AIBEA's Banking News

2, 3, 4 SEPTEMBER 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

PNB chief elected IBA Chairman

OUR BUREAU | MUMBAI, AUGUST 31

BusinessLine

Sunil Mehta, Managing Director and CEO, Punjab National Bank, was elected as the Chairman of Indian Banks' Association (IBA) for the year 2018-19 at the association's managing committee meeting held on August 31.

Dinabandhu Mohapatra, Managing Director and CEO, Bank of India, has been elected as IBA's Deputy Chairman.

The association, in a statement, said Shyam Srinivasan, Managing Director and CEO, Federal Bank, and Rajnish Kumar, Chairman, State Bank of India, will continue to be deputy chairmen.

Aadhaar authentication: 13 banks fined face penalties

Manojit Saha

MUMBAI, AUGUST 31, 2018

THE HINDU

'Violation of norms among reasons'

In an unprecedented move, the Unique Identification Authority of India (UIDAI), slapped monetary penalty on 13 banks for violating norms pertaining to authentication of Aadhaar.

For some banks, the penalties are as high as Rs.1 crore. Banks from both public and private sectors were penalised.

The banks penalised include ICICI Bank, IndusInd Bank, IDBI Bank, Ratnakar Bank, Karnataka Bank and Lakshmi Vilas Bank.

According to UIDAI sources, the measures taken include disincentives against a few authentication user agencies and banks that did not comply with the directions of UIDAI issued under Aadhaar Act/Regulations from time to time.

Criminal proceedings

UIDAI, in its show-cause notice to the banks, asked them to cite reasons as to why criminal proceedings should not be initiated against them.

UIDAI said that a few banks were causing inconvenience to the people by not making the minimum stipulated enrolment and updates. Sources said these 13 entities were much short of the enrolment update targets despite repeated requests. These banks were accused of sending back people from their premises. UIDAI had directed to set up Aadhaar Enrolment and Update facility inside banks' premises at a minimum of one out of every 10 branches by August 30, 2017.

UIDAI also said that the selection of branches for enrolment and update facility will be such that it covers all the district headquarters where it is present, and that there is maximum coverage of blocks in every district.

UIDAI had also decided keep on hold the eKYC facility of these banks due to non-compliance of its directions. Later, the eKYC facility of 5 banks had been restored, while that of 8 others is under process of restoration subject to compliance.

Meanwhile, UIDAI on Friday relaxed norms for banks on the minimum number of Aadhaar enrolments and updations, till November 1.

PNB plans to divest entire stake in NSE

PTI
NEW DELHI, AUGUST 31, 2018
THE HINDU

Punjab National Bank is looking to sell its entire holding of 0.11% in the National Stock Exchange (NSE) and expecting to raise more than Rs.48 crore by divesting the stake.

Bank's subsidiary PNB Investment Services Limited has invited bids from merchant bankers on behalf of PNB to arrange for investors.

PNB has set a floor price of Rs.879 per equity to sell its stake of 0.11% stake equivalent to 5,50,000 shares in the NSE.

The state-owned lender said that it intends to complete the assignment of selling stake in the NSE by September 30, 2018.

Earlier this week, State Bank of India said it would sell 3.89% stake in the NSE.

Centre allows law enforcement agencies to hold banned currency notes

PTI
NEW DELHI, AUGUST 28, 2018
THE HINDU

By making changes to the law, the tax department and ED can now hold confiscated currency notes beyond the earlier specified limits

The Centre has come to the rescue of law enforcement agencies like tax department and Enforcement Directorate, which are faced with a situation of holding confiscated currency notes beyond specified limits, by making changes in the law.

A notification in this regard has been issued by the Ministry of Finance allowing agencies such as Central Board of Direct Taxes, Central Board of Indirect Taxes and Enforcement Directorate to hold banned currency notes.

Under the Specified Bank Notes (Cessation of Liabilities) Act, 2017, banned currency notes beyond a certain limit could be held only by the Reserve Bank, its agencies, or other person authorised by it, and in pursuance of court order.

An individual is not allowed to hold more than 10 banned notes. Besides, not more than 25 such notes could be kept for study, research or numismatics.

According to the Finance Ministry's notification, law enforcement agencies had seized or confiscated the Rs. 500/1,000 notes on or before December 30, 2016 (the last day to exchange the banned notes) without specific directions from the court and need to deposit or exchange those on production of the documents authorising the seizure or confiscation.

However, there is no provision in the Act to authorise such deposit of the specified bank notes seized or confiscated by the enforcement agencies.

To deal with the difficulty, the government has come out with an order 'Specified Bank Notes (Cessation of Liabilities) Removal of Difficulties Order, 2018' using its power under Section 12 of the Act.

Now, besides others, the law enforcement agencies, such as the Central Board of Direct Taxes, Central Board of Indirect Taxes and Enforcement Directorate on production of the documents authorising such seizure or confiscation, as the case may be can hold the banned currency notes.

In an order to check blackmoney and terror financing, the government had banned the Rs. 500/1000 notes in November 2016 and people were given time up till December 30, 2016 to exchange or deposit such notes with them. There was also a grace period to exchange/deposit the notes for people who were not in India during that period.

The move had led to huge cash shortage currency notes, which eventually eased with following introduction of Rs. 2,000 notes and new Rs. 500 notes.

Indian economy records 8.2% growth in first quarter of 2018-19

PTI
NEW DELHI, AUGUST 31, 2018
THE HINDU

The growth cemented India's position as the fastest growing major economy, clocking higher expansion rate than China's 6.7 in the same quarter

The Indian economy grew at a 15-quarter high of 8.2% in the April-June quarter of current fiscal on good show by manufacturing and farm sectors, according to government data released on Friday.

The growth cemented India's position as the fastest growing major economy, clocking higher expansion rate than China's 6.7 in the same quarter.

The gross domestic product (GDP) at constant (2011-12) prices in the first quarter of 2018-19 is estimated at Rs.33.74 lakh crore, against Rs.31.18 lakh crore in Q1 of 2017-18, showing a growth rate of 8.2%, a Central Statistics Office statement said.

The quarterly GVA (Gross Value Added) at basic price at constant (2011-2012) prices for Q1 of 2018-19 is estimated at Rs.31.63 lakh crore, against Rs.29.29 lakh crore in Q1 of 2017-18, showing a growth rate of 8% over the year-ago period, it said.

The previous high quarterly GDP growth was recorded in July-September period in 2014-15 at 8.4%.

As per the data, the quarterly GVA at basic prices for Q1 2018-19 from the 'manufacturing' sector grew by 13.5%, compared to contraction of 1.8% in Q1 2017-18.

The Quarterly GVA at basic prices for Q1 2018-19 from 'agriculture, forestry and fishing' sector grew by 5.3% as compared to growth of 3% in Q1 2017-18.

Fiscal deficit crosses 86% of Budget Estimate in four months

While income grew 19%, expenditure was 36% higher

OUR BUREAU | NEW DELHI, AUGUST 31

THE HINDU BusinessLine

The macro-economic data released on Friday showed that fiscal deficit has reached 86.5 per cent of the Budget Estimate.

Fiscal deficit is the differences between income and the expenditure of the Central Government.

The data, as reported by the Controller General of Accounts (CGA) under the Finance Ministry, revealed that while the income grew by 19 per cent, the expenditure was higher by over 36 per cent during the first four months (April-July) of the current fiscal. Higher expenditure resulted in fiscal deficit of more than 86 per cent.

However, this number is still less than 92.4 per cent reported last fiscal.

For April-July 2018, revenue growth was at a healthy 15 per cent outpacing the 9 per cent rise in revenue expenditure and allowing for a robust 17 per cent expansion in capital outlay.

Fiscal health of the Central Government

Items	Budget Target (₹ cr)	Actual (April-July) (₹ cr)	% of Budget targets (2018-19)	% of Budget targets (2017-18)
Total receipts	18,17,937	3,49,467	19.2	19.0
Total expenditure	24,42,213	8,89,724	36.4	37.7
Fiscal deficit	6,24,276	5,40,257	86.5	92.4

Source: Controller General of Accounts

July performance

However, for the month of July, while revenue expenditure recorded a considerable 21 per cent growth, capital spending displayed a contraction of 9 per cent. Year-on-year decline in the tax revenues of the Central Government in the month of July 2018 against July 2017, seems to be led by the provisional settlement of a portion of the unsettled I-GST balances between the Centre and the States.

The data also showed that total expenditure during April-July was Rs.8.89 lakh crore or 36.4 per cent of Budget Estimate.

The expenditure was higher as a percentage of Budget Estimate for the year-ago period. The capital expenditure was Rs.1.11 lakh crore or 37.1 per cent of Budget Estimate, the report said.

Aditi Nayar, Principal Economist at ICRA Ltd, said the market will continue to monitor the likelihood of meeting the budgeted targets for revenues related to the GST, dividends and profits, and disinvestment, and assess whether the outlays required for revised MSPs, the NHPS, fuel and other subsidies, and bank recapitalisation would prove to be adequate.

Capital spending

"While a fiscal slippage in FY2019 may not necessarily arise, there is a risk that capital spending would be curtailed to prevent breaching the fiscal deficit targets," she said.

She also said the size of the market borrowing for both the Central and the State Governments for second half of the current fiscal as well as the expectations regarding the magnitude of open market operations to be conducted by the RBI, would influence G-sec yields going forward.

NPA-hit banks may halt financing infra projects

But thanks to NHAI, lenders remain optimistic about advances to the road sector

MUMBAI, AUGUST 31 | Our Bureau

THE HINDU BusinessLine

With banks saddled with huge non-performing assets in the infrastructure lending space, they may have to cancel their financing to the sector, said a top banker.

Given the burden of non-performing assets in the infrastructure space, banks saw a year-on-year growth of only 2.2 per cent at Rs.9,07,700 crore in outstanding loans to the sector as of July 21, 2018.

The infrastructure segment comprises transport, energy, water and sanitation, communication, and social and commercial infrastructure.

"When it comes to infrastructure lending, right now, banks are a bit constrained. Whatever activity we are seeing (in infrastructure space), we are seeing only in the roads sector. That, too, because of the kind of enablers that have been put in place by the National Highways Authority of India. So that is something that has started building up confidence of the bankers for financing the road sector," said Dinesh Kumar Khara, Managing Director, State Bank of India, on the sidelines of a financial market conclave organised by the Bengal Chamber of Commerce and Industry.

Power sector

But when it comes to power, he observed that no one is likely to deal with the sector because there are issues such as those related to power purchase agreements.

"So, these are the imponderables which banks are not really geared up to manage…and the kind of experience that banks are having, particularly if you analyse their NPA book, much of that is coming from infrastructure lending, which was done 2008-09 onwards.

"And apart from that, if you actually look at it, infrastructure is a sector that requires a play for 25 years. From 2008 to 2018 is just 10 years. It has not yet completed its play," explained Khara, underscoring that globally, infrastructure financing is for 25 years.

"So, I would say that this was the first phase of infrastructure lending that is still not complete, but with the kind of problems that banks are now faced with, maybe they have to abort their financing to infrastructure. Because, as of now, they would not be in a position to finance," said Khara.

If at all an infrastructure project is worth looking at, banks would be more than happy to finance, he said, even as he emphasised that there should be enough risk mitigants in the projects.

New projects

According to the Reserve Bank of India's Annual Report, infrastructure activity, which could be the force multiplier for India in the take-off to the middle-income group of countries, gained pace (in 2017-18) in terms of projects under implementation, but new project announcements remained subdued across public and private sectors.

How the funds obtained from fraudulent LoUs were used

Money routed through shadow entities was used to purchase a $6-million apartment on Central Park South for the sole use of Modi and his family in the US, finds examiner report

RADHIKA MERWIN | BL RESEARCH BUREAU

THE HINDU BusinessLine

The findings of the examiner in the US court, in the 171-page report, has not only identified supposed diamond sale transactions by Nirav Modi's three US companies where payments can be traced to proceeds from the alleged PNB bank fraud, but has also chronicled the use of these fraudulently-obtained funds.

Firestar Diamond Inc, A Jaffe Inc and Fantasy Inc, the three entities in question – controlled by Nirav Modi – had filed for Chapter 11 bankruptcy protection in the US, after the massive fraud came to light in India. The examiner was appointed to probe Nirav Modi's ties to three US entities.

Real estate transactions

The examiner has traced the use of fraudulent funds for certain real estate transactions. An apartment at the Essex House, located at 160

Central Park South, was Nirav Modi's personal residence in New York. The Essex House Apartment was purchased through Central Park Real Estate (CPRE), which was formed in 2007 in Delaware, to acquire the apartment. CPRE was initially owned by Firestar Diamond Inc, and the ownership was later transferred to Firestar Group Inc.

CPRE had bought the apartment for about $5 million, taking a $3-million mortgage from HSBC, and the remaining $2 million was funded by the shadow entities, Brilliant Diamonds and Firestar Diamond Inc. In December 2017, the HSBC mortgage was paid off. In January 2018, about one month before the filing of the Chapter 11 cases and weeks before the unfolding of the PNB fraud in India, CPRE (owning the apartment) was sold to the Ithaca Trust (outside of the Firestar corporate structure). The beneficiaries of the trust were Modi and his wife and children.

Suspicious transfers

Bailey Banks & Biddle – a well-established operator of specialty retail jewellery stores located in regional shopping malls and outlet centres in the US – also appears to have been one of the beneficiaries of the fraudulent funds.

Bailey Banks & Biddle was owned by Finlay Fine Jewelry Company, as of 2009, when Finlay Enterprises filed for Chapter 11 bankruptcy. Synergies Corporation – a US holding company in the Firestar corporate and owner of A Jaffe Inc – emerged as one of the bidders for Bailey Banks & Biddle acquiring the company's intellectual property rights.

The examiner identified a series of transactions in which $21 million was transferred from A Jaffe to a Delaware company, Twin Fields Investments, the parent company of Bailey Banks & Biddle (BBB). Hence, Twin Fields appears to have funded BBB's operations through Modi's three US companies, other Firestar entities, and shadow entities.

"Twin Fields was primarily funded by A Jaffe, Fine Classic (a shadow entity controlled by Purvi Modi, Nirav Modi's sister), and Link High International, a British Virgin Islands entity," said the report. A review of Twin Fields' bank statements for the period November 1, 2010 to March 21, 2018, revealed that of the $80-million funds that flowed through Twin Fields, at least $42 million went to BBB Group.

The bank records reviewed by the examiner's team reveal that from 2010 to early 2013, Link High was the primary source of funds for the Twin Fields' account, depositing $23,602,600. From early 2013 to the end of 2015, A Jaffe took the lead as the primary source of funds that were deposited into the Twin Fields' account.

By March 2017, A Jaffe had transferred $21,330,000. From early 2016 until the end of 2017, it was Fine Classic that primarily deposited funds into Twin Fields' account. A total of $26,864,056 was deposited.

Interestingly, Twin Fields' Bank of America account was closed on February 21, 2018, with a balance of just $13,281 – five days before the US companies filed for bankruptcy.

IDBI Bank approves issuance of preference shares to LIC

PTI | NEW DELHI, AUG 31

THE HINDU BusinessLine

IDBI Bank today approved LIC's proposal to pick up an additional 7 per cent stake in the bank, a move that will eventually lead to acquisition of 51 per cent shareholding by the insurance behemoth in the debt-ridden lender.

The board of directors have approved the proposal for seeking shareholders' approval through postal ballot for the preferential issue of equity capital to Life Insurance Corporation of India (LIC) aggregating up to 14.90 per cent of the bank's post-issue paid-up capital, IDBI Bank said in a filing to stock exchanges.

At present, the insurance behemoth LIC holds 7.98 per cent stake in the public sector bank. Earlier this month, the Union Cabinet had approved LIC's proposed acquisition of up to 51 per cent stake in debt-ridden IDBI Bank.

This first round of stake sale, sources said, will take care of the immediate needs of IDBI Bank and help it meet capital adequacy norms at the end of the second quarter.

The bank, in which the government holds 85.96 per cent stake, had posted a net loss of Rs 2,409.89 in the quarter ending June 2018. It had a gross non-performing asset (NPA) of about Rs 57,807 crore.

The board of the Insurance Regulatory and Development Authority of India (IRDAI), at its meeting held in Hyderabad in June, had permitted LIC to increase its stake from 10.82 per cent to 51 per cent in IDBI Bank. According to current regulations, an insurance company cannot own more than 15 per cent in any listed financial firm.

LIC has been looking to enter the banking space by acquiring a majority stake in IDBI Bank as the deal is expected to provide business synergies despite the lender's stressed balance sheet. With culmination of the deal, LIC will get about 2,000 branches through which it can sell its products, while the bank would get the massive funds of LIC.

The bank would also get accounts of about 22 crore policy holders and the subsequent flow of funds.

Formalisation of economy a sign of DeMo success, says Jaitley

More money in the system, higher tax revenue are a positive impact: Finance Minister

OUR BUREAU | NEW DELHI, AUGUST 30

THE HINDU BusinessLine

Finance Minister Arun Jaitley found himself defending demonetisation yet again on Thursday, stating that invalidation of the non-deposited currency was not the only objective of demonetisation.

More formalisation of the economy, more money in the system, higher tax revenue, higher expenditure, and higher growth after the first two quarters are the positive impact of demonetisation, he wrote.

Jaitley's defence this time came after the Opposition upped its attack on the government after the Reserve Bank of India's annual report for 2017-18 revealed that over 99.3 per cent (Rs.15,31,073 crore) came back into the system after the Centre withdrew Rs.500 and Rs.1,000 currency notes worth Rs.15,40,000 crore.

Jaitley also cited facts and figures in his latest Facebook blog post — 'Demonetisation and its impact on Tax collection and Formalisation of the Economy.'

"The larger purpose of demonetisation was to move India from a Tax Non-compliant society to a compliant society. This necessarily involved the formalisation of the economy and a blow to black money," he said. Jaitley wrote that when cash is deposited in banks, the anonymity of the owner of the cash disappears. The deposited cash is now identified with its owner, allowing for an inquiry into whether the amount deposited is in consonance with the depositor's income.

"Post demonetisation about 1.8 million depositors have been identified for this enquiry. Many of them are being fastened with tax and penalties. Mere deposit of cash in a bank does not lead to a presumption that it is tax-paid money," he wrote.

Rise in tax returns

Stressing on the health of the economy, Jaitleysaid the number of Income Tax Returns went up to 6.86 crore in 2017-18 from 3.8 crore in 2013-14. In the last two years, when the impact of demonetisation and other steps is analysed, I-T returns have increased by 19 per cent and 25 per cent, which is a "phenomenal increase". He also pointed out that the number of new returns filed post demonetisation increased in the past two years by 85.51 lakh and 1.07 crore, respectively.

Advance tax collection during the first three months of the current fiscal has increased for personal income-tax assessees by 44.1 per cent and for the corporate tax category by 17.4 per cent. Total income-tax collections went up toRs.10.02 lakh crore in 2017-18 from Rs.6.38 lakh crore in 2013-14.

Jaitley said that the growth of Income Tax collections in the Pre-demonetisation two years was 6.6 per cent and 9 per cent, which rose to 15 per cent and 18 per cent during next two years post demonetisation.

Demonetisation has had an impact on not only direct taxes, but also on the indirect taxes. Jaitley wrote that number of registered assesses under GST went up to more than 1.14 crore from 66.17 lakh under previous indirect tax regime -- comprising VAT (Value Added Tax in States and Central Excise at Centre). This means a growth of 72.5 per cent and also more and more people now wants to be part of the formal system.

Agriculture GDP clocks 5.3% growth in Q1 of 2018-19

Production of rice, wheat, coarse cereals and pulses registered growth rates of 15%, 1.2%, 15.6% and 17.3%, respectively, during the Rabi season

According to the CSO, the wholesale food price index rose 1.5% in the first quarter, compared with a negative growth of 1.7% a year ago

Aug 31 2018 | Sayantan Bera

live mint

New Delhi: A bumper harvest of winter crops and higher production in livestock and fisheries sectors aided a 5.3% growth in agriculture GDP in the first quarter of 2018-19, up from 3% in the same period last year. The latest estimates from the Central Statistics Office (CSO) is based on Rabi or winter harvest during the agriculture crop year 2017-18 (July to June).

Production of rice, wheat, coarse cereals and pulses registered growth rates of 15%, 1.2%, 15.6% and 17.3%, respectively, during the Rabi season, the CSO said in its estimates released on Friday. About 45% of the gross value added or GVA in the agriculture sector was contributed by livestock, forestry and fisheries, which registered a combined growth rate of 8.1% in the first quarter of 2018-19, it added.

According to the CSO, the wholesale food price index— one of the deflators used for calculating real GDP growth — rose 1.5% in the first quarter, compared with a negative growth of 1.7% a year ago.

The CSO in May said agriculture GDP grew at 3.4% in 2017-18, lower than 6.3% in the previous year.

The ongoing Kharif crop season will largely determine whether the GDP growth rate will maintain its momentum in 2018-19. Till Friday, data from the agriculture ministry showed that planting of rain-fed Kharif crops were completed in 102.3 million hectares, just 0.4% lower than the year before.

Moving out of the shadow of failed demonetization

The recent support for Urjit Patel is an overdue correction after the months of unfair criticism that he had sacrificed the independence of the Indian central bank

Aug 30 2018 | Livemint

The Reserve Bank of India (RBI) has reiterated in its new annual report what it said in the previous one released in September 2017—most of the bank notes that were pulled out of circulation in November 2016 have been returned to it.

The latest figure is an update of the one released last year, when the central bank had said it would come up with a final number once the onerous task of counting the currency that had been returned was completed. The sheer scale of the counting exercise is not to be scoffed at. There were 1,716.5 crore notes of Rs.500 and 685.8 crore notes of Rs.1,000 in circulation when what has popularly come to be known as demonetization was announced.

A mere Rs.10,720 crore of bank notes were not returned to the banking system. That final number now sits innocuously as an entry in the RBI balance sheet under miscellaneous liabilities.

The hope that demonetization would be an immense exogenous shock that would make Indians use less cash as well as the belief that the government would get a fiscal bonanza as the central bank cancelled a big chunk of its currency liabilities have been belied. Nor has the Indian economy collapsed in a sorry heap. Yet, it is clear that the loss of economic output as well as individual agony were not worth the pain.

The Indian central bank can now move out of the shadow of the failed demonetization experiment launched by the Narendra Modi government. Urjit Patel will complete two years as RBI governor in a few days. The early months of his tenure were dominated by the demonetization episode—from actually managing the note swap to dealing with its monetary consequences, as reserve money growth collapsed, the ratio of bank deposits to cash shot up, and the money multiplier rose as a result. The excess liquidity in the banking system had to be sucked out as money market interest rates drifted below the channel of policy interest rates.

Patel had to face a lot of personal criticism as he implemented a decision taken in New Delhi, and his reputation was unfairly tarred by allegations that he was a puppet of the Modi government. It was said—again unfairly—that he had compromised the independence of the RBI. The tide now seems to have finally turned. There is now growing respect for his tough line on several issues that have dominated the financial headlines over the past few months, including his refusal to bend on issue of the resolution of toxic bank loans.

The change in perception glosses over the fact that Patel has stuck to his guns on several issues right from the start of his governorship. It is thus incorrect to portray his recent actions as a drastic break from the past.

There are three important areas where Patel has made his mark through his tenure as RBI governor.

First is the way he has nurtured the new monetary policy regime that was then taking baby steps. For example, the decision by all six members of the monetary policy committee to not attend a meeting called by the finance ministry just before the June 2017 interest rate decision was a strong indication of independence. The committee also stood its ground last year amid noisy calls for drastic interest rate cuts.

Second, his tough line on bad loans must have been maintained under immense pressure from special interest groups. The 12 February notification on what banks should do under the new insolvency regime is one indication of his attitude towards the curse of regulatory forbearance. He has also been firm with banks on issues such as disclosure.

Third, Patel has tried to build internal capabilities at the RBI to make it ready for a changing world. Consider the focus on technical research or setting up of a data sciences lab. It is interesting that the annual report released on 29 August also spends some time talking about the future research agenda of the central bank.

What has rankled many—in banks, financial markets and media—is the lack of adequate communication by the RBI. Such reticence could be a liability in case there is a macroeconomic shock, such as a run on the rupee. The confusion in the bond markets earlier this year whether an inflation targeting central bank will also help banks minimise losses in their bond portfolios is another example. Modern central banks that work through the expectations channel need to communicate effectively.

Another group of critics has argued that the RBI continues to be too conservative on technological innovations such as blockchain and fintech. These are some of the issues that will continue to crop up in public debate -- but they will be part of an open discourse on central bank policy.

The recent support for Patel is an overdue correction after the months of unfair criticism that he had sacrificed the independence of the Indian central bank.

By a 99.3% verdict, India's demonetisation was a farce

it's time to retire the jokes about RBI governor Urjit Patel counting notes, and pay more attention to his bank clean-up drive

Aug 30 2018 | Andy Mukherjee, Bloomberg

In the chaotic final months of 2016, angry citizens were slamming the Reserve Bank of India (RBI) by calling it the "Reverse Bank." It's taken governor Urjit Patel, who had only recently stepped into the top job, almost two years to reassert his authority and re-establish the institution's credibility with a couple of notable successes just this week.

Ridicule flew thick and fast after Narendra Modi's November 2016 demonetisation, for which Patel was a reluctant point man. The decision to outlaw 86% of the country's cash was political, but the responsibility for taking back the suddenly worthless notes and issuing a rationed trickle of new ones to snaking, impatient queues at teller counters and ATMs fell to the central bank. The RBI issued guidelines; scrapped them; made new ones, only to roll them back again. The opposition Congress accused it of changing the rules around withdrawals and deposits 126 times in 43 days. Hence the unflattering moniker: the Reverse Bank of India.

Even before the cash crunch could ease, supporters of demonetisation started extolling the virtues of cancelled currency. Since one of the stated goals of the exercise was to immobilize "black money"—wealth gotten illegally or by avoiding taxes—people wanted RBI to reveal the exact amount returned. When Patel told a parliamentary panel last July that the central bank was still counting the old notes, he became the butt of social-media jokes and memes.

Finally, on Wednesday, the RBI governor stopped counting—and began his own reckoning. The central bank's annual report showed that 99.3% of the banknotes were returned. Prime Minister Narendra Modi's government is even now trying to put on a brave face. But when you freeze agriculture and small businesses with a liquidity shock, put people through unnecessary hardship, disrupt supply chains, and destroy demand for everything from autos to property, the end result can’t be such a gigantic anticlimax: ☐ 107 billion ($1.5 billion) weeded out from a $2.5 trillion economy.

By coming clean about the doomed experiment, Patel has put an end to dangerous talk that the central bank would give the government a $45 billion fiscal bounty by reneging on its debt to holders of banknotes. The annual report still counts the unreturned $1.5 billion as a miscellaneous liability. The central bank is thus drawing a line between its promise to pay the par value on its liabilities, and the actions of the government, which has made it a punishable offence to hold the banned notes. Even at a press conference just a month after the note ban, when Patel faced the embarrassment of defending a monetary upheaval that wasn’t of his making, he flatly refused to manufacture a special dividend for the government just because the outlawed banknotes had stopped being legal tender.

A damning, conclusive verdict on demonetisation hasn’t been Patel’s only assertion of independence this week. In a victory for the RBI’s February order to banks, asking them to either restructure their non-performing assets (NPAs) by 27 August or take borrowers to insolvency tribunals, a court has refused to give stranded power projects a reprieve from bankruptcy.

If the Modi government doesn’t want electricity producers to sell assets for scrap value in liquidation, it will have to direct the RBI to change its order using emergency powers. New Delhi will think twice before contradicting Patel’s uncompromising stance for two reasons. One, the opposition parties, gearing up for the 2019 Lok Sabha elections, would pounce on it for shielding industrialists. Two, overriding Patel would only prove his point that RBI isn’t allowed to wield the regulatory stick over state-run lenders, which are sitting on 90% of NPAs.

However, now that he's found his fighting spirit, Patel needs to direct some of it at India's powerful private sector bankers, too. There's no running away from the fact that one of the RBI's biggest failures has been its inability to get to the bottom of the conflict-of-interest allegations against ICICI Bank Ltd CEO Chanda Kochhar, who's now gone on leave pending an external probe. The US Securities Exchange Commission seems to be takingwhistleblower complaints against the bank more seriously than RBI.

Still, it's not all kid gloves. Shareholders of Yes Bank Ltd, for instance, are a tad nervous. The bank's long-time CEO Rana Kapoor, whom they rewarded with another three-year term in June, is yet to get the central bank's blessing. The deadline is this week. Among peers, Yes Bank has the highest proportion of disputed bad debts, as measured by the divergence between what the lender discloses in financial results and what's revealed later by asset-quality reviews by the central bank.

If the RBI's tough stance against another term for rival Axis Bank Ltd.'s CEO is anything to go by, it's time to retire the jokes about Patel counting notes, and pay more attention to his bank clean-up drive.

EVERDAY IS AIBEA DAY	AIBEA THIS DAY – 4 SEPTEMBER
1930	M K Bhat, one of the Founders and former President of Corporation Bank Employees' Union (date of birth)
1953	13 Bank Unions form Delhi State Bank Employees Federation.
1983	A C Kakkar, former President of AIBEA passes away
2003	Badge wearing Day (Health Campaign)

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