Credit Information Review

234
JANUARY
1999

CONTENTS

BANKING POLICY

GOLD LOAN

Nominated agencies have been permitted to grant gold (metal) loans as per the Export Import Policy 1997-2002 and the Handbook of Procedures of the Exim Policy. The nominated agencies/banks have already been permitted in March 1998 to import gold on loan basis for a maximum period of 180 days. With a view to mobilising and recycling the gold stocks available in the country, the banks were also recently advised to formulate gold deposit scheme which entailed acceptance of physical deposits of gold.

i) The banks should ensure strict compliance with the terms and conditions contained in chapter 8 of both, the Export Import Policy and the Handbook of Procedures. The policy requires that the exporter who has obtained gold has to complete the exports within a maximum period of 120 days from the date of release of gold on loan basis. The period of such loan should, therefore, not exceed 120 days. The nominated banks will have to obtain necessary proof of exports from the exporter as stipulated in the policy and furnish it to the revenue authorities. In the event of default on the part of the exporter to complete the exports within the stipulated period, nominated agencies will have to bear the duty amount and the relative local taxes. Nominated banks may, therefore, obtain sufficient additional security so as to meet the duty/tax requirements in the event of default. The guidelines issued by the revenue authorities including those regarding bonded vault, maintenance of records, obtaining one time registration certificate of exporters, reporting cases of failure on the part of exporter and deposit of the duty amount in case of default should be meticulously observed.

ii) The loans should be given only to jewellery exporters. Interest charged to the borrowers should be linked to the international gold interest rate.

iii) The gold borrowings and gold deposits will be subject to normal reserve requirements. Valuation of gold for the purpose of maintaining reserves will be based on the London morning fix rate of reporting Fridays crossed with the closing dollar rupee spot rate on reporting Fridays. The same rate may be applied for translating gold loans to rupees for capital adequacy and balance sheet purposes.

iv) The loans to jewellery exporters in India will be subject to capital adequacy and other prudential requirements.

v) Any mismatch arising out of the gold borrowings and lendings should be within the prudential risk limits approved by the bank's board.

vi) The Reserve Bank has also asked banks to recognise the overall risks in granting gold loans and lay down an appropriate risk management and lending policy. The policy should, among others, lay down a limit on the quantity of gold that may be supplied per exporter as also the total quantity of such loans that may be outstanding at any point of time.

BRANCH BANKING

CONCESSIONAL EXPORT CREDIT FOR AGRO PRODUCTS

To promote exports of floriculture, grapes and other agro products, the Reserve Bank of India has allowed banks to extend concessional credit for working capital purposes in respect of export related activities of all agro products, including purchase of fertilizers, pesticides and other inputs for growing of flowers, grapes, etc. Banks should extend such concessional credit provided they are in a position to clearly identify such activities as export related and satisfy themselves of the export potential of the activities and these are not covered by direct/indirect finance schemes of the National Bank for Agriculture and Rural Development or any other agency. The credit will be subject to the normal terms and conditions relating to packing credit such as period, quantum, liquidation etc. Banks have, however, been advised to ensure that export credit is not extended for investments, such as, import of foreign technology, equipments, land development, etc., or any other item which cannot be regarded as working capital.

IMPORTANT BANKING EVENTS OF 1998

January:

New regulatory framework of NBFCs announced for effective supervision, especially over those accepting public deposits. The salient features include categorisation of companies into three broad categories- those accepting deposits, not accepting deposits and core investment companies not accepting deposits. The regulations also relate to prohibiting companies having net owned funds of less than Rs.25 lakh from accepting public deposits, credit rating and quantum of deposits, interest rate ceiling, brokerage, prudential norms, maintenance of liquid assets, submission of returns etc.

Bank rate increased from 9 per cent to 11 per cent. Interest rate on fixed rate repos increased from 7 per cent to 9 per cent.

CRR increased from 10 to 10.5 per cent.

Maintenance of square/near square position for interbank forex dealings replaced by overnight limits fixed separately for each bank and approved by the Reserve Bank.

Liquidity support to primary dealers made available at bank rate subject to certain stipulations relating to their operations in the call money market.

Sponsor banks granted responsibility to exercise full managerial and operational control over RRBs.

ADs allowed to release upto Rs.3,000 under basic travel quota scheme, for travel by land to Bangladesh, Pakistan, Myanmmar, without insisting on production of tickets.

Ceiling on credit of inward remittances into EEFC account enhanced from 25 per cent to 50 per cent.

Powers delegated to ADs to engage in forfaiting of export receivables.

ADs permitted remittances towards import of software through datacom channels or internet.

Resident International Credit Card holders permitted to use the ICCs during visits to foreign countries for bonafide personal purposes upto their entitlements.

February:

Exchange control regulations governing remittances by importers and exporters amended/modified by the Reserve Bank to further facilitate current account transactions.

March:

Interest rate on fixed rate repos reduced from 9 to 8 per cent. Bank rate reduced from 11 to 10.5 per cent. CRR reduced from 10.5 to 10 per cent of NDTL in two phases.

Agricultural advances to be treated as NPAs if interest/instalment remains unpaid after it has become past due for two harvest seasons instead of two quarters, but for a period not exceeding two half years.

ADs permitted to write-off/transfer to unclaimed deposit account, old unreconciled entries of amount not exceeding US$ 1,000 lying in the nostro accounts subject to certain conditions

Exporters allowed to credit upto 50 per cent (70 per cent in case of 100 per cent EOUs/units in EPZs/STPs/EHTPs) of inward remittances received towards export advance, in freely convertible currencies, to their Exchange Earners' Foreign Currency (EEFC) account.

Banks required to refer to the Reserve Bank before contesting in any manner the award given by the banking ombudsman.

April:

Monetary and Credit Policy for the first half of 1998-99 announced. The statement contained many structural measures, in response to the changes in the regulatory framework for financial markets, and a few short term credit policy measures.

Banks advised to ensure pre-funding arrangement before granting 'at par' facility to avoid dividend/interest warrants from being dishonoured due to lack of funds.

Stipulations regarding margin, security and repayment schedule for direct housing loans withdrawn to allow banks greater operational freedom.

Banks required to bifurcate portfolio of approved securities into permanent and current in the ratio of 30:70 (instead of 40:60) for the year ending March 1999.

May:

The Reserve Bank to release the balance two thirds of CRR impounded between May 1991 and April 1992, in twelve equal monthly instalments.

Banks permitted to recover swap costs in case of premature withdrawal of FCNR(B) deposits.

June:

Scheduled commercial banks advised to take immediate action on the recommendations of the R.V. Gupta Committee on flow of credit to agriculture.

Minimum period of maturity of commercial paper (CP) reduced to 15 days. Satellite dealers allowed to issue CP.

Minimum lock in period for investment in certificates of deposit (CDs) by primary urban cooperative banks reduced to 15 days.

Banks allowed to undertake credit card business either independently or in tie-up arrangements with other card issuing banks without prior approval of the Reserve Bank.

Banks advised to charge spread on export credit in foreign currency not exceeding 1.5 percent LIBOR (excluding withholding tax) as against 2.5 per cent over LIBOR.

July:

The Reserve Bank revised its guidelines to banks on relief measures to persons affected by natural calamities. The revised guidelines enable banks to exercise discretion in deciding the adequacy of relief measures to be provided, depending on the intensity of the natural calamity, the extent of damage, and the distress caused to the farmers in one or more years.

ECS (credit clearing) extended to eight more centres, thereby covering all centres where the Reserve Bank manages clearing houses. Limit on transaction value increased from rupees fifty thousand to rupees one lakh.

Investment limit by single NRI/PIO/OCB enhanced from 1 per cent to 5 per cent of the paid up equity capital of that company. Aggregate limit of all NRI/OCB/PIOs increased from 5 per cent to 10 per cent.

Private sector banks whose shares are listed on the stock exchanges not required to obtain prior approval of the Reserve Bank for issue of shares except for bonus issues.

August:

CRR to be maintained by scheduled commercial banks increased from 10 per cent to 11 per cent.

Repo rate hiked from 5 per cent to 8 per cent.

Use of International credit cards allowed by the Reserve Bank for import of software through internet, payment for services through internet, by software engineers on assignments abroad.

Loans by commercial banks to National Cooperative Development Corporation (NCDC), and to eligible NBFCs for on-lending to small road and water transport operators to be treated as priority sector advances.

September:

Banks to implement recommendations of the S.L. Kapur Committee on small scale industries with immediate effect.

Draft guidelines on asset liability management (ALM) systems issued banks, to enable them to initiate measures for collection, compilation and analysis of data for managing risks arising out of liquidity, interest rate and currency.

Resurgent India Bonds (RIBs) floated by the State Bank of India with maturity period of 5 years for subscription by NRI/OCBs by way of foreign inward remittance/NRE/FCNR(B) account. Maturity proceeds redeemable/repatriable in the currency of subscription. ADs permitted to grant loans in non-repatriable rupees in India to holders of RIBs for purposes other than investment in India subject to certain conditions.

Investment income and rent on immovable property accrued to NRIs, eligible for repatriation even if original investment was on non-repatriable basis.

Ceiling on holding of a foreign institutional investor (FII) or a group of FIIs in the total paid up capital of an Indian company raised from 5 per cent to 10 per cent. The aggregate ceiling of 24 per cent for FII investment can be raised to 30 per cent subject to approval of the board of the company. Ceiling on investment for NRI/OCBs, under the portfolio investment scheme, raised from 1 per cent to 5 per cent and aggregate ceiling of 5 per cent for all NRI/OCBs has been raised to 10 per cent, which can be further raised to 24 per cent by passing a resolution. This is in addition to FII investment.

October:

Mid-term review of monetary and credit policy for 1998-1999 announced. No changes made in short term measures like Bank rate, cash reserve ratio and repo rate. Detailed guidelines on strengthening of prudential norms of banks issued. These relate to capital adequacy, risk weights on securities, foreign exchange gold/open position, asset classification and provisioning norms, provision on standard assets, exposure norms, etc.

Payment received by exporters from overseas buyers against international credit cards (ICCs) to be treated as approved method of payment.

Funds in EEFC account allowed to be used for business related payments in India. Residents permitted to receive payment in foreign exchange for services rendered or goods sold in India, subject to surrendering the foreign exchange to an AD within 7 days.

Task Force on NBFCs set up by the Government of India to make further recommendations for effective regulation of this sector. The proposals of the task force are under consideration of the Reserve Bank which has undertaken an investors' information programme to educate them on the prescribed ceiling on interest rates, disclosure requirements, unsecured nature of deposits and other features of NBFC operations.

The Reserve Bank published a list of suit-filed borrowal accounts, of Rupees one crore and above, as on March 31, 1998.

November:

The Reserve Bank delegated powers relating to acquisition and hiring of property to banks.

The Reserve Bank prescribed facilitating procedure for banks to enable old/sick/incapacitated account holders to operate bank accounts.

Banks allowed to rediscount bills discounted by NBCFs, arising from sale of commercial vehicles, subject to normal lending safeguards.

The Reserve Bank made it mandatory for Indian companies, to report the receipt of foreign remittances, within 30 days, to enable it to monitor and compile inflow data.

December:

Ordinance issued by the Central Vigilance Commission (CVC) to improve vigilance administration in banks. Directions include introduction of ECS (electronic clearing system) by all banks/financial institutions, the Reserve Bank to help operationalise a WAN (wide area network), to improve communication and sharing of information resources between banks, banks to ensure that 70 per cent of business is computerised by January , 2001. All cases of willful default of Rs.25 lakh and above, to be reported by banks to the Reserve Bank. This information to be made accessible to all banks, every three months.

The Reserve Bank advised banks to take immediate steps to dematerialise the shares of companies taken by them as collateral against advances, well before the dates announced by SEBI, for compulsory trading in demat form.

Based on the recommendations of the Subramanyam working group, to study the implications of the launch of the euro, the Reserve Bank advised ADs on the acceptance/settlement and reporting of euro transactions.

The Government of India, Ministry of Commerce, liberalised guidelines for Indian direct investment in joint ventures/wholly owned subsidiaries abroad.

Y2K

NON-Y2K COMPLIANT BANKS TO FACE PENALTIES

The Reserve Bank of India attaches a great deal of importance to Year 2000 preparations of banks and institutions in the financial sector. To monitor Y2K preparations and to give strategic directions it had, last year, set up a High Level Steering Committee. The Committee is headed by Reserve Bank Deputy Governor, Shri S.P. Talwar. Two Executive Directors (S/Shri A. Vasudevan and K. Ahmed), heads of the Reserve Bank's departments exercising supervisory jurisdiction over institutions in the financial sector, National Institute for Bank Management, Indian Banks' Association and representatives of banks are other members of the Committee.

The Steering Committee met on January 14 to review the progress of banks and institutions in their year 2000 preparations.

Expressing his concern at the slow pace of the compliance, the Reserve Bank of India Deputy Governor, Shri S.P. Talwar pointed out that those banks whose Y2K compliance status is assessed as unsatisfactory after March 31, 1999 would invite penalties. He also stressed that the focus of compliance efforts should now shift from upgradation, implementation of compliant systems to rigorous testing and contingency planning. The Deputy Governor added that banks should ensure adequate budgets for their year 2000 programmes. The Deputy Governor further stated that banks should focus more on developing contingency plan for operational areas where the customers could be directly affected by the disruption in the systems. As a contingency planning it was decided to keep a printout of all the balances in the branches as on December 29, 1999 to facilitate business continuity across the millennium change and to keep adequate cash in hand to manage the cash transactions in order to meet exingencies.

EXCHANGE CONTROL

REMITTANCES ALLOWED

Authorised dealers have been permitted to allow credit of the sale proceeds of the assets of liaison offices in India of foreign companies to their respective QA.22 accounts (Question Answer 22 account is a resident account of a foreigner residing in India) provided the sale price is less than the book value of the assets as certified by a chartered accountant and the assets are acquired out of funds from the QA.22 account.

Authorised dealers have also been allowed to remit:

(i) net advertisement charges collected in rupees by Indian agents of foreign newspapers/periodicals/internet companies on submission of certain documents,

(ii) net amount of subscriptions to foreign magazines and overseas publishers/distributors, and

(iii) architectural services provided by foreign architects to Indian companies engaged in development of real estates and housing in India up to US $ 100,000 subject to documentation and conditions prescribed.

Foreign visits by whole time directors of banks and financial institutions.

Authorised dealers have been permitted to release foreign exchange to whole time directors of public sector banks and financial institutions for their business visits abroad without prior approval of the Ministry of Finance if the visit does not exceed the number of days indicated in the Government of India Notification F.No. 18/1/97-BOI dated December 11, 1998. Authorised dealers may also release exchange towards entertainment up to US $ 5000 to the Chairman/Managing/Executive Director and up to US $ 2000 to other officials of public sector banks and financial institutions.

Authorised dealers have been permitted to allow remittances related to registration or renewal of registration of patents and trade marks with overseas government/regulatory authorities/international organisations on the basis of documentary evidence in support of payment of such charges.

Reserve Bank issues instructions to facilitate easier encashment of foreign currency notes and travellers cheques

Following complaints regarding the difficulties faced by tourists and non-resident Indians in encashing foreign currency notes/travellers cheques while on visits to India, the Reserve bank has directed banks:

i. to accept unlimited foreign currency notes/travellers cheques, if the proceeds are to be credited to the accounts of the tenderers,
ii. to accept cash payment of at least $ 1000 or its equivalent per transaction in tourist centres and $ 500 at other centres,
iii. to prominently display the rules for encashment, rates as also the brand names of travellers cheques accepted for encashment,
iv. to freely accept for encashment foreign currency notes or travellers cheques tendered by residents who come into possession of these from tourists for services rendered or in settlement of lawful obligations,
v. not to refuse any encashment on account of non availability of rates.

Edited and published by **Alpana Killawala** for the **Reserve Bank of India**, Press Relations Division, Central Office, Shahid Bhagat Singh Marg, Mumbai 400 001 and printed by her at **Mouj Printing Bureau**, Khatau Wadi, Girgaon, Mumbai 400 004. Annual Subscription : Rs. 12. Subscription to be remitted to the Director, DRRP (Sales Section), DEAP, Reserve Bank of India, Amar Building, Sir P.M. Road, P.B. No. 1036, Mumbai-400 001.

R. No. 35646/79 Licensed to post without prepayment - Licence No. 131 Regd. No. MH-BY / SOUTH-723
Posted on 10th, and 15th-16th February 1999