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Bank unions: FRDI Bill, threat to deposits of common man

dna Correspondent **Tuesday 23 January 2018 AHMEDABAD**

The proposed bill that wants to convert deposits of common man into equity for the banks has endangered the safety of deposits of crores of customers and should be immediately withdrawn, a top bank union said on Sunday. Coupled with it, the proposals to merge and privatise nationalised banks will endanger the interest of retail customers, they warned.

CH Ventakatachalam, the general secretary of **All India Bank Employees Association (AIBEA**), said the bank deposits in the country worth around Rs110 lakh crore should be protected, which is possible only in a public sector.

"**This is their hard earned savings. But the central government is bringing FRDI Bill which is trying to remove the safety of the deposits in the banks. Government should withdraw the FRDI Bill**," said Ventakatachalam, who was in the city as a part of AIBEA's nationwide campaign to highlight and oppose the adverse banking sector measures of the government.

He said that under the guise of banking reforms, the government is trying to privatise and merge banks risking the collapse of banks as in cases of USA and other western countries. He suggested that banks should be encouraged and empowered to recover bad loans from the corporates and default be declared as a criminal offence. "Many of whom are 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 the political patronage of the government," he said blaming bad loans for shrinking the liquidity of the banks.

YEARWISE WRITING OFF OF BAD LOANS

Bad loans	Written off
2012-13	27231
2013-14	34409
2014-15	49018
2015-16	57586
2016-17	81683
Total	**249927**

BAD LOANS

Year	Gross Bad Loans
2011	74664
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	950000

All data in ₹ crore

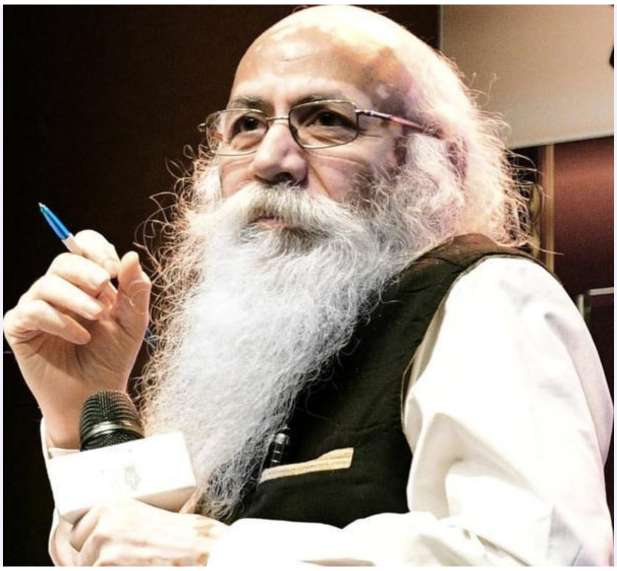
PROVISIONING OF BAD LOANS

	2013-14	2014-15	2015-16	2016-17
Gross Operating Profit	127653	137760	136275	158982
Provisions for bad loans, etc	90633	100901	153967	170370
Net profit/Loss after	37019	37540	18417	11388

It also demanded that just like employees and officials are held accountable, top executives of the banks should be held accountable while dealing with public money, as they are vested with huge powers for sanctioning big loans and also to write off the loans.

Black money perpetuates poverty

B BASKAR, BUSINESSLINE 24 1 2018



ARUN KUMAR, Economist

To fight black economy, we must make politicians, businesses and the judiciary more accountable, says Arun Kumar

Without black money, the Indian economy today would be eight times larger, says Arun Kumar, Malcolm Adiseshiah Chair Professor at the Institute of Social Sciences, New Delhi. Speaking to BusinessLine at the sidelines of the recently concluded Hindu Lit for Life Festival, Kumar spoke about a range of issues regarding demonetisation and the black economy.

Excerpts:

How does black money affect growth and development of the Indian economy?

The black economy is an addition to the white economy so the economy is much larger than it seems. However, the black economy lowers the potential for growth as it creates efficiencies everywhere. Take the example of 'digging holes and filling holes'. One person digs a hole during the day and another person fills that hole during the night. The next day two incomes are generated without any addition to output. If you construct a road without putting enough tar in it and it gets washed away, your investment has not paid off.

So, this has led to a 5-per cent loss of growth annually on an average, over the last 30-40 years. From the 1970s when the black economy was about 10 per cent of the GDP; so, if you add 5 per cent to the GDP growth, which was around 3 per cent then, we could have actually grown at around 8 per cent.

In the last 10 years we have been growing at about 7 per cent; we could have been growing at 12 per cent without black money. Going by that calculation, today the Indian economy would have been eight times larger. Today, instead of being $2.2 trillion economy we would have been an $18-trillion dollar economy, roughly the size of the US. Our per capita income would have been $13,000 instead of the current $1,500.

Black money lowers the potential of the economy and perpetuates poverty. It also fuels inequality as black money is concentrated only in the hands of 3 per cent of the population.

You have spoken about demonetisation dividing the Indian society, can you elaborate on that?

Since black economy does not mean cash, squeezing out cash will not affect it. Cash is only one per cent of the total black wealth and doesn't affect black income generation. So, demonetisation did not impact the black economy at all.

However, the unorganised sector was hit hard as it operates largely on cash. That the unorganised sector got hit much harder than the organised sector has created a divide. Now the push towards greater digitisation has also helped the organised sector more as the unorganised sector does not have the wherewithal to benefit from it. On the one hand, demonetisation has affected the unorganised sector more and two, digitisation has only aggravated this divide.

Now the official data is capturing only the organised sector's activity, whereas data for the unorganised sector has not come so far. Some surveys have shown that the unorganised sector got damaged to the extent of 50 per cent. My argument is that last year, the growth rate was zero per cent, instead of the 6.5-7 per cent.

This year, after GST, the growth rate is less than one per cent rather than the 6.3 per cent the Government is projecting. So demonetisation, digitisation and even the GST are only increasing the divide between the organised and unorganised sector.

The political class has a major role in generating black money but at the same time we have to rely on this class to combat this menace. How do we break out of this bind?

If the black economy forms 62 per cent of the GDP, that means it has some form of illegality attached to it. Now this is possible only if there are some systemic drivers — where the policy maker, the executive and the business form a kind of a 'triad'. Now to combat black money, this 'triad' has to be broken. We require accountability — from the executive, bureaucracy as well as the business class. This can be done through the electoral process as at the end of the day the politician is accountable to the electorate.

To bring about accountability, we need electoral reforms, and inner party reforms to ensure that parties are functioning democratically. Right to Information is key to bring about accountability in the executive and judicial accountability is required. The business class must be accountable to its shareholders.

There must be a rise in political consciousness and that's a slow and painstaking process. We have had many anti-corruption movements right from the 1970s but none of them has sustained. A sustained movement to raise political consciousness is key to combating the black economy.

What are the other options available with the Government to fight black money?

So far, 40 committees have made thousands of suggestions and hundreds of them have been implemented. Demonetisation isn't the first policy initiative against black money. But none of them is working because we need long-term change and that will come about only through accountability. Short- and medium-term policies will work only if the long-term policies are in place. So in the short term, income tax, which was at 97 per cent in the 1970s, has been brought down to 30 per cent now but the black economy has only grown bigger during this period.

Excessive regulation, which was seen as driving corruption, has been drastically reduced since 1991 but it has made no difference as the 'triad' that generates black money continues to function. Greater economic liberalisation was supposed to bring down black money but the opposite has happened.

So the problem is not a technical one but a political one. In the short run you can go after the hawala networks, use stolen data from banks on illegal money stashed abroad and go after the culprits, but unless you set in motion a long-term systemic change the generation of black money will remain unaffected. For that to happen you need sustained social and political movements.

You have said there is unlikely to be a V-shaped recovery after demonetisation, so how long do you think it will take for its effects to wear off?

Demonetisation brought down demand, which affected credit offtake and capacity utilisation. When capacity utilisation comes down, investment also is less which reduced credit offtake and affected long-term growth, so it was a cycle. Demonetisation triggered the reduction in long-term investment and growth which is why I argue that at present we are growing at less than one per cent and as the official data does not capture the unorganised sector activity. If the economy is actually growing at 6.3 per cent there would be no crisis.

So the Government needs to urgently revive private investments. Also, it needs to revive demand in the unorganised sector as that is where 94 per cent of the work force is. You need to generate jobs in the unorganised sector and raise investment in that sector. You also need to generate jobs in rural areas. We need a package to revive the unorganised sector in rural areas.

The advantage here is demand from rural areas does not leak out to the foreign countries. So the need of the hour is a rural package to revive investments and demand. I don't mind if the government relaxes its fiscal deficit target from 3.2 per cent. I don't think the highway building projects is going to help as they are largely automated they are not going to generate enough jobs and income.

Is the next Budget likely to have such a package?

Yes, this is after all the last full Budget of the present government and it is certainly aware of the rural distress especially after the Gujarat elections. So the Government is likely to address that in the Budget. But it must focus more on raising farmers' income and reviving rural investment and demand.

As need for capital rises, ARCs to opt for multi-platform model

Partnership with large funds will be the way forward, says Assocham-Crisil report

MUMBAI, JANUARY 23: BUSINESSLINE

Asset reconstruction companies (ARCs) would increasingly opt to become part of a multi-platform business model with co-investors/large funds to bring in capital, and stay relevant, according to a report by Assocham and Crisil.

This is because the existing capital base of ARCs cannot absorb the stressed assets available in the market.

Forecasting gross non-performing assets (GNPAs) to rise to Rs 9.5 lakh crore by March-end 2018 (from Rs 8 lakh crore as at March-end 2017), the report said the opportunity for ARCs is significant.

Given that banks are expected to make higher provisioning over and above those made for stressed assets, they may sell the assets at lower discounts, thus increasing the capital requirement of ARCs.

"Capital remains a major challenge. Increased stringency in the provisioning norms for investment in SRs (security receipts) will push up cash-based sale of stressed assets.

"Furthermore, the Reserve Bank of India has raised the net owned funds for existing ARCs to Rs 100 crore (from Rs 2 crore) effective April 1, 2019. All this will, in turn, necessitate higher capital requirement for ARCs," said Ashu Suyash, MD and CEO, Crisil.

Partnership route

Given the capital constraints, partnership is the way forward. Crisil believes that ARCs would increasingly opt to become part of a multi-platform stressed assets play rather than going it all alone.

Such a platform will comprise stressed asset funds (which with their significant technical expertise in resolution/turnaround can directly and opportunistically invest in stressed companies or SRs); ARCs; and non-banking finance companies (which can plug the financing gap and can also co-invest in SRs).

The Assocham-Crisil report said of the 24 ARCs in India, around six are comfortable in terms of the revised net-owned funds requirement and other stringent regulations.

However, ARCs that struggle to infuse capital or raise external funding, and are short on specialist manpower, will get marginalised further.

Structural shift

Going forward, Crisil sees a structural shift in the ARC industry.

Large players with deep pockets will dominate the market and smaller players will consolidate with larger ones, given the capital constraints. However, discounts will increase, because valuation becomes critical with more and more cash deals (which further increases the capital requirement for acquisition).

Also, the percentage of SRs with banks for new assets will decline, while the number of cash deals will increase.

Given the structural shift due to the swirl of regulatory changes that have kicked in recently, Crisil assessed that the growth of ARCs' assets under management (AUM) is expected to come down significantly. This is primarily because of capital constraints.

The credit rating agency expects AUM growth to fall to around 12 per cent until June 2019 (from 22 per cent year-on-year growth in June 2017).

"Sales are expected to be impacted in the near term, as both sellers and buyers adjust to the new norms.

"Having said that, it is important to note that the AUM is still expected to reach almost Rs 1 lakh crore by June 2019 (from Rs. 78,400 in June 2017), and that is fairly sizeable," the report said.

AIBEA THIS DAY – 24 JANUARY	
1924	Com. K J Joseph, former Asst. Secretary, AIBEA (date of birth)
2000	Com. Eswer Rao, former Asst. Secretary, AIBEA & former GS, SBM Staff Assn. passes away.
2006	Strike in Dena Bank against dilution of Capital

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