

BANKING & FINANCE

Banking sector reforms signal that after addressing the bad-loan problem, the government wants to make the industry more efficient and profitable while improving recoveries for the lenders

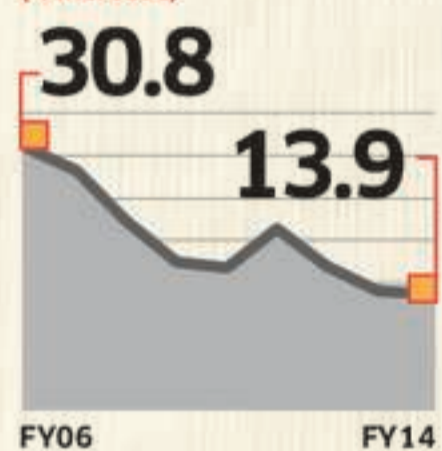
Back From The Brink

TEN ISSUES FACING THE ECONOMY

4/10

NPAs

Rapid rise in credit between 2006 and 2011
Growth in Scheduled Commercial Bank Credit (% Increase)



Combined with a host of factors...
Lax credit appraisals
Poor post sanction monitoring
Fraud in some instances

Economic downturn, project delays

RBI's crackdown on asset recognition norms

Caused a spike in bad loans

Gross NPA As % of Gross Advances (AT END MARCH)

Scheduled Commercial Banks
Public Sector Banks

2009: 2.3 (SCB), 2 (PSB)
2011: 7.5 (SCB), 9.3 (PSB)
2017: 9.3 (SCB), 11.7 (PSB)
2018: 11.2 (SCB), 14.6 (PSB)

Struggles with bad loans caused a sharp slowdown of credit growth

Bank-wise Growth in Advances (in %)

PSBs, PVBs, FBS, All SCBs

FY13: 15 (PSB), 18 (PVB), 12 (FBS), 10 (All SCB)
FY18: 10 (PSB), 12 (PVB), 8 (FBS), 5 (All SCB)

Many state-run banks have landed in losses forcing capital infusion by government

Net Profit/Loss Of State-Run Banks (in ₹ Billion)

FY16: 341
FY17: 439
FY18: -324

KEY TAKEAWAYS

34 crore A/Cs Under Jan Dhan Yojana

Close to 34 crore new bank accounts have been opened under the Jan-Dhan Yojana since its launch in 2014 to make financial services such as credit insurance, remittances and pensions more affordable and accessible for citizens.

Bank Interest Exempt from TDS

Bank or post-office deposit holders whose interest income is less than ₹40,000 per annum won't have to pay I-T on their margins as TDS has been raised to ₹40,000 from ₹10,000. TDS on rental payments up from ₹1.8 lakh to ₹2.4 lakh

Interest Subvention in Natural Calamities

Interest subvention of 2% during natural calamities extended to through the tenure of the loan instead of just 1st year. The prompt repayment incentive of 3% is also extended to the life of the loan.

Government to Consolidate Debt

The government will consolidate debts to bring down the debt-to-GDP ratio to 40% by 2024-25 from 46.5%, as prescribed in the FRBM Act.



BRIEF CASE



MUDRA: A Key Tool of Credit

MUDRA loans, aimed at creating employment and income opportunities for small businesses, have about 15 crore borrowers. Piyush Goyal said 15.56-crore loans worth ₹7.23 lakh crore have been disbursed under the scheme. Women have been the largest beneficiaries of the scheme where a borrower could get up to ₹10 lakh collateral-free loan. When the government was faced with slower loans sanctioned by commercial banks due to bad loans, the scheme was a key tool of credit for tiny businessmen.

IN FOCUS

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Hours after India's central bank eased operational curbs on three state-run lenders, interim finance minister Piyush Goyal told federal lawmakers during his budget speech Friday that he expects the eight remaining public sector financiers to also be out of the ambit of the prompt corrective action (PCA) framework soon.

Goyal's comments came just a day after the Reserve Bank of India (RBI) lifted Bank of India (BoI), Bank of Maharashtra (BoM) and Oriental Bank of Commerce (OBC) out of the purview of the framework, a move that would now allow the financiers to lend and open branches freely.

Various steps by the government have helped the banks, resulting in the easing of curbs on these three lenders, Goyal said while presenting the interim budget for 2019-20. However, the interim finance minister has not earmarked any capital outlay for public sector banks for the next fiscal ending March 2020. The government has infused a total of ₹2.6 lakh crore of capital into public sector banks in the five-year period between 2014 and 2019, Goyal said.

The eight PSU banks still under PCA are Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Central Bank of India, Indian Overseas Bank and Dena Bank. New Delhi wants the curbs removed to ensure greater credit availability, especially to small enterprises.

"The government's sustained 4R strategy for banking transformation delivers again. Three better performing PSBs (BoM, BoI & OBC) exit PCA. Banks need to be more responsible, adopt high underwriting & risk management standards to avoid recurrence," financial services secretary Rajeev Kumar tweeted last evening.

The 4R approach Kumar tweeted about pertains to recognition, resolution, recapitalisation and reforms, prudential norms that also found a mention in Goyal's budget speech on Friday

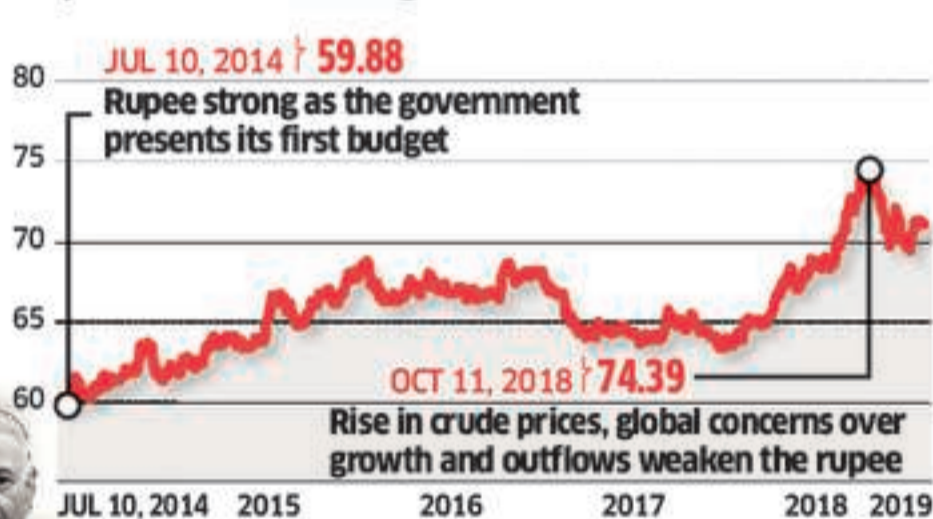
₹1,36,072 Cr

budgeted as dividends and profits, which means the government expects a significant payout from the RBI

Budgeting Modi's 5 Years

How economic indicators changed over this govt's 1st to 6th budget

Rupee-dollar exchange rate



INTERIM BUDGET 1991-92

Yashwant Sinha

Sinha had to present an interim budget as the Congress had withdrawn support to the Chandrashekhar-led government. This was a time when the economy was starting at a burgeoning budget deficit, high inflation and a balance-of-payments crisis. On top of this, oil prices were rising because of the war in the Gulf. In fact, days after Chandrashekhar was sworn in as PM India's forex reserves had dropped to ₹3,142 crore, barely enough for a month's imports.

Credit Growth Set to Take Off with PSU Banks on the Mend

RECOVERIES, capital infusion have set the stage for jump in credit delivery

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Banks have recovered about ₹3 lakh crore of their sticky assets from defaulting promoters in recent years and the government has ended the 'phone banking' culture to make the system clean, interim finance minister Piyush Goyal told parliament during his budget speech.

The recoveries, coupled with fresh capital infusion to the tune of ₹2.6 lakh crore, have set the stage for a jump in credit delivery by state-owned banks, which control two-thirds of India's financing market. "We expect credit growth from some of the banks coming out of the PCA (prompt corrective action)

framework and realisation of ₹3 lakh crore of NPAs," said Ranen Banerjee, partner at PwC India.

RBI data showed annual bank loan growth at 14.5% at the end of January 4, largely contributed by growth in retail loans. The rise in bank's NPAs and their persistent losses plagued credit growth until the September quarter. The tide seems to be turning now with the arrest in fresh bad loans.

"Earlier, only small businessmen used to be under pressure of repayment of loans while in the case of big businessmen, it was the headache of

banks. But now, defaulting management are either paying or exiting their businesses," Goyal said in his budget speech.

The FM said the government also streamlined the approach of bad-loan recognition and resolution. During FY18, the gross NPA ratio of state-owned banks arising from large accounts with loans more than ₹5 crore grew to 23.1% from 18.1% in the previous year. "Many projects were started that could either not be completed or had low capacity utilisation, resulting in their inability to pay back loans. Many more were hidden through restructuring or otherwise which were discovered during asset quality reviews and inspections carried out since 2015," he said.

Banks to Also Reap the Benefits

FARMER payout of ₹6,000 to be deposited into Jan Dhan accounts

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The government would give each of India's 120 million small and marginal farmers ₹6,000 as assured income support, with the transfer of funds directly into their Jan Dhan accounts promising a sustained flow of deposits into the formal banking system.

The government has allocated a yearly budget of ₹75,000 crore for this programme. This will give a boost to the banking sector at a time when credit is growing faster than deposits. For the year until January 4, bank deposits have grown 9.9% while credit has expanded 14.5%. Deposits under Jan Dhan accounts had risen



after demonetisation.

"To provide an assured income support to the small and marginal farmers, our government is launching a historic programme namely Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)," said Piyush Goyal, interim finance minister. "This programme will be

funded by the government of India."

New Delhi has made the programme effective from December 1, 2018, and the first instalment for the period up to March 31, 2019, would be paid during this financial year itself.

Goyal said that Jan Dhan-Aadhaar-Mobile (JAM) and Direct Benefit Transfer have been game changers. He said that bank nationalisation was first done 50 years ago, but a large part of the country was still left out of the economic mainstream with no access to formal banking.

Direct benefits transfer has helped ensure that the poor and middle class received the benefits of government schemes directly in their bank accounts.

Capturing the Pulse of the Nation with Sense and Sensitivity



UDAY KOTAK
MD, Kotak Mahindra Bank

A good budget must capture the pulse of the nation and respond appropriately. The budget, presented by Piyush Goyal, demonstrates sensitivity and responds suitably to the needs of the nation.

When I look at the focus of this budget, it is a boost to rural, housing (sector) and consumers.

It is a response to the middle-class of India, to different segments of the society, which is more the mass of India. This segment has significant implications for growth of consumer demand, both in urban and rural areas.

An average middle-class person would be delighted to know that he or she pays no taxes on income up to ₹5 lakh.

In addition, of course, there are deductions available. For many years, middle-class people in semi-urban and urban India believed that they were not getting as good a deal as the farmers.

So, while the interim finance minister has taken care of the farmers, he has also taken care of the wide, vast expanse of the lower middle class and the middle class of India. This is the pulse of

the nation which Budget 2019-20 has been sensitive to.

Yes, of course, it is the last budget of this government. In a way the government is responding

While the FM has taken care of the farmers, he has also left the lower middle class delighted



to the needs of the nation and is appropriate for its time in the fifth year of this government.

Going forward, when I look at the implications for investors, they

should be focussed on, as I mentioned, three sectors — rural, housing and consumer-oriented. These sectors stand to benefit from the current budget.

At the same time, they need to keep an eye on the implications of the slightly higher fiscal deficit in terms of interest rates on government securities and bonds. These determine the sovereign yield curve, basis which the rest of the interest rate in the economy gets determined.

Additionally, we have to watch the implications of this budget in terms of the RBI's monetary policy, which is expected shortly.

So, there are a lot of interesting and moving pieces but, all in all, I would consider that the Budget for FY 2019-20 captures the mood of the nation and responds to it with a bang.



Rajnish Kumar
Chairman, SBI

Budget 2019-20 is growth oriented. Assured income support scheme for small, marginal farmers is the most welcome step. Full tax rebate up to ₹5 lakh will be welcomed by emerging middle class.

Exemption of tax on second self-occupied house is also likely to give further boost to the housing sector.

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