Harish Damodaran notes in his column in *The Indian Express.*

Damodaran admits he was wrong in assuming that DeMo would impact farm production – which did not happen – but the damage came later. He writes: "Where demonetisation did have an impact, however, was in the prices received during harvest: Potatoes in Farrukhabad, Uttar Pradesh, fetched below Rs 350 per quintal this February, compared to Rs 600 or more last year. The same goes for rabi onions in Lasalgaon, Maharashtra, that traded at an average of Rs 450 per quintal in May, as against Rs 750-800 and Rs 1,200 in the same month of the preceding two years. Farmers, likewise, sold tomatoes at Kolar, Karnataka, in early May for Rs 300-400 per quintal, down from Rs 1,500-1,600 a year ago. When was the last time we saw all three – potatoes, onions and tomatoes – wholesaling at less than Rs 5/kg, and even retail prices within Rs 20/kg? And this, in peak summer! The above "fire sale" – the evocative term used by the Reserve Bank of India (RBI) in its latest bimonthly monetary policy review statement – has been repeated across a range of other crops too: Garlic and *methi* (fenugreek) seed prices at Mandsaur – the district in Madhya Pradesh's Malwa region that's become synonymous with the ongoing farmer unrest – averaged Rs 3,400 and Rs 3,100-3,200 per quintal in April, whereas these ruled at over Rs 4,100 and Rs 4,700-4,800 respectively during the same time last year. Farmers in Nashik, which has also witnessed large-scale street action, along with the rest of Western Maharashtra, had to dump Sonaka grapes at about Rs 12/kg in March, having sold the same green seedless variety for Rs 45 or so last year."

I have quoted Damodaran at some length here because it details the damage done to the farmer, who epitomises the informal part of the economy like no one else. While all critics said that the informal economy was hurt the most by DeMo, now we know how that happened.

In late November 2016, the Centre for Monitoring Indian Economy (CMIE) had estimated the loss to the economy and various players at Rs 1.28 lakh crore. Since then we have had more data on GDP losses in the two quarters immediately affected by DeMo. If we assume that at least 0.5 per cent of the GDP drop was due to DeMo, the CMIE loss figure would at least double.

But now we have the unstoppable juggernaut of farm loan waivers: UP (Rs 36,000 crore-plus), Maharashtra (Rs 30,000 crore-plus), and Chhattisgarh (Rs 3,200 crore of interest waivers) have already taken the loss to state exchequers close to Rs 70,000 crore, and we haven't even begun. Bank of America-Merrill Lynch estimates that the total size of loan waivers could hit Rs 2.57 lakh crore by 2019. They note in a research report: “We grow more confident of our call that farm loan waivers will spread across states after Maharashtra followed Uttar Pradesh in waiving farm loans on Saturday (10 June). This begs the question, how much of farm loans will eventually get waived? $40 billion, or 2 per cent of GDP, in our view, in the run-up to the 2019 general elections. This covers bank loans to farmers with up to five acres of land.”

Even if we assume that only half the waivers are directly due to the DeMo impact, we are talking of a tripling of the figure first put out by CMIE – at the very least, with most costs yet to show up. This means the DeMo damage could be in the region of Rs 3.5-4 lakh crore at the minimum. Since the wildest estimate of gains from black money not coming back to the banking system do not exceed this latest ballpark estimate of loss, it is clear why DeMo has failed its cost-benefits test.

It can also now be clearly said that DeMo was the last straw that broke the farmer’s back, leading to a cascade of farmer protests and political demands for loan waivers. DeMo will damage the fisc like nothing else before this. Two consecutive droughts did not do as much damage as DeMo. All the fiscal prudence shown by the Modi government in the last three years will be washed away now in one huge burst of state government populism.

Here’s a counter-factual: if the UP elections, which happened before farm produce started coming to the markets, had taken place in June and not February-March, would the BJP still have won its big majority? In retrospect, the loan waiver may well have been the political sweetener offered well in advance to prevent farmer worries from boiling over into the ballot box.

So, *mea culpa*, once again.

The other bits of evidence that support the claim that DeMo did more damage than good are already in the public domain – or assumed to be.

One, the fact that even five-and-a-half months after the demonetisation window for old notes closed on 31 December we don’t know how much money has come back to the system tells its own story. The total value of Rs 500 and Rs 1,000 notes outstanding on 8 November was Rs 15.44 lakh crore. If the deposits have hit this number or even exceeded it, it would mean not only a major embarrassment for the government, but also the RBI. It would imply that fake notes got exchanged for new notes. I had raised this possibility in early December, but didn't press it when some bankers assured me that they had mechanisms to detect fake notes. But I should have pressed the point: in the rush to clear queues, it is unlikely that cashiers were doing anything more than just count notes. Now that the notes are in, it will be impossible for anyone to link any specific bundle of fake notes with any particular depositor. *DeMo may also have validated some fake notes, possibly with the connivance of bankers.*

Two, there is not much evidence that tax collections have spiked due to DeMo or even that the tax base in expanding. The poor collections under the Pradhan Mantri Garib Kalyan Yojana indicate that no big disclosure of black money was witnessed, and even if we assume that a large chunk of the deposits made during November and December may have been unaccounted money, the government will have to unleash a tsunami of tax terrorism that will surely be counter-productive. The need of the hour is to bring normality to economic activity. The last thing we need, as we stand on the threshold of the implementation of the goods and services tax (GST), is an unchecked taxman let loose on unwary taxpayers when GST is likely to create its own fiscal chaos and disruption.

Third, it is clear that nationalised banks played a key role in implementing *notebandi*. But the fall in interest rates following large inflows into the banking system will constitute only a pyrrhic victory unless credit demand picks up – of which there is little sign. While rates can be cut, credit growth is muted. And with loads of bad loans to resolve, banks have had more costs piled onto them due to DeMo. This can hardly be good for them.

Fourth, perhaps the one big gain from DeMo is the still rising trend in digital payments. But this gain in intangible, and benefits will come only over the long term. Moreover, while DeMo made non-cash modes of payment necessary and vital, the popularisation of digital payment modes could have been done even without the disruption of *notebandi*. DeMo at best provided the government an opportunity to make necessity the normal mode of payment.

Fifth, even the implementation of DeMo could have been better thought out. With hindsight, one can say that the best way to demonetise would have been to limit it to the Rs 1,000 note, and then withdrawing the old

Rs 500 notes in stages – by not returning those notes that came back to banks as part of normal cash deposit operations. The disruption was maximised precisely because this two-stage approach was not adopted.

The lessons the Modi government needs to learn from this costly experiment gone wrong are the following:

#1: Don't rely on economic charlatans and a small group of babus in the Prime Minister's Office (PMO) and the advisers brought over from Gujarat when taking big decisions like DeMo or even GST. Modi needs to widen the circle of experts in his government, even if he chooses not to finally listen to their advice. This is one redeeming feature of Indira Gandhi, who too had a strong PMO, that Modi could now seek to rectify.

#2: Empower more ministers, and make it a point to regularly listen to your own chief ministers who may have ears closer to the ground than the PMO. Shivraj Singh Chauhan and Vasundhara Raje could well have told Modi what may be a problem with DeMo, but this kind of political feedback loop does not seem to exist in the Modi government.

#3: A white paper on the larger effects of DeMo and the lessons learnt is important. While it may not show the government in good light, it will at least demonstrate that it is learning lessons from the misadventure. To brazen it out – pretending DeMo was not a failure – is the worst thing that can happen to a leader who is clearly one of the best India has produced in a long time.

#4: The damage on loan waivers has been done, but nothing stops Modi from holding a special parliament session and creating a multi-state group of chief ministers to recommend how to fix farming without waivers in future, and also to agree on a code that no politician or state government will henceforth demand a waiver except in exceptional circumstances, and that too on a selective basis.

In the past, Modi has proved he is a good learner from defeat. After Delhi and Bihar, he recovered quickly to win in Assam and UP. But DeMo is his ultimate test. If he learns from this, his next two years may still be his best.

Leadership is most needed when the country is down. Right now, banks, farmers, small and big businesses are all down – though not out. The economy will not recover easily without great economic and political leadership. Modi's second term depends on him getting the economics right, and not just the politics.

It is great to be thought of as a bold leader who can take tough decisions to break the back of black money. But it is not so great to go about it in a hamhanded way and breaking the back of the Indian economy in the process.

Good politics begins with accepting that DeMo did not work. Hiding the truth can hurt Modi more than acknowledging it – directly or indirectly.

UFBU's CLARION CALL
MORCHA TO PARLIAMENT
BY 100,000 EMPLOYEES AND OFFICERS
15TH SEPTEMBER, 2017
STOP ANTI-PEOPLE BANKING REFORMS

AIBEA THIS DAY – 4 JULY	
1962	**Desai Award published.**
1997	**Total strike by all Bankmen under UFBU against local area banks, on demand for pension in private Banks, RRB issues. etc.**
1999	**Com. Indrajit Gupta, Inaugurates 'Prabhat Parwana Trade union Centre', constructed by State Bank of Patiala Employees Federation at Patiala.**
2001	**UFBU Strike Call on payment of wage arrears in Indian Bank, UCO and UBI.**

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