AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Public anxiety over bank deposits, Govt to drop FRDI Bill

One reason cited for its withdrawal is that the misconception led to panic withdrawal of cash by depositors and eroded public trust.

Amitav Ranjan | New Delhi | July 18, 2018 THE INDIAN EXPRESS

Rattled by widespread criticism and public anxiety despite its assurances, the NDA government has decided to drop the Financial Resolution and Deposit Insurance (FRDI) Bill after concerns were raised over the security of bank deposits.

Sources said the **decision to withdraw the FRDI Bill of 2017 was taken a day ahead of the protests by employee unions of banks and state-run insurance companies on July 14** and the Department of Economic Affairs was instructed to prepare the Bill withdrawal proposal for the Cabinet's approval.

One reason cited for its withdrawal is that the misconception led to panic withdrawal of cash by depositors and eroded public trust.

The basis for these fears is a controversial "bail-in" clause in the Bill that says that in case of insolvency in a bank, the depositors will have to bear a part of the cost of the resolution by a corresponding reduction in their claims.

One official said that the Cabinet was likely to take up the proposal for withdrawal of the FRDI Bill Wednesday. Since all Bills are introduced after Cabinet approval, any withdrawal also needs Cabinet approval, he explained.

The Bill, introduced in August 2017, was referred to a Joint Committee of the Parliament which is consulting all stakeholders.

Though it was asked to submit its report by the last day of the Monsoon Session ending August 10, the panel is unlikely to finalise the recommendations before the Winter Session.

"With the report likely to come out in December, the government's fear could be that it would be approaching the general elections next year with largescale negativism among the public," said the official.

While trying to dispel all misgivings about the Bill, the NDA government clarified that the "bail-in" clause would not be applied to public sector banks and it would be a tool of last resort — when a merger or acquisition is not viable — in the case of private sector banks.

It has also affirmed that the depositors will be given preferential treatment in the event of liquidation of a bank and the controversial bail-in clause will be used only with the prior consent of depositors.

In fact, Prime Minister Narendra Modi had told an election rally in Gujarat that the Congress was "spreading lies" that the FRDI Bill will lead to "bankrupt banks taking away people's hard-earned deposits". "Do you think I will let that happen?" he had asked.

The FRDI Bill was meant to address the issue of insolvency of firms in the financial sector – so that if a bank, a Non Banking Finance Company (NBFC), an insurance company, a pension fund or a mutual fund run by an asset management company, fails, a quick solution is available to either sell that firm, merge it with another firm, or close it down, with the least disruption to the system, to the economy, and to investors and other stakeholders.

This was to be done through a new entity, a Financial Resolution Corporation envisaged as an agency that will classify firms according to the risks they pose, carry out inspections and, at a later stage, take over control. This was recommended by the Financial Sector Legislative Reforms Commission (FSLRC) headed by Justice B N Srikrishna.

The controversial aspect of the Bill was the “bail-in” provision.

“Bailout” is when governments step in to protect interests of savers or depositors – like in the UK when there was a run on deposits of banks. There were cases in the US and other parts of Europe, too. The fact that huge public funds were used for such support, and criticism that bailouts incentivised bank managements to take risky bets led governments to seek other solutions.

Regulators put in place laws and rules to discourage or prevent such bailouts with new resolution regimes. Losses of these financial firms had to be borne by shareholders and creditors rather than taxpayers. One of the tools for such resolution is “bail-in”.

It allows resolution agencies to override the rights of the shareholders of the firm – this could mean writing down of a company’s equity and debt to absorb losses, or converting debt into equity. This could also mean overriding requirements such as approvals by shareholders and disposing of the firms’ assets.

Given that bank deposits make up the dominant share of financial savings in India, the fear was that to lower risk and the burden on taxpayers, policymakers may want to nudge savers on the same path as elsewhere. Currently, deposits in banks are insured for a maximum of Rs 1 lakh by the Deposit Insurance and Credit Guarantee Corporation, an arm of the RBI. There were concerns expressed that the Bill may not clearly lay down the quantum of protection for deposits.

But the government said that India’s FRDI Bill is more depositor-friendly than that of many other jurisdictions and that it does not propose in any way to limit the scope of powers to extend financing and resolution support to banks, including public sector banks.

Stop Pay Hikes of Managers at PSBs Failing Mudra Target: Union Minister Hansraj Ahir

Bankers have said that while public representatives could hold banks accountable for non-performance, they couldn't stop pay increments.

New Delhi**:** BUSINESS STANDARD 16 JUL 2018

Somesh Jha and Abhishek Waghmare

Stop the annual salary increment of managers at state-owned banks which have failed to meet the loan target under the central government's Mudra (Pradhan Mantri Mudra Yojana) scheme.

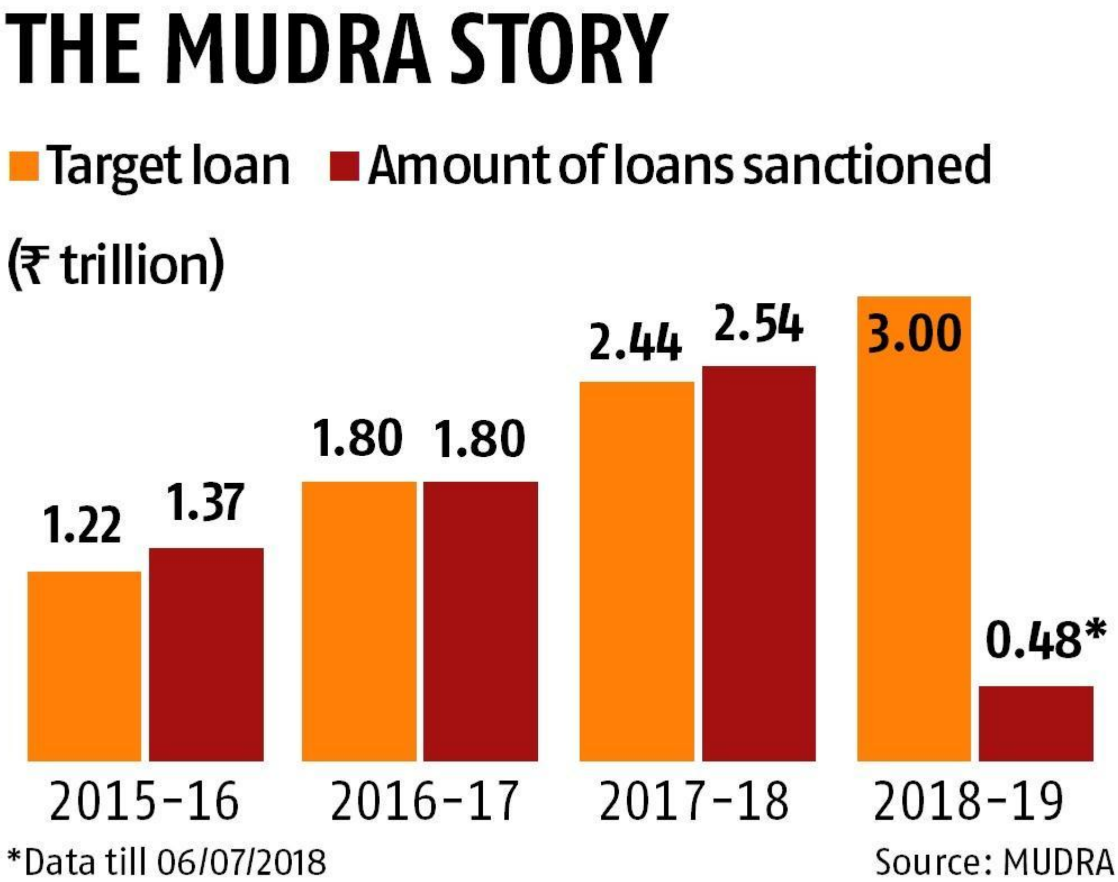
This is what Hansraj Ahir, Union minister of state for home affairs, has written in a letter to the district magistrate of his constituency. The scheme was begun in 2015, to give unsecured loans of up to Rs 1 million to small enterprises, with the objective of boosting self-employment.

Bankers and staff unions have been complaining of being overburdened on the variety of government schemes to be implemented. This latest advice from a minister has caused more vexation.

In a letter to the district collector of Chandrapur (Maharashtra) on June 6 (titled 'strict action against banks not co-operating in disbursing Mudra loans'), Ahir has highlighted some concerns in this regard. "Send a recommendation to senior (management) to stop the salary hike of those branch managers whose branches have had poor implementation," the letter, written in Marathi, stated.

The rate of interest of loans under Mudra is relatively low. A borrower is not required to submit collateral to a bank in taking the loan. The government has set an ambitious target for banks to disburse loans worth Rs 3 trillion to small entrepreneurs in 2018-19. When asked, Ahir said under the ambit of the District Development Coordination and Monitoring Committee, or DISHA, a minister or public representative may take action against a public representative if implementation of government programmes is found to be poor.

"Action needs to be taken against those banks that are showing poor performance in implementing government programmes, especially those of crop loans and small loans under Mudra," Ahir told ***Business Standard***.



The DISHA committee, which replaced the earlier District Vigilance and Monitoring Committee, have provisions that allow it to monitor government programmes, facilitate their implementation, recommend follow-up action if irregularities are found, refer matters to enquiry or suggest suitable action. The guidelines cover all non-statutory schemes of the government and have a suggestive list that, however, does not include Mudra.

As a follow-up, Ahir said he'd found Punjab National Bank (PNB) was not disbursing crop loans in Chandrapur district and had a poor record on

Mudra loans. So, he had decided to move the funds allocated to him under the Members of Parliament Local Area Development Scheme, which he can spend in his constituency, from PNB to Bank of India.

"PNB did not lend crop loans to farmers at all this season, which is why I decided not to use its services for parking official funds," he said. Adding: "As people's representative, I can recommend action which is important in the public interest to the DISHA committee and the district administration remains answerable to me."

Though no such directive for stopping the annual salary hike of branch managers was sent to banks, the then DM of Chandrapur, Ashutosh Salil, said he had issued a letter to the chief executives of all banks in the region. It asked them to effectively implement government schemes and penalise those who underperform.

"We asked the banks to maintain a register and record all applications under Mudra, with its status – whether rejected or processed. This is important, as we do not have that record at present. We want banks to be more responsive to the need of entrepreneurs and poor farmers," Salil said.

Bankers said public representatives could hold banks accountable for non-performance but not stop pay increments.

"All banks have their OSR, or Officers' Service Regulations, which have rules pertaining to penalisation of officers for non-performance," said a public sector banker. Day to day operations are commercial and independent of political interference, the banker added.

Trade unions said they took strong objection to the minister's missive. "The United Forum of Bank Unions took strong objection to such high-handed instructions and decided to take up the matter with the government to rescind these," it said after a review meeting last month.

IMF cuts India growth forecast for 2018 by a notch to 7.3%

PTI
WASHINGTON, JULY 16, 2018
THE HINDU

Country continues to outperform China whose growth is projected to moderate

The International Monetary Fund (IMF) on Monday projected a growth rate of 7.3% in 2018 and 7.5% in 2019 for India as against 6.7% in 2017, making it the fastest growing country among major economies.

However, the latest growth rate projection for India is slightly less — 0.1 percentage point in 2018 and 0.3 percentage points in 2019 — than its April projections.

GST impact subsides

India's growth rate is expected to rise from 6.7% in 2017 to 7.3% in 2018 and 7.5% in 2019, as drags from the currency exchange initiative and the introduction of the Goods and Services Tax fade, said the IMF's latest World Economic Outlook (WEO) update.

The projection is 0.1 and 0.3 percentage points lower for 2018 and 2019, respectively, than in the April WEO, reflecting negative effects of higher oil prices on domestic demand and faster than-anticipated monetary policy tightening due to higher expected inflation, it said.

Despite this slight downgrade in its projections, India continues to outperform China, IMF's WEO update figures reflect. Growth in China is projected to moderate from 6.9% in 2017 to 6.6% in 2018 and 6.4% in 2019, as regulatory tightening of the financial sector takes hold and external demand softens, the report said.

The IMF said global growth is projected to reach 3.9% in 2018 and 2019, in line with the forecast of the April 2018 WEO.

ICICI Bank delays AGM by a month

SPECIAL CORRESPONDENT
MUMBAI, JULY 16, 2018
THE HINDU

One of India's largest private sector lenders, ICICI Bank, has decided to postpone it's annual general meeting by a month.

The bank is in the midst of a raging controversy over conflict of interest chargesagainst its MD & CEO Chanda Kochhar.

The AGM will now scheduled on 12 September instead of 10 August, the bank informed the exchanges.

"We inform that the AGM is now rescheduled and will be held on Wednesday, September 12, 2018. Dividend on equity shares, will be paid/despatched on or after the same is approved by the shareholders at the AGM," the bank said.

The bank has commissioned a probe by a panel headed by former Supreme Court judge B.N. Srikrishna but has not said by what time the committee will submit the report. Ms. Kochhar has decided to go on leave till the investigation is over.

OECD Development Centre pegs India's GDP growth at 7.4% this fiscal

Says Emerging Asia poised for continued strong growth

K.R. SRIVATS | NEW DELHI, JULY 16
THE HINDU BusinessLine

The Indian economy is expected to record 7.4 per cent growth in 2018-19, a new report by the OECD Development Centre has projected. In its update to the Economic Outlook for South-East Asia, China and India, the OECD Development Centre sees Indian economy recording 7.5 per cent GDP growth in 2019-20.

This growth projection for 2018-19 falls within the 7-7.5 per cent range forecast by the Economic Survey released by the Indian Government in January.

Economic growth in Emerging Asia, the 10-member countries of the Association of South-East Asian Nations (ASEAN), China and India, is expected to remain stable in the near-term, according to the update.

Average real gross domestic product (GDP) in the region is expected to grow 6.6 per cent in 2018 and 6.5 per cent in 2019, because of robust consumption and investment, the update said.

“Emerging Asia stands to show continued strong growth in the near term if domestic and external risks are properly managed,” said Mario Pezzini, Director of the OECD Development Centre and Special Advisor to the OECD Secretary-General on Development.

The update has been produced by OECD Development Centre in collaboration with the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Economic Research Institute for ASEAN and East Asia (ERIA).

The 10 ASEAN economies are expected to see average growth of 5.3 per cent in both 2018 and 2019, with the highest rates in Cambodia, Lao PDR and Myanmar (the CLM countries), Vietnam and the Philippines.

Overall, the external positions of Emerging Asian economies remain stable; current account balances have improved in a number of economies in the region and foreign direct investment data flows are strong.

Policy direction

Policy rates in the region have been increased, mainly in response to increases in inflationary pressure and weakness in some local currencies, though monetary authorities have also used reserve requirements to maintain liquidity. Overall, the fiscal positions of Emerging Asian economies are relatively sound. The fiscal policy direction, however, is mixed.

According to the update, risks include the effects of rising interest rates in advanced economies, uncertainty about the implementation of planned infrastructure projects and the consequences of rising protectionist sentiments internationally on regional integration.

A special chapter of the update addresses the challenges and opportunities facing Emerging Asia in developing cross-border e-commerce.

The region is already a major player in e-commerce, and should continue to contribute to the sector's global growth in the future. The use of information and communications technology (ICT), ICT infrastructure, transportation and logistics, payment systems, and legal and regulatory frameworks will all affect such future growth.

To benefit from fair and efficient cross-border e-commerce, governments in the region will need to improve connectivity, develop skills and human capital, implement new policies to address digital security and consumer protection, and foster regional and international co-operation, the update said.

High interest rates, oil prices to eat into India's growth: IMF

In an update to its World Economic Outlook (WEO), IMF trimmed India's growth projection for 2018-19 by 10 basis points to 7.3%

IMF said India's growth is expected to rise from 6.7% in 2017-18 to 7.3% in 2018-19 and 7.5% in 2019-20, as the effects of demonetisation and the introduction of the goods and services tax fade

Jul 16 2018 | Asit Ranjan Mishra

New Delhi: The International Monetary Fund (IMF) on Monday said the Indian economy will grow slower than what it had estimated just three months ago because of higher crude oil prices and speedier interest rate hikes.

In an update to its World Economic Outlook (WEO), IMF trimmed India's growth projection for 2018-19 by 10 basis points to 7.3%, citing negative effects of higher crude oil prices on domestic demand and faster-than-anticipated monetary policy tightening due to higher-than expected inflation. For 2019-20, IMF cut its projection by a sharper 30 basis points to 7.5%.

The Economic Survey 2017-18 presented on 29 January had estimated that every $10 per barrel increase in the price of oil reduces economic growth by 0.2-0.3 percentage point, increases wholesale inflation by about 1.7 percentage points and widens current account deficit by about $9-10 billion.

Fears of a global supply crunch following outages in Libya and Venezuela have led to an almost 5% jump in crude oil prices since April when IMF released its WEO. Crude oil prices retreated below $71 a barrel on Monday ahead of a summit between US president Donald Trump and Russian president Vladimir Putin.

The Reserve Bank of India (RBI) on 6 June raised the repo rate by 25 basis points to 6.25%—the first rate hike in more than four years—citing higher risks from rising inflation. With retail inflation quickening to 5% and wholesale price inflation at 5.77% in June, analysts do not rule out a rate hike next month in its policy review on 1 August.

IMF said India's growth is expected to rise from 6.7% in 2017-18 to 7.3% in 2018-19 and 7.5% in 2019-20, as the effects of demonetisation and the introduction of the goods and services tax fade. "The projection is 0.1 and 0.3 percentage point lower for 2018 and 2019, respectively, than in the April WEO, reflecting negative effects of higher oil prices on domestic demand and faster-than-anticipated monetary policy tightening due to higher expected inflation," IMF said.

"The recently announced and anticipated tariff increases by the US and retaliatory measures by trading partners have increased the likelihood of escalating and sustained trade actions. These could derail the recovery and depress medium-term growth prospects," it added.

Will the MSP increase for kharif crops reduce India's agrarian distress?

Since the announced MSPs are still 20-25% lower than prevailing wholesale prices for many crops, their impact on farmers' income is uncertain

With rise in input costs such as diesel and electricity, it may not contribute to any real increase in returns in the short run

Jul 16 2018 | Himanshu

The much-awaited announcement on minimum support prices (MSPs) for kharif crops has increased the MSP for paddy by Rs.200 from Rs.1,550 to Rs.1,750, a 13% increase. The MSP increase for other crops varies between 3.7% for *moong* to 45% for *nigerseed*. But it is paddy where it will matter the most. For most other crops, MSP announcements have little value unless the government also proactively enters the market and procures the produce. This has not been the case so far, with procurement limited to paddy and wheat. Procurement of pulses increased after the collapse of pulse prices in the domestic market last year and the ensuing farmers' protest in several states. But it has proven insufficient to stop the collapse of pulse prices. The result has been the sharpest decline in pulse acreage despite record procurement.

The decision to hike the MSP for kharif crops is welcome relief for the farming community reeling under severe distress due to the collapse of agricultural commodity prices and a general collapse of demand in the economy, much more in the rural economy. This is now confirmed from several sources, including a decline in real wages in agriculture (a sustained decline for the last four years), the decline in commodity prices and a general sense of joblessness among the youth. Some of this is also captured in the GDP deflator, which shows a sharp fall from more than 5% in 2016-17 to only around 1% for 2017-18.

The demand of farmers, based on the Swaminathan committee recommendations, was MSP at 1.5 times of the C2 cost (total cost including imputed cost). But what has been announced is 1.5 times the A2+FL cost (paid out cost plus family labour cost). The MSP announced barely covers 1.5 times the A2+FL cost and will give a return of only 12% over C2 as against the demand of 50% over C2 cost. But the announced MSP is also significantly lower than the average wholesale price of paddy at Rs.1,950 per quintal in April 2018, which is lower than Rs.1,980 per quintal in April of last year.

Despite these concerns, the announcement of MSP increase is not just timely but also a much-needed respite at the time of rural distress. If properly followed through by adequate procurement, it can certainly raise agricultural commodity prices and also inject much-needed demand if this also materializes in higher income for a large majority of farmers. But it would also require the government to loosen its purse strings beyond what was promised in the budget this year.

While the government may have been disingenuous in interpreting the demand and its promise, the real question is whether it will pull the rural areas and agriculture out of the deep distress that they have fallen in for the last four years. More importantly, will it raise the general level of demand in the rural economy which eventually raise wages of casual workers?

Since the announced MSPs are still 20-25% lower than prevailing wholesale prices for many crops, their impact on farmers' income is uncertain. With rise in input costs such as diesel and electricity, it may not contribute to any real increase in returns in the short run. While it will take time for these to translate into real gains for farmers and rural workers, these will definitely contribute to some upward pressure on inflation and wages even though their extent is not clear. But it is unlikely to be the remedy of all the ills that plague the rural sector or the agricultural sector. It certainly does not substitute for the decline in real investment at more than 3% per annum in agriculture during this government's tenure. Nor does it compensate for the decline in credit availability for farmers beset with rising farm loans. It does not compensate for the cartelization and corruption in the local markets which contribute to price fluctuations. It also does not compensate for the export-import policy ad hocism which has contributed to price uncertainty.

The problems of the agrarian sector are not just a result of weather fluctuations and international price movements—a large part of it has been government's own failure to acknowledge the distress and its flawed approach to resolving some of these. The solution most often has been to deal with the symptoms and that too when pressed against the wall.

The flurry of loan waivers is one such example. So is the case of MSP. Neither of them will resolve the long-standing issues of neglect and apathy towards the agricultural sector by successive governments. And it is likely that both MSP and loan waivers, other than bringing temporary relief to the farming community, will continue to be relevant instruments every year before the election.

AIBEA THIS DAY JULY 18	
1955	Second Conference of TNBEF. Com. R V Krishnamurthy and PK Janardhanam Pillai elected as President and General Secretary.
1957	Calcutta High Court dismisses Lloyds bank Appeal against dismissal of 40 employees.
1963	Protest action on extension of Desai Award and inclusion of Banking industry as public utility service.
1970	Massive demonstration before IBA, Bombay (Second Bipartite settlement proceedings)

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