

ALL INDIA BANK OFFICERS' CONFEDERATION

(Registered under the Trade Unions Act 1926, Registration No.:3427/Delhi)

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Circular No. 2016/69

Date: 29.11.2016

All Affiliates/State units/Members,

Dear Comrades,

OUR ENDEAVOUR TO REDRESS ADVERSE IMPACT ON BANKS DUE TO RBI'S DIRECTIVE FOR MAINTAINING ADDITIONAL CRR

Ever since demonetization drive has begun, RBI is coming out with various announcements/notifications almost each day in relation to the same. On November 25, 2016, a notification was issued to the Banks to maintain with RBI w.e.f. fortnight beginning 26th November, 2016 an incremental CRR of 100% on the increase in NDTL between September 16, 2016 and November 11, 2016; as a temporary measure, to be reviewed on December 9, 2016 or even earlier.

Realizing the adverse implications of this notification on the profitability of Banks, which are already reeling under immense strain, we sent a letter to the RBI Governor highlighting the implications alongwith our suggestions. The letter appended, here below, is self explanatory.

Quote

"The Governor
Reserve Bank of India,
Mumbai.

Sir,

100 % CRR ON INCREMENTAL DEPOSIT – STRANGULATION OF BANKS THE DECISION NEEDS WHOLESOME REVIEW AND PAYMENT OF INTEREST

RBI has mandated 100% CRR requirement on the incremental deposits w.e.f. 26.11.2016. The requirement of maintaining 100% CRR on incremental deposit growth might be the most efficient way for RBI for addressing the issue of demonetisation and its collateral effects i.e. excess liquidity, falling yields on fixed income bonds, weakening INR etc. It seems there is total apathy to the resulting impact on the financials of the banks, which is evident from the prevailing situation as under:

- Banks are paying interest on deposits accepted in SB accounts at the rate of 4 % per annum,

- Currency chests are full and huge cash deposited by customers in branches could not be lodged by the Banks for the last many days,
- Though RBI has issued guidelines, it is not accepting cash from currency chests,
- Even till now RBI has not issued any guidelines that banks may treat excess holding in currency chests, beyond the sanctioned limit, as part of their CRR,
- In order to meet 100 % CRR requirement, Banks are forced to borrow from the market or under Repo,
- Thus on one side the deposit received by banks is lying unutilised and on the other side to comply with CRR requirements, banks are borrowing from the market or under repo at about 6.55 %.

As such entire banking system is grossly involved and dedicating full time to meet the banking requirements of customers on account of demonetisation including cash deposit, cash withdrawal in regulated manner as the supply constraints are yet to be resolved, pushing for digitalisation etc. at the cost of their regular banking business.

As of now, simply put, Banks are bearing net loss of 9.50% to 10 % per annum on cost of the deposits accepted under savings account on account of demonetisation.

Agreeably, for taking approvals from the government for issuing bonds under MSF, RBI needs to follow a long procedure.

However, in order to reduce the pain on banks' balance sheets, which will otherwise also be adversely impacted due to huge establishment cost of managing demonetization approximately amounting to Rs. 50,000 crores so far and expected slowed economy (hopefully for short period), RBI should pay interest on the CRR maintained by banks on incremental deposits. RBI should also allow banks to treat their excess cash holding (on account of demonetisation) as part of CRR. Allowing banks to treat excess cash in Chests as part of RBI balance for the purpose of CRR should also not be an issue at all, given the never earlier seen scenario of the economy. Since the Banks' profitability has already been severely hit by growing NPAs, there is need to compensate Banks by allowing interest on CRR balances.

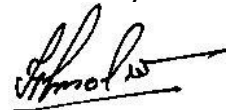
If no immediate remedial steps are taken, margins of Banks will be hurt. We should not forget that the present exercise of demonetisation will also induce slowdown in the economy and NPA levels of the banks will increase, putting additional pressure on banks financials. This in turn will again have wider implications on the economy.

We sincerely hope that a holistic view of the situation would be taken and our suggestions would be taken in the right perspective only."

Unquote

With comradely greetings,

Comradely Yours,



(HARVINDER SINGH)
GENERAL SECRETARY