AIBEA's Banking News

19 , 20 OCTOBER , 2020

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Govt plans to exit public-sector banks after privatisation: Report

OCT 19 2020

DECCAN HERALD

The govt can influence boards even with a minority stake and that may be an attractive situation for private players

The Central government is considering selling all of its stake in public sector banks after they are privatised, reports ***Business Standard*** citing sources. The publication also reports that the government is nudging the Reserve Bank of India (RBI) to ease rules of ownership in private sector banks. RBI, the Prime Minister's Office (PMO) and the finance ministry are in discussion to ascertain the level of stake that should be retained by the government in private sector banks.

The PMO has been asking officers and financial specialists outside the government since July fiscal year to discuss the matter over two days. Ever since those discussions, government officials have said that government must not retain any shareholding in the bank which is to be divested as it would prove difficult to convince private players that the government would not interfere in board decision even if it has a minority stake in the organisation, says the publication, citing a source. This could potentially drive away private players. The government having no stake could be attractive to many private entities.

According to the Indian Companies Act, a shareholder with just 10 per cent of the company's paid-up share capital, can requisition the board to organise an extraordinary general meeting. There may be other methods in which the govt can assert its presence and this potential stunt the growth of the institution.

The government has planned to sell its stake in four of the 12 public sector banks. These include Bank of Maharashtra, Punjab and Sind Bank, and Indian Overseas Bank. According to the website's source, some of the larger banks with which some smaller ones have merged are not taken into account.

This move means that the government will have gain the confidence of the capital market that its exit will not threaten the security enjoyed by depositors by ensuring that the company adheres to strict corporate governance standards.

The Centre however, will not divest its banks this financial year.

Canara Bank: Rs. 47,310 Crore Write Off in 8 Years; Just 19% Recovery, Latest PSB Loot

Yogesh Sapkale | 19 October 2020

MONEYLIFE
NEWS & VIEWS
IN YOUR INTEREST

Canara Bank is the latest to join other big public sector banks (PSBs) that have written off bad loans worth thousands of crores of rupees and recovered paltry amounts from big defaulters.

Like other PSBs, Canara Bank also refused to share this information as well as names of defaulters under the Right to Information (RTI) Act and instead asked the applicant to check its annual reports.

Data shared by Pune-based RTI activist Vivek Velankar shows that during the past eight-year period from FY12-13 to FY19-20, Canara Bank wrote off a total of Rs47,310 crore while recovering just 19% or Rs8,901 crore from defaulters.

Canara Bank

Figures as per Annual Reports

*All figures in Crores

Year	Tech Writeoff	Other Writeoff	Recovery
2019-20	7653	1749	2000
2018-19	14015	2049	1835
2017-18	7523	760	1534
2016-17	5130	441	689
2015-16	2911	475	398
2014-15	1119	360	1081
2013-14	1010	580	1022
2012-13	1321	214	342
Total	**40682**	**6628**	**8901**
Grand Total	***47310***		***8901***

As happened with other PSBs that we have reported so far, Canara Bank too used vague reasons (privacy) for not sharing information like names of big defaulters with a bad loan of Rs.100 crore and above. In the reply to the RTI, the bank says, "Information sought is the personal information of the concerned and if disclosed would invade the privacy of those concerned and its disclosure does not have any relationship with public interest or activity and is exempted under section 8(1)(j) of the RTI Act."

An aggrieved Mr Velankar, who is also president of the Sajag Nagrik Manch, asks, "When a common borrower defaults, the same banks publish his name and all details through advertisements in newspapers. Then why do they want to keep names of big defaulters hidden under the privacy cause? Why doesn’t the 'privacy' clause apply while publicising names of common borrowers?"

In several judgements, the Central Information Commission (CIC) had ruled that to qualify for the exemption under section 8(1)(j) of the RTI Act, the information must satisfy certain criteria, such as personal information and public interest.

Ordinarily, the adjective 'personal' is attributed to that which applies to an individual and not to an institution or a corporate. Therefore, it flows that 'personal' cannot be related to institutions, organisations or corporates, especially publicly listed entities with a large shareholding of retail investors.

Hence Section 8(1)(j) of the RTI Act cannot be applied when the information concerns institutions, organisations or corporates.

Former central information commissioner Shailesh Gandhi had observed in a judgement, "...disclosure of information, which is routinely collected by the public authority and provided by the public servants, cannot be construed as an invasion of the privacy of an individual and must be provided to an applicant under the RTI Act."

In the case of Canara Bank, the information on loan write offs, recovery and all other details like names of borrowers are collected and then reported to the Reserve Bank of India (RBI) as statutory obligation. In the circumstances, Canara Bank has no right to withhold this information under any sections of RTI Act. Yet, the bank has refused to share names of big defaulters with Mr Velankar.

Technically speaking, when debts are written off, they are removed as assets from the balance sheet because the bank does not expect to recover payment. This practice is frowned upon by experts but is routinely done by banks as part of their tax management clean-up process.

In contrast, when a bad debt is written down, some of the bad debt value remains as an asset because the bank expects to recover it. However, as State Bank of India (SBI), Bank of Baroda (BoB), Bank of Maharashtra (BoM), Union Bank of India (UBI), IDBI Bank, Punjab National Bank (PNB) and Indian Overseas Bank (IOB) have shown, most of the times, there is no recovery or negligible recovery for the amounts written off.

As in the cases of the State Bank of India (SBI), Bank of Baroda (BoB), Bank of Maharashtra (BoM), Union Bank of India (UBI), IDBI Bank , PNB and IOB that have been reported by ***Moneylife***, this is one more example of massive 'technical' write-off with minuscule recoveries, leading to frequent recapitalisation of banks with the taxpayers' money.

Such write-offs also debunk the aggressive posturing by the government and policy-makers about their so-called recovery efforts.

As reported by ***Moneylife,*** Indian Overseas Bank wrote off a massive Rs41,392 crore as technical write-offs in the past eight-year period from FY12-13 to FY19-20. As against these write-offs, the recovery was just 17% or Rs7,253 crore.

PNB wrote off a massive Rs44,565.59 crore as technical write-offs in a four-year period from FY16-17 to FY19-20 . As against these write-offs, the recovery was just Rs12,027.97 crore. If one were to look at large loans of Rs100 crore and above, the technical write-off in this segment alone is Rs31,966 crore, while the recovery from big defaulters is only 22% at Rs7027.94 crore.

Similarly, IDBI Bank, which became a private sector lender a few months ago, wrote off total bad loans worth Rs45,693 crore but could recover just 8% of it after spending more than Rs29 crore during the past seven years. Union Bank of India too wrote off bad debt worth Rs26,072.81 crore between FY11-12 and FY19-20 (this information pertains only to loans of over Rs100 crore).

Bank of Maharashtra has written off bad loans of over Rs7,402 crore in the past, while recovering a paltry 4% in over eight years through recovery efforts. The lender wrote off bad debts worth Rs7,402 crore during four out of the past eight years, while recovering just Rs253.55 crore.

From 2012 to 2020, BoB had technically written off 97 accounts with bad debts of Rs100 crore and more. These add up to Rs21,476.89 crore over eight years, while recovery in that same period is just 4.91% or Rs1,056.53 crore.

Similarly, from FY12-13 to FY19-20, SBI, the country's largest lender, wrote off bad loans worth Rs1.23 lakh crore of bad debt but recovered a paltry Rs8,969 crore.

Agricultural reform: What to make of the new farm Bills

Nirvikar Singh | October 20, 2020

THE FINANCIAL EXPRESS

Farmers are being asked to accept possibly significant new income risks, without any alternative risk management policies, in exchange for an untested promise of higher, but likely riskier, incomes

It may also be reasonable to argue that agricultural marketing and trade reforms can only have second-order impacts on agricultural incomes

India is facing massive twin crises in health and the economy. As in the past, the economic crisis has spurred the introduction of politically difficult reforms, this time in agriculture. Agriculture in India remains an important source of livelihoods, and farmers' constituencies are politically significant. Constitutionally, agriculture is a state subject, which also makes coordinated national reforms more difficult. At the same time, various national policies designed to provide food security have played an important role in how agriculture is conducted in India.

The national government has introduced a set of agricultural reforms, in three separate bills, which were very quickly enacted as laws. The political rhetoric of the reforms has emphasised the goal of increasing farmers' incomes. The means to this end that is supposed to be embedded in the new laws are various kinds of deregulation that will increase competition for agricultural output, thereby increasing farmers' incomes. To the extent that the changes do not simply redistribute value across different parts of the supply chain (for example, benefiting farmers at the expense of middlemen), they must represent genuine efficiency increases such as reductions in transaction costs. Although, much of the attention has been on the trading of agricultural products, an even more important source of potential efficiencies is in production. The new laws contain some direct changes for the regulation of the production, and of course, changes in the regulation of agricultural marketing will also have implications for production.

The issues involved in the agricultural reforms are very complex (more so than a simple liberalisation), and much detailed analysis has already been produced. Here I will provide a more high-level take on where matters stand. First, there is the concern that the national government has acted without the cooperation of the states, and without a good understanding of the different situations of various states with respect to their existing policies towards agricultural production and marketing. There may have been a political case for acting quickly, and perhaps even for bypassing the states, but it seems fair to say that some of those gains will be illusory, as state governments and various farmer groups push back on some of the reforms, possibly delaying or even blocking implementation.

Second, the detailed comments on the three new laws by a range of analysts indicate some inconsistencies and ambiguities, which will also create challenges for implementation. What will happen to national food procurement, which is a central aspect of farming in Haryana and Punjab, or how contract farming will change, are two areas of note. But, there seem to be many other details at the heart of the potential reorganisation of trading of agricultural products that seem to have not been thought through. For example, issues of market power, interlinking of credit and intermediary services, and reorganisation of interstate trade do not seem to have been addressed very clearly.

Ambiguity and inconsistencies only heighten uncertainty with respect to the reforms. If this uncertainty is combined with another missing piece, namely, a clear analysis of how farmers' income risks will be managed in a post-reform world, then the chances of acceptance and implementation go down dramatically. In other words, farmers are being asked to accept possibly significant new income risks, without any alternative risk management policies, in exchange for an untested promise of higher, but likely riskier, incomes. Existing regulations, however, poorly designed, are familiar and have relatively predictable consequences. There are also networks of relationships and institutional roles that has grown around existing laws, including the functions of intermediaries and state government agencies, and these may be destabilised. The new laws and the process of their introduction can only create anxiety. Indeed, the new laws could and should have been designed to address issues of risk and of institutional design in a manner that would reassure farmers.

It may also be reasonable to argue that agricultural marketing and trade reforms can only have second-order impacts on agricultural incomes. The new laws do contain new provisions with respect to commercial farming and the role of corporate entities, but the real issues lie in parts of agriculture that are more marginal. In that respect, the national government seems to have difficulty thinking clearly about how to improve the functioning of small producers, whether in industry, services or agriculture. For example, reform of agricultural marketing and trade could have been combined with strong new policies to improve credit access for small farmers, revitalise moribund agricultural extension services, targeted subsidies for adoption of technologies to improve the efficiency of water use or of access to water, crop insurance for small farmers, and so on. None of these require large sums of new money and would have provided reassurance and hope.

This preliminary assessment of the agricultural reform legislation reminds us of general themes. Indian economic policymaking in recent years seems to have shrunk in ways that hinder progress. For a large, heterogeneous country, the number of people and range of inputs in shaping laws and policies seems to be inefficiently low or narrow. Good design of laws and policies has a very high rate of return. India’s national government has won all its political battles and needs to focus on the struggling economy. The first steps in agricultural reform illustrate the strengths and the weaknesses of how the national government has been going about this task.

Crores of Indians locked out of ration card system that provides cheap food; starvation deaths haunt poor

Bloomberg | October 20, 2020

THE FINANCIAL EXPRESS

India spends more than 1 trillion rupees on the ration card program but there are still tens of millions getting locked out of the assistance

Bureaucratic difficulties were cited by the government's think tank Niti Aayog as the single most-important reason blocking access to the food program

Nafisa watched her baby's life drain away. She and her husband struggled to make even 1 rupee (1 cent) a day from their tailoring business after India went into a Covid-19 lockdown in March. They often have nothing to eat. Nafisa was breastfeeding little Aaris, and with hardly any food for herself, she simply couldn't produce enough milk. He grew weak, and his skin yellowed with jaundice. Hungry and in pain, he sobbed and howled. He died in his mother's arms just a few weeks into the lockdown, at four months old.

It was an especially cruel tragedy because it happened in a country that boasts about having the world's largest food-aid program. Government warehouses brim with more than 70 million metric tons of grains, or almost 15% of global stockpiles, and the nation's wheat and rice harvests have surged to records. Still, like millions of other Indians, Nafisa has never gotten any of the subsidized food promised by Prime Minister Narendra Modi's administration. Her 5-year-old son, Salman, doesn't even bother asking for food anymore, because he knows there's no point.

"Nobody is listening to us," 24-year-old Nafisa, who goes by a single name, said from the Banda district in Uttar Pradesh state. Recounting how she applied in vain time and again for the ration card that would help feed her family, she broke down in tears. “If we had the card, at least we could feed our child.”

Governments across the world have failed to prevent a hunger crisis that is reaching monumental proportions. Globally, as many as 132 million more people than previously projected by the United Nations could go hungry in 2020. The total increase for this year could be more than triple any this century, even at a time of ample food supplies, as the pandemic sharpens the world’s deep inequalities.

Covid-19 is also exposing India’s big divides, like access to quality health care and proper sanitation. And of course, there’s the basic question of who gets to eat, and who doesn’t. Even before the lockdowns, roughly three-quarters of the population (more than 1 billion people) couldn’t afford a healthy diet.

To meet the need, the government is required by law to provide as many as 5 kilograms (11 pounds) of rice, wheat and coarse grains at subsidized rates as low as 1 rupee per kilogram to anyone who needs it. The cheap staple foods are sold at so-called fair price shops, where buyers need a government-issued ration card to make a purchase at the give-away rates. India spends more than 1 trillion rupees ($13.6 billion) on the program. But there are still tens of millions getting locked out of the assistance.

Bureaucratic difficulties were cited by the government’s think tank Niti Aayog as the single most-important reason blocking access to the food program. Raja Bhaiya, the secretary of aid group Vidya Dham Samiti which works in the Banda district, said some shopkeepers also direct grain that’s meant for the program for their own sales, at higher prices.

The biggest problem with the program, though, is that it’s woefully underfunded. More than 100 million people are being left out of the current budget, according to Jean Dreze, a visiting professor with Ranchi University in eastern India, who helped draft the national food law. The government is allotting its funds using 2011-2012 census data. Back then, the population was a little more than 1.2 billion. Now it's grown to roughly 1.38 billion.

Siraj Hussain is a former chairman of state-run Food Corp. of India, the agency that oversees the food procurement program. He agrees about the problems with the old figures. The dated census data means that the actual number of those in need "is not known," said Hussain, who's now a visiting senior fellow at the Indian Council for Research on International Economic Relations in New Delhi.

That means local agencies like the one Nafisa visited receive more applications than they have quotas for, according to two officials with the program in Uttar Pradesh who asked not to be named because the information isn't public. There are thousands of pending applications in the rural Banda district, according to one of the officials. The majority of those applicants should technically be granted approval based on the food law, but because local quotas are already filled, they are usually rejected or left in limbo. Only when someone who's already enrolled in the program dies or is otherwise deleted from the list does a spot open to issue a new card, the officials said.

Sudhanshu Pandey, India's food secretary, acknowledged that government benefits are being calculated based on the old census data in emailed comments to Bloomberg. The federal government is responsible for procurement, storage and bulk allocation of food grains to states, which are responsible for identifying beneficiaries and issuing ration cards, he said. The food department is regularly advising states to cover any left-out eligible persons, within the coverage limits, he said. During the pandemic, the program has been scaled up, with Uttar Pradesh alone adding about 4 million people.

Uttar Pradesh is India's most populous state. The Banda district, Nafisa's home, is among the poorest, with its children suffering some of the worst rates of stunting from malnutrition in the country. Anand Kumar Singh, district magistrate of Banda, didn't respond to emailed questions. Bloomberg tried more than five times to speak to him on the phone.

Nafisa has made several trips to the local office where she's supposed to sign up for the ration card. Each time she gets turned away without one, and she's never given a clear reason why. "We are in a dire situation," she said. "There is nothing in the kitchen."

The government has taken some steps to mitigate the situation as Covid-19 continues to spread — India now has the second-highest number of cases in the world, trailing only the U.S. Stimulus measures include offering an additional 5-kilogram grain package per person for free until November to the more than 800 million who are covered by the food program. On top of that, about 80 million migrant workers, some of whom don't have access to the food program, were also offered grains for free in May and June.

The virus outbreak is also accelerating India's push to digitize the food-rationing system, allowing citizens to receive entitlements anywhere in the country rather than just in their home towns. But the problem remains that millions haven't been granted access to the program.

Ram Kumar, who also lives in the Banda district, first applied for a ration card in 2019. Since then, he's made trip after trip to the agency to inquire about his status. Each time he's offered what feels like a different excuse for why he hasn't been approved yet. "The officials scold us when we go to check the status," the 39-year-old said.

He's been out of work for months, relying on savings to feed his family of four. Now, the money has run out. His wife and two children have left to live at his in-laws' houses. To feed himself, he's sunken into a debt trap — first borrowing from his employer, then taking a loan from village lenders to pay back that advance on his salary.

"I will try again for a ration card when the next government comes to power, and if that doesn't happen we will continue living like this," he said. "I never expected it would be that difficult to get a ration card." The government is hesitating to expand the program to cover more people as higher expenses on subsidized food will widen the nation's fiscal deficit, said Dreze of Ranchi University.

Some economists in the country are calling for a universal public distribution system, removing the need for a ration card to access the subsidized-grain stores and opening them up since the state is sitting on huge crop stockpiles. "I would favor providing food to all who arrive at the ration shops," said Rohini Pande, Henry J. Heinz II professor of economics and director of Yale University's Economic Growth Center. "The government should also sell other essential items such as edible oil, sugar, vegetables and milk at subsidized rates."

Mubina Khatoon, a 34-year-old homemaker in the Banda district, first applied for a ration card back in 2019. That application was canceled by the local office, though she wasn't told why. Back then, Khatoon's family would end their days with meals of rice, lentils and vegetables, even meat or fish on occasion. But now her husband, Sheeraj Ahamad, is lucky when his work as a hawker selling clothes brings in 200 rupees once in a while. A stark turnaround after making as much as 600 rupees a day in the months before Covid. Dinner these days is often little more than chapatis, a homemade flatbread made from wheat flour.

In just a few months, Khatoon dropped 9 kilograms (20 pounds). Her 11-year-old son is down almost the same. Her husband, who carries a heavy load of clothes from to village to village, is down a whopping 20 kilograms, she said. Khatoon applied again for a ration card in June, and each time she checks with her local agency, she's told that it's still pending. "What do we eat to survive? What do we feed our child?" she said. "All our food containers are empty."

CBI books former PNB official in bribery case

PTI New Delhi | October 20, 2020

THE HINDU BusinessLine

Gokulnath Shetty the main accused in the Nirav Modi case has been booked in a new claim involving Rishika Financials

The CBI has booked retired deputy manager Gokulnath Shetty, the main accused in the Rs.13,000-crore Punjab National Bank fraud allegedly perpetrated by Mehul Choksi and Nirav Modi, in a fresh case of receiving a bribe of Rs.1.08 crore from Rishika Financials that arranged bank guarantees for Gitanjali Gems, officials said.

It is alleged that the owner of Rishika Financials, Debajyoti Dutta, was in the business of arranging quotes of Letters of Undertaking (LoUs) from foreign funding banks, they said on Monday.

The officials said that after getting confirmation from Dutta, Shetty used to issue LoUs using the international banking messaging service, SWIFT.

Dutta used to work for Gitanjali Gems, promoted by Choksi, and had allegedly raised bills of 0.05 per cent of the LoUs issued for the firm as brokerage, they said.

The amount used to get credited to Dutta's current account from which 40 per cent, over Rs.1.08 crore, was allegedly paid to Shetty between 2014 and 2017, the officials said.

LoU is a guarantee which is given by an issuing bank to Indian banks having branches abroad to grant short-term credit to an applicant.

In case of default, the bank issuing the LoU has to pay the liability to the credit-giving bank along with accruing interest.

The companies of Modi and Choksi took loans from banks abroad based on LoUs but did not repay them transferring the liability on Punjab National Bank (PNB).

It is alleged that Shetty bypassed PNB's core banking system, Finacle, and issued LoUs fraudulently, the officials said.

Shetty, who is alleged to have played a key role in the Rs.13,700-crore loan fraud while working as deputy manager at PNB's Brady House branch in Mumbai, was arrested in March, 2018.

It was found during the investigation that messages for fraudulent LoUs were sent to overseas banks by misusing the international messaging system for banking, SWIFT, and without making their subsequent entries in Finacle, thus bypassing any scrutiny of such funds in the bank, they said.

Accumulated losses vs share premium a/c balances: PSB proposal will improve ability to service AT-I bonds: ICRA

Our Bureau. Mumbai | October 19, 2020
THE HINDU BusinessLine

The recent proposal by some public sector banks (PSB) to set-off their accumulated losses against the share premium account balances could improve the ability of these PSBs to service their AT (Additional Tier)-I bonds, according to ICRA.

Four PSBs – Bank of India (BoI), Bank of Maharashtra (BoM), Punjab National Bank (PNB) and Union Bank of India (Union) – recently secured shareholders' approval to set-off their accumulated losses against the share premium account balances and await regulatory approval.

While the regulatory approval is awaited, there has been precedence in this respect when Indian Overseas Bank did the same accounting adjustment in FY2018, the credit rating agency said.

Accumulated losses

ICRA assessed that while the above accounting adjustment will not impact the net worth and capital ratios of the banks, the move will significantly lower their accumulated losses (and improve their distributable reserves - DRs), thereby improving their ability to service the coupon on their AT-I bonds.

The servicing of the coupon on the AT-I bonds of banks is contingent on their profits (including accumulated profits). In a year of loss, the banks can use their accumulated profits or DRs to pay the coupon on these bonds.

Anil Gupta, Sector Head – Financial Sector Ratings, ICRA, said: "With sizeable losses in recent years, many PSBs have significantly eroded their DRs, and this process can be seen as one more measure after a series of measures to prevent defaults on the AT-I bonds issued by PSBs.

"Although investors as well as rating agencies do factor in the sovereign ownership of PSBs at the time of rating their borrowings (including AT-I bonds), it is difficult to factor in such one-off relaxations ab initio while rating these bonds."

The agency underscored that share capital, including the share premium, is not a part of accumulated profits or DRs. Hence, capital infusion by the Government of India (GoI) or through other means does not improve the coupon-servicing ability on these AT-I bonds in case of losses.

"With this accounting adjustment, the coupon payment is now effectively serviceable through capital infusions. This could improve the risk appetite of investors and improve the ability of PSBs to rollover the large quantum of AT-Is when the first call option falls due," the agency said in a note.

Reduce recap burden

Gupta felt that the development has significant importance for PSBs as they may explore raising AT-I bonds to shore up their capital position, considering the limited capital budgeted by GoI for recapitalisation during the current year.

If PSBs can roll over their upcoming AT-I bonds due for call option over the next two fiscals, it may reduce the burden on the GoI for recapitalisation in future years, he added.

As per ICRA's estimates, the outstanding volume of AT-I bonds of PSBs is estimated at Rs.60,880 crore or about 1.1 per cent of their risk weighted assets as on October 1. Of these, the first call option is falling due on bonds totalling Rs.23,365 crore in FY22. If PSBs can rollover these bonds, it will reduce the recapitalisation burden on GoI.

ICRA said this development could be seen in conjunction with various regulatory relaxations given in the past on AT-I bonds, including the broadening of definition of DR in February 2017.

Subsequently, in Q4 (January-March) FY18, inclusion of weaker PSBs in prompt corrective action (PCA) framework of the RBI was termed as a regulatory event, which triggered these weaker PSBs to exercise an early call option on their AT-Is totalling Rs.21,900 crore during Q4 FY18 and Q1 (April-June) FY19, thereby reducing the risk of a coupon skip on their AT-Is, it added.

Transmission lower at weakly-capitalised banks during easing cycle, says RBI report

Radhika Merwin Chennai | October 20, 2020

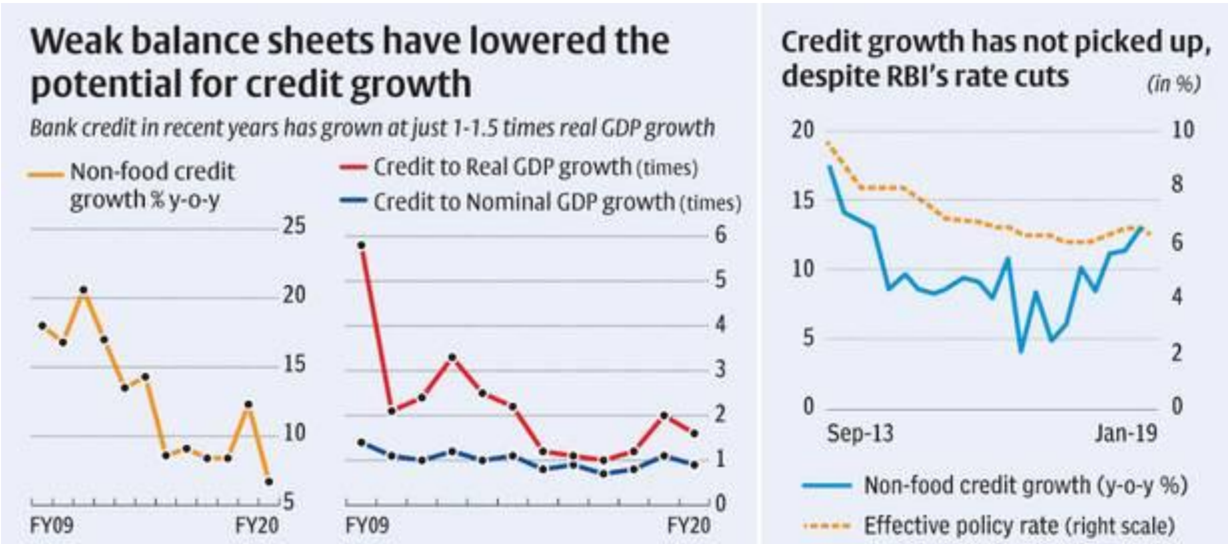
THE HINDU BusinessLine

Banks with higher capital ratios transmit monetary policy actions more smoothly than banks with lower capital base. Given that the chunk of the banking sector lending pertains to public sector banks and they do not have excess capital, it is difficult for them to extend credit without improving their capital position during the downturn of the current business cycle. Despite the RBI's easing policy since 2014 (except for two intermittent rate hikes in 2018), credit growth has not picked up in the past few years, signalling weakening of bank lending channel of monetary policy transmission.

These are some of the findings of a recent study by the RBI in its working paper titled 'Bank Capital and Monetary Policy Transmission in India'.

A recent ***BusinessLine*** report had also revealed a similar link between bank balance sheets and credit growth. Bank credit is mostly a function of the underlying activity in the economy. But aside from the sharp fall in GDP growth in the past few years, bank credit growth has also been impacted by banks' weak balance sheets. This is evident from the shrinking bank credit to GDP growth multiple over the past three to four years. Bank credit growth until FY14 was mostly 2.5-3 times the real GDP growth or 1-1.2 times nominal GDP growth. But since FY15, this multiple has shrunk substantially to 1-1.5 times real GDP growth and under one time nominal GDP growth.

The RBI study attempts to understand the link between bank capital and monetary transmission by looking at the relationship between bank capital and loan growth/cost of funds. It states that for each one percentage point increase in CRAR, there is 7.8 percentage points rise in loan growth rate. On the contrary, one percentage point increase in GNPA ratio reduces the loan growth rate by 0.9 percentage points. In effect, while rise in capital ratio helps in better monetary policy transmission, significant amount of stressed assets could limit credit supply.



Source: *BusinessLine* analysis, RBI, Mospi

Capital and loan growth

According to the RBI report, the bank lending channel of monetary policy transmission stands on the view that central banks can alter the banks' credit supply by tightening monetary policy, either through increasing reserve requirement or raising short-term interest rate. This can cut down access to loanable funds and reduce loan extension by the banks (vice versa in an easing policy phase).

But structural issues at banks have dampened such transmission of monetary policy. Sustained asset quality stress, which has eroded capital, has impacted the capacity of banks to lend over the past few years. Hence, even in a falling rate scenario, when banks should ideally be induced to expand credit, inadequate capital has limited their lending activity.

Sample this. Since Jan 2014, policy repo rate has been trending lower (except for a 50 bps increase in 2018) — between January 2014 and January 2020 the repo rate fell by a tidy 285 bps. Bank credit growth, however, has been mostly languishing in single-digit since FY15. PSBs that constitute about 70 per cent of the overall lendinghave been the key reason for this muted show, owing to their weak capital ratios.

This is because when banks extend credit, in particular to risky sectors, the risk-weighted assets increase and lead to lower CRAR. Banks with weak capital hence limit lending to private sector, and instead park funds in risk-free government bonds.

Capital and cost of funds

A bank can fund its lending by issuing new debt or with excess equity capital. But in a weak economic environment (such as the one seen in the past few years), banks raise capital to meet higher provisioning requirement owing to deterioration in asset quality. According to the RBI report, banks might depend on their ability to raise fund by issuing debt contracts in the capital market to meet the credit demand. Hence, it examines whether capital helps the bank in raising external fund by lowering their cost of funds.

The RBI study finds that a one percentage point rise in CRAR increases debt (total outstanding borrowings of a bank through debt instruments) growth rate by 1.8 percentage points (3.5 percentage points for public sector banks). The sensitivity of borrowings by banks to CRAR is much higher for PSBs because they have lower CRAR and, hence, an implicit insurance from their ownership (government) may lead to higher borrowings (on the back of additional CRAR) compared to banks with private and foreign ownership.

While a higher CRAR helps the bank in getting more funding, accumulated stressed assets may constraint the channel. Therefore, a bank with higher GNPAs, is more likely to have lower credit growth because of lesser borrowings and higher provisioning requirement.

Assessing hit on economy, will share GDP estimate in time: FM

SPECIAL CORRESPONDENT
NEW DELHI, OCTOBER 19, 2020
THE HINDU

'Policy soon to identify sectors where PSEs are needed'

The government has just begun its own assessment of India's growth prospects for this year that would be shared in due course of time, Finance Minister Nirmala Sitharaman said on Monday evening.

The Minister also said that the government's new policy for public sector enterprises, which will notify strategic sectors where at least one public unit needs to operate, is being finalised and will be put up for the Union Cabinet's approval soon.

"We have only now started doing some kind of an assessment," the Minister said. "We waited for the commencement of the second half of the year, which has just started. We have got a lot of inputs that are fairly different from what we had got in July, as ideally it should be," she said, adding that a statement would be made in public or in Parliament once the exercise is complete.

She was responding to a query on whether India will come up with its own official estimates as part of a mid-year review, following estimates from the RBI and the International Monetary Fund that expect the Gross Domestic Product (GDP) to contract by 9.5% and 10.4% in 2020-21, respectively.

She was speaking at the unveiling of the Fifteenth Finance Commission chairperson N.K. Singh's autobiography ***Portraits of Power*** in the capital.

Centre said to ask at least eight PSUs to consider buy-backs

REUTERSNEW DELHI, OCTOBER 20, 2020 THE HINDU

'Move to help cash-strapped govt. raise funds; firms include Coal India, NTPC'

India has asked at least eight state-run companies to consider share buy-backs in the fiscal year to March 2021, two government officials said, as New Delhi searches for ways to raise funds to rein in its fiscal deficit.

The firms asked include miner Coal India, power utility NTPC, minerals producer NMDC and Engineers India Ltd., said one of the sources, who sought anonymity as the discussions are private.

"Buy-back is an important tool in our strategy and it helps in building market price," added the second official, who also spoke on condition of anonymity.

India is unlikely to be anywhere near its fiscal deficit target of 3.5% of GDP for 2020/21 as COVID-19 curbs hit tax collections and delayed efforts to privatise Bharat Petroleum Corp. and flag carrier Air India.

In February, the government had set itself a target of raising more than $27 billion from privatisations and sale of minority stakes in state-owned companies this fiscal.

However, some PSUs, particularly in the oil sector, may not be able to do buy- backs, the sources warned, as the government's stake is just sufficient to ensure its position as a majority holder. "The government stake in these companies is about 51% and there is a competing claim on their cash in the form of huge capex commitment and dividend payments," the official said.

But for those with sufficient funds and capital expenditure below target for this fiscal year, the government could seek approval from the Cabinet to prune its stake to less than 51% in individual firms without giving up control, the official said.

India had tasked 23 state-run companies with capital expenditure of Rs.1.65 trillion ($22.5 billion) this fiscal year, but some firms face spending challenges as the world's second most populous nation adds virus infections.

The Centre had asked PSUs to either meet their targets for capital expenditure or "reward the shareholder in the form of a dividend," the officials added.

Public Sector Enterprises clear dues worth Rs.13,400 cr. to MSMEs

PTI NEW DELHI, OCTOBER 19, 2020

THE HINDU

Corporates asked to follow suit

The government on Monday said Central Public Sector Enterprises (CPSE) have cleared payments to the tune of Rs.13,400 crore owed to Micro, Small and Medium Enterprises (MSME) in the last five months and Rs.3,700 crore was paid to the units in September alone.

The MSME Ministry has now written to top management of over 2,800 corporates by name to make payment of pending dues of MSMEs in this month itself, an official statement said.

Last month, the ministry had written to the top 500 corporates of India about the pending dues.

In its latest communication to large corporates, the MSME Ministry underscored the importance of making such payments now and said that it will facilitate the small enterprises to avail business opportunities in the coming festival season.

The ministry said that if the cash flows of MSMEs improve, they can make use of the festival season when there is opportunity to earn by supplying goods and services.

"In fact, some of the MSMEs look for such a period for their sustenance of the whole year. Thus, timely payment of their receivables at this time will not only support the MSMEs and their dependents in this festive season but will also sustain many of them for a full year," the statement said.

Therefore, the ministry has requested the corporates to see and make payment as soon as possible, preferably in the present month.

In addition, the ministry has also drawn attention of Corporate India towards important administrative, legal and Fintech-based provisions with regard to MSME payments.

The provisions state that it is ideal that payments are made in stipulated time. However, to solve the cash flow problems of MSMEs in absence of that, a bill discounting mechanism has been started by the Reserve Bank of India (RBI) in the name of TReDS.

It is mandatory for all CPSEs and the companies with turnover of more than Rs.500 crore to join this platform. However, many companies are yet to join or transact on it. Corporates have been requested to check whether their group/ company has joined the TReDS platform and is doing transactions.

The ministry also reminded the corporates of the legal provision under the MSME Development Act, 2006 which mandates to make the payment to MSMEs within 45 days.

"As per related regulations, the corporate entities are also supposed to file half-yearly returns with the Ministry of Corporate Affairs about the dues of MSMEs. In many cases, this too is not being done. The Ministry has requested the corporates for their attention and needful action on this also," the statement said.

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