AIBEA's Banking News

21 TO 25 OCTOBER , 2020

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Beware, the numbers can be deceptive

Madan Sabnavis | October 23, 2020

THE HINDU BusinessLine

Many high-frequency economic indicators are looking good, but must sustain beyond the unlock period, too

There has been a sudden surge of optimism in the economy with various high-frequency indicators — PMI numbers, auto production/dispatches, e-way bills generated, GST collections, etc. — showing positive tendencies. So, should we be celebrating? The answer is, yes and no.

Yes, because there is something good happening in the economy and hence bodes well for the future. No, because these improvements have already been buffered in any projections for the year and the overall prospects for the economy this year are dim.

The problem was with the lockdown, which brought activity to a standstill. April and May were probably the worst months when the economy was fractured quite badly and what is being witnessed today is a gradual recovery which goes along with the unlock process that started in June.

As the government has permitted activity to resume in different sectors albeit with several restrictions still in place, it was but natural that they get reflected in the macroeconomic indicators progressively.

Therefore, it is not surprising that these improvements will increase in intensity in the next few months till March 2021 as more activity is permitted. Hence, there is no surprise element here.

But for sure this cannot be interpreted as a V-shaped recovery. In fact, some of the indicators like the PMI are misleading when interpreted in this context, as they refer to comparisons made over the preceding months.

Hence, almost all the companies surveyed would say that they were better off in June than May and, similarly, in September relative to August as the space offered for business increased with relaxations in the lockdown.

To interpret such numbers as being all-time highs is misleading as it does not talk of physical quantity of goods or services produced that can be compared with the past.

How about GST collections or e-way bills? These are surely good indicators of activity increasing in the country. This again is a corollary of the unlock process which has led to more trucks moving in the country, and while it is a positive development, it is not really reflective of a recovery in the sense of the economy moving from a trot to a gallop.

Pent-up demand

Also, there is a case of pent-up demand in the country which is bound to get inflated once activities are on-stream. This held for aviation when restrictions were partly removed, and passenger traffic increased. Subsequently, there was stabilisation after the initial burst ended. The same will probably happen once restaurants or even theatres open.

There are two things that must be kept in mind here. First, to be sure that a new trend of recovery has started, the numbers must continue to increase for at least three successive months. The case of pent-up demand and the start of the festival-cum-harvest season will ideally give indications of enhanced business activity as consumer spending would tend to be higher than before.

The three-month rule is important because given that spending power has been truncated due to loss of jobs and salary cuts, the ability to spend continuously would be limited.

And, second, most estimates of GDP growth for the year are in the region of -6 to -15 per cent after buffering in the sharp de-growth of -24 per cent in the first quarter.

Evidently, none of these projections assume that the slump in the first quarter will continue and the logical trail of estimates is an improvement on a quarter-on-quarter basis. Therefore, the degree of negative fall in GDP growth would tend to narrow over the quarters and probably end with a positive number in fourth quarter by which time the unlock would probably be complete in terms of all sectors being operative albeit at different rates; services, in particular, will not be allowed to operate at 100 per cent capacity for sure.

The picture is, hence, not surprising. It was already observed in the case of core sector growth numbers, which are reckoned on a year-on-year basis, there was a marginal decline in August compared with July.

This is not surprising because there would be volatility in these numbers depending on the level of activity. Sectors such as cement and steel will be linked directly with infrastructure activity and as the government spends more or construction activity recovers, there would be sharp spikes in production relative to the previous months.

Even while interpreting tax revenue numbers, one must be cautious as the bunching impact of production will automatically get reflected in the tax collections on account of GST.

While these flows would increase over time, it would be erroneous to extrapolate these numbers to reflect sharp revival. The government will still be slipping quite significantly in tax collections that can range from 10 per cent to 20 per cent.

Also, there is the practice of deferring refunds to shore up resources and this will be prevalent in the next six months.

Sequential growth

All these indicators are crucial as they do tell us how the economy is progressing. All of them must improve sequentially over months even to maintain an overall fall in the economic growth of around 8 per cent this year as this number is premised on this betterment. But to conclude that the economy is back to normal will be erroneous and misleading.

In fact, any slippages over months should be taken seriously as that would mean that the positive spikes are more one-off performances rather than a sustained increase. And, any talk or debate on the shape of recovery going by these numbers is quite meaningless. It diverts attention from the fact that the economy has been hit by the lockdown and the road ahead is long and arduous.

Credit outstanding of banks up Rs.74,734 cr

Our Bureau Mumbai | October 23, 2020

THE HINDU BusinessLine

Scheduled banks probably saw the highest fortnightly offtake of credit in the current financial year so far, with their overall credit outstanding going up by Rs.74,734 crore.

Deposits of scheduled banks during the reporting fortnight ended October 9 lagged credit growth for the first time in the current financial year, growing Rs.43,893 crore in the reporting fortnight, according to the Reserve Bank of India's (RBI) data on scheduled bank's statement of position in India.

The revival in credit growth comes in the backdrop of the economy entering the so- called "busy season" for credit offtake amid the raging pandemic.

It may be pertinent to mention here that the RBI Governor Shaktikanta Das, on Wednesday, said that the country is almost at the doorstep of revival process.

However, since the beginning of the current financial year, the scheduled banks' credit outstanding is down by Rs.30,069 crore.

Investments

With credit picking up, investments by scheduled banks in the reporting fortnight was relatively lower at Rs.22,183 crore vis-a-vis Rs.40,943 crore in the preceding fortnight.

Govt waives interest on interest for loans up to Rs.2 crore

PTI
NEW DELHI, OCTOBER 24, 2020
THE HINDU

As per the guidelines, the scheme can be availed by borrowers in specified loan accounts for a period from March 1 to August 31, 2020

In a relief to borrowers at the onset of the festive season, the government on late Friday night announced waiver of interest on interest for loans up to Rs.2 crore irrespective of whether moratorium was availed or not.

The Department of Financial Services came out with operational guidelines in the backdrop of Supreme Court's direction to implement the interest waiver scheme, which is likely to cost the exchequer Rs.6,500 crore.

The apex court on October 14 directed the Centre to implement "as soon as possible" interest waiver on loans of up to Rs.2 crore under the RBI moratorium scheme in view of the COVID-19 pandemic saying the common man's Deepavali is in the government's hands.

As per the guidelines, the scheme can be availed by borrowers in specified loan accounts for a period from March 1 to August 31, 2020.

"Borrowers who have loan accounts having sanctioned limits and outstanding amount of not exceeding Rs.2 crore (aggregate of all facilities with lending institutions) as on February 29 shall be eligible for the scheme," it said.

As per the eligibility criteria mentioned in the guidelines, the accounts should be standard as on February 29 which means that it should not be Non-Performing Asset (NPA).

Housing loan, education loans, credit card dues, auto loans, MSME loans, consumer durable loans and consumption loans are covered under the scheme.

As per the scheme, the lending institutions shall credit the difference between compound interest and simple interest with regard to the eligible borrowers in respective accounts for the said period irrespective of whether the borrower fully or partially availed the moratorium on repayment of loan announced by the RBI on March 27, 2020.

The scheme is also applicable on those who have not availed the moratorium scheme and continued with the repayment of loans.

The lending institutions after crediting the amount will claim the reimbursement from the central government.

Rural India surprises with job loss amid peak harvesting season in October; labour market stagnates

By: Samrat Sharma | October 22, 2020
THE FINANCIAL EXPRESS

It is possible that employment under the MGNREGS has declined significantly in October

The falling employment rate in rural India and the continued low employment rate in urban India are the weaknesses in India's labour market recovery process

Jobs in rural India surprisingly plunged in the month of October, which is known for the peak month for the harvesting of Kharif crop. While sowing is spread over four months, most of the crop is harvested in October. It is also possible that employment under the MGNREGS has declined significantly in October, said the Centre for Monitoring Indian Economy (CMIE). Till October 19 this year, the scheme had provided 5.85 crore person-days of employment compared to 13.8 crore person-days of employment during the full month of October 2019. However, these numbers get revised very substantially and therefore it may be hazardous to draw inferences at this stage, CMIE added. Yet, the fall evident so far is quite large.

The employment rate in rural India was 39.8 per cent in September, which was at the highest level since the lockdown began and was close to the pre-Covid level. However, rural India could not sustain an employment rate of 40 per cent or more. The weekly employment rate had touched 39.9 per cent in the week ended September 6 but it is on a downward trajectory since then. In the week ended October 4, the rate was down to 39 per cent and then it slipped further to 38.8 per cent in the week ended October 11, and recovered to 39.5 per cent in the week ended October 18.

The falling employment rate in rural India and the continued low employment rate in urban India are the weaknesses in India's labour market recovery process. Also, the economic recovery is showing signs of stagnation after a decent recovery in the previous months. After the major shock in April 2020, the recovery was smart in May and better in June. It continued well into July as well however it stalled in August and September. Now, it appears that the stagnation could extend or worsen in October, CMIE underlined.

Meanwhile, it is to be noted that since the denominator in the employment rate — working age population — keeps rising naturally, it is important to generate additional jobs to merely keep the employment rate unchanged. However, in the past four years, the employment rate has fallen steadily in each year as employment has been stagnant.

Indians' wealth rises amid coronavirus crisis; Credit Suisse tells how much it may further grow

Samrat Sharma | Oct 22, 2020

THE FINANCIAL EXPRESS

The wealth per adult in India rose from $17,300 at the end of the calendar year 2019 to $17,420 at the end-June 2020

Delhi govt employees can get cash in lieu of LTC

Indian adults saw an increase of 0.7 per cent in their wealth in the first six months of the calendar year 2020, even as the country went through a prolonged phase of nationwide lockdown. The wealth per adult in India rose from $17,300 at the end of the calendar year 2019 to $17,420 at the end-June 2020, according to the Global Wealth Report 2020 by Credit Suisse. Wealth growth is expected to be strong through the remainder of 2020 and 2021, the report added. The survey estimated that the average wealth in India may rise 5–6 per cent in the full year 2020 and 9 per cent in 2021.

Over the last two decades, India's wealth has grown impressively, despite a setback in 2008 due to the global financial crisis and some currency fluctuations. While household wealth in India is dominated by property and other real assets, the financial assets have grown over time, now forming 22 per cent of gross assets. With an adjustment for survey underreporting, Credit Suisse said that the average debt was $1,080 at the end of 2019, which is just 6 per cent of gross assets. It has been underlined that overall household debt is relatively low in India although indebtedness is a severe problem for many poor people in the country.

Meanwhile, the annual growth of wealth per adult averaged 9.7 per cent over 2000–19 using current exchange rates, and 12.1% with constant exchange rates. However, 73 per cent of adults in India had a net worth less than $10,000 at the end of 2019, compared to only 19 per cent in China. Consequently, it was found out that wealth inequality remained quite high in India and there is considerable poverty in the country. On the other hand, a small fraction of the population (2.3 per cent of adults) had a net worth over $0.1 million. Also, India has 9.07 lakh adults in the top 1 per cent of global wealth holders, which is 1.8 per cent share. Further, 4,600 adults are estimated to have wealth of over $50 million.

Ultra high net worth individuals: At 4,593, India fourth after US, China, Germany, says report

Our Bureau Mumbai | October 23, 2020

THE HINDU BusinessLine

India had 912,000 millionaires, or 2% of 51.9 million millionaires globally, at end 2019: Global Wealth Report 2020

The wealth per Indian adult stood at $17,420 at end June 2020, up a tad from $17,300 as of 2019 end, recording growth despite the pandemic, according to a report by Credit Suisse.

The annual growth of wealth per adult averaged 9.7 per cent over 2000-19 at current exchange rates, and 12.1 per cent with constant exchange rates. India had 912,000 millionaires, accounting for 2 per cent of the total 51.9 million millionaires globally as at the end of 2019, according to the Global Wealth Report 2020 published by the Credit Suisse Research Institute.

The country had 907,000 adults in the top 1 per cent of global wealth holders, which is a 1.8 per cent share. With 4,593 ultra high networth individuals (UHNI) in the country as at end 2019, India came in fourth after the US, China and Germany.

Household wealth in India is dominated by property and other real assets, although financial assets have grown over time, now forming 22 per cent of gross assets. In 2019, non-financial assets rose by 12.5 per cent compared with 8.6 per cent growth in financial assets, it said.

Over the first half of 2020, while average wealth rose by only 1.7 per cent, Credit Suisse estimates that the full rise for 2020 will be 5-6 per cent and 2021 will see growth of about 9 per cent.

APAC

In the Asia-Pacific (including China and India), there were 45,920 UHNIs with net worth exceeding $50 million as at end 2019. The financial assets in the APAC region grew by $3,057 billion in the first six months of 2020, while non-financial assets rose by $1,639 billion, largely driven by China and India.

Globally, 2019 was an "exceptional year" for wealth creation, with total wealth rising by $36.3 trillion. The onset of the pandemic, however, resulted in a $17-trillion drop in household wealth between January-March. From March onward, stock-markets have rebounded and house prices have risen. Estimates for the second quarter of 2020 suggest that total household wealth is slightly up on the level at the end of last year, while wealth per adult is slightly down, the report said.

The initial impact of the Covid-19 pandemic was felt through asset prices, causing global household net worth to fall by $17.5 trillion during January-March 2020, a 4.4 per cent reduction. Actions taken by governments and central banks then reversed this fall.

By June, global wealth was $1 trillion above the starting value. However, reduced GDP and rising debt will result in long-term damage; so wealth growth will be depressed for the next couple of years, and likely longer.

Fill up Non-Executive Director posts: PSBs to Finance Ministry

Mumbai | October 22, 2020
K Ram Kumar
THE HINDU BusinessLine

Public sector banks (PSBs) have requested the Finance Ministry to fill up Non-Executive Director positions to ensure adherence to corporate governance norms and constitution of board-level committees. Some of these positions have been vacant for almost seven years.

Vacancies

Currently, there are vacancies in the category of Non-Executive Chairman, Workmen Employee Director, Officer Employee Director, and Director (under the Chartered Accountant category), and Part-time Non-official Directors, among others.

With six PSBs getting merged into four PSBs with effect from April 1, there are now 12 state-owned banks in the country. Non-Executive Director vacancies exist in a majority of these banks.

“All 12 PSBs have unfilled vacancies of Officer and Workmen Director positions. It is a purely political decision.

“If the positions are vacant, the bank is free to do and undo things as per the select few on the board. Hence, (bad loan) write-offs are going on unchecked,” said S Nagarajan, General Secretary, All-India Bank Officers’ Association.

He underscored that a PSB board without an Employee and Workmen Director can steamroll its decisions without any opposition.

Banking expert V Viswanathan observed that if the Non-Executive Chairman is not on the board then corporate governance gets compromised as the bank’s top-brass, led by the MD and CEO, will call the shots at board meetings.

Workmen and Officer Directors protect employees’ interests by ensuring suitable promotion/ transfer policies, welfare benefits, and red-flagging of frauds and other wrongdoings, he added.

The Director under the Chartered Accountant category is the third eye after the Statutory Auditor, emphasised Viswanathan.

This Director, who is also the Chairman of the Audit Committee of the board, looks into internal audit, compliance with the inspection report of the Reserve Bank of India, and compliance and monitoring, among others.

If this position is vacant then there is a possibility that whatever financials the Chief Financial Officer presents will be accepted by other board members without demur.

Base year of Consumer Price Index for Industrial Workers revised from 2001 to 2016

SPECIAL CORRESPONDENT
NEW DELHI, OCTOBER 22, 2020
THE HINDU

New series not to affect DA given to govt staff for now

The Labour and Employment Ministry on Thursday revised the base year of the Consumer Price Index for Industrial Workers (CPI-IW) from 2001 to 2016 to reflect the changing consumption pattern, giving more weightage to spending on health, education, recreation and other miscellaneous expenses, while reducing the weight of food and beverages.

Labour Bureau Director General D.P.S. Negi said the new series would not have an impact on the dearness allowance (DA) given to government employees for now. The linking factor of the new series to the old series was 2.88, something which employer federations had raised in consultations.

Speaking at the launch of the new series, Labour and Employment Minister Santosh Kumar Gangwar said the Bureau was expected to bring out the new series of the CPI for agriculture workers, which currently has the base year of 1986-87) by August next.

Every five years plan

Labour and Employment Secretary Apurva Chandra said that in the future, the Bureau would work towards revising the index every five years. The reduction in weight to spending on food and beverages indicated an increase in disposable income.

Mr. Gangwar said the new series, representing the latest consumption pattern, would be in the interest of workers. The number of centres, markets and the sample size for working class family income and expenditure survey were all increased.

The Minister also released the first index, with 2016 as the base year. The index for September, calculated for 88 centres as opposed to the previous 78 centres, was 118.

The sample size was increased from 41,040 families to 48,384, and the number of selected markets for collecting retail price data from 289 to 317.

A Ministry statement said, "The number of items directly retained in the index basket has increased to 463 items as against 392 items in the 2001 series...The weight of food and beverages has declined over time whereas the weight of miscellaneous group (health; education and recreation; transport and communication; personal care and effects; household goods and services etc.) has increased substantially under 2016 series vis-à-vis earlier series. The weight of housing group has reported an increasing share over period of time".

The weight to food and beverage was reduced from 46.2% to 39%, while spending on housing increased from 15.2% to 17%.

The index for October would be released on November 27. Apart from measuring inflation in retail prices, the CPI-IW was used to regulate the DA of government employees and industrial workers, as well as fixing and revising minimum wages in scheduled employments, the statement said.

Before the latest revision, the series was revised from 1944 to 1949;1949 to 1960; 1960 to 1982 and 1982 to 2001, it added.