AIBEA's Banking News

24 TO 30 OCTOBER, 2017

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Govt to infuse Rs. 2.11 lakh crore into PSU banks over 2 years

PTI/BUSINESSLINE 24 10 17

The government today announced an aggressive Rs. 2.11 lakh crore capital infusion for the NPA hit public sector banks over a period of two years.

Out of this, Rs. 1.35 lakh crore will be through the recapitalisation bonds, while remaining Rs. 76,000 crore from the budgetary support, Financial Services Secretary Rajiv Kumar said here.

Addressing media, Finance Minister Arun Jaitley said the capital infusion would be done over the next two fiscal.

He also said the capital infusion would be accompanied by series of banking reforms which would be spelt out in the next few months.

The nature of the bonds and details of the bonds would be made public during course of time, he said.

Non-performing assets of banks have increased from Rs. 2.75 lakh crore in March 2015 to Rs. 7.33 lakh crore as on June 2017.

The finance minister said banks would get Rs. 18,000 crore under the Indradhanush plan.

Under Indradhanush roadmap introduced in 2015, the government had announced to infuse Rs. 70,000 crore in state-run banks over four years to meet their capital requirement in line with global risk norms, known as Basel-III.

In line with the plan, public sector banks were given Rs. 25,000 crore in 2015-16, and similar amount has been earmarked for the following years. Besides, Rs. 10,000 crore each would be infused in 2017-18 and 2018-19.

AIBEA **PRESS RELEASE** **26-10-17**

- **Government's announcement on capitalisation of Banks**
- **Some relief for the headache but not cure for the cancer (NPA)**
- **Tough action to recover bad loans needed**

In response the emerging crisis in the banks, the Government has announced additional capital to the public sector banks. No doubt, this is a welcome measure because the banks are starved of capital and this additional capital will help them to do some more lending. But this by itself will not help the banks to come out of the mess they are in now. All banks are facing the problem of mounting bad debts/non-performing loans.

Year	Gross Bad Loans
2011	74,664 crores
2012	1,17,000
2013	1,64,461
2014	2,16,739
2015	2,78,877
2016	5,39,955
2017	6,41,000
now	8,00,000 crores

If the restructured loans are added, the total NPA is more than Rs. 15 lac crores.

Bulk of these bad loans are the contributions of big corporate companies many of whom are deliberate and willful defaulters. Taking huge loans and not repaying the same has become an exquisite art because these people know that nothing will happen to them and they will get political patronage of the Government.

Because the bad loans are increasing alarmingly, the banks are compelled to make huge provisions from the profits and profits are depleted to prevent internal generation of capital.

For example, for the year ended 31-3-2017, the performance of the public sector banks was as under:

Total earned gross profit	Provisions for bad loans, etc	Published net loss
1,58,982 cr	**1,70,370 cr**	**- 11,388 cr**

The entire profits earned by the banks have gone for making provisions for bad loans. Hence capital is eroded and Capital Adequacy Ratio is adversely impacted.

Giving additional capital is an immediate short term solution. But recovery of bad loans is the real long term solution. That is why we have been demanding the Government to take stringent measures to recover the bad loans. But Government is reluctant to take action on the corporate defaulters.

Deliberate and willful defaulters should be termed as criminal offenders and criminal action should be taken against them. But instead Government is forcing the Banks to go for insolvency proceedings by which loan will not be recovered and the defaulter company will be able to escape his liability to repay.

RBI has conceded this and that is why they are asking banks to accept deep haircuts and sacrifices and provide huge amount towards these bad loans. Only 12 corporate companies have defaulted Rs. 2,53,000 crores.

1. Bhushan Steel	44,478 cr
2. Bhusan Power and Steel	37,248
3. Lanco Infra	44,364
4. Essar Steel	37,284
5. Alok Industries	22,075
6. Amtek Auto	14,074
7. Monnet Ispat	12,115
8. Electrosteel Steels	10,273
9. Era Infra	10,065
10. Jaypaee Infratech	9,635
11. ABG Shipyard	6,953
12. Jyoti Structures	5,165
	2,53,729 cr

Hence this year also, the entire profits of the banks are likely to be siphoned off for making provisions for these bad loans. Thus banks are entering a crisis zone. Taking tough action and recovering the money is the urgent need. But Government has chosen the soft option of giving additional capital the Banks to avoid taking action on the corporate defaulters.

The Government is also talking of making our Banks bigger through mergers to masquerade the extent of bad loans. In our country, we need good banks to help the common poor people and there is no need for big banks which have proved to be risky in many western countries including USA. India cannot afford such experiments because we are dealing with huge precious public savings.

While welcoming the decision to give additional capital to the Banks as an immediate relief to the banks, we demand

- **Publish the names of defaulters**
- **Debar bank loan defaulters from contesting election or holding public office**
- **Take stringent measures to recover bad loans**
- **Declare willful default as criminal offence and take criminal action**
- **Ensure accountability for these huge bad loans**

We demand recovery and not write off of bad loans. We need cure and not just relief.

Govt infusing capital in banks only short term solution: AIBEA

PTI CHENNAI, OCTOBER 27: **BUSINESSLINE**

The bank employees unions has welcomed the government's decision to infuse additional capital in public sector banks but termed it as a short term relief but not as a long term cure.

The Centre on Tuesday unveiled a Rs. 2.11 lakh crore two-year road map for strengthening NPA-hit public sector banks, including re-capitalisation bonds, budgetary support, and equity dilution.

Union Finance Minister Arun Jaitley said the capital infusion, will be accompanied by reforms to enable the state-owned banks to play major role in the financial system and give a strong push to the job-creating MSME sector.

"No doubt, this is a welcome measure because the banks are starved of capital and this additional capital will help them to do more lending. But this by itself will not help the banks to come out of the mess they are in now", AIBEA, General Secretary, C H Venkatachalam said in a press release.

The association represents employees of various public and private sector banks across the country.

"All banks are facing the problem of mounting bad debts", Venkatachalam said, adding till date the gross bad loans in banks were around Rs. 8 lakh crore.

"If the restructured loans are added, the total NPA is more than Rs. 15 lakh crore", he said.

Alleging that the bulk of bad loans were by corporates and wilful defaulters, he said, "because the bad loans are increasing, the banks are compelled to make huge provisions from profits and profits are depleted to prevent internal generation of capital‟.

"The entire profits earned by banks have gone for making provisions for bad loans. Hence, capital is eroded and capital adequacy ratio is adversely impacted", he said.

Providing additional capital is an immediate short term solution, but recovery of bad loans is the real long term solution, he said.

Venkatachalam urged government to take stringent measures to recover bad loans and declare wilful default as criminal offence." We demand recovery and not write off of bad loans. We need cure and not just relief", he said.

COMMUNIST PARTY OF INDIA
CENTRAL OFFICE
Ajoy Bhavan, 15 Com. Inderjit Gupta Marg, New Delhi - 1100 02
E-mail : cpiofindia@gmail.com
Tele. : 23232801
23235546
23235058
23235099
Fax : 23235543

S. Sudhakar Reddy
General Secretary

October 26, 2017

PRESS RELEASE

Recapitalisation of Banks Will Not Help - CPI

The Central Secretariat of the Communist Party of India has issued the following statement:

The Union government has announced with big fanfare recapitalisation of banks to the tune of 2.11 lakh crore rupees and claims that it will help the banks to lend more money, to big companies, who in turn will invest in industry that will provide employment and boost the economy. Instead of helping the banks, the government wants to help the corporates and big businesses. Instead of government directly paying them, they want it through banks and make them responsible.

The economy is in bad shape not because of banks, but due to wrong economic policies of the government of India. The BJP led NDA government promised two crore jobs to be created every year but miserably failed. This recapitalisation will not help to boost the employment opportunities in any way. This is only a pretext to help the corporates.

The public sector banks are facing serious problems due to bad debts. The operating profits of public sector banks for the year 2016-17, were Rs. 1,58,982 crore while the provision for bad loans etc Rs. 1,70,370 crores with a net loss of Rs. 11,388 crores. The banks have written off 2.5 lakh crores in 2016. Still the bad loans are more than 11 lakh crore rupees. Now the government wants to give the loans to the same set of people.

The government is carefully keeping the names of defaulters, confidential like those of black money holders, names leaked in Panama papers. Stringent action is needed to collect bad loans of corporates and big businesses to help the banks to recover. This is an indirect way of helping crony capitalism.

The Bank Employees Union appropriately commented that "the government is providing medicine for headache while the disease is cancer of bad loans ".

Bank recap: Band aid for cancer surgery

Business Standard 30 Oct 2017 DEBASHIS BASU

A successful and thoughtful fund manager sent me an email me the other day, drawing a simple analogy about the government's plan to recapitalise public sector banks (PSBs), an analogy that I have expanded upon. Assume that there is a bunch of listed companies controlled by a promoter family. The companies are value destroyers, racked by corruption. The promoter does not pay much attention to running these companies. The companies are short of capital because of piled-up losses but are sitting on a large amount of public deposits that they had raised. One day the promoter decides to use the public deposits through devious schemes. The companies are supposed to loan the money to the promoters, who would then use that money to buy new shares in the companies, arguing that this would strengthen the companies even though the same management continues to run them. Last week, the government of India did exactly that when it announced a scheme to recapitalise PSBs. It took out money that does not belong to it and will put it back as its own!

How would investors and regulators react to a scheme like this if a private-sector promoter had done this after having tried the same thing earlier and failed? The regulators would have dubbed this a prime example of continued misgovernance by a repeat offender. And investors would dump the shares in anger and disbelief, especially because capital would bloat and they would get diluted — again. Well, poor governance and misallocation of capital are for the finance textbooks. In real life, things don't happen that way. In real life, regulators kept quiet while investors got delirious with joy, in a nice lesson for finance students and new investors. Everyone is very happy that resolution has been found for one more enormous banking crisis caused by a flawed model fashioned in late 1969, which promoted and perpetuated enormous inefficiency, corrupt lending practices, and repeated bailouts.

What should have been done? Accountable management and responsible ownership lie at the heart of any profitable business enterprise. The job of owners is to allocate capital correctly and the job of managers is to deliver on business targets. What unites and drives both of them are incentives — higher profits and market value for owners and higher compensation and market value for managers. In simple terms, this is the template of modern capitalism and wealth creation. An absence of any of these factors leads to misallocation of capital and losses. Unfortunately, while a loss-making private enterprise may close down or get acquired, a lossmaking government enterprise is like a gambler who always gets a stake for the next game, no matter how many times he blows up. So, for these enterprises, far from creating incentives, we create malincentives, laying the ground for the next irresponsible blow-up.

Democratic governments all over the world are inherently bad in acting as responsible owners, giving rise to the maxim that is now a cliché: "The government has no business to be in business." Even Prime Minister Narendra Modi declared this before the 2014 elections but promptly forgot about it. The government, as the owner of PSBs, can neither provide capital (it is bankrupt) nor provide management (no focus and time). Indeed, when the going is good, democratic governments often force PSBs to do the wrong things. This is best exemplified by how banks supported corrupt and incompetent managements in commodities and real estate sectors and even outright frauds during the United Progressive Alliance. In some cases, it was corruption at bank manager level; in most others it was politicians who directed fraudulent lending. To this, we need to add political compulsions. P Chidambaram, who is now criticising the government's recapitalisation plan, was encouraging PSBs to make thousands of crores of educational loans with very little asset backing because it was socially desirable. Bank managements are not incentivised to do the right thing, cannot say no to politicians; nor are they penalised for their own corruption. How can this situation be improved by pouring more capital, and that too through the easy option of financial trickery? We needed surgery; we got band aid.

What is mystifying is that such easy options come from the same government that is actively promoting the narrative that for the first time we have a Prime Minister who is unafraid to take bold decisions and strike hard at corruption and inefficiency. As an example of this fearsome policymaking, the government holds up the example of demonetisation, which put the whole country on queue and overturned the lives of workers, farmers, and small businessmen. The next example of a bold step is implementing the goods and services tax despite poor preparedness. It is strange that a government that is bold and coercive has meekly chosen to do more of what has repeatedly failed to work in the past. And sadly, rating agencies, the business community, fund managers, and analysts, who know this, have chosen to act as compulsive cheerleaders.

Capital infusion plan — a belated fix

NS VAGEESH MUMBAI, OCTOBER 24:

To get economic growth back on track, govt must help revive bank lending, investments

The recapitalisation plan of □2.11 lakh crore for public sector banks announced by the Finance Minister is a belated recognition that fixing the problems facing banks quickly is the key to achieving higher economic growth.

The economy has been slowing during the past year, which has been subject to some shocks such as demonetisation and, more recently, the introduction of the Goods and Services Tax (GST).

Public sector banks (PSBs), burdened by bad loans that doubled in the past five years, have slowed down their loan growth. Credit growth for the entire system has been a measly 6.9 per cent compared to 10 per cent in the previous year. There are two milestones ahead that definitely lend a sense of urgency to the recapitalisation move. One, general elections are due in the summer of 2019. The government needs to show visible improvement on the economy and jobs fronts to get re-elected.

And, two, banks have to be recapitalised by 2019 to be compliant with the Basel-III frameworks. Rating agencies have estimated that Indian banks need ☐4-5 lakh crore for the same. A couple of banks are already close to the regulatory minimum capital due to the erosion of profits over the past few quarters. During the last three years, the government has been making measly allocations in the Budget and rationing capital — linking it to achieving some performance metrics through its much-touted 'Indradhanush' programme.

Of course, it always said that capital would not be a constraint but that it would go to those banks which showed results. The implied sub-text was that those who didn't perform would just have to shrink their books, weaken and perhaps get merged with stronger banks.

While this may have worked in a booming economy, and may have succeeded, given a longer time frame, those luxuries are unavailable now. The plan to revive banks through mergers certainly didn't gather the necessary speed — certainly not fast enough to deliver the results required and get the economy moving fast once again. The exception to this was the SBI merger process (merging its associate banks and Bharatiya Mahila Bank). But this was a comparatively easier thing to put through, given the shareholding pattern, synergies and similar culture. The recapitalisation plan for public sector banks must, therefore, be seen as a preliminary step to get growth back on track and help revive bank lending as well as investment.

'Bank recap is a big-bang move'

K RAM KUMAR MUMBAI, OCTOBER 29: BUSINESSLINE

It will help public sector banks turn around, says Deepak Parekh

Likening the government's ambitious Rs. 2.11-lakh crore public sector bank (PSB) recapitalisation package to the US's 'TARP' (Troubled Asset Relief Programme), Deepak Parekh, Chairman, HDFC, said this will help PSBs turn around.

It will also help those banks put on prompt corrective action (PCA) framework coming out of it.

The Reserve Bank of India has put IDBI Bank, UCO Bank, Central Bank of India, Dena Bank, Bank of Maharashtra, and Indian Overseas Bank on PCA in view of high net non-performing assets (NNPAs) and negative return on assets (RoA).

Under PCA, these banks face constraints including curbs on branch network expansion and dividend distribution; restriction on expansion of high risk weighted assets and capital expenditure other than for technological upgradation and such emergent replacements within board approved limits.

"I think it (recapitalisation) is an excellent move. It is a big bang move. It requires courage. …It may have taken a little longer but then they (government) have taken care (of PSBs capital needs) of the next two years…," said Parekh

He expects the shares that the government gets for recapitalising the PSBs increasing in value five years down the line than the money it will need to redeem the recapitalisation bonds.

"You can't have strong economy with weak banks. You can't be the fastest growing economy in the world with weak banks. You have to rectify your banks," explained Parekh.

TARP was created to help stabilise the US financial system during the financial crisis of 2008. It included a comprehensive set of measures in five key areas – auto industry, bank investment programs, credit market programs, housing, and investment in American International Group.

With recapitalisation, Parekh said: "PSBs will turnaround….More importantly, what we need now is how to empower PSB officials to take decisions. That is what is important now so that they can go for one-time settlement (OTS).

"Today they are worried about OTS, worried about writing off some loan. They are worrying about selling a loan to an ARC as questions may be asked. So, the one thing which we need to give them is some assurance that we (authorities) won't go after them. So, that is necessary to clean up the bad loans mess."

'Bank recap bonds will have interest cost of Rs 9,000 cr'

Will not add to fiscal deficit under IMF accounting method: CEA Arvind Subramanian

NEW DELHI, OCTOBER 25: BUSINESSLINE

The recapitalisation bonds for public sector banks will have an interest cost of close to Rs 9,000 crore, said Arvind Subramanian, Chief Economic Advisor (CEA).

"The true fiscal cost of issuing the 1.35 lakh crore recapitalisation bonds is the interest payment of about Rs 8,000-9,000 crore," he said at a lecture at SGTB Khalsa College on Wednesday.

But, he pointed out that the cost would be offset by the confidence impact of addressing the critical economic bottleneck that would in turn increase credit supply, private investment and growth.

"The rest is all accounting," he said, adding that it could potentially increase the Centre's debt and add to its deficit.

On whether recapitalisation bonds add to the fiscal deficit, he said under standard international and IMF accounting, they do not increase deficit and are "below-the-line" financing.

"But under India's convention, these bonds would add to deficit," he said.

To spur lending

The comments by the Chief Economic Advisor come a day after the government unveiled a Rs 2.11-lakh crore capital infusion plan for public sector banks in the hope that it would boost lending, spur private investments and create more jobs.

To be carried out over a two-year period, starting this fiscal, it would include recapitalisation budgetary support and tapping the market by diluting government equity.

Subramanian, however, said that the accounting to some extent was "moot" and the costs were always there for the government.

"The government is already liable to banks as owner for the unrecoverable part of the underlying loans that were made. Issuing bonds merely makes explicit an implicit liability; or rather puts on the books what is a contingent liability," he pointed out.

Banking reforms

Noting that Finance Minister Arun Jaitley had already said that the recapitalisation would be accompanied by banking sector reforms, Subramanian added that these should be with the objective of where the sector should be in five to 10 years for financing a double-digit growing economy.

He further said that recapitalisation must be selective and incentive-based, directing it to those banks where new credit creation will be maximum, and unviable banks should be considered last.

"Since all banks must maintain a minimum capital adequacy, one possibility would be to recapitalise the unviable banks only to the extent necessary to finance their current balance sheet size while explicitly not providing for their growth," the Chief Economic Advisor said. He also spoke on the debate on private ownership of public sector banks.

Under the recapitalisation plan, banks will have to raise about Rs 58,000 crore by tapping the market including diluting government equity but retaining it at 52 per cent.

Bank recap plan to help deal with bloated balance sheets: S&P

NEW DELHI, OCT 26: **BUSINESSLINE/PTI**

S&P Global Ratings today said the Rs. 2.11 lakh crore capital infusion into PSU banks will help deal them with bloated balance sheets and enable the banks to take 'haircuts' on their non-performing loans.

The government plans to infuse capital totalling Rs. 2.11 lakh crore ($32.4 billion) into the banks. That is much larger than its previous infusions over the past few years.

This is around 35 per cent of the current tier-1 capital of public sector banks.

"The government's proposed capital infusions step will help address the banks' bloated balance sheets, which are partly constraining the economy. We believe the government's efforts should enable banks to take the necessary 'haircuts' on their corporate non-performing assets," S&P Global Ratings credit analyst Amit Pandey said.

The non-performing loans in the banking sector are estimated to have touched Rs. 10 lakh crore.

Stating that the recapitalisation move will have positive implications, S&P said its impact on the credit profile of individual banks will depend on the capital allocated to each bank and the success of the resolution process for stressed assets.

"Our current ratings on public sector banks already benefit from a very high likelihood of government support in the event of distress," Pandey said.

Under the plan unveiled by the government on Tuesday, Rs. 1.35 lakh crore of the total infusion will come from the recapitalisation bonds and Rs. 76,000 crore from budgetary support and fund-raising in the capital markets over the next two years.

This amount is almost double the government's total infusions in public banks for the past seven years.

S&P had in August estimated that PSU banks would need about Rs. 1.7-Rs 2.1 lakh crore capital by March 2019.

Recapitalisation will need follow up with structural changes at PSBs: UBS

PTI NEW DELHI, OCT 26: BUSINESSLINE

The recapitalisation programme for public sector banks is likely to boost equity market sentiment as it fuels growth recovery hopes, but should be followed up with structural changes at such banks for better results, says an UBS report.

According to the global financial services major, though the recapitalisation amount may create a supportive environment for growth, it may not drive growth by itself.

The government on October 24 unveiled a Rs 2.11 lakh crore two-year road map to strengthen NPA-hit public sector banks, which includes recapitalisation bonds, budgetary support and equity dilution.

“We think this capital infusion can ease Ind AS adoption for state-owned-enterprise (SOE) banks and accelerate non-performing loan (NPL) clean-up,” UBS said in the research note.

The report however noted that “this one-time bailout would be wasted if it is not followed up with structural changes at SOE banks (in terms of HR practices, incentive structures and independent boards)”.

PSU bank recapitalisation however may lead to better long-term growth prospects.

“While bank recapitalisation will be neutral for GDP growth in the short term, we think it may meaningfully improve productivity dynamics and lay the foundation for stronger medium-term growth,” the UBS report said.

The capital infusion in PSBs entails mobilisation of capital, with maximum allocation in the current year to the tune of about Rs 2,11,000 crore over the next two years, through budgetary provisions of Rs 18,139 crore and recapitalisation bonds to the tune of Rs 1.35 lakh crore.

UBS further noted that though the fiscal impact of the bank recapitalisation programme may be limited, debt-to-GDP could increase around 120 bps if the government does the issuance.

“Considering that the higher fiscal deficit would not add to demand-side pressure, we expect a negligible short-term impact on CPI inflation,” the report said.

AIBEA THIS DAY – 30 OCTOBER	
1977	**Com. M S Purohit, Treasurer, EMBEA passes away.**
1996	**AIBEA Central Committee meets at Shillong.**

ALL INDIA BANK EMPLOYEES' ASSOCIATION

Central Office: PRABHAT NIVAS

Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ chv.aibea@gmail.com

Web: www.aibea.in