GOLD	RUPEE	OIL	SILVER
₹38,770	₹71.71	$58.80	₹43,900

Indian basket as on August 19, 2019

SENSEX: 37,328.01 ▼ 74.48 **NIFTY:** 11,017.00 ▼ 36.90 **NIKKEI:** 20,677.22 ▲ 114.06 **HANG SENG:** 26,231.54 ▼ 60.30 **FTSE:** 7,205.83 ▲ 16.18 **DAX:** 11,705.04 ▼ 10.33

International market data till 1900 IST

POLICY WATCH
PUBLIC SECTOR BANKS

Capital infusion: Earnings being analysed to decide fund requirement

Govt working with 'banking system' to ensure effective rate transmission

SUNNY VERMA
NEW DELHI, AUGUST 20

PUBLIC SECTOR banks (PSBs) would soon get capital infusion as the Centre has started an assessment of their fund requirements after analysing their first quarter results. Most PSBs have shown slight improvement in profitability and on the stressed assets front in the April-June quarter.

"Results of public sector banks have come in for the first quarter. We are making an assessment and capital will be provided to the banks to kickstart lending growth," a senior Finance Ministry official said. The government expects this round of capital infusion to aid lending growth while a few banks will need funds to meet minimum regulatory requirements, the official added.

Capital infusion in PSBs will be done through issuance of recapitalisation bonds, which do not show up on fiscal deficit as the government accounts for only interest payments on these bonds. The government plans to issue Rs 70,000-crore worth of recapitalisation bonds in the current fiscal, to inject an equivalent amount of equity in PSBs.

"Having addressed legacy issues, PSBs are now proposed to be further provided Rs 70,000 crore capital to boost credit for a strong impetus to the economy," Finance Minister Nirmala Sitharaman said while tabling the Union Budget 2019-20 on July 5.

Apart from capital infusion to boost lending, the government is working with the 'banking system' to ensure that interest rate transmission becomes effective. "Public sector banks have responded to the RBI rate cuts and lowered their lending rates sharply. We expect private banks to follow suit as deposit rates have fallen as well," the official said.

For the first quarter ended June 30, 2019, State Bank of India posted a profit of Rs 2,312.20 crore as against a loss of Rs 4,875.85 crore in the same quarter last year. The bank had reported a profit of Rs 838.40 crore in the previous quarter ended March 31, 2019.

A Finance Ministry official said the government expects the capital infusion to aid lending growth, while some banks will need funds to meet minimum regulatory requirements

SBI's net non-performing assets (NPA) fell to 3.07 per cent at June-end 2019, from 5.29 per cent at June-end 2018.

India's second largest PSU lender Bank of Baroda, which recently acquired Dena Bank and Vijaya Bank, posted a profit of Rs 709.87 crore, as against a loss of Rs 49 crore in the same period last year. Its net NPA ratio fell to 3.95 per cent at June-end 2019, from 5.71 per cent at June-end 2018.

Punjab National Bank, the third largest state-owned bank, posted a profit of Rs 1018.63 crore in Q1, against a loss of Rs 940.01 crore in the same quarter last year. Its net NPA ratio fell to 7.17 per cent at June-end 2019 from 10.58 per cent at June-end 2018.

Sources said the Centre would provide growth capital to better performing banks, as that would help them support lending and also buy out rated pooled assets of non-banking financial companies (NBFCs).

With many NBFCs facing credit squeeze on the back of a series of defaults, the government believes it is the state-owned banks which will have to support lending. The recent consumption slowdown being seen in consumer facing sectors, such as automobiles, can be partially attributed to lack of funding being provided by NBFCs. In October 2017, the government announced a Rs 2.11 lakh crore worth of capital infusion plan into PSBs over two years including fund infusion of Rs 1.35 lakh crore.

ACROSS VARIOUS CATEGORIES

To boost credit demand SBI lowers rates, widens tenure

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 20

CLOSE ON the heels of the Reserve Bank of India's decision to slash repo rate by 35 basis points to 5.40 per cent, India's largest lender State Bank of India (SBI) Tuesday unveiled festive season offerings for retail banking customers, including cheaper loans with added benefits like waiver in processing fees, pre-approved digital loans and loans with no escalation in interest rates, spread across various categories. The move has come at a time when several sectors are witnessing a slowdown, leading to production cuts, layoffs and subdued credit demand. Other PSU banks are expected to follow suit in a bid to boost credit offtake and consumption in the economy.

"SBI has waived processing fees on car loans during festival season. The bank is offering lowest interest rate starting from 8.70 per cent to customers opting for car loan, with no escalation in interest," SBI said in a statement. For customers applying for a car loan online through the bank's digital platform like YONO and the bank's website, the lender is providing 25 basis points concession on interest rate, it said. "Salaried customers can also avail the loan up to 90 per cent of the car's on-road price," SBI said. Vehicle sales have fallen steeply with many companies announcing production cuts.

"SBI is offering personal loan up to Rs 20 lakh at the lowest interest rate starting from 10.75 per cent with the longest re-payment tenure of 6 years, reducing EMI burden on the customers. Additionally, salary account customers can avail pre-approved digital loans up to Rs 5 lakh through YONO in 4 clicks," it said.

The bank is offering education loan at rate of interest starting from 8.25 per cent for loan up to Rs 50 lakh and up to Rs 1.5 crore for studies in India and abroad, respectively. Customers will be offered the longest re-payment tenure of 15 years which effectively will reduce their EMI burden, it said. The package is expected to continue up to November. SBI had announced a reduction in its MCLR by 15 basis points across all tenors within hours after the RBI cut the repo rate by 35 basis points on August 7. With this, the overall home loan interest rate has come down by 35 bps since April 2019. "Currently the bank offers cheapest home loan with interest rate of 8.05 per cent as repo rate linked home loan and this rate will be applicable to all existing and new loans from September 1," it said.

With credit demand remaining subdued, public sector banks on Sunday kicked off an initiative to identify and finalise ways and means to increase credit to various sectors of the economy, enhance use of technology to bring about innovation and enable big data analytics.

SBI chairman Rajnish Kumar on Sunday said credit demand remains subdued and there is a need for stimulus in the economy. Though lack of credit demand exists in the economy, there is no supply-side constraint as the public sector banks are more or less well-capitalised, he said. "Demand for credit in the economy is subdued. There is a need for stimulus in the economy," Kumar said in Kolkata after attending the multi-level consultation programme with the branch managers of SBI in the region. "There is no supply-side constraint. More or less, the public sector banks are well-capitalised and bank rates also moderated," he said.

The Department of Financial Services initiated the multi-level consultation process in all PSU banks even as the government proposed measures to boost lending to revive the economy which is facing a slowdown.

EXPLAINED E.

Banks aiming to arrest slowdown, push up growth

WITH THE economy facing a slowdown and credit demand remaining subdued, SBI has taken the lead in offering loans at cheaper rates and other benefits in the festive season.

Other PSU banks are expected to follow suit as the RBI has cut the repo rate by an unconventional 35 basis points, thereby making cost of funds cheaper for banks. Banks are aiming to boost the credit offtake and consumption to arrest the slowdown and push up growth.

'For faster transmission, link bulk deposits with repo rate'

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 20

THE BEST option for faster transmission of repo rate reduction could be linking all incremental bulk deposits to the repo rate, State Bank of India said in a report.

In India, single rupee deposits of Rs 2 crore and above are considered as bulk deposits and banks have discretion to offer differential rate of interest on bulk deposits. The share of bulk deposits in banks' total deposits could be around 30 per cent after the definitional change. "Needless to say, most of the bulk deposits are from institutions. It is thus logical that large institutions could afford to take interest rate risk as this would spare the retail depositors from taking the same," the SBI Research report said.

According to the SBI report, one of the reasons why transmission is not happening is that any bank which would take the lead of deposits being market determined, would probably lose meaningful quantum of business as bulk customers would have better bargaining power or would easily switch bank. "However, retail customers can't really negotiate terms... and so it is easy to implement and let them forego. Hence, banks cannot separately link retail savings only to be linked to repo on liability side of balance sheet of bank," it said.

Compliance culture in banks 'far from satisfactory': RBI Deputy Governor

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 20

RESERVE BANK of India Deputy Governor MK Jain on Tuesday expressed concern over the compliance culture in the banking system, stating that compliance is "far from satisfactory".

From January to July this year, the RBI has imposed monetary penalties on 70 occasions totalling Rs 122.9 crore, he pointed out. "It won't be an exaggeration to say that some of the big losses suffered by banks on account of frauds could have been avoided if good compliance culture was ingrained," he said.

After the financial crisis, the focus on compliance has gone up significantly. "Despite the benefits offered, the compliance culture of Indian banks is far from satisfactory. During the process of supervision, the Reserve Bank has observed various lacunae in compliance culture of Indian banks. Some of the weaknesses and irregularities observed have been recurring despite the commitments by the Reserve Bank," he said at the FICCI-IBA banking conference.

"It is important for banks to demonstrate good compliance culture. A good compliance culture can benefit banks in many ways. There will be lower organisation and individual risks, more confidence among employees, improved transparency which enables better decisions, enhanced relationship with regulators and low attrition risks," he said.

"Despite the benefits offered, the compliance culture of Indian banks is far from satisfactory. During the process of supervision, the Reserve Bank has observed various lacunae in compliance culture of Indian banks"

MK JAIN,
DEPUTY GOVERNOR, RBI

The RBI had recently revealed that 90.6 per cent of the frauds reported by banks in 2018-19 occurred between 2000 to 2018.

Data released by the banking regulator in its latest edition of the Financial Stability Report, suggests that nearly 40 per cent of the under-reported frauds actually took place in three years between 2013 to 2016. The time-lag between the date of occurrence of a fraud and the date of its detection is significant. It was observed that in many cases frauds being reported now were perpetrated during earlier years, the RBI FSR said.

At the end of March 2019, share of PSU banks in overall fraud amounts reported was a whopping 96 per cent against a banking industry average of 60.9 per cent.

As on December 31, 204 borrowers who had been reported as fraudulent by one or more banks were not classified fraud by other banks despite having exposure to the same borrower.

Gold imports up 15.4% during April-July period

The country's gold imports, which have a bearing on the CAD, increased by 15.4 per cent to $13.16 billion (about Rs 92,000 crore) during April-July period of the current fiscal, according to Commerce Ministry data

$11.41 BILLION: Imports of the yellow metal — about Rs 80,000 crore — during the April-July period of 2018-19

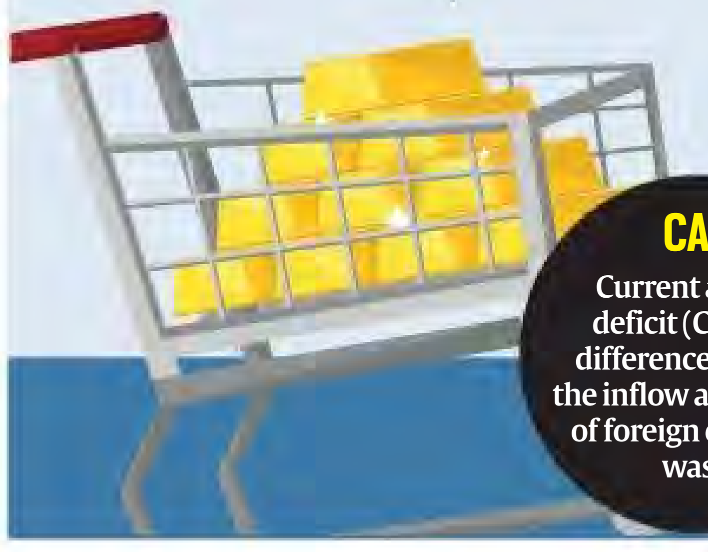
800-900 TONNES: Volume of gold annually imported by India, which mainly caters to the demand of the jewellery industry

$32.8 BILLION: Value of India's gold imports during 2018-19, dipping about 3 per cent from preceding fiscal

DOUBLE-DIGIT GROWTH IN GOLD IMPORTS: Since January this year, gold imports have recorded a double-digit growth, except in February when it dipped by about 11 per cent

12.5%: Import duty on gold, which was raised by the Centre in this year's Budget from 10 per cent, to mitigate its negative impact of gold imports on trade deficit and CAD

FEAR OVER SHIFTING BASES: Industry experts are apprehensive of sectoral players shifting their manufacturing bases to neighbouring countries due to high import duty on gold in India



CAD: Current account deficit (CAD), the difference between the inflow and outflow of foreign exchange, was at

2.1% of GDP in 2018-19, i.e. $57.2 billion

1.8% of GDP in 2017-18, i.e. $48.7 billion

RBI asks banks to speed up resolution of stressed assets

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 20

RESERVE BANK Deputy Governor NS Vishwanathan on Tuesday asked bankers to speed up the resolution of stressed assets under the new framework to extract the best value as decisions on a number of accounts are stuck in a limbo.

"Timely resolution is very important. I'd request you to ensure that the resolutions are done in time, not just for the regulatory requirement but also because it will result in better valuation going forward," he said at the FICCI-IBA banking conference. "We've given a lot of freedom to banks to determine various contours. We are making less intrusive regulations and hope that banks will use this to deal with genuine stress in their balance sheets to address the problem," he said. Vishwanathan said the RBI's revised framework on resolution of stressed assets introduced on June 7 is "less intrusive" as it gives banks the leeway to draft their own resolution plans for a particular case.

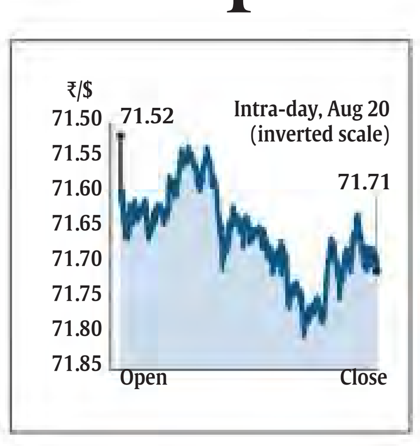
The RBI issued the new NPA recognition and resolution guidelines on June 7. The new framework lays focus on better coordination between banks while dealing with stressed assets by mandating them to sign inter-creditor agreements and decide on a resolution strategy in 30 days, which will have to be implemented in 180 days.

Rupee at fresh 6-month low of 71.71; falls 28 paise

PRESS TRUST OF INDIA
MUMBAI, AUGUST 20

THE RUPEE on Tuesday furthered its loss by another 28 paise to close at a new six-month low of 71.71 against the US dollar as economic uncertainties continued to weigh. This is the lowest level for the local unit since February 4, when it closed at 71.80 a dollar.

Meanwhile, Sensex and Nifty clocked losses after three sessions of gains on Tuesday. After opening on a positive note, the 30-share Sensex swung 292 points



and finally settled 74.48 points, or 0.20 per cent, lower at 37,328.01. The broader NSE Nifty too ended 36.90 points, or 0.33 per cent, down at 11,017.

Unauthorised transactions carried out by certain employees: CG Power

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 20

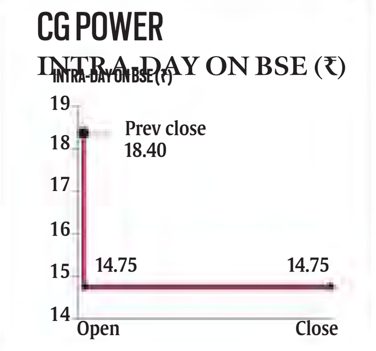
GAUTAM THAPAR-LED CG Power and Industrial Solutions on Tuesday made a series of revelations about some unauthorised transactions carried out by certain employees of the company, which led to potential understatement of not only the firm's liabilities, but also advances to related and unrelated parties of the company and the group. The company said that this was going on for over two years now.

The disclosures were made to the exchanges on Tuesday morning after the company's board had 13 hours of discussions beginning Monday evening with the company's risk and audit committee. The board came to the conclusion about the fraudulent transactions at 4 am on Tuesday morning.

The filing to the exchanges saw CGPIS shares slumping to a six month low at Rs 14.75 on Tuesday hitting the lower circuit.

Yes Bank, which holds 12.77 per cent in CG Power, fell 7.11 per cent at Rs 71.25 a piece following the development.

CG Power informed the stock exchanges that the liabilities and advances to related and unrelated parties have been understated for



financial years 2017 and 2018. While assets were provided as collateral without any authority and the company was made a co-borrower/guarantor to enable third parties to secure loan, the money so obtained was immediately routed out of the company.

"These were carried out by identified company personnel, both current and past, including certain non-executive directors. These transactions appear to be undertaken in a seemingly fraudulent manner, and hence warrant further detailed investigation," the company said without naming any official.

The company noted its managing director KN Neelkant stayed away from day-to-day management during the period of investigation. While Sudhir Mathur, who was earlier an independent director of the company and a member of operations committee, was re-designated as a whole-time executive director of the company with effect from May 10 to be more involved in the day-to-day management of the company. The chief financial officer, VR Venkatesh, who resigned on March 8 this year, was asked to continue till the finalisation of financial results for the current financial year.

As of March 31, 2018, total liabilities of the company and the group were potentially understated by around Rs 1,053.54 crore and Rs 1,608.17 crore, respectively. For April 1, 2017 it was understated by Rs 601.83 crore and Rs 401.83 crore respectively, the company said.

The company's statement to exchanges stated, "The total liabilities of the company and the group may have been potentially understated by approximately Rs 1053.54 crore and Rs 1,608.17 crore, respectively, as at March 31, 2018; and by Rs 601.83 crore and Rs 401.83 crore respectively as at April 1, 2017".

The advances to both related and unrelated parties of the company and the group were also understated by Rs 1,990.36 crore and Rs 2,806.63 crore respectively for FY18; and by Rs 1,479.34 crore and Rs 1,331.47 crore respectively for FY17. **FE**

UNUSUAL BOND MARKET PHENOMENON

Inverted yield curve: Searches for obscure financial term spike on Google

NOEL RANDEWICH
NEW YORK, AUGUST 20

INVERTED WHAT? Searches on Google for "inverted yield curve" have spiked after the unusual bond market phenomenon presented itself last week for the first time in over 12 years and helped tank Wall Street amid chatter that an economic downturn was imminent.

Following a tweet from US President Donald Trump referencing the "CRAZY INVERTED YIELD CURVE!", the term made its way onto news websites and radio and television reports that rarely delve into financial topics. Even late-night TV star Stephen Colbert devoted a portion of his show trying to decipher what it means when the yield on 10-year US Treasury notes falls below those for 2-year notes. As it happens, that abnormal bond market dynamic often precedes US recessions, and when it appeared last Wednesday for the first time since 2007, it rattled investors worried that a US-China trade war might kill both a record-long economic expansion and a decade-long bull market for stocks.

US web searches for "inverted yield curve" are on track in August for their highest month on record, and more than double the next highest month December 2005, according to Google's Google Trends analysis tool. December 2005 was the last time 2-year and 10-year Treasury notes entered an inversion trend, one that would continue through 2007 and be followed by the global financial crisis and the harshest recession since the Great Depression. Bond yields are a main measure of the return the securities deliver to investors, and they are also a proxy for interest rates. When the yields on bonds of different maturities are plotted on a graph, it produces a curve that typically has an upward slope because investors expect greater compensation for the risk of owning longer-maturity debt.

AFTER TWEET OF US PRESIDENT

FOLLOWING A tweet from US President referencing the "CRAZY INVERTED YIELD CURVE!", the term made its way onto news websites and radio and TV reports that rarely delve into financial topics

An inversion, when shorter-dated yields are higher than longer-dated ones, implies that investors see greater risks in the near future.

Google Trends provides data on the frequency of searches during a time period relative to other time periods. It does not provide actual numbers of web searches.

After Google searches for "inverted yield curve" spiked in 2005, searches for the term entered a lull for over a decade until December 2018. That is when yields on 5-year notes dropped below yields on 2-year notes. **REUTERS**

Yields fall with minutes if Fed meet, Powell speech in focus

New York: US Treasury yields fell on Tuesday as the prospect of more central bank easing boosted demand for government debt. The US Federal reserve will release minutes from its July meeting on Wednesday, while Fed Chairman Jerome Powell is due to speak on Friday.

Benchmark 10-year notes were last up 16/32 in price to yield 1.544 per cent, down from 1.598 per cent late on Monday. The two-year, 10-year yield curve flattened to 4 basis points, from 6 basis points. **REUTERS**