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Bad loan battle: RBI to issue new directive after SC ruling

The RBI will not relent in its pursuit of bad bank loans and will soon issue a revised directive on stressed asset resolution that will comply with the Supreme Court order striking down the February 2018 circular, governor Shaktikanta Das said. "We remain committed not only to maintain but also to speed up the resolution of stressed assets in the banking sector," Das said in the first official comment by the central bank after the SC verdict. "It is very critical for the stability of the banking sector and has an impact on the stability of the overall financial sector. We will do all that is possible to ensure the pace is maintained." The circular had stipulated that banks had 180 days to arrive at a debt-resolution plan for loan accounts of Rs 2,000 crore and more, failing which the company would have to be sent to bankruptcy court under Insolvency and Bankruptcy Code (IBC). Das, who was speaking to the media after RBI announced the monetary policy, declined to say when the new stressed asset resolution framework will be released or whether the old restructuring schemes would be restored. "In the light of Supreme Court order, RBI will take the necessary step including issuance of a revised circular as maybe necessary for expeditious and effective resolution of stressed assets," Das said. "The RBI stands committed to maintain and enhance the momentum of resolution of stressed assets and adherence to credit discipline." The court had said the RBI cannot issue a blanket direction but upheld its power to issue instructions on specific companies. Das said the apex court had in fact upheld the power vested in the RBI. "The powers of RBI, it must be added, under Section 35 A(a) and other sections of the Act are therefore not in doubt at all," he said. "What the Supreme Court has said (is that) the powers of RBI under the said section have to be exercised in a particular manner. The validity of the section stands and henceforth we have to comply with the directions of honourable Supreme Court and act accordingly." Finance minister Arun Jaitley had told ET on Wednesday that the judgment was procedural in nature. "I don't see a major crisis. This judgment is really more procedural — this is not substantive," he said. "A judgment which says procedure or your application of mind or your width of your power is inadequate can always be rectified by an appropriate action." Chief economic adviser Krishnamurthy Subramanian said the government and the RBI will work together to ensure smooth implementation of the Supreme Court ruling and that there would be no changes in the IBC. "The government and RBI will be working together on this matter. I don't think changes in IBC law should be necessitated. It will be early to comment," he said. The ruling gives banks the option to decide whether they need to refer a case to bankruptcy court. Some analysts have said however that it may allow lenders room to delay provisioning and recoveries by ever greening loans given to debt-laden companies.

10 takeaways from RBI's first bi-monthly policy of FY20

Softening inflation and growth concerns compelled the Reserve Bank of India to cut key lending rates for the second time in a row on Thursday. The RBI slashed the repo rate by 25 basis points, while keeping its monetary policy stance 'neutral'. Here are 10 key takeaways for the monetary policy:

Growth concerns: Since the last MPC meeting in February, global economic activity has been losing the pace, according to the RBI. The recent GDP growth projection lowered to 7.2 per cent for 2019-20 from 7.4 per cent projected in February policy. RBI said there were some signs of domestic investment activity weakening as reflected in a slowdown in production and imports of capital goods. The moderation of growth in the global economy might impact India's exports.

Low inflation: The apex bank cut the retail inflation forecast to 2.9-3 per cent for the first half of current financial year on account of lower food and fuel prices as well as expectation of a normal monsoon. The inflation path during 2019-20 is likely to be shaped by several factors. First, low food inflation during January-February will have a bearing on the near-term inflation outlook. Second, the fall in the fuel group inflation witnessed at the time of the February policy has become accentuated, RBI said.

Transmission of rate cut: Highlighting the importance of the transmission of RBI rate cuts to the consumers by the banks, the central bank's governor Shaktikanta Das said that RBI may come out with guidelines on it. "We hope to come out with guidelines for rate cut transmission by banks," Das said, interacting with media after the monetary policy committee (MPC) meet. Shishir Baijal, Chairman & Managing Director, Knight Frank India said, "We hope that the reduction in rate are passed on by the banks to the home buyers. Lower interest rates, along with the recent reduction in GST rates for under construction properties, should provide the fillip to end-user demand. The real estate sector has been looking forward to such stimuli to boost sales velocity."

On SC decision of RBI circular: RBI is planning to take necessary steps including revised circular for quick resolution of nonperforming assets (NPAs). The state came after the Supreme Court recently struck down RBI's February 12 2018 circular. "RBI will issue a revised circular for NPA resolution," said Das. The Supreme Court on Tuesday quashed the RBI circular of last year that pertains to the provisions for referring the defaulter to the National Company Law Tribunal (NCLT) even on a one-day overdue.

Muted rural growth: The central bank in its release also added that the nominal growth in rural wages and staff costs in the organised manufacturing and services sectors remained muted in the third quarter of FY19. It also said that farm and industrial input costs increased at a slow pace in January and February 2019.

Slowdown in global economies: Since the last MPC meeting in February 2019, global economic activity has been losing pace, RBI said. In the US, the subdued performance in the final quarter of 2018 appears to have continued into the first quarter of 2019 also as reflected in declining factory activity. In the UK, growth slowed down on Brexit uncertainty, with industrial production contracting during September-January. The latest data on manufacturing activity and business confidence also suggested that growth lost momentum in this quarter. The monetary policy stances of the US Fed and central banks in other major advanced economies (AEs) have turned dovish.

ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.

Commodities: Crude oil prices have risen on production cuts by Opec and Russia as well as disruption in supplies due to US sanctions on exports from Venezuela. International crude oil prices have increased by around 10 per cent since the last policy announcement. Rising oil prices are undoubted a worry for India Inc as well as rupee. On the other hand, gold prices weakened on expectations of positive outcomes of the China-US trade deal. “Inflation continued to remain low in major advanced economies and many key emerging markets due to slowing global growth and stable or falling commodity prices,” said RBI.

Need to boost private investment: The MPC also noted that the output gap remains negative and the domestic economy is facing headwinds, especially on the global front. “The need is to strengthen domestic growth impulses by spurring private investment which has remained sluggish,” RBI added.

Viral Acharya voted for status quo: Four members of the committee including Pami Dua, Ravindra H Dholakia, Michael Debabrata Patra and Shri Shaktikanta Das voted in favour of the decision to reduce the policy repo rate by 25 basis points. However, Chetan Ghate and Viral V Acharya voted to keep the policy rate unchanged. Sameer Kalra, Founder, Target Investing said, “The votes pattern remained the same showing the continuation of rate policy dependent on the data. Give the volatility in inflation due to oil prices MPC has lowered inflation targets by 40 bps with keeping buffer rate cuts if the inflation goes lower. We believe this is a good position as higher cut would have showed weakness at macro level but such policy decision gives confidence to the stakeholders that there is room for further rate cut only if needed.”

Next MPC meeting: The minutes of MPC’s meeting will be published by April 18, 2019 and the next meeting is scheduled from June 3- 6.

RBI to nudge banks to pass on rate cut to borrowers

The Reserve Bank of India will nudge bank CEOs to pass on the benefit of lower policy rates like it did after the previous policy, because the lenders have not been always proactive in transmitting the central bank’s policy actions without verbal persuasion. “It has been decided to hold further consultations with stakeholders and work out an effective mechanism for transmission of rates,” RBI governor Shaktikanta Das said on Thursday after announcing a 25 basis point cut in repo rate for the second time this calendar. “We are conscious of the fact that there has to be effective and appropriate transmission of the rates,” Das said in post-policy media interaction. “After the last meeting, I had held meetings with public sector and private sector banks. The banks have cut MCLR by up to 10 basis points. But more needs to be done.” No bank had lowered marginal cost-based lending rate (MCLR) after the previous repo rate cut in February before RBI brass persuaded banks to do so. State Bank of India had made a token 5 basis point home loan rate cut, but it kept the benchmark MCLR intact. Many experts have raised doubts over the effectiveness of repo rate as a monetary policy tool. “We believe that despite an additional cut in policy rates, the transmission in banks’ lending rate will remain incomplete as the incremental build-up in their deposits continues to lag the credit growth and the interest rates on small savings continue at elevated levels,” said Anil Gupta, ICRA’s sector head for financial sector ratings. Doubts have also been cast on whether banks would be able to lower rates as they have actually frontloaded the lending rate cuts following RBI’s persuasion, anticipating lower deposit rates in the first quarter when credit demand typically remains tepid. “No substantial relief is expected for borrowers in their monthly loan instalments as banks are unlikely to induce a large cut in their benchmark lending rates,” Gupta said. Stakeholders believe that it’s the liquidity that holds the key for effective monetary transmission. “What concerned us more is addressing the liquidity tightness in the system, wherein the real problem lies,” said Amar Ambani, head of research at YES Securities. “The questions to the governor in the post policy interactions also circled around liquidity deficit and lack of transmission of rate cuts." Das said it is a question of deciding on the quantum of rate cut based on your assumption of what is the right call at that particular point of time. Assuming there is space, there are upsides and downsides and based on that a considered call has to be taken, the RBI governor said. He said the central bank had taken several measures to enable better management of interest rate risk by banks – for instance, by allowing non-residents to participate in the rupee interest rate swap market.

The searches were carried out at multiple locations in a number of cities, including the Delhi-NCR, Chandigarh and Kolkata at office and residential premises of the company,

The CBI carried out searches in multiple cities on Saturday at the premises of Bhushan Steel and Power Ltd after registering a case against them for alleged cheating amounting to ₹ 2,348 crore , officials said. The searches were carried out at multiple locations in a number of cities, including the Delhi-NCR, Chandigarh and Kolkata at office and residential premises of the company, its directors and promoters and their associates, they said. The agency has booked the firm, it's directors, unidentified public servants and other private persons in the case. "It was alleged that the accused entered into a criminal conspiracy among themselves and with unknown public servants and others to cheat banks/financial institutions/govt exchequer," a CBI spokesperson said. It is alleged that the directors of the company allegedly diverted huge amount of bank funds using their companies and shell companies. The company deliberately defaulted in repayment and also claimed inadmissible credit causing a loss of ₹ 2,348 crore to the banks.

ET View: Repo rate cut welcome, but rigidity and constraints remain

The RBI's repo rate cut, many think, should have been sharper, 50 basis points at least. However, it would not have made much of a difference to credit growth or the cost of credit, which are constrained, still, by the overhang of bad loans and rigidities in the credit market—segmented markets, a shallow corporate bond market and the reliance on constantly rolled over short-term loans from scantily capitalised non-banking finance companies to fund segments of industry and infrastructure. The RBI did well to reiterate its backing for the process of resolving bad loans under the Insolvency and Bankruptcy Code, notwithstanding the Supreme Court's annulment of its February 12 circular. Instead of seeking resolution of a class of bad loans, as the Feb 12 circular had, the RBI will need to make specific references. That means a little more paper work, but not an insurmountable hurdle. It is also welcome that the RBI expects growth to accelerate in the 2019-20 fiscal. The huge amounts of money being spent by political parties, as part of the election campaign, will give a boost to economic activity in the first quarter, and if recapitalised banks find the will to start lending again, and the private sector given a chance to take part in infrastructure building through public-private-partnership contracts that absorb the lessons from past mistakes, we should expect a revival in private investment, pushing the investment rate (share of gross fixed capital formation in the GDP) back to upward of 33%, from the current level of 29% of GDP. Regardless of a global slowdown, India should sustain growth in excess of 7%.

Banks can now refer defaulters to NCLT on case by case basis: Bankers

NEW DELHI: With the Supreme Court nixing February 12 circular, the banks will now have discretion in taking the defaulting companies to NCLT under Insolvency and Bankruptcy Code (IBC), said experts. The Supreme Court on Tuesday quashed the RBI's February 12 circular, which prescribed rules for recognising one-day defaults by large corporates and initiating insolvency action as a remedy. In the best interest of customers, banks will take a call on referring cases to National Company Law Tribunal

(NCLT) on case by case basis, a top public sector bank official told PTI. Prior to February 12 circular of the RBI, the resolution mechanism available to banks were Corporate Debt Restructuring Scheme (CDR), Scheme for Sustainable Structuring of Stressed Assets (S4A), and Joint Lenders' Forum (JLF). It would be difficult to say now cases would be resolved only through a particular mechanism like CDR, S4A or JLF, the official said, adding it would depend on the gravity of the default cases. Banks can also look at the Project Sashakt as mechanism for the resolution of stressed assets apart from CDR, S4A and JLF, another senior public sector bank official said. Last year, over two dozen lenders, led mostly by state-run banks, signed the inter-creditor agreement (ICA) under 'Project Sashakt' to speed up the resolution of stressed assets that are under the Rs. 500 crore brackets. According to former RBI Deputy Governor R Gandhi banks can now take defaulting companies on their own instead of being directed by the regulator. "It is for the banks now to take a call on case to case basis whether the default is such that it can be taken to NCLT or they are willing to give some more time or restructure it. All these options are within the commercial domain of banks...they will still remain answerable to the RBI," Lakshmikumaran & Sridharan Executive Partner Punit Dutt Tyagi said. According to Tyagi, the resolution can be done through any of the mechanism which existed prior to February 12, 2018 circular. According to the circular, lenders had to classify a loan account as stressed if there was even a day of default. The bankers had to mandatorily refer all accounts with over Rs 2,000 crore loans to the National Company Law Tribunal (NCLT) or the bankruptcy court if they failed to resolve the problem within 180 days of default. Lenders were supposed to file an insolvency application under the Insolvency and Bankruptcy Code 2016 within 15 days of the completion of the 180-day deadline. The circular also withdrew the loan resolution mechanisms the RBI had implemented, such as Corporate Debt Restructuring and Strategic Debt Restructuring. Revised framework for resolution of stressed assets issued on February 12, 2018 invited criticism from various quarters, including a parliamentary panel. The Reserve Bank of India substituted the previous guidelines with a harmonised and simplified generic framework for resolution of stressed assets in view of the enactment of the Insolvency and Bankruptcy Code. "Although the new guidelines have been termed as harmonized and simplified generic framework, yet they are far from being so," Standing Committee on Energy in its report tabled in Parliament last year said. "The Committee are of the opinion that the coinage of restructuring in resolution plan is hollow without having any serious meaning or business which only reflects the blurred vision of RBI in understanding and appreciating the problems. The Committee expect that clarity of thought and transparency in approach should be the guiding factor to streamline and strengthen the sector squirming under ineluctable hardships," it said.

<u>In one fell swoop, SC punctures RBI's efforts to tackle bad loans</u>

In a move that may change the very basics of the India's bankruptcy regime, the Supreme Court today declared RBI's momentous circular on defaulting companies as unconstitutional. The circular in question sought to deal with resolution of stressed assets by way of a revised framework. Commonly referred to as the February 12 circular, it had forced seriously stressed companies to come clean and declare bankruptcy. The circular had taken away lenders' discretion to not act tough on soured loans, forcing defaulting businesses to either opt for resolution, or file for insolvency. Since the beginning, the circular created a huge amount of hue and cry in various quarters. Banks, corporates and even the government were staunchly opposed to it from the very outset. On many occasions, these power centres had pushed RBI to roll back or at least water down some of the most stringent clauses. The RBI refused to budge, insisting that the new rules will change India's credit culture for the better — it will force banks to deal with NPAs more proactively, leading to a reduction in NPA accumulation in future. The RBI under Urjit Patel stuck to its line till the end, causing much heartburn in government circles, which eventually led to the governor abruptly putting in his papers. Corporates and banks were particularly riled about two specific provisions — (a) abolition of traditional restructuring processes, and (b) the one-day default rule. The circular stipulated that lenders had to mandatorily send all accounts with over Rs 2,000 crore loans to the NCLT if they failed to resolve the problem within 180 days of default. More importantly, banks were forced to classify a loan account as stressed if there was even one single day of default.

Why RBI brought in the one-day rule There were a host of reasons — (a) to force banks to identify stress in loan account without delay; (b) to bring about a change in the country's credit culture by way of timely repayment of loans and cutting out deliberate delays; and (c) the RBI wanted the system to penalise the defaulter via rating downgrades, which would raise borrowing costs for offending businesses.

Why borrowers & lenders opposed it Various companies — in power, sugar and fertiliser sectors — had challenged RBI's directive as unconstitutional on the ground that it wrongly classified them as wilful defaulters. Their argument was that they were stressed because of external reasons beyond their control. Some genuine cases where customer payment is overdue was because of slow processing by government departments, a number of defaulters had argued. They said they didn't want to be labelled defaulters for other's mistakes. The RBI, however, held that many delay payments wilfully and earn income by investing the money that belongs to banks.

The traditional methods There were quite a few — Corporate Debt Restructuring, Strategic Debt Restructuring, Flexible Structuring of Project Loans and the Scheme for Sustainable Structuring of Stressed Assets (S4A). Under the earlier processes, lenders could change the tenor and rates for easier payments by the borrower. These methods failed to reduce the problem, leading to a spike in bad loans over time. The situation became so bad that over 10% of total bank loans turned into NPAs at one point. Both borrowers and lenders misused these schemes because it helped them conceal the true state of affairs. Many companies tried to avoid the NPAs tag by sidestepping the rules. And in that effort, they had lenders by their side. The February 12 circular ended all this by bringing big businesses under its ambit — barring MSMEs that had loans of Rs 25 crore or less. All accounts where any of the past schemes like SDR and S4A have been invoked but not implemented were brought under the revised framework.

What happens now Since the circular has been quashed, all cases referred to IBC will now be likely reversed. Every consequential proceeding, including insolvency proceedings, initiated under Section 7 of IBC also stand to be quashed now. The court also held that reference under IBC has to be on case-specific basis and with authorisation of central government.

RBI should introspect if it was responsible for slowdown of India's economic growth: Piyush Goyal

NEW DELHI: India's railways and coal minister Piyush Goyal said the country's central bank should review its policies and "introspect" to check if they contributed to the slowdown of economic growth while welcoming the second successive rate cut by the Reserve bank of India (RBI). "To some extent, RBI also has to introspect, whether they had any role to play in the economy going down to a potential 7.2% (growth) this year, instead of 7.4 or 7.6%, or why we didn't achieve double-digit growth faster," Goyal said, while addressing the CII annual session in the city on Friday. "I think every organisation will have to introspect. How much contribution have they made to the woes of the country today," Goyal said. Liquidity crunch in the second half of the last fiscal is seen as one of the main reasons for GDP growth declining to 7% in FY19 from 7.2% last fiscal. RBI sees the economy growing 7.2% in the current fiscal while Fitch Ratings pegged it at 6.8%. The central bank cut its key policy rate by 25 basis points on Thursday, the second successive rate cut, factoring in softer growth and benign inflation. Goyal's comments were apparently targeted at former central bank governor

Urjit Patel, when serious differences arose between the central bank and the government over multiple issues, liquidity being one. Patel resigned in December. The government then appointed former economic affairs secretary Shaktikanta Das as the new governor. "Certain steps, over a period of time, I believe, could have been done differently. I believe growth should as much be an objective of the Reserve Bank of India as controlling inflation," Goyal said. "It is mandated to manage inflation within a band and also to look after the growth of the economy," Goyal said endorsing the recent steps taken by the central bank. The RBI has in recent months tried to address the liquidity crunch and held its first ever dollar/rupee swap last month to infuse for rupees into the system. "I am delighted that the RBI governor and his team today are also recognising growth as a priority. I compliment him for yesterday's policy, which has reflected the good work of this government and he has also appreciated that interest rates are an important element of growth," Goyal said. Goyal was interim finance minister twice last fiscal when finance minister Arun Jaitley was indisposed due to illness. "With the lowering of interest rates for the second time in succession, a clear signal has gone that the government's efforts in lowering inflation down to levels which are unheard of in the India's history and are bearing results and will help India become much more competitive in the world, with better financing terms, lower interest rates and hopefully better liquidity," he said. "I am glad that the governor of the Reserve Bank of India has made the right moves in the last few months." In an apparent dig at the Congress manifesto, Goyal said the country must move away from the dole culture in order to empower people to become self-reliant, to be entrepreneurs, and work for a living. "Otherwise, I think it's a race to the bottom if we keep encouraging doles, if we keep encouraging bad behaviour. Then we will be racing to the bottom instead of aspiring to the top," Goyal said. Defending the electoral bonds scheme, Goyal said the BJP government has taken steps in the right direction towards making political funding clean and legitimate. He said that the fear of other parties would earlier deter businessmen to write a cheque in favour of a certain political party.

<u>What SC verdict means for banks, companies and RBI</u>

What February 12 circular was all about;

ONE-DAY DEFAULT RULE Banks had to treat a company as defaulter even if it misses repayment schedule by a day

IMMEDIATE RESOLUTION PLAN Lenders told to put in place board approved policies for resolution of stressed assets

TIMELINE FOR REFERRING TO IBC

Circular had mandated lenders to fi le insolvency applications if default persists for 180 days from and after March 1, 2018 for debts with aggregate exposure of more than `2,000 crore

SCRAPPING OF PAST RESOLUTION MECHANISMS

Framework for Revitalising Distressed Assets, Corporate Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, Strategic Debt Restructuring Scheme (SDR), Change in Ownership outside SDR, and Scheme for Sustainable Structuring of Stressed Assets (S4A) were withdrawn

SC VERDICT RBI cannot make an all-season circular for every defaulter agnostic of sectors. The February 12 circular has no legal validity But under section 35AA, government has given powers to RBI to direct banks to refer to NCLT only in specific cases — where there is a default — such as the first 12 large cases.

IMPACT... Relief to specific sectors such as power, sugar and shipyard Defaulting borrowers in those cases may challenge banks Resolutions contemplated for Jet Airways may be delayed Banks plan for higher recovery through NCLT cases initiated with specific reference to February 12 circular becomes null and void Bad loan recovery to be partially impacted Credit negative for banks No impact related to accounts mentioned in the first and second RBI lists. The first list constituted around 25 per cent of the NPAs in the system and the cumulative fund-based and non-fund-based outstanding therein amounted to Rs. 1, 97,769 crore Going forward the government and RBI will have to evaluate the impact and decide the follow-up corrective measures required, especially considering the overall impact on the NPA resolution process of the Indian banking system.

Despite weaker Dena, BoB has minimal impact on NPAs post-merger

MUMBAI: Bank of Baroda Monday said the amalgamation of Dena Bank and Vijaya Bank it from Monday is unlikely to bring in much change in the financials of the combined entity, including non-performing assets. The three-way merger, the first in the country, makes BoB the third largest lender after State Bank of India and HDFC Bank, and the second largest among state-run banks, with a combined business of Rs 15 lakh crore, of which deposits are Rs 8.75 lakh crore and advances are at Rs 6.25 lakh crore. "Looking at capital adequacy ratio for December 2018 quarter, the numbers don't change magically as the pluses of one (Vijaya) are offsetting the minuses of the other (Dena). So net numbers of the combined entity is close to where BoB has been in terms of core capital," managing director & chief executive PS Jayakumar told PTI in an interaction. He said as of the December quarter, CET1 of BoB was 8.65 percent and on a consolidated level it would be 8.67 percent. Of this, on a standalone basis, BoB's tier 1 capital stood at 9.86 percent and at the combined level it would also be 9.86 percent. As far as net NPA is concerned, for BoB it was 4.26 percent in the December quarter. Given the fact that Dena has much higher NPAs, the new NPA numbers for the combined entity is marginally higher at 4.80 percent, he said. "Yes, net NPA has increased but it is not a blow up by any means, and at 4.8 percent but this is something that we can address over the next two quarters," Jayakumar said. He said in absolute terms, net NPA of BoB stood at around Rs 19,000 crore and this would move to Rs 30,000 crore on a combined basis and he hopes to see improvement in the combined numbers from the first quarter of FY20. "We are at the end phase of NPA-related challenges. In general, everybody is expecting the recovery cycle to begin from now on. I'd think that positive movement should start from the March quarter itself," he said. Ahead of the merger, government had infused Rs 5,042 crore capital into the bank, and he said he will not require any immediate capital. From now on, all customers of Dena Bank, which is under prompt corrective action of the RBI, will have renewed access to credit facilities immediately, he said, adding credit growth of BoB and Vijay have been at 15-18 percent and it will continue to grow at the same pace. Jayakumar said plans are also afoot to build on the strengths of individual banks and their gain from their synergies and scale up operations by deepening relationships with a wider customer base. By the end of this month, BoB will bring in interoperability of the key banking services at all the 9,500 branches of the combined entities which would now be known as BoB also the 13,400 ATMs. He said IT integration is expected to be completed over the next 12-18 months when accounts of all three banks will be migrated to single core-banking system. BoB is now on the version 10 of Finnacle, while Dena and Vijaya are on different versions of Finnacle. Ruling out a massive branch mergers, Jayakumar said in rural areas the overlaps are very thin, but in around 1,000 urban centres, the bank will be looking at relocating branches to areas. Similarly, he also ruled out retrenchment as he does not see redundancy in extra-staff as there are many sectors where BoB is not present and would now focus on those areas. The combined entity will have a workforce of over 85,000. "Our total number of employees is not going to shrink. We will, in fact, be in an expansionary mode as we need different kind of talents such as a larger outbound sales force, more competencies in analytics and artificial intelligence," he said, adding so there is not plan on the table to bring in a voluntary retirement scheme. Amalgamation of Dena and Vijaya with BoB is the second merger during the past five years. The State Bank had merged five of its associate banks--that of Patiala, Bikaner & Jaipur, Mysore, Travancore and Hyderabad as also the Bhartiya Mahila--in April 2017, making SBI the 48th largest lender in the world with a balance sheet of USD 500 billion. The BoB counter closed 3.2 percent up at Rs 132.85 on the BSE while the benchmark Sensex rallied 0.51 percent to close at a near-life time high of 38,871.87.

Reforming legal system is the most important thing: Sanjeev Sanyal

Amid the reform talks all over to build India for 2022, government feels that reforming the country's legal system is the most important reform needed in India at this time. "Reforming the legal system is the most important reform. We need to double our number of judges and set up more number of courts on the country," Sanjeev Sanyal, principal economic advisor in the ministry of finance said outlining that the ability to enforce contracts will be India's biggest constraint going forward. Sanyal was speaking at the annual session of the Confederation of Indian Industry India 5.0: India@75 and Beyond on Thursday. Elaborating on the roadmap that NITI Aayog has laid out for the government, CEO Amitabh Kant said that government needs to get out of most areas and rather focus on land efficiency, labour and capital for India @75. "If India wants to grow at double-digit over next three decades and uplift millions out of poverty we need to focus on nutrition, health and education," Kant said at the CII session. Commenting on the role of corporates in building up an India for 2022, TV Narendra of Tata Steel said corporates need to take a more balanced view while government needs to ensure system competitiveness is not diluted. "India needs to leverage its attractiveness of a big market to attract more investments and create more jobs," Narendran said. Housing minister Hardeep Singh Puri, however, said behavioural change is needed to bring in the change we are seeking in India by 2022 and beyond.

RBI will come up with revised circular to deal with resolution of stressed assets: Shaktikanta Das

The RBI governor said that the central bank will come up a revised circular to continue its battle against the menace of stressed assets within India's banking system. While speaking after the RBI monetary policy committee, Shaktikanta Das said that the Supreme Court order struck down the February 12 circular regarding resolution of stressed assets but the validity of section 35AA of the Banking Regulation Act remains intact. He further elaborated that the RBI will issue a revised circular under section 35 AA which authorises the central bank to authorise initiation of insolvency in respect of a default. Section 35AA and Section 35AB of the Banking & Regulation Act were introduced in May 2017 to add more teeth to the RBI's fight to tackle the issue of bad loans in the system. Section 35AA authorises the RBI to issue directions on initiation of insolvency in case of a default while section 35AB deals with the issue of resolution of stressed assets. The Supreme Court had declared the RBI's February 12 circular as ultravires of section 35AA of the BR Act. The circular revoked all previous restructuring schemes approved by the RBI and allowed borrowers a window of 180 days to resolve their stressed accounts.

Despite second RBI action, bankers non-committal to cut rates

MUMBAI: Bankers are non-committal on immediately passing on the second successive rate cut by the central bank and the more liquidity easing measures. Though remaining non-committal on immediately lowering their lending rates, bankers Thursday welcomed specific regulatory measures like deferring a linking of external benchmark on loan and deposit pricing and on statutory liquidity ratio as positives for lenders. For the second consecutive time, the monetary policy committee voted to cut the benchmark rates by 25 bps to 6 percent Thursday. In the February policy review as well the repo rate was slashed by a similar quantum. However, after the governor Shaktikanta Das publicly asking them to do more to pass rate cuts to the borrowers, bankers affirmed their commitment to work on the same. "The downward revisions in GDP and inflation projections reveal the near-term global headwinds, and lower- than-anticipated rainfall may add to more uncertainties," SBI chairman Rajnish Kumar warned. Regulatory decisions, which Kumar welcomed, include the decision to categorise additional 2 percent of excess SLR (statutory liquidity ratio) for LCR (liquidity coverage ratio) which will release additional liquidity into the system. It is a "forward-looking policy" which caters to market participants' demands, Kumar added. Industry lobby Indian Banks Association Chairman Sunil Mehta said the latest rate cut on top of a similar move in February, coupled with the moves on easing liquidity will help banks with faster transmission. He further said the lowering of the inflation forecast also provides further comfort. Mehta, who also leads Punjab National Bank, said the cumulative cut of 0.50 percent "evidently is to push economic growth". House economists at largest private sector lender HDFC Bank said there is room for more rate cuts, but it may not be introduced at the next policy review. They pointed out to one line in the monetary policy committee resolution on the output gap remaining negative and difficulties faced by the economy which suggests that there can be more rate cuts in the offing. Kotak Mahindra Bank president for consumer banking Shanti Ekambaram said growth across manufacturing, services and agriculture has moderated, while food inflation continues to be benign which suggests interest rates are "likely to be stable with a downward bias". State-run Bank of India's Dinabandhu Mohapatra and SBI's Kumar also welcomed the proposal to set up a task force on the development of secondary market for corporate loans. B. Prasanna, who heads the global markets group at ICICI Bank, said the policy is "prudent" and projected there being more room for the MPC to support growth if required. Foreign lender Standard Chartered Bank India chief executive Zarin Daruwala said the rate cut and the moves on liquidity will "aid" monetary transmission. The vice-chairman of the second largest mortgage lender Indiabulls Housing Finance, Gagan Banga, said the rate cut will cheer the housing sector, both on the supply and the demand side. The pick-up in the sector will accelerate especially as it comes on the back of GST rationalisation. He also welcomed the RBI proposal to develop housing finance securitisation market, saying the move will lead to better management of asset-liability and liquidity in the sector. Non-banking lender Tata Capital's Rajiv Sabharwal opined that the central bank RBI will pause from here on and will await global growth cues and the impact of monsoons before any further intervention.

SFIO arrests ex-chairman of IL&FS Hari Sankaran on grounds of abusing his power

MUMBAI: The Serious Fraud Investigation Office made its first big arrest in the Infrastructure Leasing & Financial Services (IL&FS) case by taking former vice chairman Hari Sankaran into custody. A special sessions court in Mumbai remanded Sankaran to SFIO custody till Thursday. “Sankaran has been arrested in connection with the ongoing investigations into the affairs of IL&FS and its group entities. He has been arrested on the grounds of abusing his powers in IL&FS Financial Services Ltd (IFIN),” SFIO said in a press release on Monday. Sankaran was part of the erstwhile board that granted loans to undeserving or ineligible entities, according to the investigative wing of the ministry of corporate affairs that is probing IL&FS under provisions of the Companies Act. The IL&FS board was reconstituted in October after it defaulted on loan payments.

SANKARAN HAD RECEIVED SHOW-CAUSE NOTICE

“He caused wrongful loss to the company and its creditors,” SFIO said. It said IFIN had borrowings of more than Rs 17,000 crore from debt instruments and bank loans. Provident funds, pension funds, gratuity funds, mutual funds, public and private sector banks were among those that invested in these debt instruments, the release added. Sankaran was confronted with the audit report prepared by

Grant Thornton, but he allegedly evaded all the questions, said people aware of the matter. He blamed other board members for granting the loans. Since there was a deliberate act of omission and concealment of facts, which amount to criminality under the provisions of the Companies Act, he has been arrested, said an official who spoke to ET requesting anonymity. Last month, the IL&FS board had sent a show-cause notice to Sankaran, dwelling specifically on the loans granted by IFIN. The SFIO, too, sought Sankaran's clarification on this matter but he failed to give a satisfactory reply, people aware of the matter said. "It has been revealed that for 14% of the loans outstanding to external parties as on September 30, 2018, the collaterals are not secured and for 21% of the loan outstanding to the external parties as on September 30, 2018, the security charge on the collaterals are not adequate. Some borrowers with outstanding loan amounts of over Rs 100 crore have become NPAs," read the show-cause notice served to Sankaran, accessed by ET. The borrowers include Gujarat-Dwarka Portwest (Rs 370 crore), SKIL Infrastructure (Rs 249 crore), Dev Rishab Real Estate (Rs 117 crore), ABG International (Rs 261 crore) and Pralay Infrastructure (Rs 180 crore). Sankaran was asked to explain loans sanctioned to at least 13 entities by IFIN, which had Rs 1,185.86 crore outstanding as on September 30, 2018. The Grant Thornton report detailed 29 instances where loans disbursed to borrowers were apparently used by their group companies to repay existing debt obligations with IFIN. SKIL's Gujarat-Dwarka Portwest borrowed Rs 253 crore in 2015-16 and in the same period SKIL Infrastructure repaid Rs 230 crore to IFIN. Similarly, IFIN disbursed Rs 365 crore to Flemingo group between 2017 and 2019 and during this period, its group companies repaid Rs 407 crore to IFIN. Also in 2017-18, India Cements' Chennai Super Kings borrowed Rs 65 crore from IFIN and in the same period, EWS Finance & Investment paid Rs 40 crore to IFIN, according to the report. Other than the SFIO, the enforcement directorate is probing 19 companies and some former board members for alleged money laundering. Cases under the Prevention of Money Laundering Act have been registered against IL&FS Rail, IL&FS Transportation Networks, former IL&FS chairman Ravi Parthasarathy, and Sankaran.

Axis Bank asks more than 50 mid-level managers to leave

MUMBAI: Axis Bank has terminated more than 50 mid-level managers as it restructures its business and cuts cost under a new chief executive. As executive vice-presidents and vice-presidents, the affected officials led various supervisory functions in corporate and retail banking. These roles became redundant after the new CEO reviewed the business, and the lender could not find suitable jobs for them in the hierarchy, two people familiar with the bank's staff reorganization told ET. The exact number of executives retrenched could not be independently ascertained. "There has been an overhaul of the business and some mid-level people could not find space in the new scheme of things. They have been told to find another job. This has rattled many old-timers in the bank," said a person familiar with the reorganisation. Axis Bank, replying to ET's queries, said in a mail that changes are afoot at the bank to raise 'productivity and efficiency'. The lender did not refer specifically to the jobs lost, saying instead that manpower reduction was not central to its reorganisation plans. "...the bank has been working on multiple initiatives aimed at streamlining processes and simplifying the overall organisational structure," said Rajesh Dahiya, executive director, corporate centre. "While a few employees have opted for early retirement as a result of this process, the bank has no plans to reduce manpower." Since taking over as CEO in January, Amitabh Chaudhry has changed the organisational structure, brought in new people and changed business strategy to a low-risk, high-growth orientation. The bank's operations are split in such a way that origination, risk and monitoring are under different heads. Every departmental head, including the technology and risk managers, directly reports to the CEO. "There is some unease at the way new people have been brought in while some in the senior management from among the old-timers have been left with truncated portfolios. Some have left and some others are seriously contemplating moving out. A large part of it is the cultural change brought about by the new CEO, which is expected when a leadership change happens. Chaudhry has taken control and takes all the decisions," said the second person cited above. In an interview with ET late January, Chaudhry had said that by making the IT, digital, head of coverage and a new post of chief credit officer report to him, he is making a statement that these verticals are important for the future. "We've told internally to continue to invest heavily on technology and risk-management because we need to beef up resources there. We've already done a lot of work (on risk management), but some new areas we want to invest in," Chaudhry had then said.

Lenders still have the power to take corporates to NCLT

Mumbai: Indian banks would still have the power to recover loans by using the bankruptcy code, but they would have to demonstrate their seriousness about protecting depositors' money. "There is nothing preventing the banks from… taking corporates to NCLT," said a bank executive after the apex court struck down the February 12, 2018, circular. "This momentum is set and banks will do everything to protect the depositors' money." Under the new framework, banks are required to identify incipient stress in loan accounts, immediately on default, by classifying stressed assets as special mention accounts. Under the framework, lenders are required to put in place board-approved policies for the resolution of stressed assets, including timelines for resolution. Lenders are initiating action to cure the default. "The consequence is now that the circular is scrapped, the resolution process will get elongated and impact their financials," said a bank executive. "Cases that got referred under the compulsion of IBC are at various stages." For exposures exceeding Rs 2,000 crore, corporates were given six months within which they had to either resolve stressed assets or face the Insolvency and Bankruptcy Code. At the first stage, the RBI referred 12 accounts for resolution under the Insolvency Code and these constituted around 25% of the NPAs in the system and the cumulative fund-based and non-fund-based outstanding amounted to Rs 1,97,769 crore. In terms of impact on asset quality and profitability for banks, Icra in its earlier reports mentioned that the total estimated debt affected because of the circular was Rs 3.8 lakh crore across 70 large borrowers. Of this, Rs 2 lakh crore was across 34 borrowers in the power sector. Further, 92 per cent of this debt was classified as non-performing by banks as on March 31, 2018. "Banks have made provisions of over 25-40 per cent on these accounts and hence should not impact the reported asset quality of profitability numbers. However, the resolution process, which was expected to be expedited, may get delayed," said Anil Gupta, vice president & sector head - financial sector ratings, Icra.

View: India's crony capitalism claims another victim by Andy Mukherjee

You don't adopt a modern insolvency law in the expectation of damaging the credibility of your central bank. But that's just what has happened in India. The country's Supreme Court on Tuesday struck down a controversial 2018 directive from the Reserve Bank of India, which gave lenders a 180-day deadline to resolve non-performing loans before having to refer the defaulting borrowers to a bankruptcy tribunal. The verdict is a serious blow to the bank's officials, who have been trying to tackle one of the world's worst bad debt problems – with some early success. Yet it's a huge relief to several Indian industries, especially the country's power-generating companies, which are saddled with stranded capacity and too many borrowings. They had sued the central bank, arguing that a 2017 law introduced to empower the central bank on corporate defaults (and thereby beef up India's new insolvency code) was unconstitutional. Luckily, the companies failed in their broader attempt to overturn the new law. The judges ruled that it was good, and agreed that it did give the RBI greater scope to intervene on insolvencies. Nonetheless, they still decided that the bank had overreached with its February 2018 circular on the 180-day deadline. The Supreme Court found that under the new law, India's government has to instruct the RBI on specific defaults it wants settled by the bankruptcy tribunal. As such, the regulator was wrong to take sweeping, general action of its own. The verdict reduces the RBI's dwindling authority by another couple of notches. Urjit Patel, the former bank governor, saw the 2018 circular as a potent weapon against crony capitalism. His predecessor, Raghuram Rajan, had started forcing banks to come clean about the true extent of their $200 billion-plus stressed asset problem. Still, recognition is only the first step to resolution Under-capitalized state-owned lenders prefer to keep kicking the can down the road. Take Reliance Communications Ltd., the mobile phone operator controlled by Anil Ambani, the younger brother of India's richest man. An out-of-court restructuring of the company never got anywhere. Unpaid banks kept dithering on legal action, even as the firm closed its main business. But an overseas creditor, Sweden's Ericsson AB, swooped in, went to the bankruptcy tribunal, and got itself a handsome settlement. State Bank of India and other lenders are still waiting to see even a partial return of capital. Such examples abound. That's why Patel gave foot-dragging lenders a hard deadline on when they'd have to take errant debtors to the insolvency tribunal. And that made him enemies. Big power companies protested that broken government promises had caused the sector's financial woes, which meant they deserved forbearance. (Of course, when banks snatch the assets of small entrepreneurs, the fault is always with the borrower). For politically connected industrial families, the very idea that lenders would take away their assets and sell them – perhaps even to foreigners – is unthinkable. In the face of such powerful resistance, Rajan gave up as RBI governor and went back to the University of Chicago after a single three-year term, and Patel resigned abruptly late last year. In the world of the Indian "promoter" – as controlling shareholders are known in the country – cronyism isn't an aberration. Given India's opaque sources of political funding, it's an organizing principle of economic activity. In the end, the RBI was fighting a just but hopeless war against the cronies. Tuesday's 84-page Supreme Court order marshals impeccable legal logic to show that Patel's 2018 circular assumed a freedom of action that legislators never meant to give him. But who'll blow the whistle on this endless game of extending bad loans if the RBI, the banking regulator, can't? The government? We'll know after the general elections on May 23. When Prime Minister Narendra Modi's administration drafted the RBI into the bad debt fight, and got it to force banks to send two batches of large corporate defaulters to the insolvency tribunal, it did appear it was serious about changing the credit culture. But then it shifted course dramatically by anointing a known RBI-baiter – S. Gurumurthy, a Chennai-based accountant who'd attacked Rajan for making lenders tell the truth about non-performing loans – as a director on the central bank's board. This gradual weakening of the central bank is a great shame, because in the brief time the RBI got to play bad cop, it did some good police work. Among the firms that ended up in insolvency thanks to the central bank's prodding is Videocon Industries Ltd., whose financial creditors are owed $8.4 billion. One of its associate companies, Videocon Telecommunication Ltd., is also bankrupt with a debt load of $3.5 billion. And that's not even counting operational creditors. Venugopal Dhoot, the controlling shareholder, is under investigation in a favour-for-loan scandal involving ICICI Bank Ltd.'s former CEO, and her spouse. The rot runs deep, and somebody needs the legal authority to clean it up. Maybe the RBI will have to sit out the campaign. But how many knocks can it take before people lose faith in it as an institution altogether?

Banks, others may lose over Rs 90,000 crore as Videocon sinks

MUMBAI: The beleaguered Videocon Group has admitted to stupendous out standings to various lenders - public and private - amounting to over Rs 90,000 crore, making it perhaps the biggest corporate bankruptcy case in Indian banking history, official sources said on Thursday. The two main group companies - Videocon Industries Ltd (VIL) and Videocon Telecommunication Ltd. (VTL) - owe Rs.59,451.87 crore and Rs.26,673.81 crore, respectively or a staggering Rs.86,125.68 crore to Indian banks, led by the State Bank of India (SBI). Besides, 731 other Operational Creditors have made separate claims of Rs.31, 117, 971,029 (VIL) and Rs.12, 669,978,507 (VTL) for a total of over Rs 90,000 crore, the sources said. Interestingly, even the Group promoters - Venugopal Dhoot, Pradipkumar Dhoot and Rajkumar Dhoot - have also filed claims of Rs. 57,823.24 crores on the basis of personal guarantees provided by them for various facilities availed/guaranteed by VIL, which are under evaluation. The VTL has also claimed Rs. 17,86,94,69,659 from VIL on which there is no dispute and has been accepted in toto. This and other data has been uploaded by the company's Resolution Professional (RP) on its website today for varing periods ranging from November 2018 to January 2019. Industry sources say this will be the biggest private sector bankruptcy in India after the Insolvency and Bankruptcy Code was introduced in 2016 for debt resolution - with wide-ranging ramifications for both the corporate world and the banking sector. Last year, the company was sent by the SBI to the National Company Law Tribunal after the Dhoot-family owned company defaulted on its loans. As per the IBC regulations, the company's board of directors has been suspended and a RP appointed to manage its routine daily operations. Revealing the figures of claims, VIL has named a whopping 54 Indian and foreign banks, financial institutions and even a cooperative bank to whom it owes a staggering Rs 59,451.87 crore. Against this, claims of Rs.57,443.62 crore have been admitted while claims of Rs 1,149.57 crore have been rejected and those worth Rs.782.24 crore are being verified. There's the ICICI Bank with a claim of Rs 3,318.08 crore on VIL and another Rs 1,439 crore on VTL. It may be recalled that in January this year, the CBI had booked the then ICICI Bank Managing Director and CEO Chanda Kochhar, her husband Deepak Kochhar, VIL's Venugopal Dhoot and others, in an alleged quid pro quo loan scam, for criminal conspiracy and cheating. Later that month, Chanda Kochhar quit but in a drastic action, she was sacked by the bank which also revoked all her entitlements and appointed a new COO, Sandeep Bakshi, in her place. On January 31, the Justice B.N. Shrikrishna Committee appointed to probe the scam found her guilty of flouting the ICICI Bank's Code of Conduct as she failed to discharge her fiduciary functions to rescue herself to avoid any conflict of interest. Among the claims of VIL's 54 lenders are 34 banks with SBI making the biggest claim of Rs.11,175.25 crore; from VTL's total 34 lenders, SBI has claimed the highest amount of Rs 4,605.15 crore. From VIL, the second highest claimant is IDBI with Rs 9,561.67 crore. From VTL, the Central Bank of India is the second biggest claimant with Rs 3,073.16 crore. From VIL, the Latur Urban Cooperative Bank (Maharashtra) is the lowest claimant with Rs 33 lakh and from VTL, the lowest claim has been submitted by Bank of Maharashtra for Rs 21.13 crore.

A 93-year-old bank in Tamil Nadu is getting a rich parent from Mumbai

A 93-year-old bank in Tamil Nadu is moving to Mumbai. The boards of Lakshmi Vilas Bank (LVB) and Indiabulls Housing Finance this week approved the merger between the two to create what would be known as the ‘Indiabulls Lakshmi Vilas Bank’, with a combined loan book of Rs 1.23 lakh crore. The merger ends a decade-old institution, started by a group of businessmen to promote trade in western Tamil Nadu. LVB has been hit by rising bad loans over the past one year, depleting its capital adequacy ratio, which dropped to 7.57% at the end of December 2018 from 9.67% three months ago. The bank has made losses for five successive quarters, forcing it to raise capital through a hurried QIP a few days ago. In came the white knight in Indiabulls Housing Finance. Now the merged entity - Indiabulls Lakshmi Vilas Bank - will shift headquarters to Mumbai with Indiabulls chairman Sameer Gehlaut as the possible vice chairman of the new entity. Dismissing calls of selling out an orphaned child, current MD and CEO Parthasarathi Mukherjee told TOI that the new deal will give wings to the bank. "I would say we found a rich parent." The proposed deal structure gives the shareholders of Lakshmi Vilas Bank 14 shares of Indiabulls Housing Finance for every 100 shares held — about a 40% premium to LVB’s closing price on Thursday. Started by a group of seven businessmen of Karur under the leadership of V S N Ramalinga Chettiar in 1926, the bank was formed to cater to the financial needs of the people in and around the town who were occupied in trading businesses, industry and agriculture. LVB's troubles multiplied after it disbursed loans amounting to around Rs 720 crore to the investment arms of Malvinder Singh and Shivinder Singh, former promoters of pharma major Ranbaxy and Fortis Healthcare, against fixed deposits (FDs) of Rs 794 crore made with the bank by Religare Finvest in late 2016 and early 2017. Religare was promoted by the Singh brothers. Religare later sued the Delhi branch of LVB after the bank invoked the FDs to recover the loans. The issue is in the courts. "The bank grew while it was operating out of Karur. In 2014, the headquarters was shifted to Chennai from Karur, and ever since the bank's downhill journey started," a retired general manager of the bank told TOI. "It was small, working on a set mandate and content. The aggression to grow killed it." This deal may now raise expectations of more such transactions at south India-based banks that require capital but have large deposit franchises. "Since it had its roots in a small town, the bank was built by forging a strong relationship with customers," said a former employee of LVB. Though he had left the bank almost a decade ago, he still nurtures the relationships he built during his stint there. "This has happened because of the NPAs. But it is an excellent bank and I am sure it would bounce back," he said. "For long, Karur was linked to two banks - Karur Vysya Bank and LVB. One is gone now. Needless aggressive lending to grab market share has resulted in this downfall," N Mahalingam, a small trader in Karur, told TOI. His family owns shares in LVB.

Nearly all assets owned by IL&FS's lending arm have turned bad

The IL&FS story has gone from bad to worse. According to the government-appointed board of the lender, 90% of the Rs 18,800-crore assets of I-Fin, the firm's lending arm, have turned bad. The situation is so bad that it was impossible for the board to give a timeline to the creditors of group firms on when they could expect a court-imposed moratorium to be lifted and it also indicated that the sale of road assets was facing a delay. Chairman Uday Kotak said that the board has strengthened the management by appointing CS Rajan as managing director and bringing in chief executives for various verticals. Vineet Nayyar has been repositioned as executive vice-chairman. “We have a solid management team to manage the resolution process,” said Kotak. Highlighting the need to continue with the freeze on any payout by IL&FS, which has Rs 94,000 crore of fund-based debt, Kotak said that a period of calm was required for orderly liquidation of assets. “The concept of group financial liquidation of a complex firm like this is a first of its kind. We have to ensure that there is a fair treatment to different classes of creditors as there is a wide variety of them with conflicting interest,” said Kotak. He added that it was for the court to decide on lifting the freeze on payout as there were secured and unsecured creditors at different levels. “We are going to look at a solution to a broad set of creditors and not just banks, which have half of the debt. We have recommended a process, which is the IBC. Finally, it is for courts to decide which way resolution and distribution will happen in public interest. There is a large amount of public money at stake here,” said Kotak. In the presentation, COO N Sivaraman said that assets of group businesses, which have debt of around Rs 40,000 crore, have been put on the block. The bulk of these are in the roads sector (Rs 26,000 crore). However, the process is expected to get delayed as a couple of other infrastructure companies are selling their road assets, which are also being examined by the same set of bidders. Even as the board is working on a resolution, there is an investigative process going on which could lead to more criminal action. Deputy managing director Bijay Kumar said investigation is expected to reveal how money was moved out and whether there has been gold plating in the group's assets. According to Kotak, the bankruptcy code was not an option. “The question we have to ask is, what if we had 200 companies, with significant amount of cross-lending and layering, going to NCLT?” said Kotak. “Given that the earliest resolution in the NCLT has taken one-two years, how does it work for 100 companies?”

RBI to contest RTI queries on bank audits

The Reserve Bank of India (RBI) has taken a position that it will contest applications under right to information (RTI) seeking audit and inspection reports of banks despite a Supreme Court ruling in favour of disclosing the information. In a change of tack, the RBI has also decided to share information only with the RTI petitioner and not put the disclosures in public domain. Speaking to TOI, former central information commissioner Shailesh Gandhi said that 10 cases were decided by him, which were challenged by the RBI in the Supreme Court. “The SC gave a long-detailed reasoning why they saw no reason to change. Yet the RBI says that even if we follow that, it will be only for that particular case and not others,” said Gandhi. He said that now RTI applicants have filed a contempt petition because the RBI is denying information which Supreme Court has said that it should disclose. “If the RBI is allowed this, every public authority can say that every case can go to Supreme Court,” said Gandhi. The RBI is again facing multiple petitions seeking information on bank defaulters’ list, auditor reports and penalties levied on banks. However, the RBI has held back information despite earlier orders requiring it to disclose what is being sought. When he was the RBI governor three years ago, Raghuram Rajan had said that the central bank was not keen on divulging details of defaulters because it would hamper entrepreneurship and chill business activity. He said that defaults could take place for reasons beyond the control of the promoter and a layman reading the list would not understand the minor details. He also pointed out that defaults would include personal loans like credit cards. In a recent petition filed by Girish Mittal and Subhash Chandra Agarwal, the RTI applicants had cited the Supreme Court judgment in the RBI versus Jayantilal Mistry case, where the court held that the RBI has to uphold public interest and not just that of banks. The petitioner had filed a contempt petition, stating that the RBI was disobeying the Supreme Court’s order directing it not to hold back information. However, the stance of RBI’s counsel was that the judgment in the Jayantilal case would apply only to parties in that judgment.

Vijay Mallya fights Indian banks' attempt to recover dues in UK

Embattled liquor tycoon Vijay Mallya on Wednesday faced yet another legal battle to prevent a consortium of Indian banks led by State Bank of India (SBI) getting access to nearly 260,000 pounds in a UK bank account. The 62-year-old is contesting an interim debt order obtained by the Indian banks in January this year, which relates to funds in the former Kingfisher Airlines boss' current account with ICICI Bank in London. At a hearing before Master David Cook at the Queen's Bench Division of the court, Mallya's legal team sought a dismissal of the interim order. A judgment in the case is expected at a later date. "The hearing concerns an interim third-party debt order obtained by the banks in January and relates to funds worth just short of 260,000 pounds in Dr. Mallya's current account with ICICI Bank in London," said a spokesperson for TLT LLP, the law firm representing the Indian banks. "This is part of the banks' ongoing efforts to enforce the [Indian] Debt Recovery Tribunal judgment against Dr Mallya in the UK. Dr Mallya is opposing the application and asking that the court discharges the interim order. If it is made final, the funds will be released to the banks," the spokesperson explained. The case is part of wider efforts by SBI and 12 other Indian banks – Bank of Baroda, Corporation bank, Federal Bank Ltd, IDBI Bank, Indian Overseas Bank, Jammu & Kashmir Bank, Punjab & Sind Bank, Punjab National Bank, State Bank of Mysore, UCO Bank, United Bank of India and JM Financial Asset Reconstruction Co Pvt Ltd – to recover some of the funds owed to them as a result of unpaid loans by Mallya's now-defunct Kingfisher Airlines. In a ruling in May last year, a UK High Court judge had refused to overturn a worldwide order freezing Mallya's assets and upheld an Indian court's ruling that the consortium of 13 Indian banks were entitled to recover funds amounting to nearly 1.145 billion pounds. TLT LLP has been representing the banks in their efforts to recover their dues as part of the worldwide freezing order, including a bankruptcy petition aimed at seizing his assets to recover dues filed at the end of last year. Mallya had been granted 20,000 pounds in weekly allowance as a result of the worldwide freeze order after his legal team made representations to the court to hike the initial 5,000 pounds weekly allowance. Mallya, meanwhile, remains on bail after his extradition was ordered by Westminster Magistrates' Court in London in December last year and signed off by UK home secretary Sajid Javid in February. He has since filed an application in the UK High Court seeking leave to appeal against that order, with the papers now awaiting a judge's ruling on whether it should be rejected or can move to a hearing stage.

RBI to ensure strict turnaround time for customer plaints

MUMBAI: The Reserve Bank Thursday proposed to put in place a turnaround time (TAT) framework to resolving customer complaints without many delays, by the end of June. The central bank will also come out with a compensation framework across authorised payment systems by June 2019. The central bank said it has directed authorised payment systems to put in place an appropriate customer grievance redressal mechanism. For some payment systems, RBI has issued guidelines prescribing compensation to be paid to customers for delay in resolving failed transactions. It is, however, observed that the time taken for resolving customer complaint varies across payment systems. "To have prompt and efficient customer service in all the electronic payment systems, it is necessary to harmonise the TAT of resolution of customer complaints and charge-backs, and to have a compensation framework in place for the benefit of customers," RBI said. "Benchmarking payments systems is necessary to gauge our progress against payment systems and instruments in major countries and give further impetus to the planned efforts for deepening the digitisation of payments," the RBI said.

IL&FS Financial Services GNPA touches 90% in December 2018 quarter

Government appointed board of cash strapped IL&FS Wednesday said the gross non performing loan of it's lending arm IL&FS Financial Services (IFIN) has touched unprecedented level of 90 percent in the December, 2018 quarter. The board led by veteran banker Uday Kotak said that IFIN had reported a gross NPA of 61.8 percent and 5.3 percent in the quarter ended September 2018 and March 2018, respectively. "The company which reported a GNPA of 5 percent in March 2018. I have heard double digits NPAs but 90 percent GNPAs is very unusual by any standards. That's the challenge that we have faced," Kotak, who is the chairman told reporters. In recent past the highest NPA reported in the banking sector was around 27.9 percent by IDBI Bank. He said the total recovery for IFIN between October 2018 to March 2019 stood at Rs 931 crore. IFIN's lending to external entities stood at Rs 10,656 crore as of March 31, 2019 while to the IL&FS group was Rs 6,849 crore. The company said there is an active recovery actions on external lending portfolio of IFIN. The board Wednesday appointed Vineet Nayyar, who was executive chairman and managing director, as executive chairman. It also re-designated CS Rajan as the managing director of IL&FS. Kotak said the net worth of IL&FS Group was Rs 9,000 crore as of March 2018. "It is reasonable to assume that there is significant erosion to net worth of the company," Kotak said. The company's fund based outstanding debt was Rs 94,216 crore as of October 8, 2018. IL&FS chief operating officer N. Sivaraman said besides the large outstanding debt, the other challenges faced by the company includes high debt to equity ratio of 10:1, huge asset-liability mismatch and poor recovery of loans. He said total IL&FS Group companies stands at 302 after adjusting for closure of 45 entities. The company said it has already launched asset monetisation process in 55 group businesses including securities business, renewable energy, domestic road vertical, alternate investment fund management, education and thermal. It is in discussion to launch asset monetisation process for OTPC, Paradip Refinery Water, ILFS Tech, LARES Philippines, ILFS Envt and Mangalore SEZ, among others. Kotak further said the position of the new board is to see how it recovers money for the interest of the stake holders including the creditors. "I think we will be able to achieve this (resolution process) in an accelerated manner in an environment of comfort with each other's trust, we are not trying to hoodwink anybody. "We also know that whatever comes will not go to the shareholders but to the creditors sitting on the other side. There is a good discussion that is happening and we are expecting a fairly reasonably faster and fair outcome of this," Kotak said.

RBI may need to rethink age limit for bank CEOs

MUMBAI: The Reserve Bank of India may face legal challenges to its rule on the age limit for bank CEOs, unless it is changed. The RBI caps the age limit for banks at 70. But under the Companies Act, banks that are also registered companies can have chief executives who are over 70 years of age by passing a special resolution. IndusInd Bank and HDFC Bank have their current chiefs reaching the RBI age cap over the next year and half, said analysts. “We believe that an extension in age limit, if it happens, will only plug the regulatory gap between the corporate sector and banks,” said Motilal Oswal analyst Nitin Agarwal. “Recent management changes in Yes Bank, ICICI Bank and Axis Bank show that the RBI exercises stricter vigilance on banks as compared to the corporate sector (regulator),” Agarwal said. The central bank will continue to retain its control over bank managements irrespective of its decision on the age limit, he added. In 2014, RBI raised the upper age limit for bank managing directors and CEOs to 70 years from 65, in line with the Companies Act, 2013. Under the Act, a company can also appoint, or retain, people aged 70 years or older as director if shareholders approve it by passing a special resolution. As per RBI rules, the current managing directors at IndusInd Bank and HDFC Bank are set to retire in March and October 2020, when they would attain the age of 70. There have been changes at Axis Bank, ICICI Bank and Yes Bank, but those were not driven by the RBI’s age criteria, but due to performance and disclosure reasons. Yes Bank and Axis Bank appointed external candidates to lead the bank, while ICICI Bank is headed by an internal candidate. “In the interest of stakeholders, the RBI may take a dynamic approach and ask the current CEO to continue in an advisory role which can be constituted after the tenor ends … (he can) step down once the new CEO settles down in a few months,” said Rajesh Gupta, a lawyer at SNG Partners. In the US, the maximum retirement age for a CEO is 72 years, with companies having the right to prescribe a lower limit. In the US banking sector, JP Morgan and Morgan Stanley, the retirement age for CEO is 72. Nearly 75% of S&P 500 firms have by-laws that require CEOs to retire at or before 65 years of age. In March 2017, HDFC Bank elevated Paresh Sukthankar to the post of deputy MD but he resigned in August 2018, increasing the probability of an external candidate being appointed to lead the bank. Over the past 25 years, HDFC Bank, under managing director Aditya Puri, has grown to become the largest private bank with a market share of 8.4% and market capitalisation of ?6.3 lakh crore. Its market cap is more than the next two private sectors banks combined as well as all PSU banks put together. This has been enabled by a steady 32% compounded annual growth rate in earnings over the past two decades. IndusInd Bank is a well-executed transformation story after Romesh Sobti took over the reins in fiscal 2008. After he took over, the bank has transformed from being a commercial vehicle financier to having a comprehensive product portfolio across retail and corporate segments. In his tenure, the bank’s earnings and market cap grew at a CAGR of 47% and 46% and return on assets and return on equity expanded to 1.8% and 16.5% in FY18 from 0.3%/6.9% in FY08, Motilal Oswal said in its report.

Will RBI go in for a rate cut again? Key pointers suggest so By Anirban Nag

The Reserve Bank of India is set to deliver its first back-to-back interest rate cut since the Monetary Policy Committee was formed in late 2016 as the central bank grapples with a slowdown both at home and abroad. With inflation below the RBI’s 4 per cent medium-term target, the six-member MPC headed by Governor Shaktikanta Das will probably drop the repurchase rate by 25 basis points to 6 per cent on Thursday, according to all but two of the 43 economists surveyed by Bloomberg. Swap markets are factoring in more easing in coming months. “Household inflation expectations have already been falling,” said Pranjul Bhandari, chief India economist at HSBC Holdings Plc in Mumbai. “Add to this the 7 per cent appreciation in the rupee since October 2018, supported to a large extent by a favourable balance of payments, and the case for inflation remaining under 4 percent for longer strengthens.” She predicts another 25 basis-point cut in June to take the policy rate to 5.75 per cent, the lowest since mid-2010. The RBI’s decision comes a week before India’s sprawling, six-week election kicks off on April 11, in which Prime Minister Narendra Modi will seek a second term in office. Since taking over at the central bank in December, Governor Das has taken a series of steps to help support economic growth and spur lending. The policy decision will be announced at 11:45 a.m. in Mumbai, followed by a press conference 15 minutes later by Das and other MPC members. Here’s a look at what else to watch out for in the statement: Subdued Inflation Inflation bottomed out at about 2 percent in January before picking up to 2.6 percent in February -- still lower than the RBI’s forecast of 2.8 percent for the January-March quarter. Deflation in food prices is showing signs of abating while fuel prices have stabilized. Core inflation, which strips out volatile food and fuel prices, has remained stubbornly elevated above 5 percent, giving policy makers reason to be cautious. But with demand in the economy cooling, the core measure is expected to ease in coming months. “We believe the RBI will refrain from more aggressive easing given the uncertainty around the monsoon outlook, the inclination towards populist fiscal policies around elections, and the need to assess transmission by banks," said Teresa John, an economist at Nirmal Bang Equities Pvt. in Mumbai. Slow Transmission Banks haven’t fully passed on the February rate cut to borrowers yet, putting more pressure on the RBI to ease policy to spur lending in the economy. The higher interest rate on deposits and competition from the government for small savings are holding back banks from lowering lending costs. “Banks are not willing to cut rates as deposits and household financial savings are at historical lows," said Prachi Mishra, chief India economist at Goldman Sachs Group Inc. Only eight banks have cut their lending rates by 5-10 basis points so far, she said. Growth Pangs Businesses are curbing investments in an environment of mounting global risks and sluggish domestic demand. The total value of new projects in the quarter that ended in March fell to 1.99 trillion rupees ($29 billion) from 3.12 trillion rupees in the three months through June, according to data from the Center for Monitoring Indian Economy. Tight liquidity conditions and a crisis in the shadow banking sector have hit consumption, dragging down overall growth. The central bank could tweak its growth forecast for the fiscal year to March 2020, having pegged it at 7.4 percent in February. The global outlook is also worsening, and with the U.S. Federal Reserve halting its rate tightening cycle, emerging-market central banks are getting some breathing space. “The policy tone is likely to stay dovish, in line with the recent commentary by global central banks, led by the U.S. Fed," said Kanika Pasricha, an economist at Standard Chartered Plc in India.

Vijaya bank merger 'dictatorial' decision, says ex-director Subbayya Shetty

MANGALURU: The merger of profit-making Vijaya bank with loss-making banks is a 'dictatorial' decision which is not meant to strengthen the banking system, former director of the bank Subbayya Shetty said Friday. The merger of the banks was hurriedly carried out only to protect fraudulent businessmen, Shetty told reporters here. Representatives of officers and employees have not been appointed to any of the banks in the last three years, he claimed, adding the issue was not discussed at any forum. Vijaya bank was the pride of the coastal region and the Bunt community which played a key role in setting up of the bank, he said. "The merger of the bank with loss-making banks is a dictatorial decision...," he added.

Bank of Maharashtra lowers lending rates by a nominal 5 bps

MUMBAI: A day after the Reserve Bank reduced the benchmark repo rate by 25 basis points for the second consecutive time, state-run Bank of Maharashtra Friday announced a nominal 5 bps reduction in its lending rates across various tenors. In a 4:2 majority vote, the central bank had cut the repo rate to 6 percent from 6.25 citing the need to support growth that has lost momentum of late in the first bi-monthly monetary policy announced on Thursday. The central bank also lowered its GDP forecast for FY20 to 7.2 from 7.4 percent projected in the February review while also lowered its inflation forecast to 2.9 to 3.8 percent for the year. The Pune-based BoM reduced its one-year marginal cost of funds-based lending rate (MCLR) to which most of the bank lending rates are linked, to 8.70 percent from 8.75. The six- month, three-month and one-month MCLR have also been revised downwards to 8.50, 8.45 and 8.25 percent, respectively. The lender left its base rate unchanged at 9.50 percent, though. It can be noted that after the February rate cut, BoM was the first lender to announce a nominal 5 bps reduction in the pricing of its six months products. While talking to the reporters after the policy announcement, RBI governor Shaktikanta Das had said despite two consecutive rate cuts by the monetary authority, appropriate and effective transmission is still missing. "After the last meeting I had held with banks some of them have marginally (up to 5-10 bps) cut their MCLR, but they need to do more," he had told reporters post the policy announcement Thursday. Das said credit flows to micro and small as well as medium industries have remained tepid, though they improved for large industries. "While bank credit is growing at 14.3 per cent it is not a broad-based. Bank credit to micro and small industries, which are critical to employment and exports, was flat at 0.6 per cent and also credit to medium industries at 0.7 percent," he had said.

Analysts divided over Supreme Court order on NPA resolution

MUMBAI: Equity analysts Wednesday seemed divided on whether the Supreme Court striking down RBI bad assets resolution circular will be detrimental to the banking industry or not. Voices of concern drew parallels with a recent Indian Air Force action in Pakistan, wondering if it is a "Balakot on RBI", while those on the other side of the divide said this will "rationalise" the bankruptcy code. Foreign brokerage Jefferies, which used the air strike metaphor, said the Supreme Court order Tuesday is a big setback as RBI will not be able to direct "generic insolvency" proceedings. It said the central bank will do both, seek a review in the Supreme Court and also work on a new circular to take care of the problem of nonperforming assets (NPA) resolution. Stressed players in the realty sector are expected to benefit from the ruling as the automatic insolvency proceedings under the now quashed February 12, 2018 circular will not happen, it said. Japanese brokerage Nomura said while the banks will now have increased flexibility in finding a resolution, the order "does provide the borrowers with some leeway again to delay the resolution process". Domestic brokerage said power and sugar companies, among the petitioners who had approached the SC, where the owners are fighting for their ownership of the companies, will be the major beneficiaries. The order, a "negative" overall, will be a short term positive for corporate focused state-run and private lenders because of the possibility of delaying incremental stressed asset recognition, Centrum analysts added. Nomura said it does not see a surge in dud assets because of the apex court decision, but seemed to agree with its counterpart, saying resolutions will be impacted. It said the February 12 circular, as it was popularly called, set strict timelines "instilled concern in borrowers to find a time-bound resolution". However, analysts at Bank of America Merill Lynch were sanguine on the changes. "We have a favourable view of the Supreme Court's decision to strike down the RBI's February 12, 2018 circular as ultra vires as it allows rationalisation of the (Insolvency and) Bankruptcy Code," they said. It said over USD 50 billion of assets had to be referred to the National Company Law Tribunal for auction because of the circular. They said this will lead to creation of the public sector asset reconstruction/management company to manage banks' NPAs either directly or by bidding at NCLT auctions, which will cost the government up to USD 10 billion. It explained banks' stressed power assets are at USD 36 billion, while banks have provided about 50 per cent. Auctioning the power NPAs will need a haircut of 75 per cent which is USD 9 billion more. "Banks can then transfer the USD 9 billion of cleaned-up power NPAs to the ARC/AMC," it said. There will likely be a greater push to pre-NCLT resolution structures, such as inter-creditor agreements (ICAs), it said, adding rate cuts by RBI will also help the situation. The Supreme Court Tuesday quashed the stringent RBI circular which mandated banks to recognise even one-day defaults and finding a resolution within 180 days failing which the account in question has to be sent to bankruptcy courts if it is Rs 2,000 crore and above.

NEWS OF THE WEEK

New customer-protection measures on cards for electronic payments

MUMBAI: The central bank would soon come up with a new set of customer-protection measures aimed at improving user confidence in electronic payment channels, helping achieve the federal objective of reducing the use of cash in business transactions. The proposed Reserve Bank of India (RBI) regulations include having a common timeframe for all authorised electronic payment systems to respond to customer complaints and setting up a compensation framework for failed transactions. “To have prompt and efficient customer service in all the electronic payment systems, it is necessary to harmonise the turnaround time (TAT) on the resolution of customer complaints and chargebacks, and to have a compensation framework in place for the benefit of customers,” RBI governor Shaktikanta Das said on Thursday in his speech after the monetary policy review. “The Reserve Bank proposes to put in place a framework on TAT for resolution of customer complaints and compensation framework across all authorised payment systems by the end of June 2019.” The governor said that despite the central bank prescribing appropriate redressal mechanisms for customer grievances and issuing guidelines to various payments system operators on paying users in case of failed transactions, the lack of a common industry-wide mandate is resulting in non-uniformity in complaint resolution. “Currently various payment systems have various redressal mechanisms. We have found them to be not uniform across the industry,” Das said. The RBI also said that it is in the process of benchmarking Indian payments systems and instruments against global standards. The findings of this study would be published in May 2019. “Efficient payment systems reduce the cost of exchanging goods and services and are indispensable to the functioning of the financial markets. The past decade has witnessed several innovations in retail payments across the globe,” the governor said. “Benchmarking… is necessary to gauge India’s progress against payment systems and instruments in major countries and give further impetus to the planned efforts for deepening the digitisation of payments.” Furthermore, the regulator would also widen by month-end the ambit of the NBFC ombudsman scheme for customer complaints to all companies with assets beyond Rs 100 crore, including to entities that do not accept deposits. In February 2018, the RBI had introduced the ombudsman programme just for the customers of deposit-taking NBFCs.

MUST READ ITEM FOR THIS WEEK

Taxmen use rare law to collect dues directly from bank accounts of evaders

Revenue officials, chasing huge tax collection deficit, are moving into top gear to maximise collections by year end even if that means deducting money directly from your bank account to fill a gap of thousands of crores. Combined direct tax and indirect tax collections of the government may fall short by around Rs 60,000 crore this year. Insiders point out that the collection pressure is more on the direct tax department, as the government wants to have a “benevolent approach” with Goods and

Services collections as most small and medium companies are facing teething troubles. The taxman is evoking a special provision in the law that allows it to directly collect dues from banks and debtors of taxpayers. Till now, the provision was sparingly used and primarily on wilful tax evaders, people in the know said. In last one month, several letters and notices have been issued to banks and debtors with a hope of collecting tax dues. Tax officials are using a two pronged strategy — freezing and directly deducting money from bank accounts and collecting money from the taxpayer's debtors. In the last one month, several letters have been written to banks and debtors, four people in the know said. Letters have also been written to banks where individuals suspected of evading tax, hold bank accounts. In most cases, the banks will have to deduct the money from the holder's account and pay directly to the income tax department's bank account, sources said. Letters have also been written to debtors of companies and they have been asked to directly deposit the money in taxman's bank account rather than paying dues to the companies. “While there are provisions in the income tax framework to attach the bank account and ask the banks to directly pay the money to the tax department, this was rarely used. These provisions are now being enforced in cases where tax demand has been raised and the taxpayer has either not appealed against it or has not deposited the 20% amount required to be deposited if he wants to challenge tax department's levy in appeals," said Amit Maheshwari, partner, Ashok Maheshwary and Associates LLP. People in the know point out that in several cases, the dispute with the tax department is ongoing, but such letters have been issued by the tax department to banks and notices issued to companies and individuals. However, this is the first time that letters have been sent to debtors and that has resulted in several companies facing risk to reputation. “Garnishee proceedings initiated affects the reputation and business of the assessee. This is a provision which has to be used sparingly but is now used at the first instance by the assessing officer even in cases where a stay application is pending with various appellate authorities,” said Jeenendra Bhandari, partner, MGB, a chartered accountancy firm. Garnishee proceedings mainly refer to a situation where income tax officer gets a right to attach or collect money from anyone who owes money to the taxpayer. This means money can be collected from banks where the taxpayer has an account or a debtor who is set to pay a company for materials or services. “Please note that if you discharge any liability to the assessee after the receipt of this notice you will personally be liable to me as assessing officer/ tax recovery officer to the extent of the liability discharged, or to the extent of the liability of the of the assessee for tax/penalty /interest/ fine … whichever is less,” a notice issued to one of the debtors of the companies read. ET has viewed such notices and letters. Notices of garnishee proceedings have been issued under section 226 (3) of the income tax act. The section empowers the tax officer to direct any person or company, that owes money to the defaulting taxpayer, to pay the amount directly to the tax department. Tax experts said that in several cases, bank accounts have been attached even for when small amount is involved. “In cases of unpaid tax demand, notices are issued to the banks for attaching bank account and asking them to pay the money from the bank account to the tax department. At times, demand is merely on paper arising on account of mismatch in credit of TDS (tax deducted at source) in the form 26AS, non-granting of appeal effect or non-initiation of manual rectification by the local tax officer for the incorrect demand raised," said Paras Savla, partner, KPB & Associates, a tax advisory. This would be the second attempt by the direct tax department to propel the income tax collections. Several companies had complained that the income tax department had started issuing prosecution notices to taxpayers. Prosecution notices means a taxpayer can be arrested if dues are not paid. The Central Board of Direct Taxes (CBDT), however, had maintained that there was no harassment. Email queries sent to CBDT did not elicit any response. Recently several chartered accountant associations across India had come together and complained to the government about the revenue department. ET had on March 30th reported that several chartered accountants across the country had requested the Prime Minister's office and the Finance Ministry to rein in tax officials who have been directed to take “all possible actions" to recover tax amid a shortfall in revenue collection. This kind of instruction causes a great deal of concern in the minds of tax payers as it is bound to create unrealistic pressure on tax officers, particularly days before the end of the financial year, a statement issued by CA associations read.

VIEW OF THE WEEK

Expect to come out of PCA in second quarter: UBI MD

Kolkata: City-based United Bank of India (UBI), which reported losses for the last seven quarters, is expecting to come out of the prompt and corrective action (PCA) list of RBI in the second quarter of the current financial year, a top official of the bank said. "We should be coming out of PCA by the second quarter of 2019-20. Things are happening the way we have strategised," Ashok Kr Pradhan, MD and CEO of UBI told. Pradhan said that the bank is not growing due to lack of capital. "However, the government has given us capital support. Last year the bank got Rs 5000 crore which will help us to meet the regulatory requirements", Pradhan said. He said that the bank is increasing the asset book by changing the risk-weighted asset portfolio. "The bank is increasing the advance book by managing the risk-weighted exposures. Earlier, the asset book was tilted towards risky assets. Now we are going for AA and AAA rated accounts". He said that UBI had received around Rs 4500 crore through NPA resolution during the last year. "Our GNPA should be in the range of 15 per cent to 16 per cent by March 2019, down from 21.27 per cent earlier". Pradhan said "this last quarter we expect to be in profits and continue for the rest of the period quarter-on-quarter". RBI had imposed PCA on the bank in December 2017 which had led to restrictions on lending, non-opening of new branches and non recruitment of staff as the cost-to-income of the bank was adverse. The advance book of the bank increased Rs 4000 crore during the last financial year with advances presently touching Rs 73,000 crore. Pradhan said "The target this year for advances should touch Rs 80,000 crore and deposits at Rs. 1,35,000 crore". He said that capital would be required for growth of the bank. "We will raise capital from the market, maybe in the third quarter. "We will also raise Rs 100 crore from the employees through Employees Stock Purchase Scheme", he said. Since the bank is located in the east, its growth had been constrained due to lack of growth in this part of the country for which it wants to have an ambitious target. In the current fiscal, the retail sector is expected to grow by 20 per cent, MSMEs by 22 per cent to 24 per cent and agriculture eight to ten per cent, he said. "We will be very selective on the corporates and to take exposure in AA and AAA rated accounts", Pradhan added.

RBI should introspect if it was responsible for slowdown of India's economic growth: Piyush Goyal

NEW DELHI: India's railways and coal minister Piyush Goyal said the country's central bank should review its policies and "introspect" to check if they contributed to the slowdown of economic growth while welcoming the second successive rate cut by the Reserve bank of India (RBI). "To some extent, RBI also has to introspect, whether they had any role to play in the economy going down to a potential 7.2% (growth) this year, instead of 7.4 or 7.6%, or why we didn't achieve double-digit growth faster," Goyal said, while addressing the CII annual session in the city on Friday. "I think every organisation will have to introspect. How much contribution have they made to the woes of the country today," Goyal said. Liquidity crunch in the second half of the last fiscal is seen as one of the main reasons for GDP growth declining to 7% in FY19 from 7.2% last fiscal. RBI sees the economy growing 7.2% in the current fiscal while Fitch Ratings pegged it at 6.8%. The central bank cut its key policy rate by 25 basis points on Thursday, the second successive rate cut, factoring in softer growth and benign inflation. Goyal's comments were apparently targeted at former central bank governor Urjit Patel, when serious differences arose between the central bank and the government over multiple issues, liquidity being one. Patel resigned in December. The government then appointed former economic affairs secretary Shaktikanta Das as the new governor. "Certain steps, over a period of time, I believe, could have been done differently. I believe growth should as much be an objective of the Reserve Bank of India as controlling inflation," Goyal said. "It is mandated to manage inflation within a band and also to look after the growth of the economy," Goyal said endorsing the recent steps taken by the central bank. The RBI has in recent months tried to address the liquidity crunch and held its first ever dollar/rupee swap last month to infuse for rupees into the system. "I am delighted that the RBI governor and his team today are also recognising growth as a priority. I compliment him for yesterday's policy, which has reflected the good work of this government and he has also appreciated that interest rates are an important element of growth," Goyal said. Goyal was interim finance minister twice last fiscal when finance minister Arun Jaitley was indisposed due to illness. "With the lowering of interest rates for the second time in succession, a clear signal has gone that the government's efforts in lowering inflation down to levels which are unheard of in the India's history and are bearing results and will help India become much more competitive in the world, with better financing terms, lower interest rates and hopefully better liquidity," he said. "I am glad that the governor of the Reserve Bank of India has made the right moves in the last few months." In an apparent dig at the Congress manifesto, Goyal said the country must move away from the dole culture in order to empower people to become self-reliant, to be entrepreneurs, and work for a living. "Otherwise, I think it's a race to the bottom if we keep encouraging doles, if we keep encouraging bad behaviour. Then we will be racing to the bottom instead of aspiring to the top," Goyal said. Defending the electoral bonds scheme, Goyal said the BJP government has taken steps in the right direction towards making political funding clean and legitimate. He said that the fear of other parties would earlier deter businessmen to write a cheque in favour of a certain political party.

INTERVIEW OF THE WEEK

3-bank merger: BoB will be net job creator, says CEO PS Jayakumar

MUMBAI: The complete integration of Dena Bank and Vijaya Bank with Bank of Baroda (BoB) is expected to take nearly 18 months. But customers will reap the benefits much earlier. BoB will be providing cash deposit and withdrawal facility in all branches by May. In an interview with TOI, BoB MD & CEO PS Jayakumar speaks of what customers, employees and investors can expect. Excerpts:

What is the timeline for the integration?

The ATM networks have already been merged and customers will not face any charges. The merger of the three treasuries is effective today (April 1). The core banking integration will take 12 to 18 months. This was the time it took us to migrate from Finacle 7 to Finacle 10 (versions of the core banking software) — 12 months for preparation and six months for stabilisation of the platform. But customer experience in terms of consistency in various branches will be achieved much earlier. The first set of interoperable functions will be rolled out in the first week of May. These will include cash deposits, cash withdrawals, fund transfer and obtained statement of account. We have enabled this by connecting the data centres.

When will you rationalise branches? Do you feel there will be a need for a voluntary retirement scheme (VRS)?

Before we migrate branches, we must meet the technology preconditions for inter-operability. We are unlikely to reduce the number of branches but may relocate them to markets where we are not present. For instance, in Horniman Circle (in Mumbai), we have two branches next to each other. We may relocate one of them to Navy Nagar or Malabar Hill. But in the next six months, I do not see this happening. We need more people. There will be re-skilling as we need more people on the sales side. We will be net job creators. As they say, you can't shrink to glory.

Will you review the current partnership for selling third-party products?

For life insurance, our own group company (India-First Life) will be the primary provider. As far as wealth management is concerned, it is an open architecture.

Will the employee costs change because of the merger? How will you manage cultural challenges?

The government's amalgamation statement makes it clear that the better of the three will be adopted. The compensation structure is almost identical, but there are areas like loan policy and insurance benefits that had to be rationalised. Other than that, the wage structures are almost identical. Culturally, there are a lot of similarities. So long as we can ensure that promotions and responsibilities are based on merit and not dependent on the predecessor bank, the cultural integration will happen faster.

What business would you look to grow in the merged bank?

We will pursue sources of growth that do not necessarily call for capital such as fee income lines — forex business, government business and remittances. The idea is to serve the target market, not just by merely giving them a loan. In retail, it will continue to be mortgages, education, personal loans and auto loans. We have invested a lot in analytics and the delivery platform for cross-selling. This will help us identify customers and sell more efficiently without form-filling or one more round of KYC. Growth will be balanced with a bias towards retail that is granular. By December, our corporate portfolio will be down by 3-4% and retail will be higher.

Past bank mergers have slowed growth for a few months because of the integration process…

We want to try and establish that business momentum does not lose steam. The proof of the pudding will be in the first-quarter results. We are reasonably confident that the amalgamation exercise will not disrupt — quite the contrary, given the fact that Dena Bank, which is under prompt corrective action, will begin to lend. We grew our deposits by 10% last year and we should inch it up to 13-14% this year. That will be necessary to balance our balance sheet. We are confident because we are building a lot more new products and there is a lot of focus on savings and current accounts. We have also made a lot of investment in payments, such as setting up point-of-sale machines.

How do you choose the products?

Who will implement the integration? We had 18 teams with leadership distributed to each of the three banks to work on the integration. The teams have selected the best of the products among the three banks. We have a war room with senior people working on it, which is overseen by an executive director.

Will there be more NPAs being recognised because of the merger?

We reviewed this when we did the swap ratio. As we go into the first quarter, the difference in accounting practices will have to be reconciled to the highest standard. So there certainly is a convergence of accounting standards that will have to apply. These differences exist on many lines, including the way depreciation is calculated, accrual value, etc.

Will margins of the combined balance sheet improve because of the merger?

Margins are improving because incremental assets are not having yield dilution due to of non-performing assets. Going forward, we are also looking to increase the share of the current account. There is no major change in interest rates.

INTERESTING TO KNOW THIS WEEK

Mukesh Ambani, Sunil Mittal are said to weigh Zee stake in fight for content

By P R Sanjai and Anto Antony

Billionaires Mukesh Ambani and Sunil Bharti Mittal are considering competing bids for a stake in a troubled Indian television network, people with knowledge of the matter said, as their telecom carriers race for content in the world's second-biggest mobile market. Mittal's Bharti Airtel Ltd. has started due diligence of Zee Entertainment Enterprises Ltd. and is expected to make a formal proposal soon, one of the people said, asking not to be identified citing confidentiality. Ambani's Reliance Jio Infocomm Ltd. is also considering a bid, the people said. Deliberations are preliminary and may not lead to a transaction, they said. A representative for Zee said the company doesn't comment on speculation though it is in "steady dialogue" with potential partners. Reliance Jio Infocomm and Bharti did not immediately respond to emails requesting comment. A successful deal would help the winning bidder add a slew of video services in the scramble for user revenue as the government prepares to auction 5G airwaves this year Some of the world's largest telecommunications companies including AT&T Inc., Vodafone Group Plc and KDDI Corp. have been buying film and television production and cable TV assets to bolster earnings as subscribers level off. Bidding for such assets has accelerated as entertainment providers themselves gather content to offer programming via the Internet and compete with upstarts like Netflix Inc. and Amazon.com Inc.'s Prime service. Zee, the heavily-indebted broadcaster controlled by former rice trader-turned-media mogul Subhash Chandra, is seeking a strategic investor to help fend off competition from Netflix, Amazon and hundreds of local TV channels vying to tap India's booming demand for content. Zee, which boasts 1.3 billion viewers across 173 countries through its 78 channels and 4,800 movie titles, has previously attracted interest from Sony Corp. and Comcast Corp. but hasn't found a buyer yet. The television network has offered to sell half of the controlling family's shares, of which 59 percent is pledged as collateral to lenders. Jio stormed the market in 2016 with free calls and cheap data and forced some rivals to retreat or merge. Bharti, once No. 1, has been relegated to second position after Vodafone's local unit combined with billionaire Kumar Mangalam Birla's Idea Cellular. War Chest While Bharti has been adding some digital services to its portfolio, such as apps for e-books and music, its scale hasn't matched Jio, which already offers a bouquet of services including Saavn, a music app, television, news and movies. In February, Bharti revealed plans to raise as much as 320 billion rupees ($4.6 billion) from a rights issue and bond sales to build a war chest as competition with Jio intensifies. Last year, Bharti entered into a content deal with Zee for exclusive videos on Airtel applications. In a January interview at the World Economic Forum in Davos to Bloomberg Quint, Mittal said Airtel will have to provide subscribers content from the likes of Zee, Netflix and Amazon to get them to use more data and boost revenue.

INTERNATIONAL NEWS THIS WEEK

American Express and SAP Ariba to deliver Procure-to-Pay Process

American Express and SAP Ariba, procurement and supplier chain solutions provider, have entered into a strategic partnership which will facilitate buyers and suppliers with payment and financing options on Ariba Network. “We are continuously looking for ways for our customers to conduct more business in a simple, intuitive and integrated manner. With over half of American Express’ largest global customers already using SAP Ariba to manage their expenses, this partnership has the opportunity to provide significant value for our joint customers,” said E-Bai Koo, executive vice president, Global Commercial Services at American Express. “We couldn’t be more excited about building a long-term partnership with SAP Ariba.” The partnership will allow AmEx to utilize Ariba Network APIs to enable its virtual Card capabilities within the SAP Ariba process and platform to facilitate seamless commerce and secure payments businesses on a single platform. The businesses will have the opportunity to use their existing American Express Corporate Cards to generate virtual Card payments. It will allow the customers to get started without the need to set up and maintain a separate standalone account. “American Express’ unique integrated business model provides deep relationships with both buyers and suppliers. As a global leader in the payments space, they deeply understand the needs and pain points that businesses face throughout the supply chain cycle,” said Sean Thompson, senior vice president, SAP Ariba Business Network & Ecosystem. “Partnering with American Express as a new network extension partner – integrating virtual payment capabilities within Ariba Network – we’re able to deliver a true end-to-end procure-to-pay process to customers that changes the game in the corporate payments space.”

How Asian private banks are targeting the Mass Affluent segment- explains Avaloq’s whitepaper

With the number of mass affluent individuals in Asia reaching 17.58 million by 2022, the demand for an enhanced wealth management system is expected to increase manifolds. Since this segment is positioned higher than retail wealth clients, they expect an experience similar to private banking, including access to a relationship manager, customizable products, and prompt service. Avaloq and IBS Intelligence have collaborated on a whitepaper that discusses how private banks in Asia, with the dynamic banking structures, are attempting to cater to that sector. This whitepaper strives to figure out the commonalities amongst the service models adopted by the banks as well as future trends. Typically structured to serve the private and retail segments, the banks have been prioritizing the development of specialized offerings to accommodate the growing mass affluent segment while staying profitable. The whitepaper explores various aspects of the service models adopted by the Asian private banks including UBS Taiwan, HSBC Singapore; such as their geographical presence, technological infrastructure, organization, and pricing structure. The whitepaper explores the optimal technology framework and points out the similarity between the service models with features including investment in technology, provision for a dedicated RM and additional lucrative investment products. The success of the new banking model pivots on increasing segment scalability, customer engagement, and the use of self-serve channels. Capturing this segment could be a strong driver for the bank, helping both new client acquisition and retention of existing retail customers.

KeyBank to enhance digital lending with Laurel Road acquisition

KeyBank National Association has completed the acquisition of the student loan refinancing platform, Laurel Road, with an aim to upgrade its digital lending offerings. The acquisition, according to KeyBank, will focus on the expansion of digital-only lending capabilities, strengthening the bank’s client base with digital tools and delivering its banking services to Laurel Road’s millennial customer base. “Part of KeyBank’s strategy is to pair the best of the best in fintech with our industry expertise and scale. Now that the deal is officially closed, we’re thrilled to begin work with Laurel Road,” said Jamie Warder, Head of Digital for KeyBank. “The three pillars we’ve outlined aim to expand our business and offer more customer segments a comprehensive, digitally-led suite of services, and Laurel Road is a pivotal piece of this growth plan.” “We’re deeply proud of what we’ve built at Laurel

Road and share in Jamie's excitement to get to work integrating and growing our combined products and business," said Gary Lieberman, Founder and Chairman of Laurel Road Bank. "Laurel Road set out to deliver a simple yet superior lending experience for millennials at every financial milestone. As part of KeyBank, our capabilities and scale have even more potential, and together we're committed to enhancing the digital financial experience for all customers." Launched in 2013, Laurel Road offers refinancing options, providing customers with savings over the life of their loans. In 2018, the company introduced an online mortgage platform to offer home buyers and owners a streamlined digital application process.

TCS BaNCS to drive NBB's core banking transformation

National Bank of Bahrain (NBB) has selected TCS BaNCS for Core Banking solution in a bid to achieve digital transformation with a diversified business line, enhanced customer experience and an extended market reach. The solution is expected to simplify NBB's market operations and assist the bank in its goal to integrate with regional fintechs and expand its presence. The partnership will enable NBB to utilize BaNCS' open APIs, digitalized workflows and cognitive capabilities for its market expansion strategy. The solution, as the supplier states, caters to areas such as customer management, loans, deposits, payments, origination, Islamic banking and liquidity management for retail and corporate banking. It is expected to enable a unified customer experience along with multi-country and multi-entity capabilities. Iain Blacklaw, Chief Operating Officer, NBB, said, "As part of our ongoing journey of transformation, we are pleased to announce another milestone in this process with the selection of TCS BaNCS. This will modernize our IT landscape, lay a strong foundation for digitalization and offer a consistent and contextual experience to our customers. Our goal is to unlock new revenue streams by leveraging larger and extended ecosystems, introduce new products quickly, and expand our customer base across multiple countries in the region." "In the Business 4.0TM economy, forward-thinking organizations like NBB are empowering consumers, business customers, and partners by leveraging the power of ecosystems and connectedness," said Venkateshwaran Srinivasan, Head, TCS Financial Solutions. "With the selection of TCS BaNCS for Core Banking, spanning retail and business banking, NBB will be able to establish a customer-centric, experience-led foundation and create newer business models that drive value for their customers and partners alike. We are happy to be partnering with NBB on this transformational journey." The TCS BaNCS for Core Banking solution boasts of open banking capabilities and supports a variety of products and services covering assets, liabilities and has been implemented at 450 sites. Established in 1957, National Bank of Bahrain, incorporated under the laws and regulations of the Kingdom of Bahrain, provides retail and commercial banking services.

How Can Banks Solve the Challenge of Preventing Financial Crime and Yet Deliver A Seamless Customer Onboarding Experience?

By **Barley Laing***, UK Managing Director, Melissa Global Intelligence*

The scourge of financial crime is increasing. It's being driven by organised crime rings, fuelled with billions of compromised data records, who are systematically and methodically targeting financial services firms with sophisticated application fraud attacks that use stolen or falsified identities in an effort to obtain new accounts. This growth in application fraud is set to increase largely because the there's little in the way of adverse consequences for the perpetrators, in terms of prison time, along with the low rate of detection. This growing trend in financial crime is backed up by the research we carried out with the AITE Group amongst executives from US financial institutions and financial crime executives. It found that 13 billion data records were stolen or lost in the US since 2013, which in turn is driving increased application fraud that's set to cost banks in the US $2.7 billion in credit card and DDA loses in 2020, up from £2.2 billion in 2018. It's not just an issue in the US, with fraud prevention service Cifas highlighting that the amount of identity fraud reported by its members in the UK is currently fluctuating at around 175,000 cases per year over the last couple of years. Meanwhile, UK Finance found that in the first half of 2018 £500 million was stolen from the customers of British banks.

Eliminate friction from customer onboarding

At the same time fraud is increasing the pressure on banks to reduce or even eliminate friction from the customer onboarding experience is growing. Banks still experience high levels of attrition with digital channel onboarding when hurdles in the process trip up prospective customers, particularly when consumers' expectations are increasingly shaped by the experiences provided by the digital behemoths such as Apple and Amazon. This puts huge pressure on financial institutions to provide similarly friction-free and elegant interactions, with the importance of ease of use starting with onboarding. So, it's perhaps not surprising that in our research, when asked about key business case drivers for new account risk assessment tools, top of the list for fraud executives at banks, at 88%, were those that improve the customer onboarding experience. But any move in watering down KYC and AML compliance procedures to speed up the onboarding process potentially increases the likelihood of fraud. This poses the question, how can banks ensure that they don't fall victim to fraud, yet meet their AML and KYC compliance requirements and deliver a seamless onboarding experience for new customers?

ID verification powered by data

Identity verification is an essential element when onboarding new customers. It is required by KYC regulations in countries around the globe and is a requisite element of financial institutions' fraud prevention needs. Delivering effective identify verification all comes down to data. Unfortunately for banks there's no single source of ID verifiable data to use. Instead, they need access to many different streams of data to be KYC and AML compliant and avoid fraud. This means having access to the most up to date, relevant data, from multiple sources of billions of global contact records. This should be data from trusted reference data sources, such as credit agency, government agency, utility company and international watch list data. Those that obtain data from a limited number of sources could find themselves with an incomplete reference data set; one that could have errors due to mistakes from manually inputted information that impacts on the effectiveness of the data for fraud prevention. Ideally when sourcing data for ID verification it's important that it doesn't just verify but enriches and improves the customer data, to help deliver a 360-degree single customer view (SCV) that will also aid your future marketing and sales efforts. It could be data that completes the missing parts of a postal address or adds an additional contact phone number. It's also vital that the technology powering the data can deliver this insight in real-time to ensure a positive onboarding experience for new customers, as consumers expect a seamless onboarding experience in the increasingly digital age we live in.

Early adopters of next-generation technologies that provide ID verification in real-time will be able to do more than reduce fraud. The improvements to the customer experience will give them an advantage over their competitors who don't. After all, data is the new currency, and creating intelligence from data at scale can give firms a competitive edge.

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Biometric data

Biometric data can play an important role too. Banks should take a serious look at the latest facial recognition and other biometric technology to help confirm the potential new customer's identity that speeds up the verification process and therefore improves the customer experience. What is becoming increasingly important is 'proof of life' in biometrics, particularly with interactions between banks and their customers more commonly taking place online. For example, is the entity the bank is communicating with a real live individual, or an image of someone, or even a sophisticated avatar? And does this captured image match their ID photo also on the system? Biometric technology such as this will avoid time consuming security questions prior to the start of the interaction.

Summary

Banks must always deliver a good customer experience when onboarding new customers as well as to existing customers accessing their accounts. This is where the importance of having the appropriate depth of ID data and biometric technology plays a vital role in an increasingly competitive open banking world. Those that thrive will be those that enhance the customer journey whilst maintaining strong due diligence over the customer data in their systems. In fact, such due diligence ensures you become the source of trusted identity your customers use for all of their digital banking activities – vital if you want to grow and prosper in the open banking age. It's time for banks to put a stop to the growth in financial crime, meet required KYC and AML requirements and deliver a seamless customer onboarding experience that helps them to stay ahead of the competition. Today, with the depth of global contact data available for effective KYC compliance from cloud service providers and improving biometric technology, it's possible.

Bank Strategy in the World of Fintech

By **Arnoud W.A. Boot***, Professor of Corporate Finance and Financial Markets, University of Amsterdam*

Fintech (financial technology) is widely seen as a disruptive force in the banking industry. New information-technology (IT)-focused entrants, including large data and platform-oriented IT firms such as Google and Apple, are seen as a potential threat to the position of banks. While banks appear to be still in the lead, information technology and fintech are changing the competitive landscape. Customers have easier access to multiple providers and potentially more transparent product offerings. The traditional bank-customer relationship is more or less gone. The challenges are enormous, from dealing with legacy systems to figuring out viable business models going forward. *Agility* has become the new buzzword of consultants. Institutions need to become agile to deal with the challenges ahead. But can we give some clarity on what lies ahead? Arguably the most profound manifestation of fintech is that it may lead to the disaggregation of the value chain. Interfaces—online platforms in particular—may come about that help bundle the product offerings of different providers, thereby becoming the direct point of contact for customers. Online platforms may then become the preferred customer interface. A financial-services platform might also act as a marketplace where people interact directly and financial institutions serve the limited roles of advisor, broker and/or record-keeper. P2P (peer-to-peer) lending could have parties transacting directly without the benefit of a financial intermediary. Technology firms may use payments solutions (such as Apple Pay) as a platform and gain a direct customer interface for related products and services; legacy financial institutions then might be relegated to serving as the back office or product provider to the platform.

The disruptive forces affecting banking may also lead to new entrants. New specialized lenders have arisen that seek to replace relationship lenders and traditional credit scoring with sophisticated algorithms based on big data mining (data analytics). Analyzing data such as buying habits, memberships, reading habits and lifestyle choices has shown to lead to credible creditworthiness assessments. Similarly, the growing availability of inexpensive information allows for public certification of creditworthiness similar to the trustworthiness scores on eBay or the client-satisfaction scores on TripAdvisor. An area that seems most open to fintech is payments, and particularly retail-related payments. This core area of banking is being coveted by technology firms and payments specialists. China offers arguably the most visible manifestation of what new technology companies are up to. Alipay provides payment services for hundreds of millions of people. Regulatory developments, such as PSD2 (Payment Services Directive 2) in the European Union (EU), may further elevate competition in this area. PSD2 forces banks to share payment information with others on the request of their customers. This is designed to encourage competition in the payments sphere. Many of the recent fintech-related developments are highly customer-focused and contrast with the traditional product orientation of banks. For example, the platforms could give customers easier access to a variety of providers and a broader set of services going beyond financial services. Again, China—where Alipay and WeChat are providing the core of platforms that blend social media, commerce and banking—offers an example. This is what the consultancy McKinsey calls “a customer-centric, unified value proposition that goes beyond what users could previously obtain…” and is “often more central in the customer journeys”. This points at empowerment by customers and simultaneously could cast doubt on whether banks will be able to continue to control the customer interface.

Banks are resilient

The threat for banks may seem obvious, yet this does not mean that banks are doomed. In the past, banking institutions have shown remarkable resilience, despite questions about their viability. As far back as 1994, economists John Boyd and Mark Gertler commented on the predicted demise of banks in a well-known study titled, “Are Banks Dead? Or Are the Reports Greatly Exaggerated?” At that point, the discussion was about the banks’ role in lending. In particular, the question was whether securitization would undermine the banks’ lending franchise. They concluded that while securitization would make banks less important for the actual funding of loans, the core functions of banks in the lending process—origination (including screening), servicing and monitoring—would be preserved, as would the centrality of banks. What is more, banks would typically play a role in the securitization vehicles by providing back-up lines of credit and guarantees on the refinancing of the commercial paper that funds many of the vehicles. (This is not to say that securitization was without problems. The 2007-09 financial crisis showed severe shortcomings in the way securitization had developed.) The message of that article undoubtedly has relevance today. Banks will respond and try to be players in the fintech world themselves. Indeed, an IDC (International Data Corporation) survey reports that banks are among the largest investors in big data analytics. They may also set up platforms and in this way hold on to the customer interface. Moreover, fintech is often facilitating and thus is a way to improve operations and existing processes within banks. Data analytics could, for example, help improve the lending processes of banks. Underscoring these points further, we see that banks often play a role in P2P lending. As in securitization, banks may serve essential functions in that lending process, such as compliance, screening and monitoring. Banks together with institutional investors can also be important providers of funding to P2P platforms. A bank may even have set up and arranged the platform. Similarly in payments—the payments innovators are not necessarily independent of banks but may be in joint ventures or other types of alliances with traditional banks.

In some countries, banks themselves have managed to offer the leading online payments solutions. All of this points at a fruitful role of banks in the fintech space and potential complementarities between banks and fintech players.

One should also not discard the more indirect competitive advantages that banks have. Banks may benefit from the anxiety of people about the safety of their liquid wealth. The financial crisis of 2007-09 may have created concerns about the stability of banks, but the bank is still seen as the place where money is safe. These comments also point at potential artificial competitive advantages that banks have. Being a bank with a license and an implicit guarantee from the government has value. The implicit guarantees that banks have from their governments may give them an edge over new entrants, including possibly fintech players. Protection may go even further. Governments and regulators may try to limit competition in the interest of financial stability. Finally, while banks often complain about stringent rules and regulations, these rules and regulations also offer protection; new players might not easily satisfy them. Indeed, safeguarding fair opportunities for new players is a challenge when strong and highly politically connected incumbents are present.

Banking strategy

Nevertheless, it is fair to say that the future of the industry and its structure in particular is highly uncertain. Developments in technology have inherently a level of unpredictability. The financial-services industry is in the middle of it. Some banks may play a leading role in the new universe, perhaps by becoming fintechs themselves and providers of leading platforms. But there are reasons to envision a decline for the banking industry at large. New competitors and the disaggregation of the value chain will put pressure on existing players, and the wider availability of information will reduce the banks' edge as brokers of information. What seems clear is that banks will need to become *agile*—yes, the buzzword of consultants—and flexible to deal with the challenges and uncertainties ahead. What types of action to take in such an environment? Increasingly, partnering is seen as crucial for banks. In a recent study, the World Economic Forum (WEF) concluded that "financial institutions will need to find ways to partner with large techs without losing their core value proposition". Agility and flexibility in setting up and finding value-enhancing partnerships are seen as distinct skills. In doing so, banks may face dilemmas. When is partnering with fintechs optimal, and when is it not desirable? Such a dilemma could play out, for example, in partnering with Apple in payments. Will banks continue to be important for such partnerships—or only in the beginning, then redundant subsequently?

An equal challenge is how to transform the legacy institutions of today into agile players that can succeed in the fintech universe. Substantial mergers might be envisioned in the banking industry in the years to come. A key question, however, is how to turn this into a viable long-term strategy. Mergers in industries that are being disrupted are often seen as defensive at best, aimed at delaying the inevitable. As dinosaurs, the mergers may precede extinction. Indeed, size can help protect margins in the short-term via market power. But how do such mergers relate to the agility needed to survive in the long-term? Mergers of legacy institutions need to go hand-in-hand with massive restructurings that lower the cost bases and aim at full digitalization of processes. Do I advocate for such mergers? As a bank, it might put you back in time. The strategy will be inward-looking, dealing with the massive legacy issues at hand. The real winners will be those players that escape the legacy and become platforms in the new world of finance. They will have the customer interface and others delivering services to their platforms. Can existing banks be among the winners? Banks have shown themselves to be resilient in the past; do not count them out.

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RBI THIS WEEK

Statement by Governor - First Bi-monthly Monetary Policy, 2019-20

The Monetary Policy Committee (MPC) reviewed macroeconomic developments and the outlook over the course of the past two days, *i.e.*, April 2 and 3, 2019 and in its meeting today, it voted by a 4/2 majority to reduce the policy repo rate by 25 basis points, and to maintain a neutral stance of monetary policy by a 5/1 majority. I thank the MPC members for bringing to the discussions their experience and erudition. I also wish to express my appreciation for our teams in the Reserve Bank for their hard work in providing high quality inputs for the MPC's deliberations.

2. I would now like to set out the main global and domestic developments that the MPC evaluated while formulating its decision. It noted that there is a further loss of pace in global economic activity since it last met in February 2019. Moreover, the slowdown appears to be synchronised across advanced economies and some major emerging market economies as well. This assessment is also reflected in the monetary policy stances of their Central Banks, which have either eased or paused. Inflation remains low in major advanced and emerging economies, although crude oil prices have risen on production cuts by major producers and supply disruptions among some exporters. As regards financial markets, equity markets have generally rallied, bond yields have eased and in some advanced economies, they have slipped into negative territory. In currency markets, the US dollar has traded with an appreciating bias, while emerging market currencies have softened.

3. Turning to domestic developments, the MPC observed that the Central Statistics Office (CSO) has pegged India's real gross domestic product (GDP) growth at 7.0 per cent in 2018-19, revised down from 7.2 per cent in its first advance estimates. More recent high frequency indicators point to manufacturing growth slowing down, while investment demand is subdued. Credit flows to micro and small as well as medium industries remains muted, though they somewhat improved somewhat for large industries. Capacity utilisation (CU) in the manufacturing sector is running above its long-term average. There is also some improvement in business sentiment. High frequency indicators of the services sector such as sales of commercial vehicles and freight traffic indicate moderation in activity.

4. The MPC also noted that CPI inflation rose to 2.6 per cent in February 2019 after four months of continuous decline. The upturn reflected an increase in prices of items excluding food and fuel and weaker momentum of deflation in the food group. Households' inflation expectations declined by 40 basis points each for the three months ahead and for the one year ahead horizons. Manufacturing firms reported reduction in input price pressures.

5. On India' external front, export growth remained weak in January and February 2019 while imports, especially non-oil non-gold imports, declined. The trade deficit narrowed in February 2019 to its lowest level in 17 months. Net FDI inflows were strong while foreign portfolio investors turned net buyers in the domestic capital market in Q4:2018-19. India's foreign exchange reserves were at US$ 412.9 billion on March 31, 2019.

6. Taking into account these developments and looking ahead, the MPC revised the path of CPI inflation downwards to 2.4 per cent in Q4:2018-19, 2.9-3.0 per cent in H1:2019-20 and 3.5-3.8 per cent in H2:2019-20, with risks broadly balanced. GDP growth for 2019-20 is projected at 7.2 per cent: 6.8-7.1 per cent in H1:2019-20 and 7.3-7.4 per cent in H2, with risks evenly balanced.

7. Beyond the near term, the MPC assessed that the short-term outlook for food and fuel inflation remains benign, although there is some uncertainty around the prospects for the monsoon, and seasonal reversals in the prices of some items. The outlook for oil prices continues to be hazy, both on the upside and the downside. Inflation excluding food and fuel has remained elevated, but has shown some moderation compared to the first half of 2018-19. Financial markets remain volatile. The fiscal situation at the general government level requires careful monitoring. Overall, the output gap remains negative and, therefore, strengthening domestic growth impulses by spurring private investment assumes priority.

8. To summarise, global growth is slowing down, and this is also reflected in three successive downward revisions made by the IMF in its projection of global growth for 2019. Domestic GDP growth is also estimated to slow in 2018-19, with high frequency indicators suggesting slackening of urban and rural demand as well as investment activity. While bank credit is growing at 14.3 per cent, it is not broad-based. Bank credit to micro and small industries, which are critical to employment and exports, was flat (0.6 per cent) as also credit to medium industries (0.7 per cent). Growth projections for 2019-20 have accordingly been revised downwards from 7.4 per cent to 7.2 per cent.

9. Retail inflation rose to 2.6 per cent in February 2019 from a low of 2.0 per cent in January; however, the upturn has turned out to be 30-40 basis points lower than our projections made in the February policy. Accordingly, inflation projections have been recalibrated. As per our current projections, headline CPI inflation is projected at 3.8 per cent in Q4:2019-20.

10. Against this backdrop, the MPC voted to reduce the policy rate by 25 basis points while maintaining a neutral stance.

11. Going forward, the RBI will continue to watch the evolving macroeconomic situation and shall act in time and act decisively. With the inflation outlook remaining benign, the RBI will address the challenges to sustained growth of the Indian economy, while ensuring price stability on an enduring basis in pursuance of its mandate in the RBI Act.

12. I would now like to address some developmental and regulatory policies which we have announced today.

i) Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards

We have allowed an additional 2.0 percent of SLR to be reckoned as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks. While this move will harmonise the liquidity requirements of banks with the LCR, it will also immediately release additional liquidity for lending by the banks.

ii) Committee on the Development of Housing Finance Securitisation Market

We are aware that well-functioning securitisation markets can enable better management of credit and liquidity risks in the balance-sheets of banks as well as non-bank mortgage originators and, in turn, would help lower the costs of mortgage finance in the economy. We have decided to constitute a Committee that will assess the state of housing finance securitisation markets in India; study the best international practices as well as lessons learnt from the global financial crisis; and propose measures to further develop these markets in India.

iii) Task Force on the Development of Secondary Market for Corporate Loans

At present, the secondary market for corporate loans in India is dominated by transactions of banks in non-performing assets and is constrained by sparse information on pricing and recovery rates. Recognising the benefits of an *active* secondary market in loans, the Reserve Bank will set up a Task Force to study the relevant aspects, including best international practices and to propose measures for developing a thriving secondary market for corporate loans in India.

iv) Issue of Instructions on External Benchmark

As announced in the 'Statement on Developmental and Regulatory Policies' of December 05, 2018, it was proposed that all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks from April 1, 2019 shall be benchmarked to the external benchmarks, viz., the RBI Repo Rate or any other benchmark market interest rate published by the Financial Benchmark India Private Ltd. (FBIL).

Taking into account the feedback received during discussions held with stakeholders on issues such as (i) management of interest rate risk by banks from fixed interest rate linked liabilities against floating interest rate linked assets and the related difficulties, and (ii) the lead time required for IT system up gradation, it has been decided to hold further consultations with stakeholders and work out an effective mechanism for transmission of rates. In the meantime, we have taken several measures to enable better management of interest rate risk by banks, for instance, by allowing non-residents to participate in the Rupee interest rate swap market.

v) Countercyclical Capital Buffer

The framework on countercyclical capital buffer (CCCB) was put in place by the Reserve Bank in terms of guidelines issued on February 5, 2015 wherein it was advised that the CCCB would be activated as and when the circumstances warranted, and that the decision would normally be pre-announced. Based on the review and empirical testing of CCCB indicators, it has been decided that it is not necessary to activate CCCB at this point in time.

vi) Permitting G-sec trading through International Central Securities Depositories (ICSDs)

As a step in the continuing process of broadening the investor base for Government securities, the Reserve Bank, in consultation with the Government and SEBI, shall open a separate channel for international investors by allowing them to invest through International Central Securities Depositories (ICSDs).

vii) Licensing of Non-Banking Financial Companies (NBFCs) as Authorised Dealer Category II

Increasingly, a large segment of resident Indians are availing foreign exchange facilities for the purpose of overseas education, medical treatment abroad, business travel, private visits (non-trade current account transactions) which are presently undertaken only through Authorised Dealers Category I, II, III and the full-fledged money changers.

With a view to improve the ease of undertaking forex transactions by increasing the last-mile touch points of regulated entities to sell foreign exchange for non-trade current account transactions, it has been decided that non-deposit taking systemically important Non-Banking Financial Companies

(NBFCs-NDSI) in the category of Investment & Credit Companies (ICCs) will be made eligible to apply for grant of Authorised Dealer Category II licence. Detailed instructions in this regard shall be issued by the end of April 2019.

viii) Benchmarking India's Payment Systems

Benchmarking India's Payments Systems is necessary to gauge India's progress *vis-à-vis* payment systems and instruments in major countries and give further impetus to the planned efforts for deepening the digitisation of payments. A report containing the findings of such an exercise will be placed on the RBI website by the end of May 2019.

ix) Framework for Harmonizing Turn Around Time for the Resolution of Customer Complaints and Compensation

Currently, different payment systems have varied mechanisms for addressing customer grievances and the time for resolving customer complaints are not uniform. In order to have a prompt and efficient complaint redress framework for all electronic payment systems, it is necessary to have harmonisation of the response time for complaint management and for other payment transactions, such as the reversal of a failed transaction across various payment systems. To this end, the, RBI proposes to come out with a framework on TAT for resolution of customer complaints and compensation framework across all authorised payment systems.

x) Convergence of Priority Sector Lending (PSL) guidelines for housing loans between Scheduled Commercial Banks (SCBs) and Regional Rural Banks (RRBs) and Small Finance Banks (SFBs)

The housing loan limits for eligibility under Priority Sector Lending were revised during June 2018, for Scheduled Commercial Banks (excluding Regional Rural Banks and Small Finance Banks). It has been decided to extend the revised limits to Regional Rural Banks and Small Finance Banks also to provide level-playing field to these banks.

xi) Extension of NBFC Ombudsman Scheme to cover Non-Deposit taking Non-Banking Financial Companies (NBFCs)

In pursuit of strengthening the grievance redressal mechanism for bank customers, the Reserve Bank is will widen the existing NBFC-Ombudsman scheme, introduced on February 2018, to cover the customers of non-deposit taking NBFCs registered with RBI and having asset size of ₹ 100 crore and above.

Governor's Statement on Framework for Resolution of Stressed Assets

Hon'ble Supreme Court has held the RBI circular dated February 12, 2018 on Resolution of Stressed Assets as u*ltra vires*. The Court has held that RBI's directions under Section 35AA of the Banking Regulation Act, 1949 "which are in respect of debtors generally" would be ultra vires of that section. Thus, the order of the Supreme Court mandates RBI to exercise its powers under Section 35AA "in respect of specific defaults by specific debtors". The powers of RBI under Section 35AA and other sections of the Banking Regulation Act, 1949 are, therefore, not under doubt. In light of Hon'ble Supreme Court order, the Reserve Bank of India will take necessary steps, including issuance of a revised circular, as may be necessary, for expeditious and effective resolution of stressed assets. The

RBI stands committed to maintain and enhance the momentum of resolution of stressed assets and adherence to credit discipline.

First Bi-monthly Monetary Policy Statement, 2019-20 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.0 per cent from 6.25 per cent with immediate effect.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.25 per cent.

The MPC also decided to maintain the neutral monetary policy stance.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

2. Since the last MPC meeting in February 2019, global economic activity has been losing pace. In the US, the subdued performance in the final quarter of 2018 appears to have continued into Q1:2019 as reflected in declining factory activity. The Euro area slowed down in Q4:2018 on soft domestic demand and contracting manufacturing activity. Of its constituents, the Italian economy contracted for two consecutive quarters in Q3 and Q4. In the UK, growth slowed down on Brexit uncertainty, with industrial production contracting during September-January. The Japanese economy rebounded in Q4 on increased domestic consumption expenditure and recovering investment spending. However, the latest data on manufacturing activity and business confidence suggest that growth lost momentum in Q1:2019. The monetary policy stances of the US Fed and central banks in other major advanced economies (AEs) have turned dovish.

3. Economic activity also slowed down in some major emerging market economies (EMEs). The Chinese economy decelerated in Q4:2018 on subdued domestic and global demand impacting industrial activity. Much of this weakness seems to have continued into 2019 as reflected in low factory output in Q1, though the purchasing managers' index (PMI) moved into expansion zone in March after three months of contraction. In Q1, the Russian economy continued to be impacted by both domestic and external headwinds. The Brazilian economy ended 2018 on a weak note; going into 2019, available economic indicators for Q1 suggest that economic activity remained restrained by both weak domestic and external demand. The South African economy slowed down in the final quarter of 2018. Subdued industrial activity and worsening external demand point to a further loss in momentum in Q1.

4. Crude oil prices have risen on production cuts by OPEC and Russia as well as disruption in supplies due to US sanctions on exports from Venezuela. Gold prices weakened on expectations of positive outcomes of the China-US trade deal. Inflation continued to remain low in major AEs and many key EMEs due to slowing global growth and stable or falling commodity prices.

5. Financial markets continued to be driven by monetary policy stances of key central banks and movements in crude oil prices. In the US, the equity market witnessed some selling pressure in the last week of March on weak economic data. Equity markets in EMEs gained, benefitting from country-specific factors and easing of global financing conditions. Bond yields in the US softened, slipped into negative territory in Germany and dipped further into negative territory in Japan as central banks signalled softer stances. Bond yields in most EMEs have been falling in tandem with those in AEs and on the improving inflation outlook. In currency markets, the US dollar has traded with an appreciating bias in recent weeks. EME currencies have traded with a depreciating bias on country-specific factors and on fears of a weakening economic outlook in China.

Domestic Economy

6. Turning to the domestic economy, the second advance estimates for 2018-19 released by the Central Statistics Office (CSO) in February 2019 revised India's real gross domestic product (GDP) growth downwards to 7.0 per cent from 7.2 per cent in the first advance estimates. Domestic economic activity decelerated for the third consecutive quarter in Q3:2018-19 due to a slowdown in consumption, both public and private. However, gross fixed capital formation (GFCF) growth remained in double digits for the fifth consecutive quarter in Q3, with the GFCF to GDP ratio rising to 33.1 per cent in Q3:2018-19 against 31.8 per cent in Q3:2017-18, supported primarily by the government's thrust on the road sector and affordable housing. The drag on aggregate demand from net exports also moderated in Q3 due to a marginal acceleration in exports and a sharp deceleration in imports led by a decline in crude oil prices.

7. On the supply side, the second advance estimates of the CSO placed the growth of real gross value added (GVA) lower at 6.8 per cent in 2018-19 as compared with 6.9 per cent in 2017-18. GVA growth slowed down to 6.3 per cent in Q3 due to a deceleration in agriculture output from the record level achieved in the previous year. Industrial GVA growth remained unchanged in Q3, with manufacturing GVA growth slowing somewhat. Services GVA growth also remained unchanged in Q3; while growth in construction activity accelerated, there was some loss of momentum in public administration, defence and other services.

8. Beyond Q3, the second advance estimates of foodgrains production for 2018-19 at 281.4 million tonnes were 1.2 per cent lower than the fourth advance estimates of 2017-18, but 1.4 per cent higher than the second advance estimates of 2017-18. According to the National Oceanic and Atmospheric Administration (NOAA) of the US, El Niño conditions strengthened during February 2019, which may affect the prospects of a normal south west monsoon.

9. Of the high frequency indicators of industry, the manufacturing component of the index of industrial production (IIP) growth slowed down to 1.3 per cent in January 2019 due to automobiles, pharmaceuticals, and machinery and equipment. The growth of eight core industries remained sluggish in February. Credit flows to micro and small as well as medium industries remained tepid, though they improved for large industries. Capacity utilisation (CU) in the manufacturing sector, however, as measured by the Reserve Bank's order books, inventory and capacity utilisation survey

(OBICUS), improved to 75.9 per cent in Q3 from 74.8 per cent in Q2 exceeding its long-term average; the seasonally adjusted CU rose to 76.1 per cent from 75.4 per cent. The business assessment index of the industrial outlook survey (IOS) points to an improvement in overall sentiments in Q4. The manufacturing purchasing managers' index (PMI) remained in expansion zone for 20th month in March. The key indicators of investment activity contracted, viz., production of capital goods in January and imports of capital goods in February.

10. High frequency indicators of the services sector suggest significant moderation in activity. Sales of commercial vehicles contracted during February. Other indicators of the transportation sector, viz., port freight traffic and international air freight traffic, also contracted. However, indicators of the construction sector, viz., consumption of steel and production of cement, continued to show healthy growth. The hotels sub-segment showed some improvement in foreign tourist arrivals in January and international air passenger traffic in February. The services PMI continued to be in expansion zone for the tenth consecutive month in March 2019.

11. Retail inflation, measured by y-o-y change in the CPI, rose to 2.6 per cent in February after four months of continuous decline. The uptick in inflation was driven by an increase in prices of items excluding food and fuel and weaker momentum of deflation in the food group. However, inflation in the fuel group collapsed to its lowest print in the new all India CPI series.

12. Within the food group, deflation in four sub-groups – vegetables, sugar, pulses and fruits – continued in February. Egg prices moved into inflation after remaining in deflation in previous three months, while inflation ticked up in all other food sub-groups.

13. Inflation in the fuel and light sub-group collapsed from 4.5 per cent in December to 1.2 per cent in February. Prices of liquefied petroleum gas (LPG) declined sharply, pulled down by the lagged impact of the softening of international energy prices. The prices of firewood, with the second largest weight in the fuel group, also declined. Electricity slipped into deflation in January and February. Inflation in kerosene remained elevated, however, reflecting the impact of the calibrated increase in its administered price.

14. CPI inflation excluding food and fuel declined to 5.2 per cent in January, but rose to 5.4 per cent in February, driven by a broad-based pick-up in inflation in the personal care and effects, and recreation and amusement sub-groups. However, inflation in the clothing and footwear, and transport and communication sub-groups fell, the latter reflecting the reduction in petrol and diesel prices. Inflation in the health and education sub-groups remained elevated, even though it moderated markedly during January-February vis-à-vis December.

15. Inflation expectations, measured by the Reserve Bank's survey of households, declined in the February round over the previous round by 40 basis points each for the three months ahead and for the one year ahead horizons. Firms participating in the Reserve Bank's industrial outlook survey of manufacturing companies reported reduction in input price pressures, but they expected an increase in staff expenses in Q1:2019-20. Farm and industrial input costs increased at a slow pace in January-February 2019. Nominal growth in rural wages and staff costs in the organised manufacturing and services sectors remained muted in Q3:2018-19.

16. From a daily net average surplus of ₹27,928 crore (₹279 billion) during February 1-6, 2019, systemic liquidity moved into deficit during February 7 - March 31, reflecting the build-up of

government cash balances. Currency in circulation expanded sharply in February-March. The liquidity needs of the system were met through injection of durable liquidity amounting to ₹37,500 crore (₹375 billion) in February and ₹25,000 crore (₹250 billion) in March through open market purchase operations (OMOs). Consequently, total durable liquidity injected by the Reserve Bank through OMOs aggregated ₹2,98,500 crore (₹2,985 billion) for 2018-19. Liquidity injected under the LAF, on an average daily net basis, was ₹95,003 crore (₹950 billion) during February (February 7-28, 2019) and ₹57,043 crore (₹570 billion) in March. The weighted average call rate (WACR) remained broadly aligned with the policy repo rate in February and March.

17. Anticipating the seasonal tightening of liquidity at end-March, the Reserve Bank conducted four longer term (tenor ranging between 14-day and 56-day) variable rate repo auctions during the month in addition to the regular 14-day variable rate term repo auctions. Furthermore, the Reserve Bank conducted long-term foreign exchange buy/sell swaps of US$ 5 billion for a tenor of 3 years on March 26, 2019, thereby injecting durable liquidity of ₹34,561 crore (₹346 billion) into the system.

18. Export growth remained weak in January and February 2019 mainly due to exports of petroleum products decelerating in response to a fall in international crude oil prices. Among non-oil exports, engineering goods, chemicals, leather and marine products recorded either sequentially lower or negative growth. As in the case of exports, lower international crude oil prices downsized the oil import bill. Non-oil non-gold imports declined sharply, dragged down by the subdued demand for pearls and precious stones, transport equipment, project goods and vegetable oils. The trade deficit narrowed in February 2019 – both sequentially and on a year-on-year basis – to its lowest level in 17 months. This, along with the increase in services exports and lower outgo of income payments, resulted in narrowing of the current account deficit sequentially. On the financing side, net FDI inflows were strong in April-January 2018-19. Foreign portfolio investors turned net buyers in the domestic capital market in Q4:2018-19. India’s foreign exchange reserves were at US$ 412.9 billion on March 31, 2019.

Outlook

19. In the sixth bi-monthly monetary policy resolution of February 2019, CPI inflation was projected at 2.8 per cent for Q4:2018-19, 3.2-3.4 per cent for H1:2019-20 and 3.9 per cent for Q3:2019-20, with risks broadly balanced around the central trajectory. Actual inflation outcomes averaged 2.3 per cent in January-February.

20. The inflation path during 2019-20 is likely to be shaped by several factors. First, low food inflation during January-February will have a bearing on the near-term inflation outlook. Second, the fall in the fuel group inflation witnessed at the time of the February policy has become accentuated. Third, CPI inflation excluding food and fuel in February was lower than expected, which has imparted some downward bias to headline inflation. Fourth, international crude oil prices have increased by around 10 per cent since the last policy. Fifth, inflation expectations of households as well as input and output price expectations of producers polled in the Reserve Bank’s surveys have further moderated. Taking into consideration these factors and assuming a normal monsoon in 2019, the path of CPI inflation is revised downwards to 2.4 per cent in Q4:2018-19, 2.9-3.0 per cent in H1:2019-20 and 3.5-3.8 per cent in H2:2019-20, with risks broadly balanced.

21. GDP growth for 2019-20 in the February policy was projected at 7.4 per cent in the range of 7.2-7.4 per cent in H1, and 7.5 per cent in Q3 – with risks evenly balanced. Since then, there are some

signs of domestic investment activity weakening as reflected in a slowdown in production and imports of capital goods. The moderation of growth in the global economy might impact India's exports. On the positive side, however, higher financial flows to the commercial sector augur well for economic activity. Private consumption, which has remained resilient, is also expected to get a fillip from public spending in rural areas and an increase in disposable incomes of households due to tax benefits. Business expectations continue to be optimistic. Taking into consideration the above factors, GDP growth for 2019-20 is projected at 7.2 per cent – in the range of 6.8-7.1 per cent in H1:2019-20 and 7.3-7.4 per cent in H2 – with risks evenly balanced.

22. Beyond the near term, several uncertainties cloud the inflation outlook. First, with the domestic and global demand-supply balance of key food items expected to remain favourable, the short-term outlook for food inflation remains benign. However, early reports suggest some probability of El Niño effects in 2019. There is also the risk of an abrupt reversal in vegetable prices, especially during the summer months. Second, inflation in fuel group items, particularly electricity, firewood and chips saw unprecedented softening in H2:2018-19. There is, however, uncertainty about the sustainability of this softening in inflation in fuel items. Third, the outlook for oil prices continues to be hazy, both on the upside and the downside. On the one hand, continuing OPEC production cuts will reduce supplies. On the other hand, there is considerable uncertainty about demand conditions. Should there be a swift resolution of trade tensions, a pick-up in global demand is likely to push up oil prices. However, should trade tensions linger and demand conditions worsen, crude prices may fall from current levels, despite production cuts by OPEC. Fourth, inflation excluding food and fuel has remained elevated over the past twelve months with some pick up in prices in February. However, should the recent slowdown in domestic economic activity accentuate, it may have a bearing on the outlook for inflation in this category. Fifth, financial markets remain volatile reflecting in part global growth and trade uncertainty, which may have an influence on the inflation outlook. Sixth, the fiscal situation at the general government level requires careful monitoring.

23. The MPC notes that the output gap remains negative and the domestic economy is facing headwinds, especially on the global front. The need is to strengthen domestic growth impulses by spurring private investment which has remained sluggish.

24. Against this backdrop, the MPC decided to reduce the policy repo rate by 25 basis points and maintain the neutral stance of monetary policy.

25. Dr. Pami Dua, Dr. Ravindra H. Dholakia, Dr. Michael Debabrata Patra and Shri Shaktikanta Das voted in favour of the decision to reduce the policy repo rate by 25 basis points. Dr. Chetan Ghate and Dr. Viral V. Acharya voted to keep the policy rate unchanged.

26. Dr. Chetan Ghate, Dr. Pami Dua, Dr. Michael Debabrata Patra, Dr. Viral V. Acharya and Shri Shaktikanta Das voted in favour of the decision to maintain the neutral stance of monetary policy. Dr. Ravindra H. Dholakia voted to change the stance from neutral to accommodative.

27. The minutes of the MPC's meeting will be published by April 18, 2019.

28. The next meeting of the MPC is scheduled during June 3, 4 and 6, 2019.

RBI releases Draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 under section 45 W of the RBI Act, 1934

The Reserve Bank of India today released Draft Rupee Interest Rate Derivatives (Reserve Bank) Directions 2019. Comments on the draft directions are invited from banks, market participants and other interested parties by April 26, 2019. Feedback on the draft directions may be forwarded to:

The Chief General Manager, Reserve Bank of India
Financial Markets Regulation Department
1st Floor, Main Building Shahid Bhagat Singh Marg, Mumbai – 400001

Or by email with subject line "Feedback on Draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019".

Background

Reserve Bank of India in its Statement on Developmental and Regulatory Policies dated February 7, 2019 announced that RBI will issue a simplified comprehensive guidelines to rationalise regulations for interest rate derivatives (IRDs) to achieve consistency and ease of access with the eventual objective of fostering a thriving environment for management of interest rate risk in the Indian economy. Accordingly, a draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 is being issued for feedback.

Large Exposures Framework (LEF)

Please refer to the circular DBR.No.BP.BC.43/21.01.003/2016-17 dated December 01, 2016 on the subject. After due consideration of the representations received from stakeholders, it has been decided as under:

i. Non-centrally cleared derivatives exposures will be outside the purview of exposure limits till April 01, 2020. However, banks must compute these exposures separately and report to the Department of Banking Regulation on quarterly basis.
ii. For the purpose of reckoning exposure limits under LEF, an Indian branch of a foreign G-SIB will be considered as any other Indian bank and can accordingly take exposure upto 25% of its Tier I capital on another non-GSIB in India.
iii. The interbank exposure limit of an Indian branch of a foreign G-SIB with its Head Office will be 20% of its Tier I capital in India.
iv. The eligible capital base for the purpose of LEF will be the effective amount of Tier 1 capital fulfilling the criteria defined in the Master Circular on Basel III – Capital Regulation dated July 1, 2015 (as amended from time to time) as per the last audited balance sheet. However, the infusion of capital under Tier I after the published balance sheet date may also be taken into account for the purpose of Large Exposures Framework. Banks shall obtain an external auditor's certificate on completion of the augmentation of capital and submit the same to the Reserve Bank of India (Department of Banking Supervision) before reckoning the additions to capital funds.
v. For Indian Banks, profits accrued during the year, subject to provisions contained in para 4.2.3.1 (vii) of Master Circular on Basel III – Capital Regulation dated July 1, 2015 (as amended from time to time), will also be reckoned as Tier I capital for the purpose of Large Exposures Framework.
vi. No additional time shall be given to banks that are in breach of specified interbank limits with other banks or with their Head Offices, to bring their exposures within limit.

Disclosure in the "Notes to Accounts" to the Financial Statements - Divergence in the asset classification and provisioning

Please refer to our circular DBR.BP.BC.No.63/21.04.018/2016-17 dated April 18, 2017, on the captioned subject, requiring disclosures by banks where divergences from prudential norms on income recognition, asset classification and provisioning exceed certain thresholds.

2. It is observed that some banks, on account of low or negative net profit after tax, are required to disclose divergences even where the additional provisioning assessed by RBI is small, which is contrary to the regulatory intent that only material divergences should be disclosed. Therefore, it has been decided that henceforth, banks should disclose divergences, if either or both of the following conditions are satisfied:

a. the additional provisioning for NPAs assessed by RBI exceeds 10 per cent of the reported profit before provisions and contingencies for the reference period, and
b. the additional Gross NPAs identified by RBI exceed 15 per cent of the published incremental Gross NPAs for the reference period.

3. All other instructions of our aforementioned circular dated April 18, 2017 would remain unchanged.

Assignment of Lead Bank Responsibility

Amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda has been notified vide Gazette of India Notification G.S.R. 2(E) dated January 2, 2019. The Notification called the 'Amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda Scheme, 2019' has come into force on April 1, 2019.
2. In view of the above, it has been decided to assign the lead bank responsibility of districts hitherto held by Vijaya Bank and Dena Bank. Accordingly, lead bank responsibility is assigned as follows:

Sr No	State/UT	Erstwhile Lead Bank	District	Lead Bank Responsibility assigned to
1	Chhattisgarh	Dena Bank	i) Balod	Bank of Baroda
			ii) Dhamtari	
			iii) Durg	
			iv) Gariaband	
			v) Mahasamund	
			vi) Raipur	
			vii) Rajnandgaon	
2	Gujarat	Dena Bank	i) Ahmedabad	State Bank of India
			ii) Aravalli	Bank of Baroda
			iii) Banaskantha	
			iv) Botad	
			v) Devbhumi Dwarka	
			vi) Gandhinagar	State Bank of India
			vii) Kutch (Bhuj)	Bank of Baroda
			viii) Mehsana	
			ix) Patan	
			x) Sabarkantha	

3	Karnataka	Vijaya Bank	i) Dharwad	Bank of Baroda
			ii) Haveri	
			iii) Mandya	
4	Dadra & Nagar Haveli	Dena Bank	i) Dadra & Nagar Haveli	Bank of Baroda

3. There is no change in the lead bank responsibilities of the other districts across the country.

Change in Bank Rate

Please refer to our circular DBR.No.Ret.BC.23/12.01.001/2018-19 dated February 07, 2019 on the captioned subject. 2. As announced in the First Bi-Monthly Monetary Policy Statement 2019-20 of April 04, 2019, the Bank Rate is revised downwards by 25 basis points from 6.50 per cent to 6.25 per cent with immediate effect. 3. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised as indicated in the Annex.

Penal Interest Rates which are linked to the Bank Rate

Item	Existing Rate	Revised Rate (With immediate effect)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls).	Bank Rate plus 3.0 percentage points (9.50 per cent) or Bank Rate plus 5.0 percentage points (11.50 per cent).	Bank Rate plus 3.0 percentage points (9.25 per cent) or Bank Rate plus 5.0 percentage points (11.25 per cent).

Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards

Please refer to our circular DBR.BP.BC.No.4/21.04.098/2018-19 dated September 27, 2018, other associated circulars on the captioned subject and para I (1) of the First Bi-Monthly Monetary Policy 2019-20 dated April 4, 2019. 2. Presently, the assets allowed as Level 1 High Quality Liquid Assets (HQLAs) for the purpose of computing the LCR of banks, inter alia, include (a) Government securities in excess of the minimum SLR requirement and, (b) within the mandatory SLR requirement, Government securities to the extent allowed by RBI under (i) Marginal Standing Facility (MSF) [presently 2 per cent of the bank's NDTL] and (ii) Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) [presently 13 per cent of the bank's NDTL]. 3. It has been decided to permit banks to reckon an additional 2.0 percent Government securities held by them under FALLCR within the mandatory SLR requirement as Level 1 HQLA for the purpose of computing LCR, in a phased manner, as under:

Effective Date	FALLCR (per cent of NDTL)	Total HQLA carve out from SLR (per cent of NDTL)
April 4, 2019	13.50	15.50
August 1, 2019	14.00	16.00

December 1, 2019	14.50	16.50
April 1, 2020	15.00	17.00

4. For the purpose of LCR, banks shall continue to value such government securities reckoned as HQLA at an amount not greater than their current market value (irrespective of the category under which the security is held, i.e., HTM, AFS or HFT).

FINMIN THIS WEEK

Indian Advance Pricing Agreement regime moves forward with signing of 18 APAs by CBDT in March, 2019

The Central Board of Direct Taxes (CBDT) has entered into 18 APAs in the month of March 2019, which includes 03 Bilateral APAs (BAPAs). With the signing of these APAs, the total number of APAs entered into by the CBDT in the year 2018-19 stands at 52, which includes 11 BAPAs. The total number of APAs entered into by the CBDT as of now stands at 271, which inter alia includes 31 BAPAs. The BAPAs entered into during the month of March 2019 were with the following treaty partners:-

- Australia – 1 Netherlands – 1 USA – 1

The BAPAs and Unilateral APAs (UAPAs) entered into during the month of March 2019 pertain to various sectors and sub-sectors of the economy like anti-friction bearings, risk management solutions platforms, BPO, IT/ITeS, ATMs, industrial and institutional cleaning and hygiene products, etc. The International Transactions covered in all these Agreements, inter alia, include the following, -

contract manufacturing/provision of software development services/back office engineering support service/provision of back office (ITeS) support services/provision of marketing support services/payment of royalty for use of technology and brand/trading/ payment of interest

The progress of the APA scheme strengthens the Government's resolve of fostering a non-adversarial tax regime. The Indian APA programme has been appreciated nationally and internationally for being able to address complex transfer pricing issues in a fair and transparent manner.

Auction for Sale (Re-Issue) of Government Stocks

The Government of India has announced the Sale (Issue/Re-issue) of (i) '7.00 per cent Government Stock,2021' for a notified amount of **Rs.3,000 crore** (nominal) through price based auction, (ii) 'New Government Stock 2026'for a notified amount of **Rs.3,000 crore** (nominal) through yield based auction,,(iii)'GoI Floating Rate Bonds, 2031'' for a notified amount of **Rs.5,000 crore** (nominal) through price based auction,(iv)'New Government Stock 2039'for a notified amount of **Rs.2,000 crore** (nominal) through yield based auction,and (v) '7.72 per cent Government Stock, 2055' for a notified amount of **Rs.4,000 crore** (nominal) through price based auction.Subject to the limit of **Rs.17,000 crore**, being total notified amount, Government of India will have the option to retain additional subscription up to **Rs.1,000 crore** each against anyone or more of the above securities. The auctions will be conducted **using multiple price method**. The auctions will be conducted by the Reserve Bank of India (RBI), Mumbai Office, Fort, Mumbai on **April5, 2019(Friday)**. Up to 5% of the notified amount of the sale of the stocks will be allotted to eligible individuals and Institutions as per the Scheme for

Non-Competitive Bidding Facility in the Auction of Government Securities. Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system on **April5, 2019**. The non-competitive bids should be submitted between 11.30 a.m. and 12.00 noon and the competitive bids should be submitted between 11.30 a.m. and 12.30 p.m. The result of the auctions will be announced on **April5, 2019 (Friday)**and payment by successful bidders will be on **April8, 2019(Monday)**. The Stocks will be eligible for "When Issued" trading in accordance with the guidelines on **'When Issued transactions in Central Government Securities'** issued by the Reserve Bank of India (RBI) vide Circular No. RBI/2018-19/25 dated July24, 2018 as amended from time to time.

WORLD BANK THIS WEEK

World Bank's Executive Directors Select David Malpass 13th President of the World Bank Group

WASHINGTON, April 5, 2019 - The Executive Directors of the World Bank today unanimously selected David R. Malpass as President of the World Bank Group for a five-year term beginning on Tuesday, April 9, 2019. The Board expressed its deep gratitude to Interim President Kristalina Georgieva for her dedication and leadership in recent months. The Executive Directors followed the selection process agreed in 2011. The process included an open, transparent nomination where any national of the Bank's membership could be proposed by any Executive Director or Governor through an Executive Director. This was then followed by thorough due diligence and a comprehensive interview of Mr. Malpass by the Executive Directors. The Board looks forward to working with Mr. Malpass on the implementation of the Forward Look and the capital package agreement as articulated in the Sustainable Financing for Sustainable Development Paper. Mr. Malpass previously served as Under Secretary of the Treasury for International Affairs for the United States. As Under Secretary, Mr. Malpass represented the United States in international settings, including the G-7 and G-20 Deputy Finance Ministerial, World Bank-IMF Spring and Annual Meetings, and meetings of the Financial Stability Board, the Organization for Economic Cooperation and Development, and the Overseas Private Investment Corporation. In his role as Under Secretary, Mr. Malpass played a crucial role in several major World Bank Group reforms and initiatives, including the recent capital increase for IBRD and IFC. He was also instrumental in advancing the Debt Transparency Initiative, adopted by the World Bank and IMF, to increase public disclosure of debt and thereby reduce the frequency and severity of debt crises.

Prior to becoming Under Secretary, Mr. Malpass was an international economist and founder of a macroeconomics research firm based in New York City. Earlier in his career, Mr. Malpass served as the U.S. Deputy Assistant Secretary of the Treasury for Developing Nations and Deputy Assistant Secretary of State for Latin American Economic Affairs. In these roles, he focused on an array of economic, budget, and foreign policy issues, such as the United States' involvement in multilateral institutions, including the World Bank. Mr. Malpass has served on the boards of the Council of the Americas, Economic Club of New York, and the National Committee on US–China Relations. Mr. Malpass earned his bachelor's degree from Colorado College and his MBA from the University of Denver. He undertook advanced graduate work in international economics at the School of Foreign Service at Georgetown University. The World Bank President is Chair of the Boards of Directors of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The President is also ex officio Chair of the Boards of Directors of the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the Administrative Council of the International Centre for Settlement of Investment Disputes (ICSID).

As Growth Slows in Europe and Central Asia, Financial Inclusion Can Play Key Role Addressing Long-Term Challenges

WASHINGTON, April 5, 2019 – Economic growth in the Europe and Central Asia region slowed to 3.1% in 2018, and is projected to decline to 2.1% in 2019, amid slowing global growth and uncertain prospects, according to the World Bank's Economic Update for Europe and Central Asia, released today. Growth in countries across the region varied. Upward revisions to GDP data for Russia, the largest economy in the region, contributed strongly to regional growth, alongside accelerating growth in Albania, Hungary, Poland, and Serbia. Meanwhile, Turkey experienced a severe slowdown, triggered by financial market and currency pressures – growth is forecast at 1.0% for 2019, a major decline from 7.4% in 2017. "Europe and Central Asia is vulnerable to global uncertainty, and it faces several long-term challenges including aging populations, declining productivity, weakening investment, and climate change. The good news is there are a range of policy options available to boost growth and mitigate these challenges," says Cyril Muller, World Bank Vice President for Europe and Central Asia. "Countries should close investment gaps, improve governance, participate more in global value chains, and ensure more people have access to financial services including bank accounts and digital payments."

Regional growth is expected to pick-up modestly in 2020-21, as an anticipated gradual recovery in Turkey offsets moderating activity in Central Europe. However, the region's long-term challenges remain formidable. The share of the working-age population in the region has fallen dramatically, due largely to declining fertility rates in the 1990s. Productivity slowed to 0.8% per year between 2013 and 2017. Investment growth has slowed sharply, from an average above 15% in the five years prior to the global financial crisis to an average of 1.6% in the period 2014-18. And, parts of the region – particularly Central Asia and the Western Balkans – are highly vulnerable to the impacts of climate change, such as droughts, flooding, and more frequent natural disasters. The report says financial inclusion can help countries in Europe and Central Asia address these challenges because access to financial services facilitates people's investment in their health, education and businesses, thereby promoting development and reducing poverty. "Financial inclusion can help boost growth and play an important role in addressing many of the region's long-term challenges," says Asli Demirgüç-Kunt, World Bank Chief Economist for Europe and Central Asia. "Account ownership is the first step into the formal financial system, making it easier to get wages, receive money from friends and family, and collect government payments. It also encourages both saving and borrowing. In emerging countries of Europe and Central Asia, the share of the population with an account increased from 45% in 2011 to 65% in 2017, which is a promising trend. But, there is still a long way to go in many countries."

In 2017, about 116 million adults in the Europe and Central Asia region had no bank account, the majority living in Russia, Turkey, Uzbekistan, Ukraine, and Romania. Being unbanked is generally associated with a lack of labour force participation, lower levels of education, and being among the poorest 40% of the population. Lack of trust in financial institutions represents a major concern for people, which is consistent with low levels of formal savings and the prevalence of informal borrowing throughout the region. Gender inequality in account ownership also persists: women represent 58% of all unbanked adults in the region. To significantly increase the number of bank account holders in the region, the report argues that governments can play a critical role by moving routine payments into bank accounts. Such payments would include public sector workers' wages, distribution of public pensions, agricultural payments and social benefits transfers to people in need. Advances in digital technology and greater use of mobile phones also present major opportunities for governments to expand financial inclusion, close gender gaps, and boost economic growth in countries across the region.

Social Safety Nets Key to Protecting Poor and Fighting Poverty During Economic Slowdowns

WASHINGTON, April 4, 2019— The economies of Latin America and the Caribbean (LAC) are facing a number of internal and external challenges, highlighting the need for policy makers to focus on social safety net tools to support the poor and most vulnerable during cyclical downturns.

Redistributive policies, like conditional cash transfers, are now widespread across LAC and accounted for around 35 percent of the fall in poverty during the commodity boom at the beginning of the century, according to the latest semi annual report from the World Bank's Chief Economist Office for Latin America and the Caribbean, "Effects of the Business Cycle on Social Indicators in Latin America and the Caribbean: When Dreams Meet Reality." However, many countries in the region lack social programs like unemployment insurance which can act as buffers during cyclical increases in poverty, the report says.

"Social programs that act as shock absorbers during economic downturns are common in developed countries but are not widespread enough in our part of the world," said **Carlos Vegh, World Bank Chief Economist for Latin America and the Caribbean**. "*This is a pending social agenda for the region to make sure that those who recently escaped poverty do not slip back down*."

This is particularly relevant now that LAC's economic growth in 2018 fell short of initial expectations and the prospects for 2019 have deteriorated. The LAC region grew 0.7 percent in 2018. The main reasons for the weak 2018 growth were Argentina's 2.5 percent GDP contraction, a slow recovery in Brazil after the major recession of 2015 and 2016, anemic growth in Mexico due to political uncertainty, and the collapse of Venezuela's economy.

"*In challenging economic times, it is more important than ever for countries to make the reforms needed to fuel sustainable and inclusive growth*," said **Axel van Trotsenburg, World Bank Vice President for Latin America and the Caribbean**. "*We cannot take the recent gains in poverty reduction for granted and need to redouble efforts to solidify and build on them."*

In 2019 the region is expected to grow 0.9 percent (excluding Venezuela, growth in 2018 was 1.4 percent and expected to be 1.9 percent in 2019). The three largest economies in the region - Brazil, Mexico and Argentina - are expected to have weak or negative growth in 2019, while Venezuela's GDP is expected to fall a further 25 percent.

"A complicated external environment is creating additional headwinds," added **Carlos Végh**. *"This includes a drop in commodity prices at the end of 2018, slower growth in major trade partner China, and higher international interest rates."*

South America grew 0.1 percent in 2018 and is expected to grow by only 0.4 percent in 2019. Central America grew 2.7 percent in 2018 and is expected to grow 3.4 percent in 2019, while the Caribbean grew 4.0 percent in 2018 and is expected to grow 3.2 percent in 2019.

The weaker economic growth is having a predictable impact on social indicators. Brazil saw an increase in monetary poverty of approximately 3 percentage points between 2014 and 2017. However, it is important to distinguish between cyclical effects on social indicators and structural effects. Cyclical factors have a large impact on unemployment rates, while structural factors are much more important for indicators on unsatisfied basic needs like housing, education, and sanitation.

In the current difficult environment, redistributive policies are all the more important. Most of the countries in the region already have sophisticated conditional cash transfers systems aimed at reducing long-term (and inter-generational) poverty by providing cash in exchange for investments in health and education. More programs like unemployment insurance could also go a long way towards helping limit the rise in poverty during economic downturns.

IMF THIS WEEK

Tackling Corruption in Government

By Vitor Gaspar, Paolo Mauro and Paulo Medas

No country is immune to corruption. The abuse of public office for private gain erodes people's trust in government and institutions, makes public policies less effective and fair, and siphons taxpayers' money away from schools, roads, and hospitals. While the wasted money is important, the cost is about much more. Corruption corrodes the government's ability to help grow the economy in a way that benefits all citizens. But the political will to build strong and transparent institutions can turn the tide against corruption. In our new *Fiscal Monitor*, we shine a light on fiscal institutions and policies, like tax administration or procurement practices, and show how they can fight corruption.

Political will can turn the tide against corruption.

Corruption helps evade taxes

We analyze more than 180 countries and find that more corrupt countries collect fewer taxes, as people pay bribes to avoid them, including through tax loopholes designed in exchange for kickbacks. Also, when taxpayers believe their governments are corrupt, they are more likely to evade paying taxes. We show that overall, the least corrupt governments collect 4 percent of GDP more in tax revenues than countries at the same level of economic development with the highest levels of corruption. A few countries' reforms generated even higher revenues. Georgia, for example, reduced corruption significantly and tax revenues more than doubled, rising by 13 percentage points of GDP between 2003 and 2008. Rwanda's reforms to fight corruption since the mid-1990s bore fruit, and tax revenues increased by 6 percentage points of GDP. Corruption also prevents people from benefiting fully from the wealth created by their country's natural resources. Because the exploration of oil or mining generates huge profits, it creates strong incentives for corruption. Our research shows that resource-rich countries, on average, have weaker institutions and higher corruption.

Corruption wastes taxpayers' money

The *Fiscal Monitor* shows that countries with lower levels of perceived corruption have significantly less waste in public investment projects. We estimate that the most corrupt emerging market economies waste twice as much money as the least corrupt ones. Governments waste taxpayers' money when they spend it on cost overruns due to kickbacks or bid rigging in public procurement. So, when a country is less corrupt, it invests money more efficiently and fairly.

Corruption also distorts government priorities. For example, among low-income countries, the share of the budget dedicated to education and health is one-third lower in more corrupt countries. It also impacts the effectiveness of social spending. In more corrupt countries school-age students have lower test scores. Corruption is also a problem in state-owned enterprises, such as some countries' oil companies, and public utilities like electric and water companies. Our analysis suggests that these enterprises are less efficient in countries with high levels of corruption.

Where there is political will, there is a way

Fighting corruption requires political will to create strong fiscal institutions that promote integrity and accountability throughout the public sector.

Based on the research, here are some lessons for countries to help them build effective institutions that curb vulnerabilities to corruption:

Invest in high levels of transparency and independent external scrutiny. This allows audit agencies and the public at large to provide effective oversight. For example, Colombia, Costa Rica, and

Paraguay are using an online platform that allows citizens to monitor the physical and financial progress of investment projects. Norway has developed a high standard of transparency to manage its natural resources. Our analysis also shows that a free press enhances the benefits of fiscal transparency. In Brazil, the results of audits impacted the re-election prospects of officials suspected of misuse of public money, but the impact was greater in areas with local radio stations.

Reform institutions. The chances for success are greater when countries design reforms to tackle corruption from all angles. For example, reforms to tax administration will have a greater payoff if tax laws are simpler and they reduce officials' scope for discretion. To help countries, the IMF has built comprehensive diagnostics on the quality of fiscal institutions, including public investment management, revenue administration, and fiscal transparency.

Build a professional civil service. Transparent, merit-based hiring and pay reduce the opportunities for corruption. The heads of agencies, ministries, and public enterprises must promote ethical behaviour by setting a clear tone at the top.

Keep pace with new challenges as technology and opportunities for wrongdoing evolve. Focus on areas of higher risk—such as procurement, revenue administration, and management of natural resources—as well as effective internal controls. In Chile and Korea, for example, electronic procurement systems have been powerful tools to curtail corruption by promoting transparency and improving competition.

More cooperation to fight corruption. Countries can also join efforts to make it harder for corruption to cross borders. For example, more than 40 countries have already made it a crime for their companies to pay bribes to gain business abroad under the OECD anti-corruption convention. Countries can also aggressively pursue anti–money laundering activities and reduce transnational opportunities to hide corrupt money in opaque financial centers. Curbing corruption is a challenge that requires persevering on many fronts, but one that pays huge dividends. It starts with political will, continuously strengthening institutions to promote integrity and accountability, and global cooperation.

Assessing the Risk of the Next Housing Bust

April, 4, 2019

By Claudio Raddatz and Nico Valckx

There's good news for people living in Las Vegas, Miami and Phoenix: the risk of a housing bust like the one they endured during the global financial crisis is fairly small. For folks in Toronto and Vancouver, however, the picture hasn't improved since 2008, and the risk of a large decline in house prices remains elevated. Those are among the insights generated by the IMF's new tool for assessing the danger of a severe downturn in home prices. Homeowners, of course, are keenly interested in the value of what is probably their biggest asset. But there is also a strong link between home prices, the financial system, and the economy. The link is especially powerful when prices go down – as we explain in Chapter Two of the IMF's twice-yearly *Global Financial Stability Report*. Why do home prices matter for the broader economy? Housing construction and related spending on things like home improvements account for one-sixth of the US and euro-area economies, making them among the largest components of GDP. What's more, mortgages and other housing-related lending are a big part of banks' assets in many countries, so changes in house prices affect the health of the banking system.

Central banks in the United States, China, and Australia have expressed concern about large increases in home prices.

Boom-bust cycle

It's no surprise, then, that more than two-thirds of financial crises in recent decades were preceded by a boom-bust cycle in home prices, and that central banks in the United States, China, Australia, and elsewhere have recently expressed concern about large increases in home prices. Fortunately, the IMF's new tool can help policy makers gauge the likelihood of a future housing downturn and take early steps to help limit the damage. The tool, dubbed House Prices at Risk, feeds into the Fund's growth-at-risk model, which links financial conditions to the danger of an economic downturn (see the October 2017 GFSR .)

Our study encompasses data from 22 advanced economies, 10 emerging-market economies, and the major cities in those countries. We found that in most advanced economies in our sample, weighted by GDP, the odds of a big drop in inflation-adjusted house prices were lower at the end of 2017 than 10 years earlier but remained above the historical average. In emerging markets, by contrast, riskiness was higher in 2017 than on the eve of the global financial crisis. Nonetheless, downside risks to house prices remain elevated in more than 25 percent of these advanced economies and reached nearly 40 percent in emerging markets in our study. Among them, China stands out, especially its Eastern provinces. Readers may wonder how we came to these conclusions. First, we identified five conditions that affect home prices: past price growth, economic growth, credit booms, overvaluation, and financial conditions. Then we asked ourselves a question: if we look at large drops in home prices — those that occur roughly once every 20 years (that is, those that have a 5 percent probability) — can they be predicted by changes in those five conditions? What happens if, say, financial conditions tighten, households are loaded up on debt, and house prices are stretched? The answer: In this scenario, we can expect to see more instances of very large declines in home prices.

Synchronized swings

Interestingly, good news today may signal greater danger further down the road. In the short term, easy credit supports home prices. But longer term, easy credit could fuel over borrowing by homeowners, making a bust more likely. And, as described in the April 2018 GFSR , house prices in major cities around the world move in tandem, making it more likely that a shock in one country will affect housing markets elsewhere. Significantly, we also found that large declines in home prices are associated with economic contractions and risks to financial stability. For example, our estimates show that a reading of minus 12 on our gauge – corresponding to a 5 percent probability of a 12 percent drop in prices – indicates a 31 percent probability of a financial crisis two years later in advanced economies and a 10 percent probability in emerging markets. That makes our new model a useful predictive tool for policy makers seeking to keep their economies and financial systems on an even keel.

Policy choices

How should policy makers respond to heightened home-price riskiness? While they shouldn't try to target prices, our results show that there are early steps they can take to improve the resilience of households, banks, and the economy. One is to tighten so-called macroprudential policies when the economy is strong and housing is booming. These policies include restricting the amount of a home loan as a proportion of the property's value and limiting the size of monthly mortgage payments as a proportion of income. Another option is cutting the central bank's interest rate, although our results suggest that this may only help to mitigate near-term risks—up to a few quarters ahead—and only in advanced economies. Measures to manage capital flows might also help these countries when a surge in capital inflows increases downside risks to house prices. While our analysis focused on cyclical factors, other policy instruments may be considered as well, including longer-term structural policies—to increase the housing supply or impose zoning restrictions—or fiscal measures such as property taxes. So, there are ways to mitigate the risks. With the help of our tool, policy makers can take appropriate steps in a timely manner & prevent a crisis like the one that shook the world in 2008.

BASLE THIS WEEK

Does informality facilitate inflation stability? by Enrique Alberola-Ila and Carlos Urrutia

Focus The paper assesses how informality affects inflation dynamics and monetary policy. Informality is captured by a dual labour market where the share of informal workers is driven by market demand and adjusts quickly. Only formal sector firms have access to financing, which is necessary for their production process. These elements are embedded in a standard general equilibrium framework with a Taylor rule for monetary policy. We explore the impact of different shocks on the dynamics of inflation and how the transmission channel of monetary policy is affected by informality.

Contribution Informality is still an entrenched structural trait in emerging market economies. Informality determines the behaviour of labour markets, financial access and the productivity of the overall economy. Therefore, it influences the transmission of shocks and also of monetary policy. However, there is hardly research analysing the link between informality and monetary policy.

Findings Informality provides higher flexibility to the labour market and buffers the impact of shocks on wages. Informality also operates through the credit cost channel: as the informal sector is excluded from credit markets, the sensitivity of unit costs to changes in interest rates is reduced. The paper has two main results: 1) the informal sector mitigates inflationary pressures arising from demand and financial shocks (but not of technology shocks); 2) the informal sector dampens the transmission channel of monetary policy: policy interventions are less effective in stabilising inflation and the sacrifice ratio is higher. Less effectiveness implies that monetary policy must react more strongly to deviations from inflation, but deviations would be smaller under most of the shocks. So, does informality facilitates inflation stability, making the job of monetary policy easier? At the light of our results, the answer is inconclusive.

Abstract Informality is an entrenched structural trait in emerging market economies, despite of the progress achieved in macroeconomic management. Informality determines the behavior of labour markets, financial access and the productivity of the overall economy. Therefore it influences the transmission of shocks and also of monetary policy. This paper develops a simple general equilibrium closed economy model with nominal rigidities, labor and financial frictions. Informality is captured by a dual labour market where the share of informal workers is endogenous. Only formal sector firms have access to financing, which is instrumental in their production process. Informality has a buffering effect on the propagation of demand and supply shocks to prices; the financial feature of the model exacerbates the impact of financial shocks in the formal sector while the informal sector is in principle unaffected. As a result informality dampens the impact of demand and financial shocks on wages and inflation but heighten the impact of technology shocks. Informality also increases the sacrifice ratio of monetary policy actions. From a Central Bank perspective, the results imply that the presence of an informal sector mitigates inflation volatility for some type of shocks but makes monetary policy less effective.

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