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28 - 30 SEPTEMBER 2019

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AIBEA

Trade unions ready for face-off with Centre over slowdown

Unhappy over moves to privatise public sector units and 100% FDI in defence and coal

New Delhi, September 28 **The Tribune**

In a bid to bring the spotlight on the slowdown in the economy, 10 national trade unions, including INTUC, AITUC and CITU, will indulge in a showdown with Union government outside Parliament on Sunday.

They will jointly hold a national convention to take stock of the current situation and decide course on joint action in future, including a nationwide general strike.

“The convention will be attended by trade union leaders, and activists from all over the country from both organised and unorganised sectors, besides leaders and cadres of independent national federations and employees of the Central and state governments,” said a AITUC functionary.

“While the economy is facing a serious crisis manifested among others in job losses and unemployment, the BJP and its governments at the Centre and in the states are trying to divert public attention to irrelevant issues,” a CITU functionary said.— TNS

Institutions weakened, economy crippled

M. Suresh Babu
SEPTEMBER 27, 2019
THE HINDU

The credibility of the RBI, the CSO and the Niti Aayog has taken a beating in recent times due to political interference

Nobel laureate Oliver Williamson pondered over an important question, around 25 years ago: “Why are the ambitions of economic development practitioners and reformers so often disappointed?” According to him, “one answer is that development policymakers and reformers are congenital optimists. Another answer is that good plans are regularly defeated by those who occupy strategic positions. An intermediate answer is that institutions are important, yet are persistently neglected in the planning process."

The question and all the three answers assume relevance in the context of India's recent economic performance. The slowdown in GDP growth rate has been dissected, digressed and disowned by analysts, commentators and policymakers. However, the diagnosis is far from complete and the growth engine is running out of fuel. Both the demand- and supply-side factors have been central in all the analyses, but the crucial role of institutions in shaping the outcomes of both the factors in this episode of slowdown has been neglected. This has resulted in a series of banal policy measures for reviving growth.

A market-centred economic model necessitates creating and sustaining credible institutions that further the efficiency of market mechanism. Given the possibility of 'market failures', such institutions assume a larger role in the economy in shaping expectations and decisions. Journalist Henry Hazlitt grouped the pillars of market economy into private property, free markets, competition, division and combination of labour and social cooperation. Institutions are needed to strengthen these foundational pillars are a prerequisite for markets to work.

The credibility of three such important institutions — the Reserve Bank of India (RBI); the Central Statistical Organisation (CSO); and the Planning Commission/NITI Aayog — has taken a beating in recent times.

Erosion in RBI's autonomy

The RBI, which was clamouring for more autonomy, has been systematically brought under the ambit of the Central government. Starting from the sidelining of the central bank on the important issue of currency demonetisation, the attempt has been to steadily erode the central bank's independence. A three-pronged strategy resulted in this — first, the RBI was bypassed on matters relating to currency; second, its role as regulator of the banking sector was questioned when banks faltered; and, finally, its reserves were siphoned. The net result has been that the RBI has been reduced into an institution which presides over a limited space of monetary policy, that is, inflation targeting.

It is also interesting to note that the only major policy tool available in the RBI's armoury is cutting repo rates, which the central bank did four times this year. The last time the RBI made so many back-to-back cuts was after the global financial crisis over a decade ago, when most major central banks were desperate to revive economic growth. However, rate cuts alone could not help India's economy this time, as banks, saddled with bad debt, were slow to reduce lending rates. This provides a classic case of an institution's weakening, leading to questions on its role and credibility.

Markets, which work on information and expectations, rely on official data to arrive at decisions. In an era of 'big data', we find that India's official data procuring and publishing agency has been crippled. Often we find that the official series, ranging from national accounts to unemployment, has been smothered with repeated revisions and change of data definitions. When data that needs 'approval' before release, as in the case of the unemployment data, questions are bound to arise on the credibility of the numbers. The veracity of the data is to be tested by researchers and the public who consume the data and not by 'approving agencies'. It is altogether another matter that had we had admitted that the rate of unemployment was high, perhaps more private investment could have come due the expectations of finding labour at lower wages. Such a possibility was shut out by an attitude of denial on the part of the government.

Space for course correction

NITI Aayog presents the case of an institution that lost its character in the process of transformation. By abolishing the erstwhile Planning Commission and transforming it into the NITI Aayog, the government lost the space for mid-term appraisals of plans and policies. Course correction and taking stock of the economy have now become routine exercises, with uncritical acceptance due to a lack of well-researched documents.

As another Nobel laureate, Douglass North, opined: “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” Institutions are formed to reduce uncertainty in human exchange. Together with the technology employed, they determine the costs of transacting (and producing). While the formal rules can be changed overnight, as has been practised by the present government, the informal norms change only gradually.

In this context, it is useful to focus on understanding and reforming the forces that keep bad institutions in place, especially political institutions and the distribution of political power. This requires understanding the complex relationship between political institutions and the political equilibrium. Sometimes, changing the political institutions may be insufficient, or even counterproductive, in leading to better economic outcomes as has been the case in India in recent times. The use of high-quality academic information, which the present establishment lacks, is valuable both to think about these issues and generate better policy advice.

(M. Suresh Babu is a Professor at IIT-Madras)

Can the Indian economy ride out the storm?

T.C.A. Sharad Raghavan
SEPTEMBER 27, 2019
THE HINDU

Unless rural incomes, hit by demonetisation, are revived, consumer demand is not going to grow

To pull India out of the current economic slowdown, the government can loosen its purse strings, make pending payments, give GST refunds quickly, and revamp MGNREGA to put more money in the hands of rural consumers, Ajit Ranade, Chief

Economist at the Aditya Birla Group, and Pronab Sen, former Chief Statistician of India, tell* TCA Sharad Raghavan*. They add that we can expect to see the slowdown lasting for a few more quarters. Edited excerpts from a conversation:

Dr. Sen, do you think we are in a slowdown? And if we are, is it more structural, in that we need to make drastic changes, or is it more cyclical, where if we just make smaller changes we can ride out the storm?

Pronab Sen: We are in a slowdown. There is no question about it. And I think we have only seen the first phase of the slowdown. It has been five quarters now and I think it will go on for at least a couple of quarters more, maybe longer than that. To my mind, the problem is essentially structural, but structural does not necessarily mean that you have to do deep reforms to get over it. What you have to do is identify the cause of the structural slowdown and address it directly. Indirect instruments don't work in the case of structural constraints.

Dr. Ranade, of the main drivers of the economy — government expenditure, private consumption, investment, and exports — which of them do you feel need a revival most urgently?

Ajit Ranade: I agree with Pronab that we are in a slowdown and I believe this is a problem of lack of aggregate demand. This is a slowdown not because we are not able to produce enough or that we have run out of capacity to produce; it is because there is not enough demand. You identified the four sources of demand. Of course the most sustainable and long-term solution to come out of the slowdown is when investment demand picks up, especially from private investment spending. But that is not something that can happen in a jiffy because it requires the investor's confidence, it requires investors to take risks.

So, in the near term, because exports depend on the enthusiasm of foreigners buying Indian goods, maybe some supply-side measures like trade facilitation, removing bottlenecks, reducing the GST refund period delay, or even managing the exchange rate [may work], but fundamentally if the global slowdown is a reality, then export demand cannot pick up quickly. Although, I do believe that India's share of manufacturing exports in the world is barely 2% or something, so we can easily go from 2% to 3%. In the near term I think the aggregate demand gap has to be filled in by some kind of government spending, although we can have a separate discussion on the fiscal situation. But I believe that's what is required.

Dr. Sen, Dr. Ranade has identified the most important driver that needs to be revived, but if we are looking for low-hanging fruit, if the government were to do something quickly that would have the biggest impact, what do you think that could be?

PS: I think Ajit and I agree. The problem is really private consumption demand. Remember that the government has limited instruments in its hands. It cannot stimulate private consumption directly, except in certain ways. But the focus needs to be primarily on that. The things that Ajit talked about in terms of exports would have to be in terms of trade facilitation and issues of that kind, and a sensible exchange rate policy, which we don't have at the moment. The focus really would have to be on how to do you revive consumption demand. To my mind, the first step is really to go back to something we briefly touched on, which is the fiscal deficit.

If you were to ask me what I would recommend, I would say the first thing I would recommend is please recognise that the true fiscal deficit is significantly above the reported fiscal deficit. Because the outcome of trying to suppress your fiscal deficit artificially is that the government is not paying its dues. It is not giving refunds; export credit refund is a large issue. But this is true of GST refunds across the board. The second is that the government is not paying off its suppliers. The third is that a lot of government spending that has already been budgeted for and announced has not being made. PM KISAN is still languishing. These are things which have been budgeted for but that money has not been spent or has not been shown to be spent, simply because the government is not releasing the requisite funds. Just recognise the fiscal deficit for what it is and put the money out, then we can go back to the serious issue of correcting the fiscal deficit over the next few years.

Dr. Ranade, the government has recently announced certain steps to release some of these locked up funds. It is saying that within a time-bound period, we will pay our suppliers, and GST input tax refunds will be credited in a short window. Does this mean that the government will then have to cut down on other spending or can it keep the fiscal deficit target and say that we'll do both — we'll increase our spending and we'll give all of these pending payments?

AR: I am going to ask for forgiveness from god, and Pronab, and all my colleagues. I am going to stick my neck out and say that this is a time when we need to actually worry less about the fiscal deficit target. After all, 3% or 3.3%, there is no golden rule. I want to emphasise what Pronab said: even the routine stuff, the clearing payments which are not in dispute, where the vendors have supplied their services or goods, that itself is a very huge number if you count State and Central governments. I think it is very large, about Rs.10 lakh crore. Just releasing this payment or making very quick refunds for exporters, especially SMEs, who have to pay 28% GST and then claim a refund would help a lot. So, that is the easier thing to do, and I would recommend that we don't get hung up on the deficit, even though the CAG said that the 3.3% reported is not the right number. The actual deficit at the Central government level may be as high as 5.5% and when you factor in the State governments, the combined deficit could be 8-8.5%.

But remember that the nominal GDP growth rate has dropped to 8% and we are in a very unusual and unprecedented situation of low inflation and low GDP growth in nominal terms, so this is the time when we have to take the risk of cyclical fiscal expansion. One thing I would like to mention, which Pronab also mentioned, is that purchasing power, especially in rural areas, is of prime importance. So, the driver of growth we need to look at is government spending, but also consumption in rural areas which is going to be helped by things like MGNREGA and wage growth because that will also require fiscal expansion.

Dr. Sen, there were reports on how the government is considering pegging MGNREGA payments to an updated CPI inflation. Do you feel this will have a big impact in terms of putting more money in the hands of rural workers?

PS: MGNREGA wages in any case were inflation indexed. What the government has announced is that it will be linked to the CPI for agricultural labour or the rural CPI, whichever shows more inflation. That's all they have done. It's been indexed all along, nothing new in that.

Whether this is going to have an effect will depend entirely on how well MGNREGA is being implemented. The fact of the matter is that over the past five years or so, the confidence of State governments that the Central government will pay up the MGNREGA funds has eroded significantly. And the net result is a lot of State governments simply haven't been putting the same level of commitment in MGNREGA as they used to. Over the years MGNREGA has become a a supply-based system from a demand-based system. The State government says, I have got a public work, now you guys want to work on it, you can come and work on it. Earlier, it used to be a system where people went and demanded work and the State government was bound to give it to them and the Central government was bound to refund the labour cost of that particular project. So, unless you redesign MGNREGA to its original form, just indexing the wages is not going to do a whole lot.

Now that we have identified private consumption as one major driver that needs to be revived, what are the ways, Dr. Ranade, that we can put more money in people's hands? Are income tax rate cuts viable and will they be effective?

AR: Let's not forget that a big driver of growth is consumption, which includes rural consumption. And so, I want to reiterate what Pronab said about MGNREGA. Make it truly demand-driven, make the wage indexation meaningful and involve social audits which were successful in some States like Andhra and Rajasthan. Involve social audits to ensure effectiveness, and also focus on the dual objective of asset creation wherever possible. But primarily it should be about putting some income in the hands of rural consumers.

I am going to propose a radical suggestion. Since we also agreed that some of the reasons for the slowdown are structural, I believe one of the big structural features of the Indian economy right now is the massive drop in female labour force participation. In the last 10 or 12 years, it has come down by 10 percentage points, from 30-32% to 22%, which means that only one out of five working age women are actually working for a paid job. So, here's my radical suggestion: Think of a 10-year or 15-year completely tax-free income for women. That is zero income tax for all women. That's a suggestion to also increase consumption but it would be mainly to encourage paid jobs for women.

Dr. Sen, is it accurate to say that this slowdown that we are seeing is the delayed effect of demonetisation and that has completely removed the parallel economy?

PS: Yes, unquestionably so. The unorganised sector has been hit now for a long time and unless rural incomes are revived, and that is where 70% of our population is, consumer demand is not going to grow. So, what we are talking about is the same, that the principal cause of distress in rural areas was demonetisation. If you want to fix that structural break, you need to bring back rural income to some semblance of normalcy.

Dr. Ranade, do you agree?

AR: Yeah, 90% of India's labour force is in the informal sector. We have to recognise that this is the normality of the Indian economy and, therefore, whatever disrupts that, we are disrupting the mainstream. And that I believe is the lingering effect of demonetisation. I believe the rural wages, which used to grow at perhaps 10-15% a year, have grown at barely 1% in the last few years. And this has certainly affected rural purchasing power.

RBI, government rebut rumours of public sector banks closure

SPECIAL CORRESPONDENT
MUMBAI, SEPTEMBER 25, 2019
THE HINDU

Following rumours on social media that 9 public sector banks would be shut, both the Reserve Bank of India and the Finance Ministry, in separate statements dismissed any such action.

"Reports appearing in sections of the social media about RBI closing down certain commercial banks are false," the RBI spokesperson said in his Twitter handle.

Finance secretary Rajeev Kumar also took to Twitter to post a strong rebuttal. "No question of closing any PSB, which are articles of faith," he said.

Mr. Kumar added, "Rather, govt. is strengthening PSBs with reforms and infusion of capital to better serve its customers."

Mukesh Ambani richest Indian with net worth of Rs.3,80,700 crore

PTI
MUMBAI, SEPTEMBER 25, 2019
THE HINDU

According to the latest IIFL Wealth-Hurun India Rich List, the combined wealth of the top 25 equates to 10% of India's GDP and that of 953 accounts for 27%

Reliance Industries' Chairman Mukesh Ambani has topped the list of richest Indians for the eighth consecutive year, with a net worth of Rs.3,80,700 crore, according to the latest IIFL Wealth-Hurun India Rich List.

London-based S.P. Hinduja & family, with assets worth Rs.1,86,500 crore, retained the second rank in the list, followed by Wipro founder Azim Premji with wealth of Rs.1,17,100 crore.

According to the latest IIFL Wealth-Hurun India Rich List, the number of Indians having a net worth of more than Rs.1,000 crore has grown to 953 this year from 831 in 2018, while, the number of billionaires in terms of U.S. dollar has reduced to 138 from 141.

"The combined wealth of the top 25 in the list equates to 10% of India's GDP and that of 953 accounts for 27%," it said.

L. N. Mittal, chairman and CEO of ArcelorMittal, was the fourth richest with wealth of Rs.1,07,300 crore and Gautam Adani was placed in the fifth position with a net worth of Rs.94,500 crore.

Others in the top 10 include Uday Kotak at the 6th place (Rs.94,100 crore), Cyrus S. Poonawalla at 7th position (Rs.88,800 crore), Cyrus Pallonji Mistry at 8th spot (Rs.76,800 crore), Shapoor Pallonji at 9th position (Rs.76,800 crore) and Dilip Shanghvi at 10th slot (Rs 71,500-crore).

Interestingly, while the cumulative wealth for this year shows an increase of 2% compared to last year, the average wealth shows a decline of 11%.

As many as 344 individuals or more than a third of this year's list witnessed wealth reduction and another 112 could not meet the threshold of Rs.1,000 crore.

"Globally, the wealth creators drive the growth and therefore play a vital role in shaping the economy. With Indian Government setting its sight on USD 5 trillion GDP mark, we are confident that the size of the India Rich List will easily triple in the next 5 years," said Anas Rahman Junaid, MD and chief researcher, Hurun Report India.

With 246 individuals or 26% of the list, Mumbai is the absolute capital when it comes to the residence of India's top entrepreneurs, followed by New Delhi (175) and Bengaluru (77).

There are 82 NRIs on the list of which 76% are self-made. With 31 individuals, the U.S. is the most preferred country for NRIs, followed by the UAE and the U.K.

With a net worth of Rs.7,500 crore, Ritesh Agarwal, 25, of Oyo Rooms is the youngest self-made entrepreneur and the wealthiest under 40 years (age) is Divyank Turakhia, 37, of Media.net.

The list includes 152 women with an average age of 56 years.

Roshni Nadar, 37, of HCL Technologies is the richest woman followed by Smita V. Crishna, 68, of Godrej Group with a net worth of Rs.31,400 crore. With a net worth of Rs.18,500 crore, Kiran Mazumdar-Shaw of Biocon retains the crown of the richest self-made woman in India.

"With the India story gaining momentum, supported by a young and an aspirational demography — the potential of wealth management in the country has merely scratched the surface," said Yatin Shah, Co-founder & Executive Director, IIFL Wealth Management Ltd.

Need to grow at 10% for unemployment to go : Subramanian Swamy

SPECIAL CORRESPONDENT
NEW DELHI, SEPTEMBER 25, 2019
THE HINDU

Target within reach, he says

The economy needs to grow at 10% a year — and it can — for unemployment to be removed in 10 years, according to Member of Parliament Subramanian Swamy.

"What the country needs is 10% growth annually, which is within reach," Dr. Swamy said, while speaking at the launch of his book 'Reset: Regaining India's Economic Legacy'. "We have the potential for it. We have a very high savings rate, but it is inefficiently used."

Dr. Swamy went on to say that the high level of unemployment today could largely be put down to the policies implemented by former RBI Governor Raghuram Rajan during his term.

“Everybody thought Raghuram Rajan was highly qualified, but he was not an economist, he was a finance [person],” Dr. Swamy said, adding that even in economics, it was macroeconomics that was important to understand. “He [Rajan] said he would have to raise interest rates to control inflation.”

“But this raised the cost of capital and so companies on the borderline or brink collapsed,” Dr. Swamy added. “That’s the reason behind the high rate of unemployment we are seeing now.”

Dr. Swamy also said that Prime Minister Narendra Modi had surrounded himself with people who either did not know their subject matter, or did not have the courage to tell him the realities of the situation.

Slowdown edges out 112 from India Rich list

SPECIAL CORRESPONDENT MUMBAI, SEPTEMBER 26, 2019

THE HINDU

Indian headcount rises to 953 from 831 last year; networth of 344 individuals falls

The economic slowdown and rupee depreciation have led to significant erosion in the networth of Indian billionaires, with 344 individuals registering a net drop in wealth compared to 2018, constituting almost 50% of Hurun India Rich List 2018.

A total of 112 individuals dropped out from IIFL Wealth Hurun India Rich List 2019, which says the number of U.S. dollar billionaires in the list has dropped for the first time since the inception of Hurun India Rich List in 2012. However, the slowdown is not as bad compared to that of China, where Hurun China Rich List registered 266 dropouts. In 2014, when the NDA government took charge, the number of U.S. dollar Indian billionaires increased by 60% to 109. Interestingly, while the number of

Indians in the list has grown from 831 in 2018 to 953, the number of dollar billionaires has reduced from 141 to 138.

Changing fortunes

Rank	Name	Wealth (₹cr.)	Change	Company
1	Mukesh Ambani	3,80,700	3%	Reliance Industries
2	S.P. Hinduja & family	1,86,500	17%	Hinduja Group
3	Azim Premji	1,17,100	22%	Wipro
4	L.N. Mittal & family	1,07,300	-6%	ArcelorMittal
5	Gautam Adani & family	94,500	33%	Adani Ports & SEZ
6	Uday Kotak	94,100	20%	Kotak Mahindra Bank
7	Cyrus S. Poonawalla	88,800	22%	Serum Institute ofIndia

Source: Hurun Research Institute; IIFL Wealth Hurun India Rich List 2019

Top for 8th straight year

Mukesh Ambani, chairman of India's second-most valued firm Reliance Industries, continues to top the list for the eighth consecutive year, with a total net worth of Rs.380,700 crore. His brother Anil Ambani, the chairman of Reliance Group, has seen maximum erosion in his wealth from Rs.19,500 crore last year to less than Rs.1,000 crore this year, forcing an exit from the list.

London-based S.P. Hinduja and family, worth Rs.186,500 crore, retains the second rank in the list.

With a wealth of Rs.1,17,100 crore, Azim Premji, founder of Wipro, rose to the third spot. L.N. Mittal, chairman & CEO of ArcelorMittal, is the fourth richest with a wealth of Rs.1,07,300 crore. Gautam Adani stormed into the top 5 with a total wealth of Rs.94,500 crore, a growth of 33% over last year.

While the cumulative wealth for this year shows an increase of 2% compared to last year; the average wealth shows a decline of 11%.

Anas Rahman Junaid, MD and chief researcher, Hurun Report India, told ***The Hindu***, "Slowdown definitely has an impact on the rankings of Indian billionaires. When the stock market goes down, it has direct impact on the market valuations of these companies."

Govt move to define wages in EPF Act may lead to more confusion: Experts

Surabhi Mumbai | September 27, 2019

THE HINDU BusinessLine

The Bill also proposes to insert new sections in the Act to give option to EPFO subscribers opt for NPS

The government's efforts to clarify what constitutes wages in the proposed amendments to the Employees' Provident Funds Act could potentially lead to more confusion and also litigation, according to experts, even as there is growing opposition to the proposed move to allow EPFO subscribers opt for the National Pension Scheme.

Code on Wages 2019

Hoping to bring uniformity with the Code on Wages 2019, which was recently passed by Parliament, the Ministry of Labour and Employment has introduced a new definition of wages in the Employees' Provident Funds and Miscellaneous Provisions (Amendment) Bill, 2019.

The new definition would replace the existing definition of 'basic wage'.

"In the present form, the computational basis for determining provident fund contribution is basic wage, daily allowance, and retaining allowance.

"The amendment seeks to fix computational basis at 'wage' with the further stipulation that allowances paid above 50 per cent or as notified percentage of all remuneration will be included in wage," the ministry has explained in a note on the preliminary draft of the Bill.

"With the passing of the Code on Wages 2019 and the assurance of the government to have uniform simple definitions that are easy to understand and implement… but the revised definition of wage in the wages code does not bring any clarity since what is covered and what is not covered has not been defined," said the Employers' Association of India (Delhi) in its representation to the ministry.

It also noted that while the first part of the definition says wages would include all remuneration, the second part makes exclusions, pointing out there is need for more clarity.

Noting that the alignment of the definition of 'wages' with that of the Code on Wages 2019 is a prudent step from the perspective of ensuring consistency among various labour laws, Vikram Shroff, Head, HR Laws Practice, and Preetha S, Leader, HR Laws Practice at Nishith Desai and Associates, said it is likely to continue posing challenges in terms of what allowances would be subjected to PF contributions. "This question would become more pertinent especially in situations where the allowances are such that they have not been specifically included or excluded under the new definition," they said.

BMS up in arms

The Bill also proposes to insert new sections in the Act to give option to EPFO subscribers opt for NPS in the light of an announcement for the same in the Union Budget 2015-16.

The Bharatiya Mazdoor Sangh, on Thursday, said it has rejected the new amendment in a tripartite consultation meeting of the Labour Ministry held at Delhi, which was chaired by Labour Minister Santosh Gangwar.

BMS also opposed dilution of the latest Supreme Court judgment on the question of inclusion of allowances in calculation of contribution, it said.