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Editorial

THE ARROW OF TIME

There was a young lady of Wight,
Who travelled much faster than light
So she departed one day,
In a relative way,
And arrived on the previous Night.

How nice it would have been, if we all could travel back to 19th July 1969, the day 14 major Commercial Banks were nationalized. The social milieu, the political priorities, debates and consequential unfolding of events would all be visible before our own eyes rather depending on the narratives emanating from diverse sources. But there is a fair amount of unanimity that as we are celebrating 50 years of that event that shook the economy, Indian Banking is at a tipping point. There are debates that whether the Banks burdened with NPA , incurring significant losses due to provisioning and unable to sustain growth be recapitalized with state support or be allowed in a relative way to arrive on the previous night of 19 the July 1969, "Reverse nationalization".

In this backdrop, the celebration of 19th July in today's context is essentially a struggle between these two alternative viewpoints. The forces that the celebration will release have to ensure that State is compelled to support the recapitalisation of the Bank, while correcting the damage wrought by the misguided policies pursued by respective ruling government over the last three decades.

A quick recapitulation will tell us that nationalization of banks was expected to achieve alteration in credit deployment pattern from preemption by big business and speculative private trade to in favour of designated priority areas , so essential to boost domestic trade and business and for laying the foundation of a modern resilient National Economy.We all know that the developments after nationalization were dramatic in terms of reaching out to unbanked areas, bringing millions of countrymen within the banking net giving them the first taste of pudding of organized money market and a decisive shift in credit deployment for targeted sector. So it was not the failure of Public Sector banks but other compulsions of national economy necessitating structural adjustment finance from International monetary fund and as a collateral conditionality of such finances the reform process kick start.

A major change brought by reform process was in the provision of development finance. Banks attract deposit post nationalization from millions of customers who have relatively short savings frontier and expect the savings to be relatively liquid. But banks are now asked to go for lumpy investment with providing huge sums to a single borrower with longer maturity period which initially ensure an apparent robust balance sheet growth but ensure in the long run that the loans become risky and substantially illiquid. This is precisely the beginning of the crisis.

Banks are also impacted by another fall out of liberalization. Relaxation in capital inflow norms and encouragement to portfolio investment not only contributed to an exponential growth in share market indexes but also contributed a dramatic expansion in banks deposit base from ₹ 9.6 trillion in 2000-01 to ₹ 107.6 trillion in 2016-17. Banks could not sit tight with this deposit. They are also encouraged to foray into term lending and corporate lending as a part of political initiative to ward off the likely fall out of global economic crisis post the collapse of Lehman Brothers in 2008. Once this tendency of lending large sums to a single project or business group began, it did not stop there but was extended to other areas of corporate lending. In fact, the failure of these projects to generate the revenues needed to bear the debt service costs associated with its high debt to equity ratios, led to default. Such macro factors have severely affected the balance sheet of the banks forcing all of them to post net loss either cyclically or intermittently during the period and strengthening thereby the clamor for privatization, a relative journey back to pre-19th July 1969 days. It is of interest to note that in these gloomy years between 2005 to 2017, as per a report by SBI Research department, the total capital infusion to PSBs was ₹ 1.29 lakh crore while Banks paid a dividend of ₹ 75000 crore and Income tax of ₹ 1.50 lakh crore ensuring that more has outflowed than the inflow. So much so for the naysayers opposing the capital infusion into public sector banks.

What is surprising is that the policy establishment that created the circumstances that led to NPAs, with liberalization and enforced reliance on public bank funding for capital intensive projects, and postponing recognition of NPAs by CDR scheme, suddenly turned aggressive. An asset quality review mechanism was initiated along with tightening of NPA identification norms followed by introduction of PCA framework. In addition, banks are forced to opt for resolution framework under IBC mechanism resulting in accepting hair cut at an unprecedented scale.

The preceding discussion gives a synoptic view of the challenges and the underlying causes of its emergence and helps us to define the challenges that face the Indian Banking and possibly a contour around which the movement may reinvent itself. The first is immediate resolution of NPA problem. The second is to restore an environment in which the profit motive is not privileged over other development objectives so that the return traverse of PSBs from being instrument of development to becoming means of funding the cronies is halted. Third is rolling back of all recommendation of Narsimham Committee and all other committee and Study Group set up to facilitate the implementation of original recommendations. The fourth is to restore brick and mortar banking as the principal means of financial inclusions and dropping the agenda of using the private sector in the form of micro finance institutions, banking correspondents, payments banks and like. Fourthly, an immediate halt to all subversive efforts towards consolidation and amalgamation with zealous maintenance of independent identity of public sector banks with reversal of the process of amalgamation wherever it took place. And finally to ensure that the macroeconomic environment created by neo liberal reforms that forces banking in the direction that it took after 1991 are itself restructured failing which the effort to pull Indian Banking out of crisis and efforts to strengthen growth, financial stability and inclusion is unlikely to succeed.

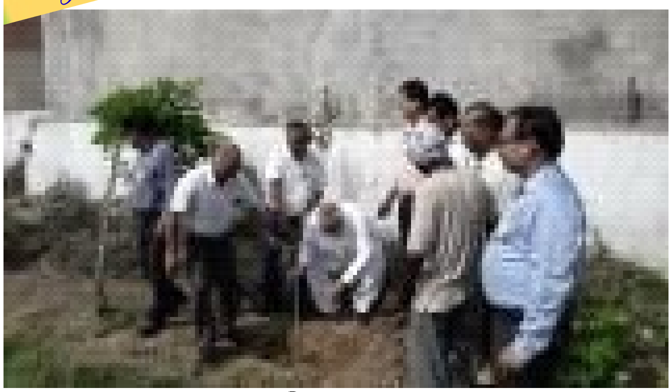
The effort that has been underway for close to three decades to displace the dominant public sector banking and the associated infrastructure financing base of RRBs, Co-operative Banks, Insurance Sector with private banks and private financial institutions have failed. That effort has also had damaging consequences for the major advances made with respect to financing for growth, financial stability and financial inclusion before the initiation of neo liberal economic reforms. The overwhelming task is to reconstitute the financial system that prevailed and think of measures of reform that would improve that basic structure in keeping with the demand of the current situation.

THERE IS NOTHING PERMANENT EXCEPT CHANGE

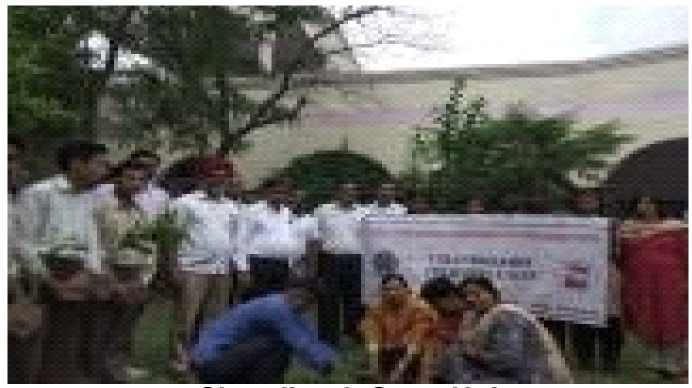
COMMON BOND greets the bank men, senior ex banker and fondly recollects the architects of the movement who made the Nationalization possible, ensures its working and fought many a battle to keep the structure. It also extends its gratitude to the millions of countrymen whose support and faith to public sector banking keeps it going for all these 50 years. We are confident that there will be no occasion for public sector banking to ride on the light express of relativity for travelling back to pre-19th July 1969 days. The arrow of the movement is fixes at a futuristic time when PSBs rediscover its role in inclusive development of the society rediscovering its assigned role and reorienting it to challenges of 21st century.

Organisational Issues

GLIMPSES OF CELEBRATION OF 50 YEARS OF BANK NATIONALISATION

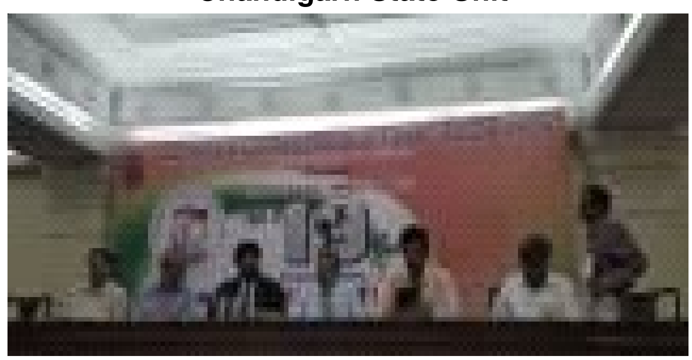


U.P. State Unit



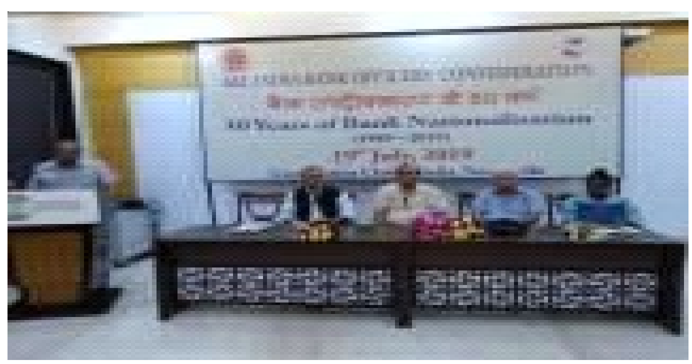
Chandigarh State Unit

W.B. State Unit



AIABOA

Gujarat State Unit



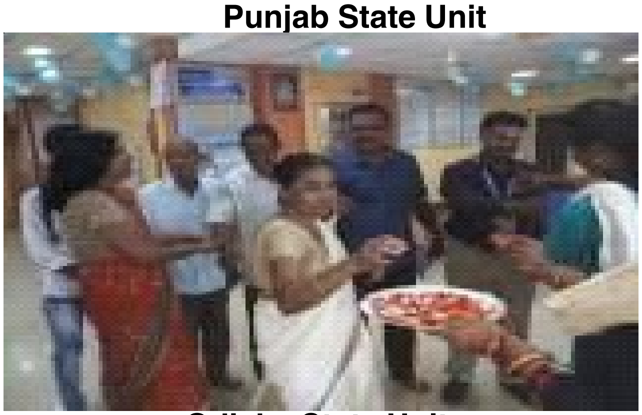
Delhi State Unit

Assam State Unit

Chhattisgarh State Unit

Punjab State Unit

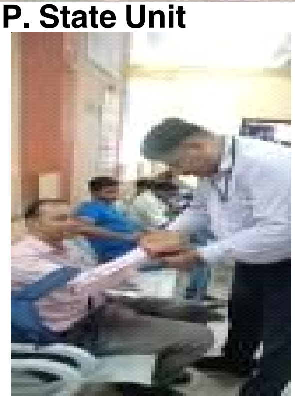
Kerala State Unit



Odisha State Unit

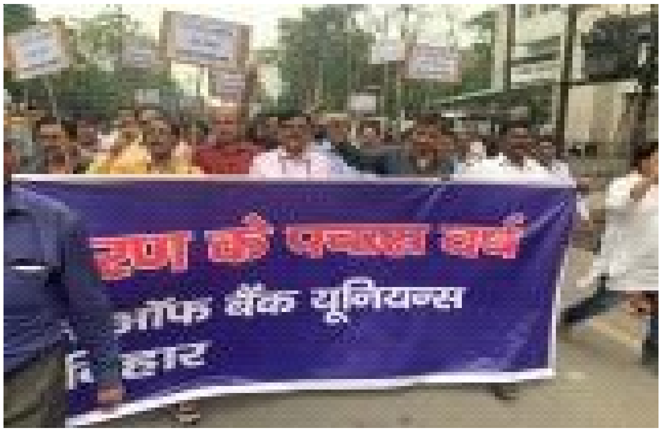
M. P. State Unit

Telengana and A.P. State Unit



Bihar State Unit

THE JOURNEY OF A THOUSAND MILES BEGINS WITH ONE STEP



Bihar State Unit

W.B. State Unit

ARTICLES FROM PRINT MEDIA

The liquidity crisis in the financial system is a major macro challenge before the new government that may upset the stability of the Indian market. The crisis in the NBFC Sector may badly hit the senior depositors and the beneficiary of NBFC funding affecting in a contagion effect the very edifice of Indian growth story. We are reproducing an article by Radhika Merwin published in the Hindu Business Line of 24th June, 2019.

THE CAUSE AND EFFECT

Before, you are wise; after, you are wise. In between you are otherwise." — David Zindell, The Broken God.

This just about sums up the turmoil and mayhem that the non-banking finance company (NBFC) sector has been going through over the past 10 months.

While the going was good, everything seemed like a fine idea — from riding the tide of easy money and incessantly rolling over short-term debt securities to funding risky assets and chasing heady growth figures. But when the cookie crumbled, everyone got wiser to point out the flaws.

Nearly 10 months after the IL&FS crisis first broke out and took the NBFC sector by storm, the market is still split between naysayers, who believe this is our very own Lehman crisis on the verge of snowballing into a financial contagion, and optimists relying on the storm to blow over soon. The RBI has remained on the sidelines though, giving meek assurances of intervention (when it deems fit) to ensure financial stability.

For investors in NBFC stocks, the entire episode has been a nightmare, with little respite from the spate of negative reports and rating downgrades. Recently, Dewan Housing Finance Corporation Ltd (DHFL), which has been in the eye of the storm, hopped back in focus as rating agencies downgraded its debt instruments and sent the stock into a tailspin. Indiabulls Housing Finance also took a knock recently, after a petition was filed (and subsequently withdrawn) alleging misappropriation of funds.

Reading the tea leaves on this ailing sector is difficult. Emerging governance issues and structural challenges emanating from past practices have made it difficult to hard-guess how the entire liquidity crisis will pan out in the coming months.

So, should you continue to invest in such stocks, or shun them altogether? We backtrack to understand the core of the issue, take a look at the regulatory interventions so far, and deep dive into the financials of key NBFCs/ housing finance companies (HFCs) to give you the big picture. Niche offerings, dominance in certain geographical areas, competencies in specific segments such as non-salaried/self-employed, small

A MAN CAN BE DESTROYED BUT NOT DEFEATED

businesses, and rural/semi-urban markets have led to NBFCs playing a vital role in the financing needs of the larger economy.

Sample this. Between FY13 and FY18, bank credit grew about 9.6 per cent compounded annual growth rate (CAGR) and the loan book of NBFCs by15.7 per cent.

While many NBFCs have been carving out a great success story, riding on their niche competencies, there were other factors that fuelled their heady growth. For one, interest rates were on a downward trend from January 2014 until August 2017 — the RBI's policy repo rate had fallen from 8 per cent to 6 per cent during this period. Easy availability of low-cost funds contributed to the NBFCs' growth. Secondly, banks, in particular public sector banks, saw very modest growth in credit between FY15 and FY18. More credit was, therefore, channelled to the thriving NBFCs; the share of NBFCs in total credit grew from about 15 per cent in FY13 to about 19 per cent in FY18.

Unlike banks, which rely primarily on deposits (savers), NBFCs raise money mainly from bank borrowings, bond market, deposits (in case of deposit-taking NBFCs), securitisation (sell part of the portfolio) and the National Housing Bank (in case of HFCs).

In the heady growth periods between FY13 and FY18, bank credit to the NBFC sector increased 14 per cent CAGR (above banks' overall credit growth of 9-odd per cent). But despite banks upping their lending to NBFCs, the share of bank borrowings shrunk within the NBFCs' funding basket. This was because the NBFCs' reliance on short-term commercial papers (CP) increased notably. The share of CP in total borrowings went up from 5 per cent in FY13 to about 9 per cent in FY18.

Thanks to the flush of funds, post-demonetisation, there was a sharp growth in inflows of mutual funds, which, in turn, lapped up the CPs issued by the NBFCs. It is this aggressive shift in the funding mix that hurt many NBFCs, post the liquidity crisis last year. The entire trouble began last year with IL&FS — touted as one of the largest infrastructure development and finance companies — defaulting on its dues. Subsequently, DSP Mutual Fund sold the CPs of DHFL at a higher yield in the secondary market — at a sharp discount. This triggered deep concern over the liquidity problem at NBFCs — the perceived risk for these once-fancied companies changed overnight. All NBFCs were painted with the same brush and hammered by the market.

The aggressive growth over the past few years, increasing over-reliance on short-term funds and wide asset-liability mismatches made matters worse. In practice, banks and NBFCs can run into liquidity issues mainly because of asset-liability mismatches. That is, their loans and borrowings do not come up for payment at the same time. Mismatches in the short term — six-month-to-one-year bucket — are particularly worrisome. While banks have access to short-term funds (they can borrow from the RBI through the repo window by pledging government securities), NBFCs do not have access to such stop-gap funding. And, hence, the inability to raise money from bond markets or banks (on fears of a heightened credit risk) can hit them severely.

Sifting through the annual report disclosures from NBFCs for 2017-18, revealed that some players had a wide mismatch, with deposits and borrowings in the up-to-six-month bucket coming up for payment faster than their loans in the same tenure. There has been a growing clamour for opening a special liquidity window for NBFCs, just as the RBI did in 2008. But the regulator is yet to yield, re-assuring that it would step in to ensure financial stability. The RBI has, instead, eased some norms to ensure smoother flow of credit from banks to NBFCs. While these may have helped a bit, only a few NBFCs appear to have gained. The growing concern is that if the unresolved liquidity issue hits some of them, the contagion impact could be severe.

Liquidity through OMOs

The RBI conducted significant open-market operations (OMOs) — buying nearly ₹2.5 lakhcrore of government securities between October 2018 and March 2019. With no direct taps of funding opened for NBFCs, the intent was to make ample liquidity available to banks, which could, in turn, lend to NBFCs.

Going by the data put out by the RBI, after growing 27 per cent Y-o-Y in FY18, bank lending to NBFCs grew by a higher 29 per cent in FY19. It would appear that banks have continued to lend to certain NBFCs, drawing comfort from their quality of loan books and businesses. Sundaram Finance, for instance, has been able to increase its share of bank borrowings to 25 per cent by the end of FY19, from about 20 per cent in FY18. HDFC, Can Fin Homes, Bajaj Finance, Repco Home Finance, and Cholamandalam Investment and Finance are a few other NBFCs that have seen their share of bank borrowings increase over the past four quarters.

NHB — the regulator and principal agency that promotes HFCs — also increased its refinance limit from ₹ 24,000 crore (July 2018-June 2019) to ₹ 30,000 crore.

Easing securitisation norms

One of the ways by which NBFCs raise funds is through securitisation — selling their loan portfolio. In November 2018, the central bank eased the securitisation norms for NBFCs. NBFCs have to hold loans on their books for a minimum period before they can sell them. Earlier, for loans of over five-year maturity, the minimum holding period was one year. The RBI has eased this requirement to a minimum six-month holding period. However, such relaxation is allowed only when the NBFC retains 20 per cent of the book value of these loans.

There has been a significant rise in the share of securitisation for many NBFCs. Indiabulls Housing Finance, for instance, saw the share of securitisation in its funding basket shoot up to 22 per cent as of March 2019, from 11 per cent in the June 2018 quarter. Mahindra and Mahindra Financial Services saw it increase from 2 per cent in the June 2018 quarter to 8 per cent by the end of FY19. From 10 per cent, the RBI raised banks' single borrower exposure limit for NBFCs that do not finance infrastructure to 15 per cent. In November, the RBI also allowed banks to offer partial credit enhancement (PCE) to bonds issued by some of the NBFCs. Credit enhancement is a facility by which a corporate can improve the rating of the bonds it issues, by securing a backing from other institutions such as banks.

Also, earlier, banks' exposure to NBFCs was risk-weighted at a blanket 100 per cent. In February, the RBI allowed rated exposures of banks to all NBFCs, excluding Core Investment Companies (CICs), to be risk-weighted as per the ratings assigned by rating agencies. With the wide asset-liability mismatches on the books of NBFCs coming to light, the RBI in May proposed some guidelines on a liquidity risk management framework for NBFCs.

These are applicable to all non-deposit-taking NBFCs with an asset size of ₹100 crore and above, systemically important CICs, and all deposit-taking NBFCs, irrespective of their asset size. Key among the norms are breaking up the 'up-to-one-month bucket' into smaller buckets and setting tolerance limits for mismatches.

Also, all non-deposit taking NBFCs with an asset size of ₹ 5,000 crore and above, and all deposit taking NBFCs, irrespective of their asset size, have to maintain a liquidity buffer in terms of a liquidity coverage ratio (LCR).

NBFCs will have to maintain sufficient liquid assets to meet obligations in a 30-day stress scenario — liquid assets equal 100 per cent of total net cash outflows over 30 days. This will be implemented in a phased manner. Starting from April 2020, the LCR requirement will be 60 per cent, reaching 100 per cent by April 2024. So, what does this imply for NBFCs?

For one, the norms will restore the confidence in the sector over the long run, with more discipline in managing liquidity. In the near term, however, the impact would vary across players. For large NBFCs that already have a good asset and liability management (ALM) profile, the impact of the new norms would not be significant.

Many players also maintain ample liquidity buffer (liquid investments or undrawn credit lines) and, hence, complying with LCR norms may not be difficult. Also, some of the NBFCs now sport a healthier ALM profile than in FY18.

But LCR will also require NBFCs to maintain liquid investments on their balance sheet. This will reduce the funds available for lending, to some extent, and add pressure on their margins, as investments in government bonds will earn lesser interest. Also, a structural shift away from short- to long-term borrowings will increase funding cost, impacting margins.

Slowdown in growth

As is evident from the publicly available information of listed NBFCs, there has been a slowdown in disbursements since the December quarter. This sluggishness may continue over the next few quarters, as funding will remain a challenge for some players that have exposure to risky assets. While some have been able to resort to securitisation to raise funds, how long good assets can be monetised needs to be seen. If the negative sentiment around the sector continues, growth concerns can get accentuated.

Profitability to remain under pressure

Over the past three to four quarters, the cost of funds for NBFCs has gone up notably, impacting their margins. While some NBFCs have been able to pass on the cost increase to borrowers, the scope for such pass-through may get constrained with growing competition from private sector banks in certain pockets.

The RBI's proposed norms around liquidity will also put pressure on margins. Here, players with good-quality loan portfolio, easier access to funds and better pricing power (passing through of costs) will be able to keep margin pressure under check.

Asset quality could slip

Some businesses, owing to their inherent business models, remain relatively more susceptible to market shocks. Hence, if tight liquidity conditions persist in FY20, asset-quality issues may arise for NBFCs having exposure to stressed real estate (in particular, the developer segment), infrastructure and loan against property (LAP), etc. Consumer, retail home loan and vehicle financiers would be better themes to bet on.

Don't tar with the same brush

The NBFC sector is vast with diverse businesses — from consumer financing, home loans, vehicle financing, infrastructure lending to catering and rural and self-employed customers. Hence, it would be unfair to paint all NBFCs with the same brush.

It is important to remember that not everyone is affected in the same way by the various market conditions. Businesses with sound financials, good-quality loan portfolios, diversified funding bases and prudent risk-mitigating frameworks are better placed to weather interim shocks, as has been evident over the past year.

Scope for growth

Many NBFCs have seen strong growth in the past, thanks to their unique business model, niche offerings, ability to price risk well and, by and large, stable asset quality. Many players have re-balanced their funding portfolio and ironed out ALM issues over the past year. Adopting the RBI's framework on liquidity will also bring in discipline within the sector. So, don't write-off the sector just yet.

Avoid risky bets

Corporate governance concerns in some NBFCs are a cause for worry. In many cases, it is difficult for investors to gauge the true state of affairs until the damage has been done. Hence, stay clear of stocks caught in negative news flows until the air clears up. Also, tread with caution on NBFCs with high exposure to the developer segment, infrastructure and LAP. Worsening liquidity conditions can make them more vulnerable to shocks.

Without Comments!

RECIPE FOR CUSTOMER SERVICE OR PREPARING FOR GRAND CONSOLIDATION

Union Budget presented by HON finance Minister Mrs Nirmala Sitaraman has laid emphasis on what is billed as ease of living making two announcements to promote ease of living for millions of bank account holders of Public Sector Banks(PSB).

She proposed that to further improve ease of doing transactions, PSB's will leverage technology, offer online personal loans and doorstep banking. And she further announced that customers of one public sector banks will have access service across all public sector banks, akin to ATM interoperability. She additionally announced that steps will be initiated to empower account holders to remedy the current situation in which they do not have control over deposit of cash by others in their account.

While the budget speech has proposed these measures, the roadmap to achieve them is not clear as of now. Let us take a quick look in how all these will pan out for bank employees. The issues regarding measures to control cash deposit may be welcomed to the extent it ensures protection to customers and ensure compliance of objective of Anti Money Laundering Act. But the real impact and implementation matrix of the first announcement can only be guessed now and comments are based on such initial guessing.

It is widely guessed that this announcement means that one can walk into bank branch of one public sector bank and fulfill his banking needs even if he has an account with another public sector bank. This requires integration and interface of existing technological platform and development of it is both feasible and implementable. PSB's currently use either TCS or Infosys platform for their core banking platform. If the services be interoperable there needs to be a common platform or sharing of information between platforms. Government is apparently drawing comfort from what it believes to be successful merger of Bank of Baroda with Vijaya and Dena bank, preceded by merger of associate banks with SBI earlier. It is however a separate story, that till today at best six basic interoperable services are extended across the merged network of BOB, Vijaya and Dena. But creating a single or common Core banking platform may not be the only way out. It is possible that an interface or application program interface is built so that information between the banks may be shared.

With some bank services already accessible through ATM of all banks, it is possible that some of these like withdrawing cash, checking balance or getting statement can be extended in near future. However, this may not happen immediately. Existing technology platform need to be geared up to doing all these works across the banks. The system across controls and the risk management framework across banks need to be of very high class for this to be implemented, or else it could lead to problems.

But why this hurry? Does the finance Minister is in the process of initiating a cultural revolution among bank depositors by alluring them with an forbidden apple to prepare the ground of next dose of merger? Since the proposed scheme is not technically feasible now, there is genuine apprehension that this announcement is nothing but preparation of the ground of merger or "Reverse Nationalisation". Bank trade union movement can hardly ignore this ominous sign while celebrating 50 years of Bank nationalization.■

PUBLIC SECTOR BANKS, FINANCIAL SECTOR AND BUDGET 2019

In her budget speech, Union Finance Minister Nirmala Sitharaman proposed to infuse ₹ 70000 crore in Public sector banks which is expected to provide a timely booster to the lending activities of these public sector lenders. It is anticipated that capital infusion will help PSBs make necessary haircuts on their non performing corporate exposure and shore up their capital adequacy.

This capital infusion will help some targeted banks

THE ONLY JOURNEY IS WITHIN

to come out of the central banks prompt corrective action framework and resume lending and clean up their balance sheet. However, it is widely held that infusion of capital is only a part of the story. PSB require substantial reforms to improve upon its risk management, service quality efficiency and diversity of product offering. It is needless to add that service quality efficiency require amongst others adequate recruitment of staff and investment in branch infrastructure.

The corporate lobby and credit agencies patronized by them however believes that the woes of PSB is a resultant effect of so-called slow progress of reform agenda which in plain term implies privatization of PSBs as a follow up of consolidation. Other measures indicated in the budget include liquidity support for financially strong NBFCs. But the task of providing the liquidity support has been squarely placed on the shoulder of much maligned PSBs which is supposed to purchase assets of ? 1 lakh crore which will be eligible for a one time six-month partial credit guarantee by the government for a first loss up to 10 percent. RBI will also facilitate these transactions by providing banks a liquidity backstop against their excess holding of government securities.

The growth and profitability of NBFCs has been under pressure despite under Corporate ownership and concessions provided by tweaking norms and regulations since the past nine months as the cycle of easy liquidity and low-cost funds reversed. The budget proposal may help NBFCs sell their assets and address their immediate liquidity concern and correct ALM mismatches in their Balance sheet. Naysayers will however point out that the resources of PSBs will be once again used to bail out the NBFCs under various jargon loaded scheme announced. The budget also proposes to transfer regulation of housing finance companies to RBI from National Housing Bank. This proposal will alleviate the conflicting mandate and make RBI the sole regulator for key financial entities. Government also announced amendment to RBI act to strengthen the powers of central bank over NBFCs and allow for resolution of its stressed financial assets. These power include supersession of boards, removal of directors and wide ranging resolution powers including amalgamation with any other NBFC, splitting NBFC into different units or institutions and vesting viable and non-viable business into separate units or institutions.

The wider mandate and broader powers could lead to RBI evaluating asset quality review and higher provisions for finance companies, like what was done to Banking Sector. Such a move may address the problems of trust deficit that the sector has been struggling with in past few months. Another significant announcement is opening of insurance sector by removing the cap of 49 per cent FDI.■

Banking News

FRAUDS AT RECORD HIGH

Over ₹ 2.05 lakh crore was lost by the banking system in the last 11 years. A RBI report said that ICICI Bank, SBI and HDFC Bank reported highest number of cases during this period with ICICI Bank reported a whopping 6,811 cases involving ₹ 5,033.81 crore. SBI reported 6,793 fraud cases involving ₹ 23,734.74 crore followed by HDFC Bank which recorded 2,497 cases involving ₹ 1,200 crore. Other banks where major frauds occurred include Bank of Baroda, Punjab National Bank and Axis Bank.

CHANGE IN RBI TOP BRASS

I) Dr. Rabi N. Mishra has been elevated as ED in RBI. Earlier, he was the CGM od RBI. There are a dozen of Executive Directors at RBI looking after different divisions. Dr. Mishra's portfolio includes non-banking and co-operative bank supervision as well as college of supervisors. He has been serving RBI for last 30 years and the author of many research papers and his book on banking is likely to be published very soon.

II) RBI Deputy Governor, Viral Acharya quits 6 month before his term ends with speculation that he may return to academia. The resignation 6 months before the end of his

NATION FIRST, ORGANISATION NEXT, INDIVIDUAL LAST

term citing unavoidable personal reasons has however, not come as a surprise. Mr. Acharya according to grapevine has a prolonged confrontation with the government over a number of issues. He is supposed to be a strong supporter of the earlier governor Dr. Urjit Patel.

A strong supporter of the central bank's independence, Acharya was the first to sound the bugle when things were going wrong between RBI and the government. In an explosive speech in October last year, Acharya defended RBI's autonomy, which was seen to be under threat from government interference.

"Governments that do not respect central bank independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution; their wiser counterparts who invest in central bank independence will enjoy lower costs of borrowing, the love of international investors, and longer life spans," he said in his speech.

The speech exposed the rift between RBI and the government over several issues, chiefly who controls RBI's reserves; relaxing norms for weak state-owned banks; liquidity for non-banking finance companies; and concessions on capital adequacy. Matters came to a head when the government threatened to invoke Section 7 of the RBI Act, 1934, that would have allowed the government to give directions to the central bank. The government's choice of directors on the RBI's board also became a source of disharmony.

The face-off ended with the abrupt resignation of Patel as RBI governor. While Acharya continued in his role until new governor Shaktikanta Das settled in, signs of discomfort were visible. In both the February and April policy meetings, Acharya called for a pause, while Das voted for a rate cut. In the policy meeting this month, Acharya voted for a rate cut—but with some hesitation as risks to inflation were higher due to fiscal undercurrents. While he felt that fiscal slippage should factor in the implications of higher borrowings by public sector enterprises, Das argued that these enterprises have their own sources of revenue and should be viewed differently.

Another reason for Acharya's departure might be Das's attempts to dismantle the regulatory structure erected by Patel and Acharya. One, the leverage ratio for banks—which is now being relaxed to allow banks to lend more—was part of the revised prompt corrective action framework introduced in April 2017. Two, RBI also proposes to review the existing liquidity management framework, which was introduced in September 2014 and drew on an Urjit Patel panel report on revising and strengthening the monetary policy framework.

A look at the minutes of the monetary policy committee showed that while Acharya's voting matched with those of Patel, he twice voted against resolutions supported by Das. Das voted for 25 basis point cuts in repo rate in February, April and June; Acharya voted for a pause in the first two, relenting only in June.

"In spite of my dilemma, I vote—albeit with some hesitation—to front-load the policy rate cut from 6% to 5.75%," said Acharya in the June MPC meeting. Acharya picked a literary allusion to explain his decision: "How should I vote? I found that I was speaking to myself as Santiago, the old fisherman, in The Old Man and the Sea by Ernest Hemingway." "It is better to be lucky. But I would rather be exact. Then when luck comes, you are ready."

(Courtesy : Mint)

NUMBER OF WILFUL DEFAULTERS HAS SURGED

₹ 7,600 crore has been recovered says FM in Lok Sabha. The number of wilful defaulters has risen 60 per cent in the five years up to FY19, but over ₹ 7,600 crore has been recovered from these defaulters, the government said on Monday. In a written answer to a question in the Lok Sabha, Finance Minister Nirmala Sitharaman said the total number of wilful defaulters stood at 8,582 at the end of FY19, against 5,349 at the end of FY15.

Responding to a set of questions, Sitharaman and Minister of State for Finance, Anurag Singh Thakur, defined a wilful defaulter as one who has the resources to repay the loan, but does not do so

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intentionally, and deploys the money for purposes other than intended.

Sitharaman informed the Lower House that public sector banks (PSBs), till March 31, 2019, had filed suits for recovery in 8,121 cases.

In cases involving secured assets, action has been initiated in 6,251 cases under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Further, in line with RBI instructions, FIRs have been registered in 2,915 cases.

Wilful defaulters are not sanctioned additional facilities by banks or financial institutions, and their entities are debarred from floating new ventures for five years. SEBI has debarred wilful defaulters and companies with wilful defaulters, from accessing capital markets to raise funds, the ministers said.

Sitharaman added that as a result of the government's '4Rs' strategy of Recognition, Resolution, Recapitalisation and Reforms, gross NPAs of PSBs, per RBI data on global operations, rose to ₹ 8.95-lakh crore at the end of March 2018, from ₹ 2.79-lakh crore at the end of March 2015. This declined to ₹ 8.06-lakh crore at the end of March 2019.

PSBs managed to recover about ₹ 3.59-lakh crore over four fiscal years (FY16 to FY19), of which ₹ 1.23-lakh crore was recovered last fiscal.

CIRCULARS

- 37 dated 03rd July, 2019: Meeting with IBA Chairman at New Delhi
- 38 dated 08th July, 2019 : Golden Jubilee year of Bank Nationalisation – Celebrate befittingly
- 39 dated 25th July, 2019 : Meeting of RRB Affiliates
- 40 dated 25th July, 2019 : Text of Letter No. AIBOC/2019/64 dated 25.07.2019 to the Secretary, DFS, on ceaseless instances of humiliation, intimidation and coercion of bank officials.

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