AIBEA's Banking News

JULY 2, 3, 4 2020

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

In today's Bulletin

- ✓ Job losses, pay cuts impact ? Bank deposits sink Rs.74,727 cr as of June 19TH
- ✓ Bank credit grows 6.18%, deposits 11% : RBI data
- ✓ India's economy may contract more than estimated earlier; firms won't operate at over 70% capacity
- ✓ How treasury gains aided banks' earnings in Q4
- ✓ Restoring depositors' faith in banking: Govt's crucial framework amendment may prop up banks' rating
- ✓ Gold loans shine as small businesses, borrowers look for ready cash

Job losses, pay cuts impact? Bank deposits sink Rs.74,727 cr as of June 19TH.

K Ram Kumar Mumbai July 03, 2020 BUSINESSLINE

-

Either people are dipping into savings or diversifying into MFs and stocks

Job losses, pay cuts and low nominal deposit rates seem to be pushing people to dip into bank deposits. Deposits of all scheduled banks collectively declined by a whopping ☐74,727 crore in the fortnight ended June 19 against an increase of ☐1,11,242 crore in the previous fortnight ended June 5, according to data published by the Reserve Bank of India.

Madan Sabnavis, Chief Economist, CARE Ratings, said: "In this particular fortnight, I can only think of two reasons for the decline in deposits. One is that because of all this lockdown, the moment your income comes down or you are not getting your regular income, there will be a tendency to withdraw your deposits. That is why the deposit level in the banking system also comes down."

"Secondly, in the backdrop of the stock market again doing quite well in the reporting fortnight, it is also possible that people, unhappy with the nominal returns in the bank market, would have become bold and invested in mutual funds and directly in stocks," he added.

This comes even as term deposit rates (of more than one year tenor), as at June 26, declined to 5.10-5.65 per cent against 6.25-7.30 per cent as onJune 28, 2019. If the decline in deposit continues, it will be a worrisome factor as it means that people are withdrawing their savings.

Quick descent

Fortnight ending	Deposit growth/ decline (in ₹ cr)
April 10	1,51,644.09
April 24	11,764.90
May 8	1,27,556.982
May 22	-19,220.04
June 5	1,11,241.92
June 19	-74,726.89

"If it is a one fortnight phenomenon, then it is all right. But if we see it happening continuously, then definitely it will be a cause for worry from the point of view of the policy makers," Sabnavis said.

According to RBI data for six fortnights of the current financial year so far, there was deposit accretion in four and decline in two.

Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI, in a recent report, had said: "Interestingly, Indian banks have 8.5 deposit accounts per loan account. This data clearly shows the depositors in the banking system far outpace the borrowers."

Bank credit grows 6.18%, deposits 11%: RBI data

PRESS TRUST OF INDIA
MUMBAI, JULY 02, 2020
THE HINDU

Loan growth to industry slows to 1.7%

Bank credit and deposits grew 6.18% and 11% to Rs.102.45 lakh crore and Rs.138.67 lakh crore, respectively, in the fortnight ended June 19, according to the RBI.

In the fortnight ended June 21, 2019, bank credit had stood at Rs.96.48 lakh crore and deposits at Rs.124.92 lakh crore.

In the previous fortnight that ended on June 5 this year, advances had grown 6.24% and deposits by 11.28%.

Rating agency Crisil said in a recent report that bank credit growth is likely to nosedive to a multi-decadal low of 0-1% in 2020-21 as economic activity has been sharply impacted by the COVID-19 pandemic.

Bank loan growth to industry decelerated to 1.7% in May from 6.4% in the corresponding month last year.

Loan growth to the services sector slowed down to 11.2% in May, compared with 14.8% a year ago.

India's economy may contract more than estimated earlier; firms won't operate at over 70% capacity

Samrat Sharma | July 2, 2020
THE FINANCIAL EXPRESS

The fall in demand, job loss, and low purchasing power amid the coronavirus-led economic crisis may lead India's GDP to shrink by 6.4 per cent

The secondary sector, including manufacturing, mining, and electricity, is likely to face a sharp contraction of 9.5 per cent in FY21

On the back of various restrictions still imposed in the country, the Indian economy may contract much more than the estimated level of 5 per cent. The fall in demand, job loss, and low purchasing power amid the coronavirus-led economic crisis may lead India's GDP to shrink by 6.4 per cent, said a report by Care Ratings. Two-third of the economic sectors would broadly be operating at 50-70 per cent capacity by the end of the third quarter and the rest of the sectors may not even reach this level, the report added. Adding to the woes, services like hospitality, tourism, entertainment, and travel are estimated to take a long time to catch the lost pace.

While it has been estimated that the agriculture sector will show positive growth, higher agricultural production may not necessarily lead to higher income for farmers as excess supplies may lead to moderation in prices. Hence, it is also predicted that increased rural consumption will not be able to compensate for lower spending in the non-farm sector.

said that the secondary sector, including manufacturing, mining, and electricity, is likely to face a sharp contraction of 9.5 per cent in FY21, while the services sector, including construction, may shrink up to 6.5 per cent in the same duration. Showing the pessimistic outlook, the report underlined that job losses and pay cuts will force people to spend less even during the festivals.

Meanwhile, the rating agency forecasted an annual contraction of around 1.6 per cent in May, however, under the possibility of continued distress in the economy, it revised down the projections substantially. India's economy has been facing the downside risks from low demand prevailing from at least three years. The effect of the coronavirus pandemic further jolted the market, which has made the situation more worrisome in the near future. However, as India steps out of the lockdown restrictions, the green shoots of revival have also started to become visible.

How treasury gains aided banks' earnings in Q4

BL Research Bureau | July 02, 2020 | Radhika Merwin

THE HINDU BusinessLine

Weak core earnings and higher NPA/ Covid provisions would have dragged profits further, had it not been for the bump up in treasury income

With the pandemic-led lockdown causing disruption in economic activity across sectors, weak credit offtake and significant fall in lending rates impacted the core performance of most banks in the March quarter. While the six-month moratorium on loans offered some respite on the asset quality front, keeping slippages at bay, higher Covid-related provisions made by few private banks weighed on their earnings.

But the sharp fall in yield on government bonds that led to treasury gains for banks during the March quarter has offered significant respite to earnings. The yield on 10-year G-Sec declined by a tidy 50-odd basis points in the January-March quarter. Most banks, hence, reported a sharp jump in profit from sale of investments during the March quarter. This aided their overall earnings, which could have been much weaker, had it not been for the tidy treasury gains.

SBI, for instance, reported flat net interest income (NII) in the March quarter, but the bank's non-interest income grew by about 27 per cent, led by a six-fold jump in profit from the sale of investments during the quarter (compared to the previous year). Bank of Baroda, which reported a muted 5 per cent growth in NII, saw 74 per cent increase in profit from sale of investments; the bank reported a marginal profit during the quarter against the steep loss in the previous year. UCO Bank, which saw NII decline by about 3 per cent, reported more than three-fold increase in treasury income. The bank managed to report a meagre profit during the quarter.

Stepping up provisions

For most of the private sector banks, while core NII growth was much healthier, the bump up in treasury gains aided earnings that were otherwise under pressure owing to higher provisions. Most of the leading private banks have made additional provisions to tackle Covid-related stress in the coming quarters. Higher profits from sale of investments provided some buffer to absorb such huge provisions.

HDFC Bank reported a healthy NII growth of 16 per cent during the March quarter. But total provisions doubled (which included Rs.1,550 crore of Covid-related provisions). The sharp 147 per cent jump in the bank's profit from the sale of investmentsaided earnings. ICICI Bank reported 17 per cent growth in NII and 55 per cent increase in treasury income; the bank made Covid provisions of Rs.2,725 crore.

Federal Bank, too, stepped up its provision cover significantly during the March quarter and made Covid-related provisions. The bank reported a five-fold jump in profit from the sale of securities.

Six-month moratorium

On the contrary, most PSBs saw provisions for bad loans fall significantly during the March quarter, on account of a high base (large provisions in the previous year), and lower slippages due to the six-month moratorium on loans. Unlike private banks, most PSBshave made much lower Covid-related provisions during the quarter. For instance, PNB has made bare minimum provision of 5 per cent on loans under the moratorium standstill benefit (RBI has mandated 10 per cent provisions on such accounts over two quarters beginning March quarter).

Sharp slippages on loans under moratorium (when it is lifted in September) and persisting weak core performance can put the earnings of PSBs under pressure in the coming quarters. Lower provision buffer to tackle the stress can make matters worse.

But with yields on 10-year G-Secs falling further by 20-30 bps in the April-June quarter, there could be some respite for earnings on account of treasury gains.

Restoring depositors' faith in banking: Govt's crucial framework amendment may prop up banks' rating

PTI | July 2, 2020
THE FINANCIAL EXPRESS

Moody's Investors Service on Thursday said the amendments to India's bank resolution framework are credit positive as they will help preserve depositor confidence.

The amendments are also credit positive for the bank's depositors and creditors because their ability to obtain full and timely repayments during the resolution process are unaffected, it afford

Moody's Investors Service on Thursday said the amendments to India's bank resolution framework are credit positive as they will help preserve depositor confidence. On June 26 the government amended the Banking Regulation Act, 1948, allowing the Reserve Bank of India (RBI) to initiate the resolution of a weak bank by reconstructing its capital or merging it with another bank without the prior requirement of imposing a moratorium on its depositors or creditors.

"The amended resolution process is credit positive because it will help preserve depositor confidence and avoid deposit flight from a weak bank as the risk of a moratorium is reduced," Moody's said in a statement.

The amendments are also credit positive for the bank's depositors and creditors because their ability to obtain full and timely repayments during the resolution process are unaffected, it afford. Moody's said before the amendments, the RBI could only initiate the resolution process of a weak bank after seeking approval from the government to impose a moratorium on the bank's assets and liabilities for up to six months.

In March, RBI had imposed a moratorium on Yes Bank because of its weakening solvency and liquidity. Although the moratorium was lifted after 14 days, the bank saw a significant outflow of deposits in the run up to the moratorium and after it was lifted, the rating agency said. Between December 2019 and March 2020, the bank's deposits fell 36 per cent leading to sharp deterioration in its liquidity.

Gold loans shine as small businesses, borrowers look for ready cash

Mumbai | July 03, 2020

THE HINDU BusinessLine

As banks become cautious about lending, gold loans have turned into an easy and quick option for small businesses and individuals looking for short-term cash. With the easing of lockdown restrictions, banks and NBFCs say the demand for such loans has surged in the last one month.

"People want easy and quick finance. A bank loan takes time and credit history can be a problem. Further, people who have availed moratorium not find it easy to get a fresh loan," said George Alexander Muthoot, Managing Director, Muthoot Finance.

With a sharp rise in demand for pledging of gold in the last one month, Muthoot Finance has a guidance of 15 per cent growth in gold loans this year against 22 per cent growth last year.

"Shopkeepers and MSMEs and other small businessmen are taking loans from us as they want money to re-start their business," he noted.

Short-term needs

According to VP Nandakumar, Managing Director and CEO, Manappuram Finance, about one-third of its customers borrow for short-term personal needs such as paying for emergency medical care, school fees, social events, contingencies, and other personal requirements.

"We are seeing a pick-up in demand from this category. Demand for gold loans in other segments such as agriculture and MSME's continues to be subdued," he noted.

While there has been some increase in demand for such loans, he said demand from new customers is yet to pick up fully as customer footfalls at the branches remain below par. "We expect that once economic activity recovers and once public transport resumes, the demand for gold loans will increase further," he said.

Of late, a large number of banks have also begun to focus on the gold loan business, including public sector lenders. For instance, Canara Bank has also launched a special business vertical dedicated for gold loans.

Bank loans

Bankers pointed out that many banks have become ultra conservative in the last three to four months due to economic uncertainty.

"The demand for loans has increased among small businesses such as shopkeepers or individuals who need funds to pay for education or to buy white goods. There was some spike in demand for gold loans in May, but it has increased manifold in June across the country. It is an easy, convenient and quick option for getting money in the short term for borrowers, and banks also feel more comfortable. For DCB Bank, the average ticket size of the loan is Rs.1 lakh to Rs.1.5 lakh," said Praveen Kutty, Head, Retail and SME Banking, DCB Bank.

A recent SBI Ecowrap report had also noted that consumers are vigorously using gold holdings on their household balance sheet by taking gold loans, and there might be a conscious shift in the portfolio of bank loans from unsecured loans to collateralised loans.

ALL INDIA BANK EMPLOYEES' ASSOCIATION
Central Office: PRABHAT NIVAS
Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001
Phone: 2535 1522 Fax: 2535 8853
e mail ~ chv.aibea@gmail.com
Web: www.aibea.in